UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 29, 2008

OR

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

For the transition period from ______ to ______

Commission File Number: 0-23081

FARO TECHNOLOGIES, INC.
(Exact name of Registrant as specified in its charter)

Florida **(State or other jurisdiction of incorporation or organization)**	**59-3157093** **(I.R.S. Employer Identification No.)**
125 Technology Park, Lake Mary, Florida **(Address of Principal Executive Offices)**	**32746** **(Zip Code)**

Registrant's Telephone Number, including area code: (407) 333-9911

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 16,677,854 shares of the registrant's common stock April 25, 2008.

FARO TECHNOLOGIES, INC.

Quarterly Report on Form 10-Q
Quarter Ended March 29, 2008

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except share data)	March 29, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 19,486	$ 25,798
Short-term investments	83,160	77,375
Accounts receivable, net	48,146	54,767
Inventories	37,022	29,100
Deferred income taxes, net	4,013	2,841
Prepaid expenses and other current assets	9,646	6,719
Total current assets	201,473	196,600
Property and Equipment:		
Machinery and equipment	13,696	12,895
Furniture and fixtures	5,398	5,008
Leasehold improvements	3,567	3,296
Property and equipment at cost	22,661	21,199
Less: accumulated depreciation and amortization	(15,036)	(13,672)
Property and equipment, net	7,625	7,527
Goodwill	20,096	19,117
Intangible assets, net	6,391	5,970
Service Inventory	12,001	10,865
Deferred income taxes, net	1,934	3,460
Total Assets	$249,520	$ 243,539
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 12,997	$ 12,450
Accrued liabilities	13,914	17,989
Income taxes payable	1,201	2,266
Current portion of unearned service revenues	9,523	8,594
Customer deposits	398	337
Current portion of obligations under capital leases	55	18
Total current liabilities	38,088	41,654
Unearned service revenues - less current portion	6,865	6,091
Deferred tax liability, net	1,158	1,073
Obligations under capital leases - less current portion	126	222
Total Liabilities	46,237	49,040
Commitments and contingencies - See Note O		
Shareholders' Equity:		
Common stock - par value $.001, 50,000,000 shares authorized; 16,714,454 and 16,700,966 issued; 16,617,540 and 16,604,052 outstanding, respectively	17	17
Additional paid-in-capital	147,034	146,489
Retained earnings	46,924	43,545
Accumulated other comprehensive income	9,459	4,599
Common stock in treasury, at cost - 40,000 shares	(151)	(151)
Total Shareholders' Equity	203,283	194,499
Total Liabilities and Shareholders' Equity	$249,520	$ 243,539

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

Table of Contents

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

(in thousands, except per share data)	Three Months Ended March 29, 2008	Three Months Ended March 31, 2007
SALES	$ 46,090	$ 40,289
COST OF SALES (exclusive of depreciation and amortization, shown separately below)	18,384	16,453
GROSS PROFIT	27,706	23,836
OPERATING EXPENSES:		
Selling	14,428	12,304
General and administrative	5,646	5,023
Depreciation and amortization	1,015	1,091
Research and development	2,713	1,972
Total operating expenses	23,802	20,390
INCOME FROM OPERATIONS	3,904	3,446
OTHER (INCOME) EXPENSE		
Interest income	(621)	(256)
Other (income) expense, net	(237)	(325)
Interest expense	441	2
INCOME BEFORE INCOME TAX	4,321	4,025
INCOME TAX EXPENSE	943	827
NET INCOME	$ 3,378	$ 3,198
NET INCOME PER SHARE - BASIC	$ 0.20	$ 0.22
NET INCOME PER SHARE - DILUTED	$ 0.20	$ 0.22
Weighted average shares - Basic	16,606,673	14,607,556
Weighted average shares - Diluted	16,738,891	14,700,094

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

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

(in thousands)	Three Months Ended March 29, 2008	Three Months Ended March 31, 2007
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income	$ 3,378	$ 3,198
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,015	1,092
Amortization of stock options and restricted stock units	422	199
Provision for bad debts	138	31
Deferred income tax benefit	471	111
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	8,815	2,960
Inventories	(7,129)	1,242
Prepaid expenses and other current assets	(2,745)	(1,754)
Income tax benefit from exercise of stock options	(43)	(1,422)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(4,193)	(5,509)
Income taxes payable	(1,135)	(1,171)
Customer deposits	177	(266)
Unearned service revenues	921	1,647
Net cash provided by operating activities	92	358
INVESTING ACTIVITIES:		
Purchases of property and equipment	(577)	(719)
Payments for intangible assets	(331)	(42)
Purchases of short-term investments	(5,785)	—
Net cash used in investing activities	(6,693)	(761)
FINANCING ACTIVITIES:		
Payments of capital leases	(58)	9
Income tax benefit from exercise of stock options	43	1,422
Proceeds from issuance of stock, net	80	1,224
Net cash provided by financing activities	65	2,655
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	224	(650)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,312)	1,602
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	25,798	15,689
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 19,486	$ 17,291

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

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 29, 2008 and March 31, 2007
(Unaudited)
(in thousands, except share and per share data, or as otherwise noted)

NOTE A – DESCRIPTION OF BUSINESS

FARO Technologies, Inc. and subsidiaries (collectively the "Company" or "FARO") design, develop, manufacture, market and support software-based three-dimensional measurement devices for manufacturing, industrial, building construction and forensic applications. The Company's principal products include the FaroArm, FARO Scan Arm and FARO Gage, all articulated electromechanical measuring devices, and the FARO Laser Tracker and the FARO Laser Scanner LS, both laser-based measuring devices. Primary markets for the Company's products include automobile, aerospace, heavy equipment, and law enforcement agencies. The Company sells the vast majority of its products though a direct sales force located in many of the world's largest industrialized countries.

NOTE B – PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Company include the accounts of FARO Technologies, Inc. and all its subsidiaries. All intercompany transactions and balances have been eliminated. The financial statements of the Company's foreign subsidiaries are translated into U.S. dollars using exchange rates in effect at period-end for assets and liabilities and average exchange rates during each reporting period for results of operations. Adjustments resulting from financial statement translations are reflected as a separate component of accumulated other comprehensive income.

NOTE C – BASIS OF PRESENTATION

The consolidated financial statements of the Company include all adjustments considered necessary by management for their fair presentation in conformity with accounting principles generally accepted in the United States of America. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The consolidated results of operations for the three months ended March 29, 2008 are not necessarily indicative of results that may be expected for the year ending December 31, 2008 or any future period.

The information included in this Form 10-Q, including the interim consolidated financial statements and notes that accompany these financial statements, should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

NOTE D – RECLASSIFICATIONS

From time to time the Company may reclassify certain amounts to conform to the current period presentation.

NOTE E – IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

As of January 1, 2008, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" ("SFAS 159"). SFAS 159 permits entities to choose to measure certain financial instruments and other eligible items at fair value when the items are not otherwise currently required to be measured at fair value. Under SFAS 159, the decision to measure items at fair value is made at specified election dates on an irrevocable instrument-by-instrument basis. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront costs and fees associated with the item for which the fair value option is elected. Entities electing the fair value option are required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. The adoption of SFAS 159 had no impact on the Company's consolidated financial statements.

As of January 1, 2008, the Company adopted SFAS No. 157, "*Fair Value Measurements*" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. The Company does not believe that any of its assets or liabilities are subject to the quarterly recurring measurement provisions of SFAS 157. The Company will make the disclosures necessary for any assets and liabilities measured on a recurring basis subject to the annual disclosure requirements of SFAS 157 at year-end. The disclosure requirements for assets and liabilities assessed on a non-recurring have been deferred by FASB Staff Position 157-2, "*Effective Date of FASB Statement No. 157"* until fiscal years beginning after November 15, 2008.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 (revised 2007), "*Business Combinations*" ("SFAS 141 (revised)"). SFAS 141 (revised) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. The statement also requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values. The provisions of SFAS 141 (revised) are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company has not determined the effect, if any, that the adoption of this statement will have on its financial condition or results of operations.

In December 2007, the FASB issued SFAS 160, "*Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51*." This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective prospectively, except for certain retrospective disclosure requirements, for fiscal years beginning after December 15, 2008. The Company has not determined the effect, if any, that the adoption of this statement will have on its financial condition or results of operations.

In March 2008, the FASB issued SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*" ("SFAS 161"). This statement requires enhanced disclosures about an entity's derivative and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect SFAS 161 to have a material impact on its consolidated financial statements.

NOTE F – SHARE-BASED COMPENSATION

Share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period, which is generally three years. The Company uses the Black-Scholes option pricing model to determine the fair value of stock option grants. The Company uses the closing market price of its common stock on the date of grant to determine the fair value of restricted stock and restricted stock units.

