
**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 September 27, 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 Smaller Reporting Company

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: 16,694,995 shares of the registrant's common stock as of October 24, 2008.

[Table of Contents](#)

FARO TECHNOLOGIES, INC.

Quarterly Report on Form 10-Q
Quarter Ended September 27, 2008

INDEX

PART I. FINANCIAL INFORMATION

	<u>PAGE NUMBER</u>
Item 1. Financial Statements	
a) Consolidated Balance Sheets (Unaudited) As of September 27, 2008 and December 31, 2007	3
b) Consolidated Statements of Income (Unaudited) For the Three and Nine Months Ended September 27, 2008 and September 29, 2007	4
c) Consolidated Statements of Cash Flows (Unaudited) For the Nine Months Ended September 27, 2008 and September 29, 2007	5
d) Notes to Consolidated Financial Statements (Unaudited) For the Nine Months Ended September 27, 2008 and September 29, 2007	6-13
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14-22
Item 3. Quantitative and Qualitative Disclosures about Market Risk	22
Item 4. Controls and Procedures	23

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	24-25
Item 4. Submission of Matters to a Vote of Security Holders	25
Item 5. Other Information	25
Item 6. Exhibits	26

SIGNATURES

27

CERTIFICATIONS

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****FARO TECHNOLOGIES, INC. AND SUBSIDIARIES**
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except share data)	September 27, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 20,160	\$ 25,798
Short-term investments	82,370	77,375
Accounts receivable, net	45,354	54,767
Inventories	37,237	29,100
Deferred income taxes, net	6,034	2,841
Prepaid expenses and other current assets	9,097	6,719
Total current assets	<u>200,252</u>	<u>196,600</u>
Property and Equipment:		
Machinery and equipment	18,145	12,895
Furniture and fixtures	3,909	5,008
Leasehold improvements	3,523	3,296
Property and equipment at cost	25,577	21,199
Less: accumulated depreciation and amortization	(16,068)	(13,672)
Property and equipment, net	<u>9,509</u>	<u>7,527</u>
Goodwill	19,544	19,117
Intangible assets, net	8,869	5,970
Service inventory	12,682	10,865
Deferred income taxes, net	1,931	3,460
Total Assets	<u>\$ 252,787</u>	<u>\$ 243,539</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 9,526	\$ 12,450
Accrued liabilities	13,290	17,989
Income taxes payable	1,470	2,266
Current portion of unearned service revenues	10,846	8,594
Customer deposits	334	337
Current portion of obligations under capital leases	15	18
Total current liabilities	<u>35,481</u>	<u>41,654</u>
Unearned service revenues - less current portion	6,597	6,091
Deferred tax liability, net	1,157	1,073
Obligations under capital leases - less current portion	159	222
Total Liabilities	<u>43,394</u>	<u>49,040</u>
Commitments and contingencies - See Note O		
Shareholders' Equity:		
Common stock - par value \$.001, 50,000,000 shares authorized; 16,733,554 and 16,700,966 issued; 16,653,859 and 16,604,052 outstanding, respectively	17	17
Additional paid-in-capital	148,782	146,489
Retained earnings	55,299	43,545
Accumulated other comprehensive income	5,446	4,599
Common stock in treasury, at cost - 40,000 shares	(151)	(151)
Total Shareholders' Equity	<u>209,393</u>	<u>194,499</u>
Total Liabilities and Shareholders' Equity	<u>\$ 252,787</u>	<u>\$ 243,539</u>

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

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

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	Sep 27, 2008	Sep 29, 2007	Sep 27, 2008	Sep 29, 2007
SALES	\$ 49,095	\$ 44,521	\$ 152,934	\$ 132,389
COST OF SALES (exclusive of depreciation and amortization, shown separately below)	20,086	18,065	59,980	52,873
GROSS PROFIT	29,009	26,456	92,954	79,516
OPERATING EXPENSES:				
Selling	15,382	13,625	46,886	39,951
General and administrative	6,614	7,978	19,274	18,496
Depreciation and amortization	1,158	971	3,293	3,013
Research and development	3,237	2,881	9,122	7,129
Total operating expenses	26,391	25,455	78,575	68,589
INCOME FROM OPERATIONS	2,618	1,001	14,379	10,927
OTHER (INCOME) EXPENSE				
Interest income	(547)	(590)	(1,624)	(1,182)
Other (income) expense, net	652	(720)	834	(1,427)
Interest expense	2	3	450	7
INCOME BEFORE INCOME TAX	2,511	2,308	14,719	13,529
INCOME TAX EXPENSE	500	1,603	2,965	3,840
NET INCOME	\$ 2,011	\$ 705	\$ 11,754	\$ 9,689
NET INCOME PER SHARE - BASIC	\$ 0.12	\$ 0.04	\$ 0.71	\$ 0.64
NET INCOME PER SHARE - DILUTED	\$ 0.12	\$ 0.04	\$ 0.70	\$ 0.63
Weighted average shares - Basic	16,637,497	15,726,009	16,624,784	15,037,745
Weighted average shares - Diluted	16,731,064	15,988,788	16,751,679	15,315,996

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)	Nine Months Ended	
	Sep 27, 2008	Sep 29, 2007
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income	\$ 11,754	\$ 9,689
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,293	3,013
Amortization of stock options and restricted stock units	1,686	956
Provision for bad debts	446	223
Deferred income tax benefit	(1,575)	(542)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	9,198	(218)
Inventories	(9,681)	(4,798)
Prepaid expenses and other current assets	(2,369)	(695)
Income tax benefit from exercise of stock options	(45)	(2,993)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(7,654)	2,499
Income taxes payable	(771)	(785)
Customer deposits	(11)	(314)
Unearned service revenues	2,671	5,064
Net cash provided by operating activities	6,942	11,099
INVESTING ACTIVITIES:		
Purchases of property and equipment	(4,377)	(1,807)
Payments for intangible assets	(3,584)	(264)
Purchases of short-term investments	(4,995)	(56,990)
Net cash used in investing activities	(12,956)	(59,061)
FINANCING ACTIVITIES:		
Payments of capital leases	(68)	(60)
Income tax benefit from exercise of stock options	45	2,993
Proceeds from issuance of stock, net	128	58,409
Net cash provided by financing activities	105	61,342
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	271	(3,660)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,638)	9,720
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	25,798	15,689
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 20,160	\$ 25,409

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

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 27, 2008 and September 29, 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 through 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 of a normal recurring nature 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 and nine months ended September 27, 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. No amounts have been reclassified in the periods presented herein.

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

[Table of Contents](#)

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 basis 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 nine months ended September 27, 2008 and September 29, 2007:

[Table of Contents](#)

	For the Nine Months Ended	
	September 27, 2008	September 29, 2007
Risk-free interest rate	2.15-3.04%	4.50%
Expected dividend yield	0%	0%
Expected option life	4 years	4 years
Expected volatility	54.7% and 58%	60.1% and 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 \$0.6 million and \$0.4 million for the three months ended September 27, 2008 and September 29, 2007, respectively and \$1.7 million and \$1.0 million for the nine months ended September 27, 2008 and September 29, 2007, respectively.

A summary of stock option activity and weighted average exercise prices follows for the nine months ended September 27, 2008:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value as of September 27, 2008
Outstanding at beginning of period	785,864	\$ 20.34		
Granted	201,300	30.41		
Forfeited	(3,667)	24.02		
Exercised	(10,785)	17.41		
Outstanding at September 27, 2008	972,712	\$ 22.44	6.39	\$ 2,110
Options exercisable at September 27, 2008	645,376	\$ 19.51	5.91	\$ 2,103

The weighted-average grant-date fair value of the stock options granted during the nine months ended September 27, 2008 and September 29, 2007 was \$14.06 and \$12.80 per option, respectively. The total intrinsic value of stock options exercised during the three months ended September 27, 2008 and September 29, 2007 was \$0.0 million and \$2.0 million, respectively. The total intrinsic value of stock options exercised during the nine months ended September 27, 2008 and September 29, 2007 was \$0.1 million and \$8.0 million, respectively. The total fair value of stock options vested during the three months ended September 27, 2008 and September 29, 2007 was \$0.0 million and \$0.02 million, respectively. The total fair value of stock options vested during the nine months ended September 27, 2008 and September 29, 2007 was \$0.8 million and \$0.05 million, respectively.

The following table summarizes the restricted stock and restricted stock unit activity and weighted average grant-date fair values for the nine months ended September 27, 2008:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at beginning of period	47,941	\$ 24.03
Granted	33,200	27.10
Forfeited	(907)	21.79
Vested	(17,140)	24.64
Non-vested at September 27, 2008	63,094	\$ 25.51

[Table of Contents](#)

As of September 27, 2008, there was \$4.6 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 2.2 years.

