SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 1998

[ ] 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	59-3157093
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
125 TECHNOLOGY PARK DRIVE, LAKE MARY, FLORIDA	32746
(Address of Principal Executive Offices)	(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 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 [X] NO [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Class: Voting Common Stock, $.001 Par Value

Outstanding at August 12, 1998: 11,360,413

FARO Technologies Inc.
Index to Form 10-Q

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
ASSETS

	DECEMBER 31, 1997	JUNE 30, 1998
CURRENT ASSETS:		
Cash and cash equivalents	$ 28,815,069	$22,396,863
Accounts receivable, net of allowance	6,159,173	10,121,298
Inventories	4,275,376	5,249,930
Deferred tax asset	126,572	526,572
Prepaid expenses	109,649	277,516
Total current assets	39,485,839	38,572,179
PROPERTY AND EQUIPMENT - At cost:		
Machinery and equipment	1,014,309	1,564,658
Furniture and fixtures	605,913	890,067
Total	1,620,222	2,454,725
Less accumulated depreciation	(792,442)	(1,000,294)
Property and equipment - net	827,780	1,454,431
INTANGIBLE ASSETS, net of accumulated amortization of $321,261 and $471,437, respectively	747,979	2,422,562
DEFERRED TAXES	130,735	1,219,000
TOTAL ASSETS	$ 41,192,333	$43,668,172

LIABILITIES AND SHAREHOLDERS' EQUITY

	DECEMBER 31, 1997	JUNE 30, 1998
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 1,196,967	$ 3,807,768
Income taxes payable	413,167	-
Customer deposits	121,358	185,756
Current portion unearned service revenues	476,802	272,907
Total current liabilities	2,208,294	4,266,431
UNEARNED SERVICE REVENUES - less current portion	44,628	136,563
TOTAL LIABILITIES	2,252,922	4,402,994
SHAREHOLDERS' EQUITY:		
Class A preferred stock - par value $.001, 10,000,000 shares authorized, no shares issued and outstanding		
Common stock - par value $.001, 50,000,000 shares authorized, 9,919,000 and 11,027,081 issued and outstanding, respectively	9,919	11,027
Additional paid-in-capital	36,502,004	47,497,781
Retained earnings (deficit)	3,018,265	(7,534,481)
Unearned compensation	(464,480)	(378,398)
Accumulated other comprehensive income:		
Cumulative translation adjustments	(126,297)	(330,751)
Total shareholders' equity	38,939,411	39,265,178
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 41,192,333	$43,668,172

See accompanying notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1998	1997	1998
Sales	$ 5,429,064	$ 7,721,808	$ 10,318,535	$ 14,404,009
Cost of sales	2,239,731	2,779,843	4,188,280	5,461,605
Gross profit	3,189,333	4,941,965	6,130,255	8,942,404
Operating Expenses:				
Selling	1,353,507	2,211,523	2,512,066	3,795,059
General and administrative	319,569	517,136	622,092	1,115,718
Depreciation and amortization	65,773	262,517	124,646	372,879
Research and development	216,766	435,534	394,839	821,978
Employee stock options	360,876	43,041	364,146	86,082
Purchased in-process research and development costs	-	14,374,000	-	14,374,000
Total operating expenses	2,316,491	17,843,751	4,017,789	20,565,716
Income (loss) from operations	872,842	(12,901,786)	2,112,466	(11,623,312)
Interest income	-	302,852	-	622,779
Other income	51,877	5,408	46,067	2,754
Interest expense	(31,591)	(7,865)	(65,853)	(7,865)
Income (loss) before income taxes	893,128	(12,601,391)	2,092,680	(11,005,644)
Income tax expense (benefit)	357,251	(1,025,254)	837,072	(452,898)
Net income (loss)	535,877	(11,576,137)	1,255,608	(10,552,746)
Other Comprehensive Income (Expense)				
Foreign currency translation adjustments	(43,985)	(160,669)	(43,985)	(204,454)
Other comprehensive income (expense)	(43,985)	(160,669)	(43,985)	(204,454)
Comprehensive income (loss)	$ 491,892	$ (11,736,806)	$ 1,211,623	$ (10,757,200)
Net Income (Loss) Per Common Share - Basic	$ 0.08	$ (1.10)	$ 0.18	$ (1.03)
Net Income (Loss) Per Common Share - Assuming Dilution	$ 0.07	$ (1.08)	$ 0.17	$ (1.01)