The Company used the following assumptions for the Black-Scholes option-pricing model to determine the fair value of options granted during the three months ended March 29, 2008 and March 31, 2007:

	For the Three Months Ended	
	March 29, 2008	**March 31, 2007**
Risk-free interest rate	2.15-2.55%	4.50%
Expected dividend yield	0%	0%
Expected option life	4 years	4 years
Expected volatility	58.0%	62.8%

Historical information was the primary basis for the selection of the expected dividend yield, expected volatility and the expected lives of the options. The risk-free interest rate was based on yields of U.S. zero coupon issues and U.S. Treasury issues, with a term equal to the expected life of the option being valued.

The Company recorded total share-based compensation expense of $422 and $199 for the three months ended March 29, 2008 and March 31, 2007, respectively.

A summary of stock option activity and weighted average exercise prices follows for the three months ended March 29, 2008:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value as of March 29, 2008
Outstanding at beginning of period	785,864	$ 20.34		
Granted	189,300	30.55		
Forfeited	(2,333)	20.96		
Exercised	(8,285)	16.83		
Outstanding at March 29, 2008	964,546	$ 22.30	6.87	$ 8,166
Options exercisable at March 29, 2008	648,544	$ 19.51	6.41	$ 7,387

The weighted-average grant-date fair value of the stock options granted during the three months ended March 29, 2008 and March 31, 2007 was $14.12 and $12.61 per option, respectively. The total intrinsic value of stock options exercised during the three months ended March 29, 2008 and March 31, 2007 was $0.1 million and $3.8 million, respectively. The fair value of stock options vested during the three months ended March 29, 2008 and March 31, 2007 was $0.7 million and $0.07 million, respectively.

The following table summarizes the restricted stock and restricted stock unit activity and weighted average grant-date fair values for the three months ended March 29, 2008:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at beginning of period	47,941	$ 24.03
Granted	16,600	27.01
Forfeited	(907)	21.79
Vested	(6,793)	23.06
Non-vested at March 29, 2008	56,841	$ 25.05

As of March 29, 2008, there was $5.3 million of total unrecognized stock-based compensation expense related to non-vested stock-based compensation arrangements. The expense is expected to be recognized over a weighted average period of 2.5 years.

NOTE G – SUPPLEMENTAL CASH FLOW INFORMATION

Selected cash payments and non-cash activity were as follows:

	Three Months Ended	
	March 29, 2008	March 31, 2007
Cash paid for interest	$ 1	$ 2
Cash paid for income taxes	1,738	1,172
Non-Cash Activity:		
Value of shares issued for acquisition of iQvolution	$ —	$ 128

NOTE H – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	As of Mar 29, 2008	As of Dec 31, 2007
Accounts receivable	$ 49,042	$ 55,506
Allowance for doubtful accounts	(896)	(739)
Total	$ 48,146	$ 54,767

NOTE I – INVENTORIES

Inventories consist of the following:

	As of Mar 29, 2008	As of Dec 31, 2007
Raw materials	$ 16,714	$ 12,614
Finished goods	7,111	4,903
Sales demonstration inventory	15,274	13,448
Reserve for excess and obsolete	(2,077)	(1,865)
Inventory	37,022	29,100
Service inventory	12,001	10,865
Total	$ 49,023	$ 39,965

Table of Contents

NOTE J – EARNINGS PER SHARE

A reconciliation of the number of common shares used in the calculation of basic and diluted earnings per share (EPS) is presented below:

	Three Months Ended			
	March 29, 2008		March 31, 2007	
	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic EPS	16,606,673	$ 0.20	14,607,556	$ 0.22
Effect of dilutive securities	132,218	—	92,538	—
Diluted EPS	16,738,891	$ 0.20	14,700,094	$ 0.22

The effect of 277,936 and 2,100 dilutive securities were not included in the three months ended March 29, 2008 and March 31, 2007, respectively, as they were antidilutive.

NOTE K – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	As of Mar 29, 2008	As of Dec 31, 2007
Accrued compensation and benefits	$ 6,108	$ 10,689
Accrued warranties	2,241	1,980
Professional and legal fees	807	1,140
Accrued penalties	2,951	2,650
Other accrued liabilities	1,807	1,530
	$ 13,914	$ 17,989

NOTE L – INCOME TAXES

Total deferred tax assets for the Company's foreign subsidiaries relating to net operating loss carryforwards were $8.6 million and $7.7 million at March 29, 2008 and December 31, 2007, respectively. The related valuation allowance was $7.2 million and $6.3 million at March 29, 2008 and December 31, 2007, respectively. The Company's effective tax rate was 21.8% for the three months ended March 29, 2008 and 20.5% for the three months ended March 31, 2007. The Company currently estimates the effective tax rate will approximate 18%-22% for the remainder of 2008. The Company's tax rate continues to be lower than the statutory tax rate in the United States primarily as a result of favorable tax rates in foreign jurisdictions. However, the Company's tax rate could be impacted positively or negatively by geographic changes in the manufacturing or sales of its products and the resulting effect on taxable income in each jurisdiction.

The effective income tax rate for 2008 and 2007 includes a reduction in the statutory corporate tax rates for the Company's operations in Switzerland. The favorable tax rate ruling requires the Company to maintain a certain level of manufacturing operations in Switzerland. The aggregate dollar effect of this favorable tax rate was approximately $0.5 million, or $0.03 per share, in the three month period ended March 29, 2008, and $0.5 million, or $0.03 per share, in the three month period ended March 31, 2007.

In 2005, the Company opened a regional headquarters and began to manufacture its products in Singapore. In the third quarter of 2006, the Company received confirmation of a tax holiday for its operations from the Singapore Economic Development Board for a period of four years commencing January 1, 2006 and an additional six year extension at a favorable tax rate subject to certain terms and conditions including employment, spending, and capital investment. The aggregate dollar effect of this favorable tax rate was approximately $0.4 million, or $0.03 per share, during the three month period ended March 29, 2008, and $0.3 million, or $0.02 per share, in the three months ended March 31, 2007.

NOTE M – SEGMENT REPORTING

The Company has three reportable segments based upon geographic regions: Americas, Europe/Africa and Asia Pacific. The company develops, manufactures, markets, supports and sells CAD-based quality assurance products integrated with CAD-based inspection and statistical process control software in each of these regions. These activities represent approximately 99% of consolidated sales. The Company evaluates performance and allocates resources based upon profitable growth and assets deployed.

The following table presents information about the Company's reportable segments:

	Three Months Ended	
	March 29, 2008	March 31, 2007
Americas Region		
Net sales to external customers	$ 19,120	$ 19,203
Operating income	522	1,093
Long-lived assets	12,786	12,231
Capital expenditures	321	483
Total assets	153,054	69,624
Europe/Africa Region		
Net sales to external customers	$ 18,863	14,980
Operating income	1,900	1,158
Long-lived assets	19,821	16,545
Capital expenditures	357	177
Total assets	73,581	56,961
Asia Pacific Region		
Net sales to external customers	$ 8,107	6,106
Operating income	1,482	1,195
Long-lived assets	1,505	1,609
Capital expenditures	22	87
Total assets	22,885	18,836
Totals		
Net sales to external customers	$ 46,090	40,289
Operating income	3,904	3,446
Long-lived assets	34,112	30,385
Capital expenditures	700	747
Total assets	249,520	145,421

NOTE N – COMPREHENSIVE INCOME

Other comprehensive income results from the effect of currency translation adjustments on the investments in (capitalization of) foreign subsidiaries combined with their accumulated earnings or losses.

	Three Months Ended	
	March 29, 2008	March 31, 2007
NET INCOME	$ 3,378	$ 3,198
OTHER COMPREHENSIVE INCOME:		
Currency translation adjustment	4,860	389
COMPREHENSIVE INCOME	$ 8,238	$ 3,587

NOTE O – COMMITMENTS AND CONTINGENCIES

Leases - The Company is a party to leases arising in the normal course of business which expire on or before 2011. Total obligations under these leases will be approximately $4.4 million for 2008.

Purchase Commitments - The Company enters into purchase commitments for products and services in the ordinary course of business. These purchases generally cover production requirements for 60 to 90 days. As of March 29, 2008, the Company does not have any long-term commitments for purchases.

Securities Litigation - On December 6, 2005, the first of four essentially identical class action securities fraud lawsuits were filed against the Company and certain officers of the Company (the "Securities Litigation") in the U.S. District Court for the Middle District of Florida. On April 19, 2006, the four lawsuits were consolidated, and Kornitzer Capital Management, Inc. (the "Lead Plaintiff") was appointed as the lead plaintiff. The Lead Plaintiff seeks to include in the class all persons who purchased or otherwise acquired the Company's common stock between April 15, 2004 and March 15, 2006 (the "Class"), and seeks an unspecified amount of damages, premised on allegations that each defendant made misrepresentations and omissions of material fact during the class period in violation of the Securities Exchange Act of 1934.