NOTE G – SUPPLEMENTAL CASH FLOW INFORMATION

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

	Nine Months Ended	
	September 27, 2008	September 29, 2007
Cash paid for interest	\$ 4	\$ 8
Cash paid for income taxes	6,600	2,519
Non-Cash Activity:		
Value of shares issued for acquisition of iQvolution	433	430

NOTE H – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	As of	As of
	September 27, 2008	December 31, 2007
Accounts receivable	\$ 46,691	\$ 55,506
Allowance for doubtful accounts	(1,337)	(739)
Total	<u>\$ 45,354</u>	<u>\$ 54,767</u>

NOTE I – INVENTORIES

Inventories consist of the following:

	As of	As of
	September 27, 2008	December 31, 2007
Raw materials	\$ 14,730	\$ 12,614
Finished goods	8,113	4,903
Sales demonstration inventory	16,076	13,448
Reserve for excess and obsolete	(1,682)	(1,865)
Inventory	<u>\$ 37,237</u>	<u>\$ 29,100</u>
Service inventory	<u>\$ 12,682</u>	<u>\$ 10,865</u>

[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				Nine Months Ended			
	September 27, 2008		September 29, 2007		September 27, 2008		September 29, 2007	
	Shares	Per-Share Amount	Shares	Per-Share Amount	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic EPS	16,637,497	\$ 0.12	15,726,009	\$ 0.04	16,624,784	\$ 0.71	15,037,745	\$ 0.64
Effect of dilutive securities	93,567	—	262,779	—	126,895	(0.01)	278,251	(0.01)
Diluted EPS	<u>16,731,064</u>	<u>\$ 0.12</u>	<u>15,988,788</u>	<u>\$ 0.04</u>	<u>16,751,679</u>	<u>\$ 0.70</u>	<u>15,315,996</u>	<u>\$ 0.63</u>

As of September 27, 2008, options to purchase 293,402 shares of common stock were not included in the computation of diluted EPS during the three month period then ended because the options' exercise price was greater than the average market price of the common stock. As of September 27, 2008 and September 29, 2007, options to purchase 285,936 and 10,000 shares of common stock, respectively, were not included in the computation of diluted EPS during the nine month periods then ended because the exercise price was greater than the average market price of the common stock.

NOTE K – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	As of September 27, 2008	As of December 31, 2007
Accrued compensation and benefits	\$ 8,024	\$ 10,689
Accrued warranties	1,911	1,980
Professional and legal fees	1,023	1,140
Accrued penalties	—	2,650
Other accrued liabilities	2,332	1,530
	<u>\$ 13,290</u>	<u>\$ 17,989</u>

NOTE L – INCOME TAXES

Total deferred tax assets for the Company's foreign subsidiaries relating to net operating loss carryforwards were \$10.0 million and \$7.7 million at September 27, 2008 and December 31, 2007, respectively. The related valuation allowance was \$8.5 million and \$6.3 million at September 27, 2008 and December 31, 2007, respectively. As a result of a decrease in non-deductible expenses for U.S. income tax purposes of \$2.65 million related to an accrual for penalties in connection with the resolution of the FCPA matter, the Company's effective tax rate was 20.1% for the nine months ended September 27, 2008 and 28.4% for the nine months ended September 29, 2007. The Company's effective income tax rate, excluding this effect, would have been 19.9% for the nine months ended September 29, 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 \$1.8 million, or \$0.11 per share, in the nine month period ended September 27, 2008, and \$1.7 million, or \$0.11 per share, in the nine month period ended September 29, 2007.

[Table of Contents](#)

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 \$1.2 million, or \$0.07 per share, during the nine month period ended September 27, 2008, and \$1.3 million, or \$0.09 per share, in the nine months ended September 29, 2007.

NOTE M – SEGMENT REPORTING

The Company has three reportable segments based upon geographic regions: Americas, Europe/Africa and Asia Pacific. The Company does not allocate corporate expenses to Europe/Africa or Asia Pacific regions. These corporate expenses are included in the Americas region.

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		Nine Months Ended	
	Sept 27, 2008	Sept. 29, 2007	Sept 27, 2008	Sept. 29, 2007
Americas Region				
Net sales to external customers	\$ 18,386	\$ 19,053	\$ 57,721	\$ 58,092
Operating (loss)	(2,913)	(4,466)	(3,134)	(2,280)
Long-lived assets	17,677	12,302	17,677	12,302
Capital expenditures	1,899	424	3,034	1,234
Total assets	153,948	136,114	153,948	136,114
Europe/Africa Region				
Net sales to external customers	\$ 21,530	\$ 16,949	\$ 67,411	\$ 51,044
Operating income	3,294	3,001	10,841	6,928
Long-lived assets	18,846	17,633	18,846	17,633
Capital expenditures	424	254	1,297	673
Total assets	72,670	64,981	72,670	64,981
Asia Pacific Region				
Net sales to external customers	\$ 9,179	\$ 8,519	\$ 27,802	\$ 23,253
Operating income	2,237	2,466	6,672	6,279
Long-lived assets	1,399	1,590	1,399	1,590
Capital expenditures	158	138	246	302
Total assets	26,169	23,519	26,169	23,519
Totals				
Net sales to external customers	\$ 49,095	\$ 44,521	\$ 152,934	\$ 132,389
Operating income	2,618	1,001	14,379	10,927
Long-lived assets	37,922	31,525	37,922	31,525
Capital expenditures	2,481	816	4,577	2,209
Total assets	252,787	224,614	252,787	224,614

[Table of Contents](#)

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		Nine Months Ended	
	Sep 27, 2008	Sep 29, 2007	Sep 27, 2008	Sep 29, 2007
NET INCOME	\$ 2,011	\$ 705	\$ 11,754	\$ 9,689
OTHER COMPREHENSIVE (LOSS) INCOME:				
Currency translation adjustments	(3,621)	2,430	847	2,747
COMPREHENSIVE INCOME	<u>\$ (1,610)</u>	<u>\$ 3,135</u>	<u>\$ 12,601</u>	<u>\$ 12,436</u>

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 September 27, 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 sought 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 sought 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. On October 3, 2008, the court entered a Final Judgment and Order of Dismissal With Prejudice, whereby the court certified the Class for purposes of the settlement, approved the settlement, and dismissed 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 Action”). 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 goodwill. 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

[Table of Contents](#)

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. The committee has not yet made a recommendation with respect to those matters. On July 7, 2008, the Company was served with the Derivative Complaint. On September 15, 2008, the parties to the Derivative Action filed a Joint Motion to Stay Proceedings with the court, reporting that the plaintiff to the Derivative Action and the Company had reached an agreement in principle to settle the Derivative Action, and that the individual defendants were reviewing the terms of the proposed settlement agreement. On September 17, 2008, the Court granted the Motion to Stay, and directed the parties to file a Stipulation of Settlement by November 18, 2008.

Settlement of Foreign Corrupt Practices Act Matter with 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 the matter, which has been completed, 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 nine months ended September 27, 2008, relating to the FCPA matter, including \$2.95 million for fines, penalties and interest to the DOJ and SEC.

The Company has entered into settlement agreements and documents with the SEC and DOJ concerning the FCPA matter, pursuant to which the Company paid an aggregate of \$2.95 million in fines, disgorgement of associated profit, and interest. The Company also has a two-year monitoring obligation and other continuing obligations with the SEC and the DOJ with respect to 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.

Patent Matters—On July 11, 2008, a complaint for patent infringement was filed against the Company in the U.S. District Court for the District of Massachusetts by Metris USA, Inc. and certain of its affiliates concerning U.S. Patent Nos. 6,611,617 and 7,313,264. The complaint has not been served on the Company. The patents generally are directed to laser scanning devices, and the lawsuit concerns only the Company's LaserScan Arm products and no other Company products. The Company believes that it does not infringe the asserted patents and/or that the patents are invalid. The Company currently does not believe this lawsuit will have a material impact on the Company or its business.

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, none of which the Company believes will 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 September 27, 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.

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;
- a slowdown in the manufacturing industry or the domestic and international economies in the regions of the world where the Company operates;
- 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

Table of Contents

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 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 September 2008, the Company's products have been purchased by approximately 8,600 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,

Table of Contents

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 nine months ended September 27, 2008, 37.7% of the Company's sales were in the Americas compared to 43.9% in the first nine months of 2007, 44.1% were in the Europe/Africa region compared to 38.5% in the first nine months of 2007 and 18.2% were in the Asia/Pacific region, compared to 17.6% in the same prior year period (see also Note M- Segment Reporting, to the financial statements above). In the third quarter of 2008, new order bookings increased \$5.4 million, or 12.3%, to \$49.2 million from \$43.8 million in the prior year period. New orders decreased \$2.6 million, or 12.9%, in the Americas to \$17.6 million, from \$20.2 million in the prior year period. New orders increased \$5.7 million, or 35.4% to \$21.8 million in Europe/Africa from \$16.1 in the third quarter of 2007. In Asia/Pacific new orders increased \$2.3 million, or 30.7% to \$9.8 million, from \$7.5 million in the third quarter of 2007.

The Company's effective tax rate decreased to 20.1% in the nine months ended September 27, 2008, from 28.4% for the nine months ended September 29, 2007 as a result of a decrease in non-deductible expenses for U.S. income tax purposes of \$2.65 million related to an accrual in 2007 for penalties in connection with the resolution of the FCPA matter. The Company's effective income tax rate, excluding this effect, would have been 19.9% for the nine months ended September 29, 2007. 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 nine months ended September 27, 2008.

The Company has had twenty-five consecutive profitable quarters through September 27, 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

[Table of Contents](#)

Company voluntarily notified the SEC and the DOJ of this matter in March 2006. The Company's internal investigation into this matter, which has been completed, 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 nine months ended September 27, 2008, including \$2.95 million in fines, penalties, and interest to the DOJ and SEC, relating to the FCPA matter.

The Company has entered into settlement agreements and documents with the SEC and DOJ concerning the FCPA matter, pursuant to which the Company has paid an aggregate of \$2.95 million in fines, disgorgement of associated profit, and interest. The Company also has a two-year monitoring obligation and other continuing obligations with the SEC and the DOJ with respect to 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.

Results of Operations

Three Months Ended September 27, 2008 Compared to the Three Months Ended September 29, 2007

Sales increased by \$4.6 million or 10.3% to \$49.1 million in the three months ended September 27, 2008 from \$44.5 million for the three months ended September 29, 2007. This increase resulted primarily from an increase in unit sales and an increase in average selling prices. The effect of changes in foreign exchange rates on sales was an increase of \$2.2 million in the three months ended September 27, 2008. Sales in the Americas region decreased \$0.7 million or 3.7% to \$18.4 million for the three months ended September 27, 2008 from \$19.1 million in the three months ended September 29, 2007. Sales in the Europe/Africa region increased \$4.6 million or 27.2%, to \$21.5 million for the three months ended September 27, 2008 from \$16.9 million in the three months ended September 29, 2007. Sales in the Asia/Pacific region increased \$0.7 million or 8.2% to \$9.2 million for the three months ended September 27, 2008 from \$8.5 million in the three months ended September 29, 2007.