See accompanying notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(UNAUDITED)

	Common Stock Shares	Common Stock Amounts	Additional Paid-in Capital	Unearned Compensation	Cumulative Translation Adjustment	Retained Earnings (Deficit)	Total
BALANCE, DECEMBER 31, 1997	9,919,000	$ 9,919	$ 36,502,004	$ (464,480)	$ (126,297)	$ 3,018,265	$ 38,939,411
Common stock issued in connection with acquisition of business	916,668	917	10,394,083				10,395,000
Capitalization of registration costs in connection with acquisition of business			(133,391)				(133,391)
Exercise of stock options	191,413	191	70,612				70,803
Amortization of unearned compensation				86,082			86,082
Tax benefit from exercise of stock options			664,473				664,473
Currency translation adjustment					(204,454)		(204,454)
Net loss for period						(10,552,746)	(10,552,746)
BALANCE, JUNE 30, 1998	11,027,081	$11,027	$ 47,497,781	$ (378,398)	$ (330,751)	$ (7,534,481)	$ 39,265,178

See accompanying notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30, 1997	SIX MONTHS ENDED JUNE 30, 1998
OPERATING ACTIVITIES:		
Net income (loss)	$ 1,255,608	$(10,552,746)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation, amortization and other	124,646	506,713
In-process research and development		14,374,000
Employee stock options	364,146	86,082
Deferred income taxes	(276,302)	(1,340,512)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(1,903,666)	(2,614,372)
Inventories	(479,874)	(944,217)
Prepaid expenses	15,744	(55,507)
Increase (decrease) in:		
Accounts payable and accrued liabilities	139,856	812,071
Income taxes payable	649,090	(413,167)
Customer deposits	52,387	64,398
Unearned service revenues	326,610	(111,960)
Net cash provided by (used in) operating activities	268,245	(189,217)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(264,945)	(664,596)
Payments of patent costs	(148,274)	(87,863)
Payments of product design costs	-	(311,896)
Acquisition of business, net of cash acquired	-	(5,306,057)
Net cash used in investing activities	(413,219)	(6,370,412)
FINANCING ACTIVITIES:		
Payments on debt	(831)	-
Proceeds from issuance of common stock, net	-	70,803
Net cash (used in) provided by financing activities	(831)	70,803
EFFECT OF FOREIGN CURRENCY FLUCTUATIONS	-	70,620
DECREASE IN CASH AND CASH EQUIVALENTS	(145,805)	(6,418,206)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	263,342	28,815,069
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 117,537	$ 22,396,863
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 19,226	$ 7,865
Cash paid for income taxes	$ 464,283	$ 74,216
Noncash financing activities:		
Net decrease in deferred tax assets and current tax liability due to exercise of employee stock options	$ -	$ 608,565

See accompanying notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 1997 AND 1998

NOTE A - DESCRIPTION OF ORGANIZATION AND BUSINESS

FARO Technologies Inc. and Subsidiaries (the "Company") develops, manufactures, markets and supports portable, software-driven, 3-D measurement systems that are used in a broad range of manufacturing and industrial applications.

On May 15, 1998 the Company acquired all the stock of privately held CATS computer aided technologies, Computeranwendungen in der Fertigungssteurung, GmbH ("CATS") of Karlsruhe, Germany for $5 million in cash, 916,668 shares of common stock of the Company, plus the right to receive up to an additional 333,332 shares of Company common stock if CATS meets certain performance goals. In addition, the Company assumed certain of CATS outstanding liabilities. CATS develops, markets and supports 3-D measurement retrofit and statistical process control software used in both main frame and PC based CAD environments. CATS is a wholly owned subsidiary of the Company and operates as a separate entity under the name of "CATS." The acquisition was treated as a purchase for accounting purposes. See Note F.

The Company has two other wholly-owned subsidiaries, FARO Worldwide, Inc. and FARO France, s.a.s., which distribute the Company's 3-D measurement equipment throughout Europe through three primary offices located in France, Germany and the United Kingdom. FARO France, s.a.s., commenced operations in July 1996.