On February 26, 2008, the parties to the Securities Litigation entered into a Memorandum of Understanding stating the principal terms of their agreement to settle the Securities Litigation. On April 9, 2008, the parties filed a detailed Stipulation of Settlement with the court seeking the court's preliminary and final approval of the terms of the proposed settlement. Pursuant to those terms, the issuer of the Company's Executive Liability and Entity Securities Liability insurance policy applicable to the Securities Litigation will pay $6.875 million into a settlement fund for the Securities Litigation. That sum is within the coverage limit of the policy and accordingly has no effect on the Company's financial results.

The proceeds of the settlement fund will be distributed to members of the Class and to the Lead Plaintiff's counsel. The balance of the settlement fund will be used to pay various costs associated with providing notice of the terms of the proposed settlement to the Class and with administering the settlement. If the court approves the settlement, a judgment will be entered dismissing the Securities Litigation, with prejudice, as against each defendant.

Derivative Action - On January 10, 2008, a Verified Shareholder Derivative Complaint (the "Derivative Complaint") was filed by an alleged shareholder of the Company in the U.S. District Court for the Middle District of Florida against six of the Company's current and former directors, as defendants, and against the Company, as a nominal defendant. The Derivative Complaint alleges breach of fiduciary duty and other claims against the individual defendants principally in connection with the alleged acts and omissions asserted in the Securities Litigation. The plaintiff alleges that the individual defendants caused the Company's stock price to be falsely inflated, and subjected the Company to costs, fines and other damages, as well as a loss of good will. The plaintiff purports to seek an unspecified amount of damages, together with other relief, on behalf of the Company and against the individual defendants. Prior to filing the Derivative Complaint, the plaintiff had requested that the Company assert certain of such claims against some of the individual defendants. In April 2008, the Company received another demand by another alleged shareholder that the Company assert substantially the same claims as set forth in the Derivative Complaint against seven of the Company's current and former directors. A similar demand received by the Company in February 2008 was subsequently withdrawn.

The Company has formed a committee of independent directors to review and investigate the shareholder demands, and the allegations made in the Derivative Complaint and the other shareholder demand. The committee has not yet made a recommendation with respect to those matters. To the Company's knowledge, no defendant has been served with the Derivative Complaint.

Voluntary Disclosure of Foreign Corrupt Practices Act Matter to the Securities and Exchange Commission and Department of Justice. - As previously reported by the Company, the Company learned that its China subsidiary had made payments to certain customers in China that may have violated the Foreign Corrupt Practices Act ("FCPA") and other applicable laws. The Company's Audit Committee instituted an internal investigation into this matter in February 2006, and the Company voluntarily notified the Securities and Exchange Commission ("SEC") and the Department of Justice ("DOJ") of this matter in March 2006. The Company's internal investigation into this matter has been completed. The Company's internal investigation identified certain improper payments made in China and deficiencies in its controls with respect to its operations in China in possible violation of the FCPA.

Results of the investigation revealed that referral fee payments in possible violation of the FCPA were $165,000 and $265,000 in 2004 and 2005, respectively, which were recorded in selling expenses in its statements of income. The related sales to customers to which payment of these referral fees had been made totaled approximately $1.3 million and $3.24 million in 2004 and 2005, respectively. Additional improper referral fee payments of $122,000 were made in January and February 2006 related to sales contracts in 2005. The Company had sales in China of $9.0 million in 2005 and $4.2 million in 2004, approximately 7% and 4% of total sales, respectively. The Company incurred expenses of $3.8 million in 2006, $3.1 million in 2007, and $0.3 million in the quarter ended March 29, 2008, relating to the FCPA matter, including $2.95 million for estimated fines, penalties and interest to the DOJ and SEC.

The Company has provided to the SEC and the DOJ information obtained during the course of this investigation and is cooperating with both agencies. The SEC and the DOJ have a broad range of civil and criminal remedies that they may seek to impose against corporations and individuals in appropriate circumstances, including without limitation disgorgement, fines, penalties, and other injunctive and equitable relief, as well as additional changes to the Company's business practices and compliance programs.

The Company terminated, in March 2006, certain personnel in the Asia-Pacific Region and re-assigned the duties of other personnel in both the Asia-Pacific Region and the U.S. as a result of the internal investigation. Additionally, the Company instituted the following remedial measures:

- Contracted with a third party forensics accounting team to conduct an in-depth audit of the operations in China and in other countries in the Asia-Pacific region and to make recommendations for improvement to the internal control systems.
- Reviewed third party distributor arrangements in an effort to assure that all contracts include adherence to the FCPA.
- Performed due diligence on all third party distributors and implemented a process to assess potential new distributors.
- Established an in-house internal audit function including hiring a Director of Internal Audit.
- Consolidated the human resources, financial accounting and reporting functions for the Asia region into the Singapore operations.
- Implemented an internal certification process to ascertain whether similar issues may exist elsewhere in the Company.
- Implemented a quarterly internal certification process to confirm adherence to company policy and all applicable laws and regulations that will include all regional leadership, country management and other sales management.
- Implemented additional training on FCPA and other matters for employees and a confidential compliance reporting system.

The Company believes that settlement discussions between it and both the SEC and the DOJ concerning the FCPA matter have been concluded. In that regard, the Company has signed and delivered to the SEC and DOJ settlement agreements and documents concerning the FCPA matter. Those settlement agreements and documents are subject to formal approval by both the SEC and the DOJ and will not become final until such formal approval occurs. Those settlement agreements and documents obligate the Company to pay an aggregate of $2.95 million in fines, disgorgement of associated profit, and interest, and the Company recorded a reserve of that amount. In addition to the monetary sanctions, the Company will have continuing obligations with the SEC and the DOJ with respect to monitoring, compliance with the FCPA and other laws, full cooperation with the government, and the adoption of a compliance code containing specific provisions intended to prevent violations of the FCPA. Failure to comply with any such continuing obligations could result in the SEC and the DOJ seeking to impose penalties against the Company in the future. Assuming that the SEC and DOJ formally approve the settlement agreements and documents that were signed by the Company, the resolution of the FCPA matter will not result in formal criminal charges being filed against it by the DOJ.

While the Company has no reason to believe that the SEC and DOJ will not formally approve the settlement agreements and documents, the Company cannot provide assurance if and when such formal approval will occur. As a result, the monetary sanctions ultimately paid by the Company to the SEC and the DOJ in resolving this matter may exceed the amount that has been reserved by the Company and the terms of the final resolution may differ from that contained in the current settlement agreements and documents.

Other than the litigation mentioned above, the Company is not involved in any other legal proceedings other than routine litigation arising in the normal course of business. The Company does not believe the results of such litigation would have a material adverse effect on the Company's business, financial condition or results of operations.

NOTE P – LINE OF CREDIT

On July 11, 2006, the Company entered into a loan agreement providing for an available line of credit of $30.0 million. Loans under the loan agreement bear interest at the rate of LIBOR plus 1.75% and require the Company to maintain certain ratios with respect to a debt covenant agreement, including current ratio, consolidated EBITDA, and senior funded debt to EBITDA. As of March 29, 2008, the Company is in compliance with all of the covenants under the Amended Loan Agreement. The term of the Amended Loan Agreement extends to April 30, 2009. The Company has not drawn on this line of credit.

NOTE Q – SUBSEQUENT EVENT

On April 30, 2008, subsequent to the quarter ended March 29, 2008, the Company entered into a license agreement with Dimensional Photonics International, Inc. ("DPI"), a leading provider of high-speed, high-accuracy digital shape scanners, for the global technology rights related to the development, manufacture and sale of DPI's licensed products for a broad range of industrial applications. The terms of the agreement include an initial payment and subsequent royalties based on sales of products that incorporate the licensed technology rights.

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

The following information should be read in conjunction with the Consolidated Financial Statements, including the notes thereto, included elsewhere in this Form 10-Q, and the Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2007 Annual Report, Form 10-K, for the year ended December 31, 2007.