Gross profit increased by \$2.5 million or 9.6% to \$29.0 million for the three months ended September 27, 2008 from \$26.5 million for the three months ended September 29, 2007. Gross margin decreased to 59.1% for the three months ended September 27, 2008 from 59.4% for the three months ended September 29, 2007 primarily due to an increase in service costs as a percentage of sales.

Selling expenses increased by \$1.8 million or 12.9% to \$15.4 million for the three months ended September 27, 2008 from \$13.6 million for three months ended September 29, 2007. This increase was primarily due to an increase in commission and compensation expense of \$1.2 million, and higher travel related costs of \$0.6 million. Worldwide sales and marketing headcount increased by 57 or 18.3% to 369 from 312 between September 27, 2008 and September 29, 2007. Regionally, the Company's sales and marketing headcount increased by 21 or 18.9% in the Americas, to 132 from 111; increased by 10, or 8.3% to 131 from 121 in Europe/Africa; and increased by 26 or 32.5% in Asia/Pacific, to 106 from 80 between September 27, 2008 and September 29, 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 September 27, 2008 from 30.6% in the three months ended September 29, 2007. Regionally, selling expenses were 32.2% of sales in the Americas for the quarter, compared to 28.7% of sales in the year-ago quarter, 31.7% of sales for Europe/Africa compared to 34.0% of sales, and 28.8% of sales compared to 28.2% of sales for Asia/Pacific.

[Table of Contents](#)

General and administrative expenses decreased by \$1.4 million or 17.1%, to \$6.6 million for the three months ended September 27, 2008 from \$8.0 million for the three months ended September 29, 2007, primarily due to a reduction of \$2.65 million for estimated fines and penalties related to the settlement of the FCPA matter included in the three months ended September 29, 2007, offset by an increase in compensation costs of \$0.8 million, and increased costs related to the additional leased space to expand the Company's corporate offices of \$0.4 million

Depreciation and amortization expenses increased by \$0.2 million to \$1.2 million for the three months ended September 27, 2008 from \$1.0 million for the three months ended September 29, 2007.

Research and development expenses increased to \$3.2 million for the three months ended September 27, 2008 from \$2.9 million for the three months ended September 29, 2007 primarily as a result of an increase in compensation expense. Research and development expenses as a percentage of sales increased to 6.6% for the three months ended September 27, 2008 from 6.5% for the three months ended September 29, 2007.

Interest income remained flat at \$0.6 million for the three months ended September 27, 2008 compared to the three months ended September 29, 2007.

Other (income) expense, net decreased by \$1.4 million to \$0.7 million of expense for the three months ended September 27, 2008, from income of \$0.7 million for the three months ended September 29, 2007, primarily as a result of foreign exchange transaction losses.

Income tax expense decreased by \$1.1 million to \$0.5 million for the three months ended September 27, 2008 from \$1.6 million for the three months ended September 29, 2007. This decrease was primarily a result of a reduction in the effective tax rate to 19.9% for the three months ended September 27, 2008, from 69.5% for the three months ended September 29, 2007. The Company's effective tax rate was 69.5% in the three months ended September 29, 2007 as a result of an increase in expenses that are non-deductible for U.S. income tax purposes of \$2.65 million related to an accrual for penalties in connection with the resolution of the FCPA matter. The Company's effective income tax rate, excluding this effect, would have been 19.9% for the three months ended September 29, 2007. Total deferred taxes for the Company's foreign subsidiaries relating to net operating loss carryforwards were \$10.0 million and \$7.7 million at September 27, 2008 and December 31, 2007, respectively. The related valuation allowance was \$8.5 million and \$6.3 million at September 27, 2008 and December 31, 2007, respectively. 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 \$1.3 million to \$2.0 million for the three months ended September 27, 2008 from \$0.7 million for the three months ended September 29, 2007 as a result of the factors described above.

Nine Months Ended September 27, 2008 Compared to the Nine Months Ended September 29, 2007

Sales increased by \$20.5 million or 15.5% to \$152.9 million in the nine months ended September 27, 2008 from \$132.4 million for the nine months ended September 29, 2007. This increase resulted primarily from an increase in unit sales and an increase in average selling prices. The effect of changes in foreign exchange rates on sales was an increase of \$9.7 million in the nine months ended September 27, 2008. Sales in the Americas region decreased \$0.4 million or 0.6% to \$57.7 million for the nine months ended September 27, 2008 from \$58.1 million in the nine months ended September 29, 2007. Sales in the Europe/Africa region increased \$16.4 million or 32.1%, to \$67.4 million for the nine months ended September 27, 2008 from \$51.0 million in the nine months ended September 29, 2007. Sales in the Asia/Pacific region increased \$4.5 million or 19.6% to \$27.8 million for the nine months ended September 27, 2008 from \$23.3 million in the nine months ended September 29, 2007.

Gross profit increased by \$13.5 million or 16.9% to \$93.0 million for the nine months ended September 27, 2008 from \$79.5 million for the nine months ended September 29, 2007. Gross margin

[Table of Contents](#)

increased to 60.8% for the nine months ended September 27, 2008 from 60.1% for the nine months ended September 29, 2007. The increase in gross margin is primarily due to a change in the sales mix resulting from an increase in unit sales in product lines with higher margins than the prior year period.

Selling expenses increased by \$6.9 million or 17.4% to \$46.9 million for the nine months ended September 27, 2008 from \$40.0 million for nine months ended September 29, 2007. This increase was primarily due to an increase in commission and compensation expense of \$4.7 million and an increase in travel expense of \$1.7 million. Worldwide sales and marketing headcount increased by 57 or 18.3% to 369 from 312 between September 27, 2008 and September 29, 2007. Regionally, the Company's sales and marketing headcount increased by 21 or 18.9% in the Americas, to 132 from 111; increased by 10 or 8.3% to 131 from 121 in Europe/Africa; and increased by 26 or 32.5% in Asia/Pacific, to 106 from 80 between September 27, 2008 and September 29, 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 30.7% of sales in the nine months ended September 27, 2008 from 30.2% in the nine months ended September 29, 2007. Regionally, selling expenses were 30.2% of sales in the Americas for the nine months ended September 27, 2008, compared to 26.4% of sales in the year-ago period, 31.5% of sales for Europe/Africa compared to 34.7% of sales and 29.6% of sales compared to 29.6% of sales for Asia/Pacific.

General and administrative expenses increased by \$0.8 million or 0.4%, to \$19.3 million for the nine months ended September 27, 2008 from \$18.5 million for the nine months ended September 29, 2007 primarily due to an increase in compensation expense of \$2.1 million, increased costs related to the additional leased space to expand the Company's corporate offices of \$1.1 million, an increase in the allowance for doubtful accounts of \$0.4 million, and higher travel related costs of \$0.3 million, offset by a reduction of \$0.8 million in professional fees and \$2.65 million for estimated fines and penalties related to the settlement of the FCPA matter included in the nine months ended September 29, 2007. General and administrative expenses as a percentage of sales decreased to 12.6% for the nine months ended September 27, 2008 from 14.0% for the nine months ended September 29, 2007.

Depreciation and amortization expenses increased by \$0.3 million to \$3.3 million for the nine months ended September 27, 2008 from \$3.0 million for the nine months ended September 29, 2007 as a result of an increase in purchases of property and equipment.

Research and development expenses increased to \$9.1 million for the nine months ended September 27, 2008 from \$7.1 million for the nine months ended September 29, 2007 primarily as a result of an increase in compensation expense. Research and development expenses as a percentage of sales increased to 6.0% for the nine months ended September 27, 2008 from 5.4% for the nine months ended September 29, 2007.

Interest income increased by \$0.4 million to \$1.6 million for the nine months ended September 27, 2008 from \$1.2 million for the nine months ended September 29, 2007, due to an increase in short term investments.

Interest expense increased by \$0.5 million to \$0.5 million for the nine months ended September 27, 2008 from \$0.0 million for the nine months ended September 29, 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 \$2.2 million to \$0.8 million of expense for the nine months ended September 27, 2008, from income of \$1.4 million for the nine months ended September 29, 2007, primarily as a result of foreign exchange transaction losses.

Income tax expense decreased by \$0.8 million to \$3.0 million for the nine months ended September 27, 2008 from \$3.8 million for the nine months ended September 29, 2007. The Company's effective tax rate decreased to 20.1% in the nine months ended September 27, 2008, from 28.4% for the nine months ended September 29, 2007 as a result of a decrease in expenses that are non-deductible for U.S. income tax purposes of \$2.65 million related to an accrual for penalties in connection with the resolution of the FCPA matter. The Company's effective income tax rate, excluding this effect, would have been 19.9% for the nine months ended September 29, 2007. Total deferred taxes for the Company's foreign subsidiaries relating to net operating loss carryforwards were \$10.0 million and \$7.7 million at September 27, 2008 and December 31, 2007, respectively. The related valuation allowance was \$8.5 million and \$6.3 million at September 27, 2008 and December 31, 2007, respectively. The Company currently estimates its effective tax rate will

[Table of Contents](#)

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 \$2.1 million to \$11.8 million for the nine months ended September 27, 2008 from \$9.7 million for the nine months ended September 29, 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 \$5.6 million to \$20.2 million at September 27, 2008 from \$25.8 million at December 31, 2007. The decrease was primarily attributable to purchases of equipment and intangible assets of \$8.0 million and short term investments of \$5.0 million, offset by an increase in net income and non-cash expenses of \$6.9 million. The Company's short term investments increased to \$82.4 million at September 27, 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 September 27, 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.