NOTE B - BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and footnote disclosure required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated financial position and operating results for the interim periods have been included. The consolidated results of operations for the three and six months ended JUNE 30, 1998 are not necessarily indicative of results that may be expected for the year ending December 31, 1998. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company as of December 31, 1996 and 1997, and for each of the three years in the period ended December 31, 1997 included in the Company's Annual Report to Stockholders included by reference within the Company's Annual Report of Form 10-K and in conjunction with the Form S-1, as amended, dated August 7, 1998.

Effective January 1, 1998 the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130). SFAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Prior year financial statements have been restated for comparative purposes to conform with this new standard.

NOTE C - 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 June 30,	1997		1998	
	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic EPS				
Weighted-Average Shares	7,000,000	$ .08	10,531,132	($1.10)
Effect of Dilutive Securities				
Stock Options	333,290		187,178	
Diluted EPS				
Weighted-Average Shares and Assumed Conversions	7,333,290	$ .07	10,718,310	($1.08)

Six months ended June 30,	1997		1998	
	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic EPS				
Weighted-Average Shares	7,000,000	$ .18	10,239,613	($1.03)
Effect of Dilutive Securities				
Stock Options	333,290		218,049	
Diluted EPS				
Weighted-Average Shares and Assumed Conversions	7,333,290	$ .17	10,457,662	($1.01)

NOTE D - Inventory

Inventories consist of the following:

	DECEMBER 31, 1997	JUNE 30, 1998
Raw materials	$ 2,432,194	$ 2,827,648
Finished goods	804,827	983,352
Sales demonstration	1,038,355	1,438,930
	$ 4,275,376	$ 5,249,930

NOTE E - INTANGIBLE ASSETS

Intangible assets include patents, product design costs, and the value assigned to the work force in place in connection with the acquisition of CATS (Note A). Patents are amortized on a straight-line basis over the lives of the patents (17 years). Costs incurred in the development of products after technological feasibility is attained are capitalized and amortized using the straight-line method over the estimated economic lives of the related products, not to exceed three years. The value assigned to the work force in place in connection with the acquisition of CATS is being amortized over five years. Management evaluates the recoverability of these assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

NOTE F - PURCHASED IN-PROCESS RESEARCH AND DEVELOPMENT COSTS

In connection with the purchase of CATS (Note A), the Company obtained a valuation study from a third-party valuation/financial advisory service to assist the Company in appropriately allocating the purchase price. As a result, the Company expensed approximately $14.4 million related to in-process research and development costs in the second quarter. In-process research and development relates to technology that has not yet established technological feasibility and at present has no alternative future uses. In-process research and development was valued by discounting forecasted cash flow directly related to the products expecting to result from the research and development. Due to the development efforts required to make these products technologically feasible, management anticipates that these projects will be released over the next six months to two years at an additional cost to the Company of approximately $1.8 million.

PART I. FINANCIAL INFORMATION

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 of the Company, 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 Annual Report on Form 10-K dated March 13, 1998 and the Company's Registration Statement on Form S-1, as amended, dated August 7, 1998.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 1998 COMPARED TO THREE MONTHS ENDED JUNE 30, 1997

Sales. Sales increased $2.3 million, or 42.2% from $5.4 million for the three months ended June 30, 1997 to $7.7 million for three months ended June 30, 1998. The increase was due to 1) increased FARO product sales resulting from additional sales personnel of FARO ($1.0 million), and 2) FARO product and CATS product sales by CATS ($1.3 million) for the period May 15 to June 30, 1998. CATS was acquired by the Company on May 15, 1998.

Gross profit. Gross profit increased $1.7 million, or 55.0% from $3.2 million for the three months ended June 30, 1997 to $4.9 million for the three months ended June 30, 1998. Gross margin increased to 64.0% for the three months ended June 30, 1998, from 58.7% for the three months ended June 30, 1997. This margin increase was primarily a result of the higher margin CATS software sales.

Selling expenses. Selling expenses increased $858,000, or 63.4%, from $1.4 million for the three months ended June 30, 1997 to $2.2 million for the three months ended June 30, 1998. This increase was a result of the Company's continued expansion of sales and marketing staff in the United States and Europe, and the addition of the selling expenses ($186,000) from CATS. Selling expenses as a percentage of sales were 28.6% for the three months ended June 30, 1998, compared to 24.9% for the three months ended June 30, 1997.