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

Forward-looking statements are not guarantees of future performance and are subject to a number of known and unknown risks, uncertainties, and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Consequently, undue reliance should not be placed on these forward-looking statements. The Company does not intend to update any forward-looking statements, whether as a result of new information, future events, or otherwise, unless otherwise required by law. Important factors that could cause a material difference in the actual results from those contemplated in such forward-looking statements include, among others, and those elsewhere in this report and the following:

- the Company's inability to further penetrate its customer base;
- development by others of new or improved products, processes or technologies that make the Company's products obsolete or less competitive;
- the Company's inability to maintain its technological advantage by developing new products and enhancing its existing products;
- the Company's inability to successfully identify and acquire target companies or achieve expected benefits from acquisitions that are consummated;
- the cyclical nature of the industries of the Company's customers and the financial condition of its customers;
- the fact that the market potential for the computer-aided measurement ("CAM2") market and the potential adoption rate for the Company's products are difficult to quantify and predict;
- the inability to protect the Company's patents and other proprietary rights in the United States and foreign countries;
- fluctuations in the Company's annual and quarterly operating results and the inability to achieve its financial operating targets as a result of a number of factors including, without limitation (i) litigation and regulatory action brought against the Company, (ii) quality issues with its products, (iii) excess or obsolete inventory, (iv) raw material price fluctuations, (v) expansion of the Company's manufacturing capability and other inflationary pressures, (vi) the size and timing of customer orders, (vii) the amount of time that it takes to fulfill orders and ship the Company's products, (viii) the length of the Company's sales cycle to new customers and the time and expense incurred in further penetrating its existing customer base, (ix) increases in operating expenses required for product development and new product marketing, (x) costs associated with new product introductions, such as product development, marketing, assembly line start-up costs and low introductory period production volumes, (xi) the timing and market acceptance of new products and product enhancements, (xii) customer order deferrals in anticipation of new products and product enhancements, (xiii) the Company's success in expanding its sales and marketing programs, (xiv) start-up costs associated with opening new sales offices outside of the United States, (xv) fluctuations in revenue without proportionate adjustments in fixed costs, (xvi) the efficiencies achieved in managing inventories and fixed assets, (xvii) investments in potential acquisitions or strategic sales, product or other initiatives, (xviii) shrinkage or other inventory losses due to product obsolescence, scrap or material price changes, (xix) adverse changes in the manufacturing industry and general economic conditions, (xx) compliance with government regulations including health, safety, and environmental matters, (xxi) the ultimate costs of the Company's monitoring obligations in respect of the Foreign Corrupt Practices Act ("FCPA") matter; and (xxii) other factors noted herein;

- changes in gross margins due to changing product mix of products sold and the different gross margins on different products;
- the Company's inability to successfully maintain the requirements of Restriction of use of Hazardous Substances ("RoHS") and Waste Electrical and Electronic Equipment ("WEEE") compliance into its products;
- the inability of the Company's products to displace traditional measurement devices and attain broad market acceptance;
- the impact of competitive products and pricing in the CAM2 market and the broader market for measurement and inspection devices;
- the effects of increased competition as a result of recent consolidation in the CAM2 market;
- risks associated with expanding international operations, such as fluctuations in currency exchange rates, difficulties in staffing and managing foreign operations, political and economic instability, compliance with import and export regulations, and the burdens and potential exposure of complying with a wide variety of U.S. and foreign laws and labor practices;
- the inability to reach a final resolution of the FCPA matter with the DOJ or the SEC or reaching a resolution on the FCPA matter that differs from the resolution currently anticipated by the Company whether with respect to monetary sanctions ultimately paid by the Company to the SEC or DOJ or otherwise;
- the amount of monetary sanctions ultimately paid by the Company to the SEC and the DOJ in connection with the FCPA matter;
- the loss of the Company's Chief Executive Officer or other key personnel;
- difficulties in recruiting research and development engineers, and application engineers;
- the failure to effectively manage the Company's growth;
- variations in the effective income tax rate and the difficulty in predicting the tax rate on a quarterly and annual basis; and
- the loss of key suppliers and the inability to find sufficient alternative suppliers in a reasonable period or on commercially reasonable terms.

Overview

The Company designs, develops, manufactures, markets and supports portable, software driven, 3-D measurement systems that are used in a broad range of manufacturing, industrial, building construction and forensic applications. The Company's FaroArm, FARO Scan Arm and FARO Gage articulated measuring devices, the FARO Laser Scanner LS, the FARO Laser Tracker, and their companion CAM2 software, provide for Computer-Aided Design ("CAD")-based inspection and/or factory-level statistical process control, and high-density surveying. Together, these products integrate the measurement, quality inspection, and reverse engineering functions with CAD software to improve productivity, enhance product quality and decrease rework and scrap in the manufacturing process. The Company uses the acronym "CAM2" for this process, which stands for computer-aided measurement. As of March 2008, the Company's products have been purchased by approximately 7,600 customers worldwide, ranging from small machine shops to such large manufacturing and industrial companies as Audi, Bell Helicopter, Boeing, British Aerospace, Caterpillar, Daimler Chrysler, General Electric, General Motors, Honda, Johnson Controls, Komatsu Dresser, Lockheed Martin, Nissan, Siemens and Volkswagen, among many others.

The Company operates in international markets throughout the world. It maintains sales offices in France, Germany, Great Britain, Japan, Spain, Italy, China, India, Poland, Netherlands, Malaysia and Vietnam. The Company added a new regional headquarters in Singapore in the third quarter of 2005 along with a new manufacturing and service facility there in the fourth quarter of 2005. In 2006 the Company closed its South Korean office and established a third party distributor relationship for serving that market, and in December 2006, the Company established a sales office in Thailand.

The Company derives revenues primarily from the sale of its FaroArm, FARO Scan Arm, FARO Gage, FARO Laser Tracker and FARO Laser Scanner LS 3-D measurement equipment, and their related multi-faceted software. Revenue related to these products is generally recognized upon shipment. In addition, the Company sells one and three-year extended warranties and training and technology consulting services relating to its products. The Company recognizes the revenue from extended warranties on a straight-line basis. The Company also receives royalties from licensing agreements for its historical medical technology and recognizes the revenue from the sale of the technology by the licensees.

The Company manufactures its FaroArm, FARO Gage, and FARO Laser Tracker products in its manufacturing facility located in Switzerland for customer orders from the Europe/Africa region and in its manufacturing facility located in Singapore for customer orders from the Asia/Pacific region. The Company manufactures its FaroArm, FARO Gage, and FARO Laser Tracker products in the Company's manufacturing facilities located in Florida and Pennsylvania for customer orders from the Americas. The Company manufactures its FARO Laser Scanner LS product in its facility located in Stuttgart, Germany. The Company expects all its existing plants to have the production capacity necessary to support its growth through 2008.

The Company manages and reports its global sales in three regions: the Americas, Europe/Africa and Asia/Pacific. In the first quarter of 2008, 41.5% of the Company's sales were in the Americas compared to 47.7% in the first three months of 2007, 40.9% were in the Europe/Africa region compared to 37.2% in the first quarter of 2007 and 17.6% were in the Asia/Pacific region, compared to 15.1% in the same prior year period (see also Note M- Segment Reporting, to the financial statements above). In the first quarter of 2008 new order bookings increased $8.8 million, or 23.0%, to $47.0 million from $38.2 million in the prior year period. New orders increased $1.2 million, or 7.0%, in the Americas to $18.4 million, from $17.2 million in the prior year period. New orders increased $4.2 million, or 27.6% to $19.4 million in Europe/Africa from $15.2 in the first quarter of 2007. In Asia/Pacific new orders increased $3.4 million, or 58.6% to $9.2 million, from $5.8 million in the first quarter of 2007.

The Company's effective tax rate increased to 21.8% for the three months ended March 29, 2008 from 20.5% in the prior year period. The Company currently estimates that its effective tax rate will approximate 18% to 22% for the remainder of 2008. The Company's tax rate continues to be lower than the statutory tax rate in the United States primarily as a result of favorable tax rates in foreign jurisdictions. However, the Company's tax rate could be impacted positively or negatively by geographic changes in the manufacturing or sales of its products. The Company has received a favorable income tax rate commitment from the Swiss government as an incentive to establish a manufacturing plant in Switzerland. In 2006, the Company received approval from the Singapore Economic Development Board for a favorable multi-year income tax holiday for its Singapore headquarters and manufacturing operations subject to certain terms and conditions including employment, spending and capital investment.

Accounting for wholly-owned foreign subsidiaries is maintained in the currency of the respective foreign jurisdiction. Inter-company transactions are eliminated in consolidation. Fluctuations in exchange rates may have an impact in the Company's consolidated financial statements upon the expected settlement of these inter-company accounts. The Company is aware of the availability of off-balance sheet financial instruments to hedge exposure to foreign currency exchange rates, including cross-currency swaps, forward contracts and foreign currency options (see Foreign Exchange Exposure below). However, it does not regularly use such instruments, and none were utilized in 2007 or the three months ended March 29, 2008.

The Company has had twenty-three consecutive profitable quarters through March 29, 2008. Its sales and earnings growth have been the result of a number of factors, including: continuing market demand for and acceptance of the Company's products; increased sales activity in part through additional sales staff worldwide, new products and product enhancements such as the FARO Gage and Laser Scanner; and the effect of acquisitions.