[Table of Contents](#)

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 \$1.8 million, or \$0.11 per share for the nine months ended September 27, 2008 and \$1.7 million, or \$0.11 per share for the nine months ended September 29, 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 \$1.2 million, or \$0.07 per share for the nine months ended September 27, 2008, and \$1.3 million, or \$0.09 per share for the nine months ended September 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. The 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, 62% 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 September 27, 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 sought 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 sought 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. On October 3, 2008, the court entered a Final Judgment and Order of Dismissal With Prejudice, whereby the court certified the Class for purposes of the settlement, approved the settlement, and dismissed 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 Action”). 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 goodwill. 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. The committee has not yet made a recommendation with respect to those matters. On July 7, 2008, the Company was served with the Derivative Complaint. On September 15, 2008, the parties to the Derivative Action filed a Joint Motion to Stay Proceedings with the court, reporting that the plaintiff to the Derivative Action and the Company had reached an agreement in principle to settle the Derivative Action, and that the individual defendants were reviewing the terms of the proposed settlement agreement. On September 17, 2008, the Court granted the Motion to Stay, and directed the parties to file a Stipulation of Settlement by November 18, 2008.

Settlement of Foreign Corrupt Practices Act Matter with 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 the matter, which has been completed, 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.

[Table of Contents](#)

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 six months ended September 27, 2008, relating to the FCPA matter, including \$2.95 million for fines, penalties and interest to the DOJ and SEC.

The Company has entered into settlement agreements and documents with the SEC and DOJ concerning the FCPA matter, pursuant to which the Company paid an aggregate of \$2.95 million in fines, disgorgement of associated profit, and interest. The Company also has a two-year monitoring obligation and other continuing obligations with the SEC and the DOJ with respect to 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.

Patent Matters—On July 11, 2008, a complaint for patent infringement was filed against the Company in the U.S. District Court for the District of Massachusetts by Metris USA, Inc. and certain of its affiliates concerning U.S. Patent Nos. 6,611,617 and 7,313,264. The complaint has not been served on the Company. The patents generally are directed to laser scanning devices, and the lawsuit concerns only the Company's LaserScan Arm products and no other Company products. The Company believes that it does not infringe the asserted patents and/or that the patents are invalid. The Company currently does not believe this lawsuit will have a material impact on the Company or its business.

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, none of which the Company believes will 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

- 10.16 Lease Agreement dated July 8, 2008, by and between the Company and James W. Hickman Revocable Trust
- 10.17 Lease Agreement dated September 15, 2008, by and between the Company and NB MS NEBC LLC
- 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

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: November 3, 2008

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

LEASE AGREEMENT

THIS LEASE AGREEMENT, hereinafter referred to as the "Lease", is hereby made by and between **ANDRE F. HICKMAN** and **HAROLD A. MILLER** as Co-Trustees of the James W. Hickman Revocable Trust ("**HICKMAN TRUST**"), hereinafter referred to as the "Lessor", whose address is Post Office Box 941618, Maitland, Florida 32794, and **FARO TECHNOLOGIES, INC.**, a Florida corporation, hereinafter referred to as the "Lessee" whose address is 125 Technology Park, Lake Mary, Florida 32746.

WITNESSETH:

That Lessor, for and in consideration of the covenants and agreements hereinafter set forth and the rent hereinafter specifically reserved, does hereby lease unto Lessee the premises identified herein, in accordance with the following terms and conditions:

1. Premises:

1.01 Lessor hereby leases to Lessee and Lessee hereby leases from Lessor, for the term and subject to the covenants and conditions set forth in this Lease the premises located at 155 Technology Park, Lake Mary, Seminole County, Florida 32746, more specifically depicted on Exhibit "A" attached hereto and incorporated herein, hereinafter referred to as the "Premises". The Premises are currently leased by Lessor to Lessee under that certain Lease Agreement dated March 26, 2008. The parties agree that such prior Lease Agreement shall terminate upon September 30, 2008.

1.02 This Lease is subject to the following:

(a) conditions, restrictions, and limitations, if any, that are of record;

(b) present and future building restrictions or zoning ordinances of any municipality, Seminole County, the State of Florida, and any other governmental agency or body now existing, or which may hereinafter exist during the term of this lease by reason of any legal authority;

(c) the conditions and state of repair of the Premises;

(d) rights, if any, of any utility companies relating to the furnishing of water, gas, electric and other utility lines, wires, pipes and poles, and the maintenance thereof.

2. Use Of The Premises And Compliance With Laws:

2.01 Lessee shall use and occupy the Premises for general office, storage and light industrial uses only, subject to the terms of this Lease. Lessee shall not do or permit anything to be done on or about the Premises or the building that will unreasonably interfere with the rights of other tenants in neighboring buildings or allow the Premises to be used for any unlawful purpose. Lessee shall not do, permit or suffer in, on or about the Premises the sale of any alcoholic liquor without the written consent of Lessor first obtained.

2.02 Lessee shall not use and/or occupy the Premises for any use or uses other than as described in Section 2.01 above without the express prior written approval of the Lessor. Lessee will neither use, nor permit the use of the Premises, in any manner that is in conflict with any federal, state or local laws, or with any order or regulation of any governmental unit with jurisdiction over the Premises. In connection with Lessee's use of the Premises, it, its invitees, licensees, guests and employees shall, at all times, comply with all laws, ordinances and codes of any nature whatsoever which govern its use of the Premises including, but not limited to, all zoning regulations, all environmental laws and all rules and regulations of any board of fire

underwriters having jurisdiction thereof. Lessee, at its sole cost and expense, shall be responsible for obtaining any and all governmental permits and approvals that may be necessary in connection with Lessee's use and occupation of the Premises. Further, Lessee agrees to indemnify and hold Lessor harmless against any and all claims and/or damages to which Lessor may be exposed as a result of Lessee's failure to obtain any necessary permits and/or approvals.

2.03 Lessee shall not place or park any vehicle on the Premises, nor allow any of its employees, agents, customers, guests or invitees to place or park any vehicle on the Premises, in such a manner that impedes the flow of traffic or blocks access to or from the Premises or surrounding property.

2.04 Lessee, at its sole cost and expense, shall be responsible for complying with all applicable provisions, during the Term of the Lease, of the ADA as may be amended from time to time, relating to: (a) the physical condition of the Premises; (b) Lessee's policies and the operation of its business from the Premises; and, (c) Lessee's employment-related practices. Lessor shall have no responsibility whatsoever for compliance with the ADA with regard to the Premises during the Term of this Lease and Lessee shall indemnify, defend and hold Lessor harmless from and against any and all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees, in connection with, or resulting from, compliance or non-compliance with the ADA during the Term of the Lease.

3. Term:

3.01 The term of this Lease shall be for a period beginning October 1, 2008 and ending September 30, 2013. The beginning date of this period, October 1, 2008, shall hereinafter be referred to as the Commencement Date. This term shall hereinafter be referred to as the "Primary Term". For the purposes of this Lease, the Primary Term and the Option Term discussed in section 3.02 are sometimes herein collectively referred to as the "Term".

3.02 Upon the expiration of the Primary Term of this Lease, and provided Lessee is not then in default hereunder, Lessee shall have the option to extend the Term of this Lease for one additional five (5) year period, hereinafter referred to as the "Option Term". In order to exercise the option for the Option Term, Lessee must give Lessor notice, in writing, of its intent to exercise the option at least one hundred thirty five (135) days prior to the expiration of the Primary Term. Failure by the Lessee to give the required written notice of its election to exercise the option for the Option Term shall result in the waiver and cancellation of Lessee's right to elect such option. The Option Term, if Lessee properly exercises the option, shall be governed by the terms and conditions of this Lease. The base rent for the Option Term shall be calculated in accordance with the provisions of 4.02 below.

4. Rent:

4.01 Beginning on the Commencement Date and continuing during the Term of this Lease, Lessee shall pay to Lessor, as rent for the use and occupancy of the Premises: (a) the base rent provided for in this section; (b) the Operating Expense Charge as described below; and (c) applicable sales tax. The foregoing shall hereinafter sometimes be collectively referred to as the "Rent". The Rent shall be paid by Lessee to Lessor, monthly in advance, on the first day of each and every month during the Term. With regard to the first payment of Rent, the same shall be paid by Lessee to Lessor upon the Commencement Date.

4.02 The base rent during the Lease Term shall be as follows:

- a) The base rent for the first year of the Term shall be \$162,000.00. The base rent for the first year of the Term shall be paid by Lessee to Lessor in twelve equal monthly installments of \$13,500.00.
- b) On October 1, 2009, and again on October 1 of each succeeding year occurring during the Primary Term, the base rent shall be increased by the greater of three percent (3%) or by multiplying the base rent for the first year of the Term (\$162,000.00) by a fraction, the numerator of which shall be the Consumer Price Index (All Urban Consumers, All Items, U.S. City Average 1982-84=100, not seasonally adjusted) issued by the Bureau of Labor and Statistics of the United States Department of Labor, as of the immediately preceding June prior to each anniversary date of the Lease and the denominator of which shall be the same Index for June 2008. During the Option Term, if properly elected, the same method of increasing base rent shall apply. Should said Consumer Price Index be discontinued, then that Index which shall replace the described Index, or an index which is most nearly comparable thereto, shall be substituted accordingly. The Lessee agrees to pay the adjusted base rent, together with the rest of the Rent due, on the first day of each and every month for the next ensuing twelve month period.