General and administrative expenses. General and administrative expenses increased $197,000, or 61.8%, from $320,000 for the three months ended June 30, 1997 to $517,000 for the three months ended June 30, 1998. This increase was primarily due to salaries for additional administration and accounting employees, and the addition of general and administrative expenses ($36,000) from CATS. General and administrative expenses as a percentage of sales increased from 5.9% for the three months ended June 30, 1997 to 6.7% for the three months ended June 30, 1998.

Research and development expenses. Research and development expenses increased $219,000, or 100.9%, from $217,000 for the three months ended June 30, 1997 to $436,000 for the three months ended June 30, 1998. This increase was a result of the Company's continued activities associated with the development of technologies related to new products, and research and development costs ($112,000) from CATS.

In-process research and development resulting from acquisition. In-process research and development resulting from acquisition represents the allocation of purchase price to products under development by CATS which had not achieved technological feasibility and at present have no alternative future uses.

Interest Income. Interest income is attributable to interest on the remaining cash proceeds (approximately $22 million at June 30) from the Company's initial public offering in 1997.

Interest expense. Interest expense decreased $24,000, or 75.1% from $32,000 for the three months ended June 30, 1997 to $8,000 for the three months ended June 30, 1998. This reduction was attributable to the repayment of the Company's debt in September 1997 from use of proceeds from the Company's initial public offering, and the addition of interest expense ($8,000) from CATS.

Income Tax Expense. The Company recorded an income tax benefit for the three months ended June 30, 1998 as a result of the expensing of in-process research and development costs which totaled $14,374,000. The Company recorded a tax provision of approximately 40% for the three months ended June 30, 1997 representing estimated statutory tax rates.

Net Income. Net income decreased $12,112,000 from $536,000 for the three months ended June 30, 1997 to a loss of $11,576,000 for the three months ended June 30, 1998. The decrease was primarily due to the $14,374,000 charge for in-process research and development associated with the Company's acquisition of CATS on May 15, 1998. Exclusive of the in-process research and development charge net income increased $661,000, or 123.5%, from $536,000 for the three months ended June 30, 1997 to $1,198,000. Net income excluding the in-process research and development charge increased $253,000 as a result of the Company's operations net of CATS, and $408,000 as a result of CATS operations.

SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO SIX MONTHS ENDED JUNE 30, 1997

Sales. Sales increased $4.1 million, or 39.6% from $10.3 million for the first six months of 1997 to $14.4 million for the first six months of 1998. The increase was the result of increased FARO product sales due to an expanded sales effort that included the addition of sales personnel at existing offices, the opening of sales offices ($2.9 million), and the sale of FARO products and CATS products by CATS in the period May 15 June 30 1998 ($1.3 million).

Gross profit. Gross profit increased $2.8 million, or 45.9%, from $6.1 million for the first six months of 1997 to $8.9 million for the first six months of 1998. Gross margin increased from 59.4% for the first six months of 1997 to 62.1% for the first six months of 1998. Gross margin increased primarily as a result of the higher margin CATS software sales.

Selling expenses. Selling expenses increased $1.3 million, or 51.1%, from $2.5 million for the first six months of 1997 to $3.8 million for the first six months of 1998. This increase was a result of the Company's expansion of sales and marketing staff in the United States and Europe and expanded promotional efforts, ($1.1 million), and the addition of CATS selling expenses for the period May 15 - June 30, 1998 ($186,000). Selling expenses as a percentage of sales increased from 24.3% for the first six months of 1997 to 26.3% for the first six months of 1998.

General and administrative expenses. General and administrative expenses increased $494,000 or 79.3% from $622,000 for the first six months of 1997 to $1,116,000 for the first six months of 1998. This increase resulted primarily from the hiring of additional administrative personnel, increases in professional and legal expenses, and the addition of CATS general and administrative expenses ($36,000). General and administrative expenses as a percentage of sales increased from 6.0% for the first six months of 1997 to 7.7% for the first six months of 1998.