FCPA Update

As previously reported by the Company, the Company learned that its China subsidiary had made payments to certain customers in China that may have violated the FCPA and other applicable laws. The Company's Audit Committee instituted an internal investigation into this matter in February 2006, and the Company voluntarily notified the SEC and the DOJ of this matter in March 2006. The Company's internal investigation into this matter has been completed. The Company's internal investigation identified certain improper payments made in China and deficiencies in its controls with respect to its operations in China in possible violation of the FCPA.

Results of the investigation revealed that referral fee payments in possible violation of the FCPA were $165,000 and $265,000 in 2004 and 2005, respectively, which were recorded in selling expenses in its statements of income. The related sales to customers to which payment of these referral fees had been made totaled approximately $1.3 million and $3.24 million in 2004 and 2005, respectively. Additional improper referral fee payments of $122,000 were made in January and February 2006 related to sales contracts in 2005. The Company had sales in China of $9.0 million in 2005 and $4.2 million in 2004, approximately 7% and 4% of total sales, respectively. The Company incurred expenses of $3.8 million in 2006, $3.1 million in 2007 and $0.3 million in the three months ended March 29, 2008, including $2.95 million for estimated fines, penalties, and interest to the DOJ and SEC, relating to the FCPA matter.

The Company has provided to the SEC and the DOJ information obtained during the course of this investigation and is cooperating with both agencies. The SEC and the DOJ have a broad range of civil and criminal remedies that they may seek to impose against corporations and individuals in appropriate circumstances, including without limitation disgorgement, fines, penalties, and other injunctive and equitable relief, as well as additional changes to the Company's business practices and compliance programs.

The Company believes that settlement discussions between it and both the SEC and the DOJ concerning the FCPA matter have been concluded. In that regard, the Company has signed and delivered to the SEC and DOJ settlement agreements and documents concerning the FCPA matter. Those settlement agreements and documents are subject to formal approval by both the SEC and the DOJ and will not become final until such formal approval occurs. Those settlement agreements and documents obligate the Company to pay an aggregate of $2.95 million in fines, disgorgement of associated profit, and interest, and the Company recorded a reserve of that amount. In addition to the monetary sanctions, the Company will have continuing obligations with the SEC and the DOJ with respect to monitoring, compliance with the FCPA and other laws, full cooperation with the government, and the adoption of a compliance code containing specific provisions intended to prevent violations of the FCPA. Failure to comply with any such continuing obligations could result in the SEC and the DOJ seeking to impose penalties against the Company in the future. Assuming that the SEC and DOJ formally approve the settlement agreements and documents that were signed by the Company, the resolution of the FCPA matter will not result in formal criminal charges being filed against it by the DOJ.

While the Company has no reason to believe that the SEC and DOJ will not formally approve the settlement agreements and documents, the Company cannot provide assurance if and when such formal approval will occur. As a result, the monetary sanctions ultimately paid by the Company to the SEC and the DOJ in resolving this matter may exceed the amount that has been reserved by the Company and the terms of the final resolution may differ from that contained in the current settlement agreements and documents.

The Company is currently involved in a class action securities fraud lawsuit. (See Part II. OTHER INFORMATION: Item 1. Legal Proceedings). Neither the ultimate outcome of any of these actions, nor the potential impact on the Company's business, financial condition, or reported results of operations in any future period can be predicted.

Results of Operations

Three Months Ended March 29, 2008 Compared to the Three Months Ended March 31, 2007

Sales increased by $5.8 million or 14.4% to $46.1 million in the three months ended March 29, 2008 from $40.3 million for the three months ended March 31, 2007. This increase resulted primarily from an increase in unit sales and an increase in average selling prices. Sales in the Americas region decreased $0.1 million or 0.4% to $19.1 million for the three months ended March 29, 2008 from $19.2 million in the three months ended March 31, 2007. Sales in the Europe/Africa region increased $3.9 million or 25.9%, to $18.9 million for the three months ended March 29, 2008 from $15.0 million in the three months ended March 31, 2007. Sales in the Asia/Pacific region increased $2.0 million or 32.8% to $8.1 million for the three months ended March 29, 2008 from $6.1 million in the three months ended March 31, 2007.

Gross profit increased by $3.9 million or 16.2% to $27.7 million for the three months ended March 29, 2008 from $23.8 million for the three months ended March 31, 2007. Gross margin increased to 60.1% for the three months ended March 29, 2008 from 59.2% for the three months ended March 31, 2007. The increase in gross margin is primarily due to a change in the sales mix resulting in an increase in unit sales of product lines with a lower than average cost of sales.

Selling expenses increased by $2.1 million or 17.3% to $14.4 million for the three months ended March 29, 2008 from $12.3 million for three months ended March 31, 2007. This increase was primarily due to an increase in commission and compensation expense of $1.1 million and higher travel related costs of $0.6 million. Worldwide sales and marketing headcount increased by 58 or 20.6% to 339 from 281 between March 29, 2008 and March 31, 2007. Regionally, the Company’s sales and marketing headcount increased by 30 or 33.0% in the Americas, to 121 from 91; increased by 8 or 6.6% in Europe/Africa, to 130 from 122; and increased by 20 or 29.4% in Asia/Pacific, to 88 from 68 between March 29, 2008 and March 31, 2007. The Company intends to continue to selectively increase its sales and marketing headcount as the market demands. As a percentage of sales, selling expenses increased to 31.3% of sales in the three months ended March 29, 2008 from 30.5% in the three months ended March 31, 2007. Regionally, selling expenses were 28.5% of sales in the Americas for the quarter, compared to 25.9% of sales in the year-ago quarter, 33.2% of sales for Europe/Africa compared to 35.8% of sales, and 33.5% of sales compared to 32.2% of sales for Asia/Pacific.

General and administrative expenses increased by $0.6 million or 12.4%, to $5.6 million for the three months ended March 29, 2008 from $5.0 million for the three months ended March 31, 2007, primarily due to an increase in compensation costs of $0.6 million, increased costs related to the additional leased space to expand the Company’s corporate offices of $0.4 million, offset by a reduction in professional and legal fees of $0.6 million related to the Company’s FCPA investigation and patent litigation.

Depreciation and amortization expenses decreased by $0.1 million to $1.0 million for the three months ended March 29, 2008 from $1.1 million for the three months ended March 31, 2007.

Research and development expenses increased to $2.7 million for the three months ended March 29, 2008 from $2.0 million for the three months ended March 31, 2007 primarily as a result of an increase in compensation expense. Research and development expenses as a percentage of sales increased to 5.9% for the three months ended March 29, 2008 from 4.9% for the three months ended March 31, 2007.

Interest income increased by $0.4 million to $0.62 million for the three months ended March 29, 2008 from $0.26 million for the three months ended March 31, 2007, due to an increase in cash and short term investments.

Interest expense increased by $0.4 million to $0.4 million for the three months ended March 29, 2008 from $0.0 million for the three months ended March 31, 2007, due to interest accrued on the estimated fines and penalties to the SEC and DOJ related to the FCPA matter.

Other (income) expense, net decreased by $0.1 million to $0.2 million of income for the three months ended March 29, 2008, from income of $0.33 million for the three months ended March 31, 2007, primarily as a result of lower foreign exchange transaction gains.

Income tax expense increased by $0.1 million to $0.9 million for the three months ended March 29, 2008 from $0.8 million for the three months ended March 31, 2007. This increase was primarily due to an increase in pretax income. Total deferred taxes for the Company’s foreign subsidiaries relating to net operating loss carryforwards were $8.6 million and $7.7 million at March 29, 2008 and December 31, 2007, respectively. The related valuation allowance was $7.2 million and $6.3 million at March 29, 2008 and

December 31, 2007, respectively. The Company's effective tax rate increased to 21.8% for the three months ended March 29, 2008 from 20.5% in the prior year period primarily as a result of an increase in taxable income in jurisdictions with higher tax rates. The Company currently estimates its effective tax rate will approximate 18% to 22% for the remainder of 2008. The Company's tax rate continues to be lower than the statutory tax rate in the United States primarily as a result of favorable tax rates in foreign jurisdictions. However, the Company's tax rate could be impacted positively or negatively by geographic changes in the manufacturing or sales of its products and the resulting effect on taxable income in each jurisdiction.

Net income increased by $0.2 million to $3.4 million for the three months ended March 29, 2008 from $3.2 million for the three months ended March 31, 2007 as a result of the factors described above.

Liquidity and Capital Resources

On January 10, 2005, the Company filed a Registration Statement on Form S-3 with the Securities and Exchange Commission allowing it to raise proceeds of up to $125 million. The proceeds from any offerings with respect to this registration statement, if any, would be used for either repayment or refinancing of debt, acquisition of additional businesses or technologies or for working capital and general corporate purposes.

On August 14, 2007, the Company sold 1,650,000 shares of common stock in a registered direct offering pursuant to its Form S-3 Registration Statement to certain institutional investors at $34.00 per share. The net proceeds after deducting placement fees and other offering expenses were approximately $53.0 million.