4.03 Lessee shall pay to Lessor, monthly in advance, commencing on the Commencement Date and continuing thereafter on the first day of each month during the Lease Term, charges associated with the maintenance and operating costs for the Premises. This payment, hereinafter referred to as the "Operating Expense Charge", shall begin at the base rate of \$4,200.00 per month. The Operating Expense Charge shall include, without limitation: (a) routine landscaping maintenance and upkeep including, without limitation, lawn fertilization, sprinkler water charges, sprinkler maintenance and mowing; (b) building pest control; (c) property management costs; (d) real property taxes; (e) building structure and liability insurance on the building; (f) building fire sprinkler system monitoring, repair and inspection (including service and phone line costs); (g) property owners association dues; and, (h) any other costs customarily considered as maintenance and operating expenses. Within sixty (60) days after the end any calendar year, Lessor shall furnish Lessee with a written statement of the total estimated installments paid by Lessee for the immediately previous portion of the Term and the actual maintenance and operating costs for the Premises (the "Reconciliation Notice"). Lessee shall pay any deficiency as shown on such statement to Lessor within fifteen (15) days after delivery of such statement. Any excess payment by Lessee shown on such statement shall be credited against payments next due from Lessee or, if no such payments are next due, such excess payment shall be refunded to Lessee. Lessor will notify Lessee, within sixty (60) days after the end of any calendar year, of the estimated amount to be due for the Operating Expense Charge for the next calendar year of the Term and the corresponding monthly amount to be due.

4.04 The total monthly payment due for Rent hereunder shall be paid by Lessee to Lessor in lawful money of the United States, without notice or demand, and without abatement, reduction, setoff, counterclaim, defense or deduction, except as specifically provided for herein.

4.05 Lessee shall promptly pay all Rent and other charges at Lessor's address: Post Office Box 941618, Maitland, Florida 32794, or to such other person or corporation and at such other address, as shall be designated by Lessor in writing at least ten (10) days prior to the next ensuing Rent payment date.

5. Tenant Improvements:

5.01 Lessor agrees to reimbursement certain funds expended toward the construction of approved tenant improvements made to the Premises in accordance with the conditions of this section. Lessor agrees to reimburse to Lessee, as a one time expense to Lessor, design, permitting, construction and impact fee costs for approved tenant improvements up to the sum of Forty Thousand and NO/100 Dollars (\$40,000.00). These funds shall be used to reimburse expenses for improvements which will stay with the Premises and benefit the property, as determined within the reasonable discretion of the Lessor, following the termination/expiration of this Lease. The tenant reimbursement funds described herein shall be delivered to Lessee following (a) completion of all approved tenant improvements (b) three (3) days following presentation of all necessary paperwork to clear the property of any potential or actual liens arising from such improvements and (c) following Lessor's inspection of same to ensure completion, which inspection shall occur within ten (10) days following notice from the Lessee to Lessor that the improvements are complete. All approved tenant improvements must be made within the constraints of section 14.01. Any and all costs associated with the approved tenant improvements in excess of the \$40,000.00 reimbursement allowance, shall be made at the sole cost and expense of Lessee. With the exception of Lessor's agreement to provide reimbursement funds as described in this section, Lessee agrees to and does accept the Premises in its "as-is" condition as of the execution of this Lease. Lessee's occupancy of the Premises shall be conclusive evidence of Lessee's agreement and acceptance in this regard.

6. Property Taxes:

6.01 As part of the monthly Operating Expense Charge, Lessee shall pay, during the Term of this Lease, all real estate taxes attributable to the Premises. The phrase "real estate taxes attributable to the Premises" as used in this paragraph shall mean, an amount equal to the real estate taxes, any assessments and any governmental charges levied upon or with respect to the Premises and the building located upon the Premises. Lessee shall be liable for all taxes levied upon the personal property and trade fixtures placed by Lessee in or about the Premises. If any taxes attributable to the personal property and trade fixtures placed by Lessee in or about the Premises shall be levied against Lessor or Lessor's property, and if Lessor pays the same, or if the assessed value of Lessor's land is increased by the inclusion thereof, and if Lessor pays the taxes based upon such increased assessment, Lessee upon demand shall repay to Lessor the taxes so paid by Lessor. Lessee will have the right to contest the amount or validity, in whole or in part, of any tax on Lessee's personal property and trade fixtures by appropriate proceedings diligently conducted in good faith by Lessee, only after paying such tax or posting security that Lessor reasonably requires in order to protect the Premises against loss or forfeiture. Upon termination of any proceedings, Lessee will pay the amount of the tax or part of the tax as finally determined, the payment of which may have been deferred during the prosecution of the proceedings, together with any costs, fees, interest, penalties or other related liabilities. Lessor will not be required to join in any contest or proceedings unless the provisions of any law or regulations then in effect require that the Lessor participate in such proceedings. In the event Lessor does join in the proceedings, Lessor shall not be subjected to any liability for the payment of any costs or expenses in connection with any such contest or proceeding. Further, Lessee shall indemnify Lessor against and save Lessor harmless from any and all such costs and expenses.

7. Building Structure Insurance:

7.01 Lessor will at all times during the Term hereof maintain in effect a policy or policies of insurance covering the building structure on the Premises, providing protection against any peril included

within the classification "Fire and Extended Coverage", together with insurance against liability and abatement or loss of rent. Lessee shall have the responsibility to pay for all premiums for such insurance within the Operating Expense Charge.

8. Additional Rent:

8.01 All taxes, charges, costs and expenses that Lessee assumes or agrees to pay hereunder, together with all interest and penalties that may accrue thereon in the event of the failure of the Lessee to comply with the terms and conditions of this Lease, other than base rent shall be deemed to be "additional rent" and, in the event of non-payment, Lessor shall have all the rights and remedies as herein provided for failure to pay rent. With regard to additional rent which is estimated in monthly payments, notwithstanding any particular increase or reconciliation notice times set forth elsewhere herein, Lessor's failure to timely notify Lessee of a change in the estimated monthly amounts or timely reconcile the estimated payments with actual expenses shall not alter or diminish Lessee's responsibilities therefore.

9. Interest On Past Due Rent And Additional Rent:

9.01 If Lessee shall fail to pay, within seven (7) days after the same is due, any Rent or additional rent, or any other amount or charges due from Lessee under this Lease, such unpaid amounts shall bear interest from the due date thereof to the date of payment by Lessee at eighteen (18%) percent per annum.

10. Late Charges:

10.01 Lessee agrees to pay Lessor a late charge of five (5%) percent of each payment of Rent or additional rent required to be paid by Lessee hereunder not received by Lessor within seven (7) days of the due date thereof. It is agreed by the parties hereto that said late charge shall be for reimbursement to Lessor for collection charges incurred as a result of the overdue Rent and/or additional rent. Such late charge shall be in addition to any interest payable by the Lessee as set for the in Section 9.01 above, resulting from Lessee's failure to pay any Rent or additional rent due hereunder. In the event any check, bank draft, order for payment or negotiable instrument given to Lessor for any payment attributable to Lessee is not immediately collectable, Lessor shall be entitled to make an administrative charge to Lessee of Seventy-Five Dollars (\$75.00), or any amount provided by law whichever is greater. In addition, Lessor shall be reimbursed by Lessee for any costs incurred by Lessor as a result of said payment being dishonored.

11. Security Deposit:

11.01 Intentionally Deleted.

12. Public Utilities - Utility Charges:

12.01 Lessee shall pay all utility and other charges and expenses for any services provided to the Premises, including, without limitation, gas, water, sewer, waste removal, electricity, telephone, janitorial, security monitoring and any other utility services used on the Premises during the Term of this Lease. All accounts for such utility services shall be opened and maintained in the name of the Lessee. If any such charges are not paid when due, Lessor may pay the same, and any amounts so paid by Lessor shall thereupon become due to Lessor from Lessee as additional rent. Lessor shall not be liable in damages, or otherwise, for any failure or interruption of any utility service being furnished to the Premises.

13. Waste, Damage Maintenance And Repair:

13.01 Lessee, at its sole expense, shall keep the interior of the Premises in good working order, condition and repair and maintain the same and every part thereof, including, but not limited to, all of the plumbing, electrical and lighting facilities, security equipment, HVAC systems and air conditioning units (including monthly filter changes), floors, walls, doors, windows and ceilings (However, with regard to air conditioning and heating unit repairs, Lessee shall only be responsible for the first \$500.00 of repair costs per occurrence). All maintenance, repairs, replacements and renewals made by Lessee shall be of equal or better quality of materials and workmanship to that originally in existence, and shall be made only by a licensed and bonded contractor acceptable to Lessor. To ensure compliance with the obligations under this section, Lessor may at its option enter upon the Premises, following reasonable notice to Lessee (except in the event of an emergency in which case no notice of entry shall be required), and put the same in good order, condition and repair and the cost thereof shall become due and payable as additional rent by Lessee to Lessor upon demand.

13.02 Lessee shall keep the Premises free from Lessee's waste and debris. Further, Lessee shall not cause or permit any waste, damage or injury to the Premises. All waste, damage or injury to the Premises, or any part thereof, or to its fixtures, equipment or appurtenances caused by Lessee, its employees, agents, customers, guests or invitees, shall be repaired to Lessor's satisfaction by Lessee, at Lessee's sole cost and expense. Lessee shall also repair, at its sole cost and expense, all damage to the Premises caused by the installation or moving of Lessee's fixtures, furniture and/or equipment. All such repairs shall be of equal or better quality of materials and workmanship to that originally in existence, and shall be made only by a licensed and bonded contractor acceptable to Lessor. To ensure compliance with the obligations under this section, Lessor may at its option enter upon the Premises, following reasonable notice to Lessee (except in the event of an emergency in which case no notice of entry shall be required), and put the same in good order, condition and repair and the cost thereof shall become due and payable as additional rent by Lessee to Lessor upon demand.

13.03 Landlord shall keep the exterior of the Premises in good condition and repair including the building structure, roof, sub-floor, gutters, down spouts and parking areas.