Research and development expenses. Research and development expenses increased $427,000, or 108.2%, from $395,000 for the first six months of 1997 to $822,000 for the first six months of 1998. This increase was a result of the Company's continued activities associated with the development of technologies related to new products, and the addition of CATS research and development expenses ($112,000). Research and development expenses as a percentage of sales increased from 3.8% for the first six months of 1997 to 5.7% for the first six months of 1998.

In-process research and development resulting from acquisition. In-process research and development resulting from acquisition represents the allocation of purchase price to products under development by CATS which had not achieved technological feasibility and at present have no alternative future uses.

Employee stock options expenses. Employee stock options expenses decreased $278,000 from $364,000 for the first six months of 1997 to $86,000 for the first six months of 1998. The higher expense in 1997 was primarily attributable to the grant of 52,733 options in May 1997, which was made at an exercise price below the fair market value of the Common Stock on the date of the grant.

Interest Income. Interest income is attributable to interest on the remaining cash proceeds (approximately $22 million at June 30) from the Company's initial public offering in 1997.

Interest expense. Interest expense decreased $58,000, or 88.1%, from $66,000 for the first six months of 1997 to $8,000 for the first six months of 1998. This reduction was primarily attributable to the elimination of the Company's debt in September 1997 from use of proceeds from the Company's initial public offering, and $8,000 in interest expense paid by CATS in the period May 15 - June 30, 1998.

Income tax expense. Income tax expense decreased $1,290,000, or 154.1%, from $837,000 for the first six months of 1997 to a benefit of $453,000 for the first six months of 1998. The income tax reduction was primarily a result of a net tax benefit of $1.6 million resulting from the $14,374,000 charge for in-process research and development associated with the Company's acquisition of CATS on May 15, 1998.

Net Income. Net income decreased $11,808,000 or 940.4%, from $1.3 million for the first six months of 1997 to a loss of $10,553,000 for the first six months of 1998. The decrease was primarily due to the $14,374,000 charge for in-process research and development associated with the Company's acquisition of CATS on May 15, 1998. Exclusive of the in-process research and development charge net income increased $965,000, or 76.8%, from $1,256,000 for the six months ended June 30, 1997 to $2,221,000. Net income excluding the in-process research and development charge increased $557,000 as a result of the Company's operations net of CATS, and $408,000 as a result of CATS operations.

LIQUIDITY AND CAPITAL RESOURCES

In September 1997, the Company completed an initial public offering of stock which provided net cash after offering expenses, of $31.8 million.

The acquisition of CATS was completed for $20 million, consisting of $5,000,000 in cash, $10,395,000 in common stock (916,668 shares), plus the right to receive up to an additional 333,332 shares in common stock that the Company deposited in escrow. In addition, the Company assumed certain of CATS outstanding liabilities. The shares in escrow will be issued to the sellers of CATS if CATS meets certain performance goals.

As of June 30, 1998, the Company recorded an expense of $14.4 million related to purchased in-process research and development expenditures. In-process research and development relates to technology that has not yet established technological feasibility and at present has no alternative future uses. CATS' core business strategy focuses on the design of software which enables manufacturers to measure and check the quality of machined parts. Toward this end, CATS is currently developing several entirely new versions of some of its existing products, and several new software and electronics products. Current products will be compatible with new computer operating systems. This process has required re-programming hardware product designs. Due to the development efforts required to make these products technologically feasible, management anticipates that these projects will be released over the next six months to two years at an additional cost to the Company of approximately $1.8 million.

For the six months ended June 30, 1998, net cash used in operating activities was $189,000 compared to net cash provided by operating activities of $268,000 for the same period of 1997. Net cash used in this period increased as a result of decreases in net income of $11,808,000 (due primarily to the in-process research and development expense of $14,374,000), offset by increases in accounts receivable of $2,614,000, deferred income taxes of $1,340,000, inventories of $944,000 and accounts payable of $812,000 and decreases in income taxes payable of $413,000.

Net cash used in investing activities was $6,370,000 for the six months ended June 30, 1998 compared to $413,000 for the six months ended June 30, 1997. Net cash used in investing activities increased for the first six months of 1998 primarily due to the acquisition of CATS for $5,306,000.