Cash and cash equivalents decreased by $6.3 million to $19.5 million at March 29, 2008 from $25.8 million at December 31, 2007. The decrease was primarily attributable to an increase in short term investments of $5.8 million, purchases of equipment and intangible assets of $0.9 million, offset by net cash provided by operating activities of $0.1 million, and $0.2 million related to the effects of foreign exchange rate changes on cash. The Company's short term investments increased to $83.2 million at March 29, 2008 from $77.4 million at December 31, 2007.

On July 11, 2006, the Company entered into a loan agreement providing for an available line of credit of $30.0 million. Loans under the agreement bear interest at the rate of LIBOR plus 1.75% and require the Company to maintain certain ratios with respect to a debt covenant agreement, including current ratio, consolidated EBITDA, and senior funded debt to EBITDA. As of March 29, 2008, the Company was in compliance with all of the covenants under the Amended Loan Agreement. The term of the Amended Loan Agreement extends to April 30, 2009. The Company has not drawn on this line of credit.

The Company believes that its working capital, anticipated cash flow from operations, and credit facility will be sufficient to fund its long-term liquidity requirements for the foreseeable future.

Critical Accounting Policies

In response to the SEC's financial reporting release, FR-60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," the Company has selected its critical accounting policies for purposes of explaining the methodology used in the calculation in addition to any inherent uncertainties pertaining to the possible effects on its financial condition. The critical policies discussed below are the Company's processes of recognizing revenue, the reserve for excess and obsolete inventory, income taxes, and the reserve for warranties. These policies affect current assets and operating results and are therefore critical in assessing the Company's financial and operating status. These policies involve certain assumptions that, if incorrect, could create an adverse impact on the Company's operations and financial position.

The preparation of these consolidated financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience along with various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Some of these judgments can be subjective and complex and, consequently, actual results may differ from these estimates under different assumptions or conditions. While for any given estimate or assumption made by the Company's management there may be other estimates or assumptions that are reasonable, the Company believes that, given the current facts and circumstances, it is unlikely that applying any such other reasonable estimate or assumption would materially impact the financial statements.

Revenue Recognition - Revenue related to the Company's measurement equipment and related software is generally recognized upon shipment as the Company considers the earnings process substantially complete as of the shipping date. Revenue from sales of software only is recognized when no further significant production, modification or customization of the software is required and where the following criteria are met: persuasive evidence of a sales agreement exists, delivery has occurred, and the sales price is fixed or determinable and deemed collectible. Revenues resulting from sales of comprehensive support, training and technology consulting services are recognized as such services are performed. Extended maintenance plan revenues are recognized on a straight-line basis over the life of the plan. The Company warrants its products against defects in design, materials and workmanship for one year. A provision for estimated future costs relating to warranty expense is recorded when products are shipped. Costs relating to extended maintenance plans are recognized as incurred. Revenue from the licensing agreements for the use of the Company's technology for medical applications is recognized from the sale of the technology by the licensees.

The Reserve for Excess and Obsolete Inventory - Since the value of inventory that will ultimately be realized cannot be known with exact certainty, the Company relies upon both past sales history and future sales forecasts to provide a basis for the determination of the reserve. Inventory is considered obsolete if the Company has withdrawn those products from the market or had no sales of the product for the past 12 months, and has no sales forecasted for the next 12 months. Inventory is considered excess if the quantity on hand exceeds 12 months of remaining usage. The resulting obsolete and excess parts are then reviewed to determine if a substitute usage or a future need exists. Items without an identified current or future usage will be reserved in an amount equal to 100% of the FIFO cost of such inventory. The Company's products are subject to changes in technologies that may make certain of its products or their components obsolete or less competitive, which may increase its historical provisions to the reserve.

Income Taxes - The Company reviews its deferred tax assets on a regular basis to evaluate their recoverability based upon expected future reversals of deferred tax liabilities, projections of future taxable income over a two year period, and tax planning strategies that it might employ to utilize such assets, including net operating loss carryforwards. Based on the positive and negative evidence described in Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes", the Company establishes a valuation allowance against the net deferred assets of a taxing jurisdiction in which it operates unless it is "more likely than not" that it will recover such assets through the above means. In the future, the Company's evaluation of the need for the valuation allowance will be significantly influenced by its ability to achieve profitability and its ability to predict and achieve future projections of taxable income.

The Company operates in a number of different countries around the world and considers the statutory rates within each jurisdiction to determine the overall effective tax rate. In 2003, the Company began to manufacture its products in Switzerland, where it has received a favorable income tax rate commitment from the Swiss government as an incentive to establish a manufacturing plant there. The aggregate dollar effect of this favorable tax rate was approximately $0.5 million, or $0.03 per share for the three months ended March 29, 2008 and for the three months ended March 31, 2007.

In 2005, the Company opened a regional headquarters and began to manufacture its products in Singapore, where it received approval for a four year tax holiday from the Singapore Economic Development Board as an incentive to establish a manufacturing plant and regional headquarters. The aggregate dollar effect of this favorable tax rate was approximately $0.4 million, or $0.03 per share for the three months ended March 29, 2008, and $0.3 million, or $0.02 per share for the three months ended March 29, 2007.

The Company is subject to certain terms and conditions including employment, spending, and capital investment in each of these countries in order to receive these favorable tax rates or be subject to the statutory rates. Significant judgment is required in determining the Company's worldwide provision for income taxes. In the ordinary course of global business, there are many transactions for which the ultimate tax outcome is uncertain. The Company has appropriately reserved for its tax uncertainties based on the criteria established by Interpretation No. 48. "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109".

The Reserve For Warranties – The Company establishes at the time of sale a liability for the one year warranty included with the initial purchase price of the equipment based upon an estimate of the repair expenses likely to be incurred for the warranty period. The warranty period is measured in installation-months for each major product group. Warranty reserve is reflected in accrued liabilities in the accompanying consolidated balance sheets. The warranty expense is estimated by applying the actual total repair expenses for each product group in the prior period and determining a rate of repair expense per installation month. This repair rate is multiplied by the number of installation-months of warranty for each product group to determine the provision for warranty expenses for the period. The Company evaluates its exposure to warranty costs at the end of each period using the estimated expense per installation-month for each major product group, the number of units remaining under warranty and the remaining number of months each unit will be under warranty. The Company has a history of new product introductions and enhancements to existing products which may result in unforeseen issues that may increase its warranty costs. While such expenses have historically been within expectations, the Company cannot guarantee this will continue in the future.

Foreign Exchange Exposure

The Company conducts a significant portion of its business outside the United States. At present, 58% of its revenues are invoiced, and a significant portion of its operating expenses paid, in foreign currencies. Fluctuations in exchange rates between the U.S. dollar and such foreign currencies may have a material adverse effect on the business, results of operations and financial condition, and could specifically result in foreign exchange gains and losses. The impact of future exchange rate fluctuations on the results of the Company's operations cannot be accurately predicted. To the extent that the percentage of its non-U.S. dollar revenues derived from international sales increases (or decreases) in the future, the Company's exposure to risks associated with fluctuations in foreign exchange rates may increase (or decrease).

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The information required by this item is incorporated by reference herein from the section of this Report in Part I, Item 2, under the caption "Foreign Exchange Exposure", above.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company's management, with the participation of its Principal Executive Officer and Principal

Financial Officer, has carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company's Principal Executive Officer and Principal Financial Officer have concluded that its disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 29, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Securities Litigation - On December 6, 2005, the first of four essentially identical class action securities fraud lawsuits were filed against the Company and certain officers of the Company (the "Securities Litigation") in the U.S. District Court for the Middle District of Florida. On April 19, 2006, the four lawsuits were consolidated, and Kornitzer Capital Management, Inc. (the "Lead Plaintiff") was appointed as the lead plaintiff. The Lead Plaintiff seeks to include in the class all persons who purchased or otherwise acquired the Company's common stock between April 15, 2004 and March 15, 2006 (the "Class"), and seeks an unspecified amount of damages, premised on allegations that each defendant made misrepresentations and omissions of material fact during the class period in violation of the Securities Exchange Act of 1934.

On February 26, 2008, the parties to the Securities Litigation entered into a Memorandum of Understanding stating the principal terms of their agreement to settle the Securities Litigation. On April 9, 2008, the parties filed a detailed Stipulation of Settlement with the court seeking the court's preliminary and final approval of the terms of the proposed settlement. Pursuant to those terms, the issuer of the Company's Executive Liability and Entity Securities Liability insurance policy applicable to the Securities Litigation will pay $6.875 million into a settlement fund for the Securities Litigation. That sum is within the coverage limit of the policy and accordingly has no effect on the Company's financial results.