14. Improvements, Additions And Alterations:

14.01 Lessee shall not begin any alterations, additions or improvements to the Premises or any part thereof, without the prior written consent of Lessor. All alterations, additions or improvements made by Lessee to the premises shall become part of the Premises and shall become the sole property of Lessor without compensation to Lessee. All alterations, additions or improvements to the Premises made by Lessee during the Lease Term shall be in keeping with the quality and type of structures presently located on the Premises. Any alterations, additions or improvements shall be done in a good and workmanlike manner and performed only by a licensed and bonded contractor, to the reasonable satisfaction of Lessor, and in compliance with all applicable building and zoning laws and with all laws, ordinances, orders and requirements of all sovereign authorities and the appropriate departments, commissions, boards and officers thereof. The costs of any such alterations, additions or improvements to the Premises shall be paid by Lessee in cash or its equivalent so that Lessor's fee simple title to the Premises shall at all times be free of liens for labor and materials supplied or claimed to have been supplied. Lessor reserves the right before approving any such alterations, additions or improvements to require Lessee to furnish reasonably satisfactory evidence of available funds with which to pay for the completion of such alterations, additions or improvements. Lessee hereby agrees to indemnify, defend and hold Lessor harmless from and against any and all costs and liabilities incurred by Lessor with respect to any alterations, additions or improvements to the Premises and against any and all construction,

material men's, laborer's, or other statutory or common law liens arising out of or from such work, or the cost thereof, which may be asserted, claimed or charged against all or any part of the Premises, or against the Lessor. Lessee shall permit Lessor or his agents to enter upon the Premises with reasonable and appropriate advance notice during the period that alterations, additions, or improvements are being made on or to the Premises to inspect such alterations, additions or improvements and to determine whether the Lessee is complying with the provisions of this section.

15. Construction Liens:

15.01 Lessor's interest in the Premises shall not be subject to construction liens arising from Lessee's work or alterations and any repairs made by Lessee to the Premises. Lessee will not knowingly permit or suffer any lien attributable to Lessee or its agents or employees to attach to the Premises and nothing contained herein shall be deemed to imply any agreement of Lessor to subject Lessor's interest or estate to any construction lien or any other lien. If any construction lien is filed against the Premises as a result of alterations, installations, improvements or repairs made or claimed to have been made by Lessee or anyone holding any part of the Premises through or under Lessee, or any other work or act of any of the foregoing, Lessee shall discharge the same within twenty (20) days from the filing thereof. If Lessee fails to so discharge by payment, bond or court order any such construction lien, Lessor, at its option, in addition to all other rights or remedies herein provided, may pay or bond said lien or claim for the account of Lessee without inquiring into the validity thereof, and all sums so advanced by Lessor shall be paid by Lessee to Lessor as additional rent on demand, together with interest on all such amounts, at the rate of eighteen (18%) per annum. Pursuant to Florida Statutes, Section 713.10, notice is hereby given that Lessor shall not be liable for any labor or materials furnished or to be furnished to Lessee, and that no construction or other lien for any such labor or materials shall attach to or affect the reversionary or other estate or interest of Lessor in and to the Land and to the Premises. Lessee agrees, if requested by Lessor, to join with Lessor in the execution of a short form lease or memorandum of lease to be recorded in the Public Records of Seminole County, Florida, for the purposes of giving notice of this provision of this Lease.

16. Insurance:

16.01 Throughout the Term of this Lease, Lessee, at its sole cost and expense, shall obtain and maintain in full force and effect a comprehensive general public liability insurance policy with respect to the Premises, which insurance, shall be written with a carrier acceptable to the Lessor and with coverage limits of not less than Two Million and No/100 Dollars (\$2,000,000.00) in respect of bodily injury or death to any one person, Two Million and No/100 Dollars (\$2,000,000.00) in respect to any one accident or occurrence, and One Million and No/100 Dollars (\$1,000,000.00) for property damage, and such protection shall continue at not less than the said limits until reasonably required to be changed by Lessor in writing by reason of changed economic conditions making such protection inadequate. The insurance policy shall name the Lessor as an additional insured and shall provide that the policy may not be canceled or modified by the carrier without thirty (30) days' prior written notice to the Lessor. To the extent obtainable, the insurance policy shall contain a clause or an endorsement to the effect that no act or negligence of Lessee, or anyone acting for Lessee, or any sublessee, or occupant of the Premises, which might otherwise result in a forfeiture of such insurance or any part thereof, shall in anyway affect the validity or enforceability of such insurance insofar as Lessor. Lessee shall provide the Lessor with a certificate of insurance evidencing its compliance with this paragraph on or before the date of the execution of this Lease. Renewals of the policy or policies referred to in this paragraph shall be delivered to Lessor at least twenty (20) days prior to the expiration of any such policy, accompanied by evidence reasonably satisfactory to Lessor of payment of the premiums therefore.

16.02 Throughout the Term of this Lease, Lessee shall also maintain such other insurance in such amounts as may from time to time be reasonably required by Lessor against other insurable hazards which at the time are commonly insured against in the case of demolition, construction and alterations of buildings and/or in the case of property similarly situated, due regard being or to be given to the height or type of building, its location, construction, use and occupancy.

16.03 Lessee shall maintain worker's compensation insurance to comply with the laws of the State of Florida.

16.04 If Lessee shall fail to procure and maintain the insurance required hereunder, Lessor may, at its option, pay the same, and the amount or amounts of money so paid, together with interest on all such amounts at the rate of eighteen percent (18%) percent per annum, shall be repaid by Lessee to Lessor, upon the demand of Lessor, and the payment thereof may be collected or enforced by Lessor in the same manner as though said amount were an installment of rent specifically required by the terms of this Lease to be paid by Lessee unto Lessor, upon the day when the Lessor demands repayment thereof or reimbursement therefrom from the Lessee; but the election of Lessor to pay such premiums shall not waive the default thus committed by Lessee.

16.05 Lessee will not do or permit anything to be done on the Premises, or bring or keep anything therein which shall in any way increase the rate of fire or other insurance on the Premises, or on the property kept therein, or conflict with the fire or other insurance on the Premises, or on the property kept therein, or conflict with any fire laws or regulations, or with any insurance policy upon said Premises, or any part thereof, or with any statutes, rules or regulations enacted or established by any appropriate governmental authority.

16.06 Lessee has the duty and responsibility to purchase casualty insurance covering Lessee's property and any losses by reason of fire, wind, storm, water, theft or other casualty and to have the Lessor named as an additional insured in connection therewith. LESSOR SHALL NOT BE LIABLE FOR LOSS OR DAMAGE TO THE CONTENTS OF THE PREMISES FROM ANY CAUSE WHATSOEVER. LESSOR DOES NOT CARRY INSURANCE TO COVER ANY LOSS OR DAMAGE TO THE CONTENTS OF THE PREMISES FROM ANY CAUSE WHATSOEVER.

16.07 Lessee hereby waives its rights of recovery against Lessor and Lessor's officers, directors, shareholders, partners, joint ventures, employees, agents, customers, invitees, or business visitors of either party, for any loss arising from any cause covered or that could be covered by fire, extended coverage, all risks or other insurance. Lessee will cause from time to time its insurers to issue appropriate waivers of subrogation rights endorsements to all insurance policies carried in connection with the building, the Premises, the contents of either and Lessee's use of same.

17. Casualty Damage:

17.01 If the Premises shall be partially destroyed by fire or other casualty, the damages may, at the sole option of Lessor, be repaired by and at the expense of Lessor or an appropriate insurer and the rent until such repair is made shall be apportioned according to the part of the Premises which is useable by Lessee. No penalty shall accrue for reasonable delay which may arise by reason of adjustments of insurance on the part of Lessor or for reasonable delay on account of "labor troubles" or any other cause beyond Lessor's control. If Lessor shall decide not to restore or not to rebuild the Premises, or if the Premises are totally damaged or are rendered wholly untenable by fire or other casualty, or if the Premises shall be so damaged that Lessor shall decide to demolish it or to rebuild it, then Lessor may, within ninety (90) days after such fire or other casualty, give Lessee a notice in writing of such decision and thereupon the terms of this Lease shall expire and

terminate effective as of the date of the casualty and Lessee shall immediately vacate the Premises and surrender the same to Lessor, and except as may otherwise be provided herein, the obligations of the parties hereto shall cease and terminate. Additionally, if the Premises are totally damaged or are rendered wholly untenable by fire or other casualty, then Lessee may, within ninety (90) days after such fire or other casualty, give Lessor a fifteen (15) day notice in writing of Lessee's decision to terminate the Lease and thereupon the terms of this Lease shall expire and terminate effective fifteen (15) days from the date of such notice and Lessee shall vacate the Premises by such date and surrender the same to Lessor, and except as may otherwise be provided herein, the obligations of the parties hereto shall cease and terminate.

18. Condemnation:

18.01 The parties hereto agree that if the Premises, or any such portion thereof as will make the Premises unusable for the purpose herein leased as determined by Lessor, are taken or condemned by competent authority for public or quasi-public use, then this Lease shall terminate from the date of taking, and except as may otherwise be provided herein, the obligations of the parties hereto shall cease and terminate. If the Lease continues after a partial taking, the rent shall abate proportionately as to the part taken. All compensation awarded for such taking of the Premises, the improvements located thereon, the fee, and the leasehold shall belong to and be the property of Lessor. Lessee shall not be entitled to any damages for the unexpired portion of the Term of this Lease, or injury to its leasehold interest, except that Lessee may seek the award of business damages, so long as such effort of Lessee does not diminish the compensation paid to Lessor.