Net cash provided by financing activities for the six months ended June 30, 1998 was $71,000 compared to net cash used in financing activities of $831 for the six months ended June 30, 1997. The increase in net cash provided by financing activities was due primarily to the exercise of employee stock options.

The Company has a loan agreement (the "Agreement") in the form of a term note and a line of credit. The Agreement combines the equivalent of three successive one-year term loans, each equal to that portion of the loan that will be fully amortized in the ensuing year, with a line of credit equal to that portion of the loan that will not be fully amortized in the ensuing year. The Company had available borrowings under the Agreement totaling approximately $2 million as of June 30, 1998. Interest accrues at the 30-day commercial paper rate plus 2.7% and is paid monthly. Borrowings under the Agreement are collateralized by the Company's accounts and notes receivable, inventory, property and equipment, intangible assets, and deposits. The Agreement contains restrictive covenants, including the maintenance of certain amounts of working capital and tangible net worth and limits on loans to related parties, and prohibits the Company from declaring dividends. There were no outstanding borrowings under this loan agreement at June 30, 1998.

In April 1997, the Company obtained a one-year secured $1.0 million line of credit which bears interest at the 30-day commercial paper rate plus 2.65% per annum. The line of credit was extended in 1998 and expires on March 31, 1999. There were no outstanding borrowings under this loan agreement at June 30, 1998.

The Company's principal commitments at June 30, 1998 were leases on its headquarters and regional offices, and there were no material commitments for capital expenditures at that date. The Company believes that its cash, investments, cash flows from operations and funds available from its credit facilities will be sufficient to satisfy its working capital and capital expenditure needs at least through 1998.

The expansion of the Company's sales force is anticipated to increase the Company's selling, general and administrative expenses over the next 12 months. The Company believes that it will have adequate capital to cover these expenses at least through 1998.

FOREIGN EXCHANGE EXPOSURE

Sales outside the United States represent a significant portion of the Company's total revenues. Currently, the majority of the Company's revenues and expenses are invoiced and paid in U.S. dollars. In the future, the Company expects a greater portion of its revenues to be denominated in foreign currencies. Fluctuations in exchange rates between the U.S. dollar and such foreign currencies may have a material adverse effect on the Company's business, results of operation and financial condition, particularly its operating margins, and could also result in exchange losses. The impact of future exchange rate fluctuations on the results of the Company's operations cannot be accurately predicted. Historically, the Company has not managed the risks associated with fluctuations in exchange rates but intends to undertake transactions to manage such risks in the future. To the extent that the percentage of the Company's non-U.S. dollar revenues derived from international sales increases in the future, the risks associated with fluctuations in foreign exchange rates will increase. The Company may use forward foreign exchange contracts with foreign currency options to hedge these risks.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The effective date of the Company's registration statement filed under the Securities Act in connection with its initial public offering was September 17, 1997.

From the effective date of such registration statement to June 30, 1998 none of the net proceeds from the Company's initial public offering were used for construction of plant, building and facilities; purchase and installation of machinery and equipment or the purchase of real estate. The Company used $5 million of such net proceeds to acquire CATS.

In addition, in connection with the acquisition of CATS, the Company issued 916,668 shares of common stock to the former CATS shareholders plus the right to receive 333,332 shares of common stock as contingent earn-out depending on post-closing sales by CATS.

ITEM 5. OTHER INFORMATION

The deadline for submission of shareholder proposals pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended ("Rule 14a-8), for inclusion in the Company's proxy statement for its 1999 Annual Meeting of Shareholders is November 25, 1998. After February 9, 1999, notice to the Company of a shareholder proposal submitted otherwise than pursuant to Rule 14a-8 will be considered untimely, and the persons named in proxies solicited by the Board of Directors of the Company for its 1999 Annual Meeting of Shareholders may exercise discretionary voting power with respect to any such proposal as to which the Company receives after February 9, 1999.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

Exhibit No.	Description
27.1.1	Financial Data Schedule (for SEC use only)

b) Reports on Form 8-K

None

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.

Date: August 12, 1998

FARO TECHNOLOGIES, INC.
(Registrant)

By: /s/ Gregory A. Fraser

Gregory A. Fraser
Executive Vice President and
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)

6-MOS
DEC-31-1998
JAN-01-1998
JUN-30-1998
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(10,552,746)
(1.03)
(1.01)