The proceeds of the settlement fund will be distributed to members of the Class and to the Lead Plaintiff's counsel. The balance of the settlement fund will be used to pay various costs associated with providing notice of the terms of the proposed settlement to the Class and with administering the settlement. If the court approves the settlement, a judgment will be entered dismissing the Securities Litigation, with prejudice, as against each defendant.

Derivative Action - On January 10, 2008, a Verified Shareholder Derivative Complaint (the "Derivative Complaint") was filed by an alleged shareholder of the Company in the U.S. District Court for the Middle District of Florida against six of the Company's current and former directors, as defendants, and against the Company, as a nominal defendant. The Derivative Complaint alleges breach of fiduciary duty and other claims against the individual defendants principally in connection with the alleged acts and omissions asserted in the Securities Litigation. The plaintiff alleges that the individual defendants caused the Company's stock price to be falsely inflated, and subjected the Company to costs, fines and other damages, as well as a loss of good will. The plaintiff purports to seek an unspecified amount of damages, together with other relief, on behalf of the Company and against the individual defendants. Prior to filing the Derivative Complaint, the plaintiff had requested that the Company assert certain of such claims against some of the individual defendants. In April 2008, the Company received another demand by another alleged shareholder that the Company assert substantially the same claims as set forth in the Derivative Complaint against seven of the Company's current and former directors. A similar demand received by the Company in February 2008 was subsequently withdrawn.

The Company has formed a committee of independent directors to review and investigate the shareholder demands, and the allegations made in the Derivative Complaint and the other shareholder demand. The committee has not yet made a recommendation with respect to those matters. To the Company's knowledge, no defendant has been served with the Derivative Complaint.

Voluntary Disclosure of Foreign Corrupt Practices Act Matter to the Securities and Exchange Commission and Department of Justice. - As previously reported by the Company, the Company learned that its China subsidiary had made payments to certain customers in China that may have violated the Foreign Corrupt Practices Act ("FCPA") and other applicable laws. The Company's Audit Committee instituted an internal investigation into this matter in February 2006, and the Company voluntarily notified the Securities and Exchange Commission ("SEC") and the Department of Justice ("DOJ") of this matter in March 2006. The Company's internal investigation into this matter has been completed. The Company's internal investigation identified certain improper payments made in China and deficiencies in its controls with respect to its operations in China in possible violation of the FCPA.

Results of the investigation revealed that referral fee payments in possible violation of the FCPA were $165,000 and $265,000 in 2004 and 2005, respectively, which were recorded in selling expenses in its statements of income. The related sales to customers to which payment of these referral fees had been made totaled approximately $1.3 million and $3.24 million in 2004 and 2005, respectively. Additional improper referral fee payments of $122,000 were made in January and February 2006 related to sales contracts in 2005. The Company had sales in China of $9.0 million in 2005 and $4.2 million in 2004, approximately 7% and 4% of total sales, respectively. The Company incurred expenses of $3.8 million in 2006, $3.1 million in 2007, and $0.3 million in the three months ended March 29, 2008, relating to the FCPA matter, including $2.95 million for estimated fines and penalties to the DOJ and SEC.

The Company has provided to the SEC and the DOJ information obtained during the course of this investigation and is cooperating with both agencies. The SEC and the DOJ have a broad range of civil and criminal remedies that they may seek to impose against corporations and individuals in appropriate circumstances, including without limitation disgorgement, fines, penalties, and other injunctive and equitable relief, as well as additional changes to the Company's business practices and compliance programs.

The Company believes that settlement discussions between it and both the SEC and the DOJ concerning the FCPA matter have been concluded. In that regard, the Company has signed and delivered to the SEC and DOJ settlement agreements and documents concerning the FCPA matter. Those settlement agreements and documents are subject to formal approval by both the SEC and the DOJ and will not become final until such formal approval occurs. Those settlement agreements and documents obligate the Company to pay an aggregate of $2.95 million in fines, disgorgement of associated profit, and interest, and the Company recorded a reserve of that amount. In addition to the monetary sanctions, the Company will have continuing obligations with the SEC and the DOJ with respect to monitoring, compliance with the FCPA and other laws, full cooperation with the government, and the adoption of a compliance code containing specific provisions intended to prevent violations of the FCPA. Failure to comply with any such continuing obligations could result in the SEC and the DOJ seeking to impose penalties against the Company in the future. Assuming that the SEC and DOJ formally approve the settlement agreements and documents that were signed by the Company, the resolution of the FCPA matter will not result in formal criminal charges being filed against it by the DOJ.

While the Company has no reason to believe that the SEC and DOJ will not formally approve the settlement agreements and documents, the Company cannot provide assurance if and when such formal approval will occur. As a result, the monetary sanctions ultimately paid by the Company to the SEC and the DOJ in resolving this matter may exceed the amount that has been reserved by the Company and the terms of the final resolution may differ from that contained in the current settlement agreements and documents.

Other than the litigation mentioned above, the Company is not involved in any other legal proceedings other than routine litigation arising in the normal course of business. The Company does not believe the results of such litigation would have a material adverse effect on the Company's business, financial condition or results of operations

Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed under "Risk Factors" in the Company's Form 10-K for the year ended December 31, 2007 as filed with the Securities and Exchange Commission. These risks could materially and adversely affect the Company's business, financial condition, and results of operations. The risks described in the Company's Form 10-K for the year ended December 31, 2007 are not the only risks it faces. The Company's operations could also be affected by additional factors that are not presently known to the Company or by factors that it currently considers immaterial to its business.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

[Table of Contents](#)

Item 6. Exhibits

10.1	Form of Stock Option Grant Agreement under the 2004 Equity Incentive Plan
31-A	Certification of the President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31-B	Certification of the Principal Financial and Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32-A	Certification of the President and Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32-B	Certification of the Principal Financial and Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

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

FARO Technologies, Inc.
(Registrant)

Date: May 2, 2008

By: /s/ Keith S. Bair
Keith S. Bair
Senior Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

FARO Technologies 2004 Equity Incentive Plan
Incentive Stock Option Award Agreement

You have been selected to be a Participating Employee in the FARO Technologies, Inc. 2004 Equity Incentive Plan (the “Plan”), as specified below:

Participating Employee: ______________________________

Date of Grant: ______________________________

Date of Expiration: ______________________________

Number of Shares Covered by Option: ______________________________

Option Price: $______________________________

THIS AGREEMENT, effective as of the Date of Grant set forth above, represents the grant of a nonqualified stock option (the “Option”) by FARO Technologies, Inc., a Florida corporation (the “Company”), to the Participating Employee named above, pursuant to the provisions of the Plan.

The Plan provides a complete description of the terms and conditions governing the Option. If there is any inconsistency between the terms of this Agreement and the terms of the Plan, the Plan’s terms shall completely supersede and replace the conflicting terms of this Agreement. All capitalized terms shall have the meanings ascribed to them in the Plan, unless specifically set forth otherwise herein. The parties hereto agree as follows:

1. Grant of Stock Option. The Company hereby grants to the Participating Employee an Option to purchase the number of Shares set forth above, at the stated Option Price set forth above, which is one hundred percent (100%) of the Fair Market Value (as defined below) of a Share on the Date of Grant, in the manner and subject to the terms and conditions of the Plan and this Agreement. The Option is intended to constitute, and shall be treated for all purposes, as an “incentive stock option” within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

2. Exercise of Stock Option.

(a) Except as provided herein and in the Plan, the Option shall vest, and the Participating Employee may exercise the Option, according to the following schedule with respect to each installment shown in the schedule on and after the vesting date applicable to such installment set forth below, provided that no exercise may occur before the first anniversary of the Date of Grant or subsequent to the close of business on the Date of Expiration.

Elapsed Number of Years After Grant Date	Cumulative Percentage of Shares Subject to Option Which May be Purchased (which number of shares shall be rounded down to the nearest whole number)
Less than one year	0%
One year	33%
Two years	66 2/3%
Three years	100%

(b) In the event the Optionee dies while he or she is an employee of the Company or any Affiliate or if his or her employment is terminated by reason of his or her disability (as determined by the Committee), the Option, to the extent then vested and exercisable on the date of death or termination (as the case may be) pursuant to Section 2(a), may be exercised as follows: (i) by the legal representative of the Optionee or such persons that have acquired the Participating Employee's rights under the Option by will or by the laws of descent and distribution, at any time within twelve months after the date of the Optionee's death while an employee of the Company or any Affiliate; or (ii) by the Optionee or his or her legal representative or guardian at any time within twelve months after the termination of the Optionee's employment by reason of disability, but in either case in no event later than the Date of Expiration. The Committee, in its sole discretion, shall have the right to permit exercise of all or any portion of the unvested Option, and/or to immediately vest all or any portion of such Option, subject to such terms as the Committee, in its sole discretion, deems appropriate.