19. Indemnification:

19.01 Lessee hereby indemnifies Lessor and saves it harmless from and against any and all claims, actions, damages, liability and expense in connection with loss of life, personal injury and/or damage to property arising from or out of any occurrence in, upon or at the Premises, or the occupancy or use by Lessee of the Premises or any part thereof, or occasioned wholly or in part by any negligence, act or omission of Lessee, its agents, contractors, employees, servants, sub-lessee or concessionaires (including, without limitation, any failure by Lessee to keep, perform and observe each and every one of the covenants, conditions and agreements contained in this Lease to be kept, performed and observed by Lessee), unless caused by the willful act or gross negligence of Lessor, its agents and employees. This indemnity and hold harmless agreement shall include indemnity against all costs, expenses and liabilities, including attorney's fees, incurred by Lessor in connection with any such claim or action or any trial, appellate or bankruptcy proceeding relative thereto. In case Lessor shall, without fault on its part, be made a party to any such action or proceeding, then Lessee shall protect and hold Lessor harmless and shall pay all costs, expenses, and reasonable attorney's fees incurred or paid by Lessor in connection with such litigation and Lessee, upon written notice from Lessor, shall defend such action or proceeding by counsel approved in writing by Lessor, which approval shall not be unreasonably withheld or delayed. The provisions of this section shall survive the Term of this Lease.

20. Exemption Of Lessor For Damage:

20.01 Lessor shall not be liable for injury or damage which may be sustained by the employees, invitees or customers of Lessee or any other person in or about the Premises or for injury or damage to any goods, wares, merchandise or property of Lessee, its employees, invitees or customers or any other person in or about the Premises, whether or not caused or resulting from fire, steam, electricity, gas, water or rain, which may leak or flow from or into any part of the Premises, or from the breakage, leakage, obstruction or other defects in the pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures of the same,

whether the said damage or injury results from conditions arising upon the Premises, or from other sources, except to the extent the same are caused directly by the willful act or gross negligence of Lessor, its agents or employees.

21. Surrender Of Possession:

21.01 Lessee shall peaceably and quietly surrender the Premises upon the last day of the Term of this Lease, or upon the date of termination if prior to that, and shall surrender the Premises in as good a condition as the Premises was at the beginning of the Lease, except for reasonable wear and tear and except as expressly provided herein. Any property belonging to the Lessee not removed upon the termination of this Lease, if Lessor shall so elect, shall be deemed abandoned and become the property of Lessor without any payment or offset therefore. Lessor may remove such property belonging to Lessee from the Premises and store them at the risk and expense of Lessee if Lessor shall so elect. Lessee shall repair and restore all damage to the Premises caused by the removal of any property belonging to Lessee and any other equipment, trade fixtures, and personal property belonging to Lessee. Without limitation of other damages, Lessee shall be liable to Lessor for any cost, damage or expense incurred by Lessor as a result of Lessee's failure to vacate the Premises under these terms and conditions.

22. Holding Over:

22.01 Lessee agrees that if Lessee does not surrender the Premises to Lessor at the end of the Term or Option Term of this Lease (if the Option Term is properly elected), or upon any cancellation of the Term of this Lease, without prior written consent of Lessor, such holdover tenancy shall be a tenancy at will, and Lessee shall pay to Lessor, all damages that Lessor may suffer on account of Lessee's failure to surrender possession of the Premises, including, but not limited to, any lost revenues that could have been generated by Lessor from the use of the Premises, and will indemnify Lessor on account of delay of Lessor in delivering possession of said Premises to another tenant. The rent amount due during any holdover period shall be equal to one hundred fifty percent (150%) of the minimum rent specified in this Lease for the immediately preceding lease year, without necessity of additional demand therefore. The acceptance of such rent shall not be deemed to be a consent to such continued occupancy nor shall it be deemed a waiver of any right of the Lessor as set forth herein, at law or in equity. Should a tenancy at will be created under the provisions of this paragraph, the tenancy may subsequently be terminated by either party hereto giving fifteen (15) days' written notice of the intention to terminate the tenancy to the other party to this Lease. This provision does not give Lessee any right to hold-over at the expiration of the Term or Option Term of this Lease, and all other terms and conditions of this Lease shall remain in force during any tenancy at will created by holding over by Lessee.

23. Covenants Of Lessee:

23.01 To induce Lessor to execute this Lease, and in consideration thereof, Lessee covenants and agrees as follows:

(a) Lessee agrees to give to Lessor prompt written notice of any accident, fire or damage occurring in, on or to the Premises.

(b) Lessee agrees that all loading and unloading of goods shall be done only in the areas and through such entrances as may be designated for such purposes by Lessor.

(c) Lessee agrees to keep the outside areas immediately adjoining the Premises clear and not to burn, place or permit any rubbish, obstruction or merchandise in such areas.

(d) Lessee shall install, maintain and keep current, at its expense, all fire extinguishers and other safety equipment as shall be required by applicable law, ordinance, regulation, or fire and extended coverage insurance underwriting compliance.

(e) Lessee shall not use or operate any machinery that, in Lessor's opinion, is harmful to the Premises or disturbing to others; nor shall Lessee use any loud speakers, televisions, radios, or other devices in a manner so as to disturb persons outside of the Premises; nor display merchandise on the exterior of the Premises either for sale or for promotional purposes, without obtaining the prior written consent of Lessor.

(f) Lessee shall not conduct any auction, fire, bankruptcy, selling-out, or going-out-of-business sale on or about the Premises.

(g) Lessee shall notify Lessor of the death of any surety or guarantor, if any, of this Lease on or before the date of the first publication of the Notice of Administration of the estate of the deceased surety or guarantor.

(h) Lessee shall not commit or suffer to be committed any waste upon the Premises or any nuisance or other act or thing which may disturb the quiet enjoyment of any person outside the boundaries of the Premises.

(i) Lessee agrees all mechanical apparatus shall be kept free from vibrations and noise which may be transmitted beyond the Premises.

(j) Lessee shall not do or suffer to be done any act, manner or thing objectionable to the fire insurance companies whereby the fire insurance or any other insurance now in force or hereafter to be placed on the Premises or any part thereof, shall become void or suspended. Upon the breach of this covenant, in addition to all other remedies of Lessor and not as a limitation thereof, Lessee agrees to pay to Lessor as additional rent any and all increase or increases of premiums on insurance carried by Lessor on the Premises.

24. Event Of Default And Remedies:

24.01 Each of the following events shall constitute an event of default or breach ("Event of Default") of this Lease by Lessee:

(a) The filing of a voluntary petition by Lessee, or any sureties or guarantors of this Lease, for adjudication as a bankrupt or insolvent, or for its reorganization or for the appointment of a receiver or trustee of its property; or an assignment by Lessee or any sureties or guarantors of this Lease for the benefit of creditors; or

(b) The filing of an involuntary petition against Lessee, or any sureties or guarantors of this Lease, seeking any reorganization, liquidation, dissolution or similar relief under any present or future federal, state or other law or regulation relating to bankruptcy, insolvency or other relief of debtors, or the appointment of any trustee, receiver or liquidator of Lessee, or any sureties or guarantors of this Lease, unless such petition or appointment shall be dismissed within thirty (30) days after such filing, but in any event prior to the entry of an order, judgment or decree approving such petition; or

(c) If Lessee shall fail to pay Lessor any Rent, additional rent or other sums due hereunder when said amount shall become due and shall not make the payment within seven (7) days after the date said Rent and/or additional rent or other sum shall be due; or

(d) If Lessee shall fail to perform or default in the performance of any of the conditions of this Lease other than the nonpayment of Rent or any other monetary obligation and if the nonperformance or default shall continue for a period of thirty (30) days after written notice thereof by Lessor to Lessee or, if the nature of Lessee's cure requires more than thirty (30) days, Lessee shall be permitted to commence the cure within such thirty (30) days and diligently prosecute such cure to completion; or,

(e) If Lessee shall vacate or abandon the premises (Lessee shall be deemed to have abandoned the Premises if Rent and/or any other monetary obligation due under this Lease is not currently paid and Lessee is absent from the Premises for a period of fifteen (15) consecutive days); or

(f) If this Lease or the estate of Lessee hereunder shall be transferred to or shall pass to or devolve on any other person or party, except in the manner herein permitted; or

(g) If Lessee is a corporation which is not validly existing and in good standing; or

(h) If Lessee is a partnership which is dissolved or liquidated.

24.02 If an Event of Default shall occur, Lessor may without prejudice to its other rights hereunder, avail itself of any right available to Lessor under the law or this Lease, including, without limitation, do any one or more of the following:

(a) Terminate this Lease and re-enter and take possession of the Premises;

(b) Recover possession of the Premises (with or without terminating the Lease, at Lessor's option) in a manner prescribed by any statute relating to summary process, and any demand for rent, re-entry for condition broken, and any and all notices to quit, including, without limitation, the notice required by the provisions of Section 83.20, Florida Statutes, or any similar statutes, or other formalities of any nature, to which Lessee may be entitled, are hereby specifically waived;

(c) Bring suit for the breach which has occurred without affecting the obligations of the parties to perform the balance of the Lease;

(d) Declare the entire Rent for the balance of the Term of the Lease due and payable; and

(e) Re-let the Premises or any part thereof without thereby avoiding or terminating the Lease to any person, firm or corporation other than Lessee for such rent, for such time, and upon such terms as Lessor in Lessor's sole discretion shall determine. In any such case, Lessor may make repairs in or to the Premises, and redecorate the same to the extent deemed by Lessor necessary or desirable, and Lessee shall, upon demand, pay the cost thereof together with Lessor's expenses of re-letting including, without limitation, any brokerage commission. If the consideration collected by Lessor upon any such re-letting for Lessee's account is not sufficient to pay the full amount of unpaid rent reserved in this Lease, together with the cost of repairs, alterations, additions, redecorating, and Lessor's expenses, Lessee shall pay to Lessor the amount of each deficiency each month upon demand.