(c) If the employment of the Optionee is terminated by the Company or any Affiliate "for cause", the Option shall terminate immediately and automatically upon such termination and shall not be exercisable following such termination of employment, regardless of the vested status of the Option. For purposes of this Agreement, termination "for cause" means any termination of Optionee's employment by reason of (i) any action or omission on the part of the Optionee that is deemed contrary to the interests of the Company or any Affiliate or not in the interests of the Company or any affiliate, or (ii) the Optionee's failure to achieve his or her performance or other objectives or satisfy the requirements the Optionee's employment duties, in each case as determined by the Committee or the Board of Directors in its respective sole discretion and which decision shall be final, conclusive and binding on, and nonappealable by, the Optionee (and any person claiming by or through the Optionee).

(d) In the event that the Optionee's employment with the Company or its Affiliates terminates for any reason (other than the death or disability of the Optionee as contemplated by Section 2(b) above or "for cause" as contemplated by Section 2(c) above), the Option, to the extent then vested and exercisable on the date of termination pursuant to Section 2(a), may be exercised by the Optionee at any time within three months after the date of termination of employment, but in no event later than the Date of Expiration. The Committee, in its sole discretion, shall have the right to permit exercise of all or any portion of the unvested Option, and/or to immediately vest all or any portion of such Option, subject to such terms as the Committee, in its sole discretion, deems appropriate.

(e) This Option may be exercised during the life of the Optionee only by the Optionee (or the Optionee's legal representative as provided in this Section 2).

3. Limitations on Exercise. The Participating Employee must exercise all rights under this Agreement prior to the seventh anniversary of the Date of Grant (i.e., the Option will expire upon the seventh anniversary of the Date of Grant).

4. <u>Manner of Exercise and Payment</u>. The Option may be exercised only by written notice to the Company, addressed to the Corporate Secretary of the Company at its corporate headquarters at 125 Technology Park, Lake Mary, Florida 32746, specifying the number of shares in respect to which the Option is being exercised. Subject to the provisions of this Agreement and the Plan, the notice of exercise must be accompanied by full payment of the Option Price of the Shares being purchased (except in the case of a cashless exercise as described below) (a) in cash or by certified check or bank draft; (b) by tendering previously acquired Shares (valued at their Fair Market Value on the trading date preceding the exercise date, or, if no trading occurred on the trading date preceding the exercise date, then the Fair Market Value per Share shall be determined with reference to the next preceding date on which the common stock of the Company, $.001 par value (the “Common Stock”) was traded); or (c) by any combination of the means of payment set forth in subsections (a) and (b). For purposes of (b) and (c) above, the term “previously acquired Shares” shall only include Shares owned by the Optionee for at least six months prior to the exercise of this Option and shall not include Optioned Shares that are being acquired pursuant to the exercise of this Option. For purposes of this Agreement, the “Fair Market Value” of a Share shall be equal to the closing sale price per Share, as reported on the Nasdaq National Market, on the Date of Grant. No Shares shall be issued until full payment therefor has been made.

Subject to the establishment by the Committee of a procedure by which to complete a “cashless exercise,” the Participating Employee may exercise this Option pursuant to such “cashless exercise” procedure, as permitted under Federal Reserve Board’s Regulation T, subject to securities law restrictions, or by any other means which the Committee, in its sole discretion, determines to be consistent with the Plan’s purpose and applicable law.

5. <u>Nontransferability of the Option</u>. This Option shall not be transferable by the Optionee otherwise than by will or the laws of descent and distribution.

6. <u>Adjustment to Optioned Shares and Option Price</u>. In the event of a capital adjustment on or affecting the Shares resulting from a dividend or other distribution, stock split, spin-off, split-up, reorganization, recapitalization, merger, consolidation, combination or exchange of shares or other similar corporate transaction (including any cash dividend or distribution on the Shares impacting the fair market value of the Shares), the Optioned Shares and the per share option price shall be adjusted in a manner consistent with such capital adjustment and in accordance with the Plan applicable to the Optioned Shares as determined by the Committee; <u>provided</u>, <u>however</u>, that no such adjustment shall require the Company to issue any fractional shares and the adjustment shall be limited accordingly as determined by the Committee. The determination of the Administrator as to any adjustment under this Section 6 shall be final, conclusive and binding.

7. <u>Tax Withholding</u>. The Company may deduct and withhold from any cash otherwise payable to the Optionee (whether payable as salary, bonus or other compensation) such amount as may be required for the purpose of satisfying the Company’s obligation to withhold Federal, state or local taxes. Further, in the event the amount so withheld is insufficient for such purpose, the Company may require that the Optionee pay to the Company upon its demand or otherwise make arrangements satisfactory to the Company for payment of such amount as may be requested by the Company in order to satisfy its obligation to withhold any such taxes. The Optionee shall be permitted to satisfy the Company’s tax withholding requirements by making a written election (in accordance with such rules and regulations and in such form as the Committee may determine) to have the Company withhold shares of Common Stock otherwise issuable to the Optionee (the

"Withholding Election") having a fair market value on the date income is recognized (the "Tax Date") pursuant to the exercise of the Option equal to the minimum amount required to be withheld. If the number of shares of Common Stock withheld to satisfy withholding tax requirements shall include a fractional share, the number of shares withheld shall be reduced to the next lower whole number and the Optionee shall deliver cash in lieu of such fractional share, or otherwise make arrangements satisfactory to the Company for payment of such amount. A Withholding Election must be received by the Corporate Secretary of the Company on or prior to the Tax Date.

8. Status of Optionee. The Optionee shall not be deemed for any purposes to be a shareholder of the Company with respect to any of the Optioned Shares except to the extent that the Option shall have been exercised with respect thereto, the shares shall have been fully paid, and a stock certificate issued therefor. Neither the Plan nor the Option shall confer upon the Optionee any right to continue in the employ of the Company or any of its Affiliates, nor to interfere in any way with the right of the Company to terminate the employment of the Optionee at any time.

9. Powers of the Company Not Affected. The existence of the Option shall not affect in any way the right or power of the Company or its shareowners to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or prior preference stock senior to or affecting the Common Stock or the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or any part of the Company's assets or business or any other corporate act or proceeding, whether of a similar character or otherwise.

10. Interpretation by Committee. As a condition of the granting of the Option, the Optionee agrees, for himself or herself and his or her legal representatives or guardians, that this Agreement shall be interpreted by the Committee and that any interpretation by the Committee of the terms of this Agreement and any determination made by the Committee pursuant to this Agreement shall be final, binding and conclusive.

11. Miscellaneous.

(a) This Agreement and the rights of the Participating Employee hereunder are subject to all the terms and conditions of the Plan, as the same may be amended from time to time, as well as to such rules and regulations as the Committee may adopt for administration of the Plan. The Committee shall have the right to impose such restrictions on any Shares acquired pursuant to the Option, as it may deem advisable, including, without limitation, restrictions under applicable federal securities laws, under applicable federal and state tax law, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state securities laws applicable to such Shares.

(b) It is expressly understood that the Committee is authorized to administer, construe, and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon the Participating Employee.

(c) The Participating Employee agrees to take all steps necessary to comply with all applicable provisions of federal and state securities and tax laws in exercising his or her rights under this Agreement.

(d) This Agreement shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(e) All obligations of the Company under the Plan and this Agreement, with respect to the Option, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase of all or substantially all of the business and/or assets of the Company, or the result of a merger, consolidation or otherwise.

(f) To the extent not preempted by federal law, this Agreement shall be governed by, and construed in accordance with, the laws of the State of Florida.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the Date of Grant.

FARO TECHNOLOGIES, INC.

By: ____________________________
Name: ____________________________
Title: ____________________________

PARTICIPATING EMPLOYEE

____
Name: ____________________________
SSN: ____________________________

FARO Technologies, Inc.
Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jay W. Freeland certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FARO Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-(15)(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-(15)(f) and 15(d)-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 2, 2008

/s/ Jay W. Freeland

Name: Jay W. Freeland
Title: President and Chief Executive Officer-Director (Principal Executive Officer)

FARO Technologies, Inc.
Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Keith S. Bair certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FARO Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-(15)(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-(15)(f) and 15(d)-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 2, 2008

/s/ Keith S. Bair

Name: Keith S. Bair
Title: Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

FARO Technologies, Inc.
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned President and Chief Executive Officer and Director of FARO Technologies, Inc., (the Company) hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q, for the quarter ended March 29, 2008 (the Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jay W. Freeland

Jay W. Freeland
May 2, 2008

FARO Technologies, Inc.
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned Senior Vice President and Chief Financial Officer of FARO Technologies, Inc., (the Company), and the principal financial officer and principal accounting officer of the Company for the period covered the Report, hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q, for the quarter ended March 29, 2008 (the Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Keith S. Bair

Keith S. Bair
May 2, 2008