24.03 No re-entry or taking possession of the Premises by Lessor shall be construed as an election on Lessor's part to terminate this Lease unless a written notice of such intention be given by Lessor to Lessee or unless the termination thereof be decreed by a court of competent jurisdiction.

24.04 The failure of Lessor to re-let the Premises or any part thereof after recovery of possession shall not release or affect Lessee's liability for damages. Lessor shall in no event be liable in any way whatsoever for failure to re-let the Premises, or in the event that the Premises are re-let, for failure to collect the rent under such re-letting.

24.05 All of the damages which are specified in this Lease are in addition to all other damages and costs to which Lessor may be entitled under the laws of the State of Florida.

24.06 After an Event of Default, the acceptance of rent (or any portion thereof) or failure to re-enter by Lessor shall not be held to be a waiver of its rights to terminate this Lease, and Lessor may re-enter and take possession of the Premises as if no rent had been accepted after such default.

24.07 No right or remedy hereunder shall be exclusive of any other right or remedy, but shall be cumulative and in addition to any other right or remedy hereunder or now or hereafter existing. Failure to insist upon the strict performance of any provision hereof or to exercise any option, right power or remedy contained herein shall not constitute a waiver or relinquishment thereof for the future.

24.08 Lessor shall not be deemed to be in default in the performance of any obligation required to be performed by Lessor hereunder unless and until it has failed to perform such obligation within thirty (30) days after receipt of written notice thereof from Lessee; provided, however, that if the nature of Lessor's obligations is such that more than thirty (30) days are required for its performance, then Lessor shall not be deemed to be in default if it shall commence such performance within such thirty (30) day period and thereafter diligently prosecute the same to completion.

25. Assignment And Subletting:

25.01 Lessee covenants and agrees not to encumber or mortgage Lessee's leasehold interest hereunder nor assign this Lease or sublet all or any part of the Premises without the prior written consent of Lessor, which consent will not be unreasonably withheld. If Lessor consents to an assignment or subletting, the assignee or sublessee shall first be obligated to assume, in writing, all of the obligations of Lessee under this Lease and Lessee shall, for the full term of this Lease, continue to be jointly and severally liable with such assignee or sublessee for the payment of the Rent, additional rent, any other sums due by Lessee under this Lease and the performance of all obligations required by Lessee under this Lease. However, in the event the approved assignee is of greater financial standing than Lessee, as determined within the reasonable discretion of Lessor, Lessee may be seek to be released from its continuing, joint obligation. Such request shall be made by Lessee in writing no earlier than one (1) year following the date of assignment and will only be permitted if no uncured defaults have occurred and are outstanding under the Lease from the date of the assignment to the date of Lessee's request. In no event shall Lessee assign or sublet the Premises for any terms, conditions and covenants other than those contained herein. In no event shall this Lease be assigned or be assignable by operation of law or by voluntary or involuntary bankruptcy proceedings or otherwise, and in no event shall this Lease, or any rights or privileges hereunder, be an asset of Lessee under bankruptcy, insolvency or reorganization proceedings. Should Lessor consent to any assignment or sublease, any economic benefit that is derived shall be for the account of the Lessor.

26. Access To Premises:

26.01 Lessor and Lessor's representatives shall have the right to enter upon the Premises following reasonable notice to Lessee (except in the event of an emergency in which case no notice of entry shall be required) for the purpose of inspecting the same or for making repairs, additions or alterations or for the purpose of exhibiting the same to prospective tenants, purchasers, mortgagors or others. Lessee shall not cause the Premises to be locked or otherwise secured in such a manner as to prevent Lessor or Lessor's representatives from inspecting the Premises. Prospective purchasers, tenants or mortgagees authorized by Lessor may inspect the Premises during reasonable hours at any time.

27. Subordination:

27.01 Lessee agrees to subordinate its interest in this Lease to any future mortgage or deed of trust encumbering the Premises and held by an institutional mortgagee by the execution of a Subordination, Non-Disturbance and Attornment Agreement ("SNDA"). The SNDA must be tendered to Lessee in a commercially reasonable, generally accepted form. Lessee agrees to execute and deliver the SNDA within ten business (10) days of the request for same from Lessor. Such SNDA shall provide that the Lease will remain in effect and the mortgagee will recognize the Lessee as a tenant so long as the Lessee is not in default under the lease. If Lessee fails to execute the SNDA within the ten business (10) day time frame set forth herein, Lessee's interest shall be deemed subject and subordinate to the lien of such mortgage or deed of trust.

28. Signs:

28.01 Lessee shall not place or suffer to be placed or maintained on any exterior door, wall or window of the Premises, any sign, awning or canopy, or advertising matter or other thing of any kind, and will not place or maintain any decoration, lettering or advertising matter on the glass of any window, exterior door or wall of the Premises without first obtaining Lessor's written approval or consent. Lessee further agrees to maintain said sign, awning, canopy, decoration, lettering, advertising matter or other thing as may be approved in writing by Lessor in good condition and repair at all times.

29. Right Of Lessor To Display Signs:

29.01 Lessor reserves the right to display a "For Sale" sign at any time on the Premises. Additionally, Lessor reserves the right to display a "For Rent" sign at any time within five (5) months prior to the expiration of this Lease, or after default of Lessee, or following delivery of notice by either party of their intention to terminate this Lease. All of said signs may be placed upon such part of the Premises as Lessor shall require.

30. Removal And Restoration By Lessee:

30.01 All alterations, decorations, additions, and improvements on or in the Premises as of the date of this Lease, and that may be erected or installed during the Lease Term, shall become part of the Premises and shall become the sole property of Lessor, except that all moveable trade fixtures installed by Lessee shall be and remain the property of Lessee; provided that such trade fixtures can be removed without damaging the Premises. Any damage caused by Lessee as a result of removal of its trade fixtures shall be promptly repaired by Lessee at its expense.

31. Personal Property:

31.01 All personal property of the Lessee in the Premises shall be maintained at the sole risk of the Lessee. The Lessor shall not be liable for any accident to or damage to property of Lessee resulting from the use or operation of the heating, cooling, electrical or plumbing apparatus. Lessor shall not in any event, be liable for damages to property resulting from water, steam or other causes. Lessee hereby expressly releases and agrees to hold Lessor harmless from, any liability incurred or claimed by reason of damage to Lessee's property. Lessor shall not be liable for damages, nor shall this Lease be affected, for conditions arising or resulting, and which may affect the Premises, due to construction on contiguous properties.

32. No Waiver:

32.01 No delay or omission of the exercise of any right by either party hereto shall impair any such right or shall be construed as a waiver of any default or as an acquiescence thereto. One or more waivers of any violation or breach or failure to comply with any of the covenants, terms, provisions or conditions of this Lease by either party shall not be construed by the other party as a waiver of any subsequent violation, breach or failure to comply with the same or any other covenant, term, provision, or condition contained in this Lease. No requirements whatsoever of this Lease shall be deemed waived or varied because of either party's failure or delay in exercising its rights resulting from any default, and Lessor's acceptance of any payment from Lessee with knowledge of any default shall not constitute a waiver of Lessor's right with respect to such default, nor of any subsequent default. All remedies provided for herein shall be construed as cumulative and shall be in addition to every other remedy otherwise available to Lessor.

33. Exculpation:

33.01 Lessee agrees that Lessee shall look solely to Lessor's interest in the Premises and Lessor's personal property used in connection therewith for the satisfaction of any claim, judgment or decree requiring the payment of money by Lessor to Lessee based upon any default hereunder and no other property or assets of Lessor, its heirs, successors and assigns, shall be subject to levy, execution or other enforcement procedure for the satisfaction of any claim, judgment, injunction or decree of Lessee against Lessor.

34. Brokers:

34.01 Other than Southern Commercial Real Estate Advisors, LLC which represents the Lessor, Lessor and Lessee each warrant and represent to the other that neither has employed or dealt with any broker, agent or leasing consultant in connection with this Lease. Lessor and Lessee covenant and agree, each to the other, to indemnify and hold the other harmless from and against any and all liability, costs, claims, demands, damages, actions, causes of action, suits and expenses (including, but not limited to, attorney's fees and costs and disbursements of litigation) the other party may incur, arising out of or in any manner related to any claim or action by any other broker, agent or leasing consultant claiming to have dealt with the indemnifying party, or claiming to be due a commission or other compensation from the indemnifying party with respect to this Lease.

35. Transfer Of Lessor's Interest:

35.01 In the event of any transfer or transfers of Lessor's interest in the Premises, upon the transferee assuming liability therefore, Lessor shall be automatically relieved of any and all obligations and liabilities on the part of Lessor accruing from and after the date of such transfer.

36. Rules And Regulations:

36.01 Lessee shall conduct its business in the Premises during the regular customary days and hours for such type of business in the city and trade area in which the Premises is located, with due allowance for vacations, holiday, and deaths or illness of Lessee's officers, directors, and shareholders and their family members.

36.02 Lessor reserves the right from time to time to adopt, promulgate, amend or supplement rules and regulations applicable to the Premises. Notice of such rules and regulations, and any amendments and supplements, shall be given to Lessee, and Lessee agrees thereupon to comply with and observe all such rules and regulations, and amendments and supplements thereto.

37. Successor In Interest:

37.01 All provisions herein contained shall bind and inure to the benefit of the respective parties hereto, their heirs, personal representatives, successors and assigns. In the event Lessor or any successor-owner of the Property shall convey or otherwise dispose of the Premises, all liabilities and obligations of Lessor or any successor-owner as Lessor to Lessee under this Lease shall terminate upon such conveyance or disposal and the giving of written notice thereof to Lessee.

38. Notices:

38.01 Wherever in this Lease it shall be required or permitted that notice or demand be given or served by either party to this Lease to or on the other, such notice or demand shall not be deemed to have been duly given or served unless in writing and either personally delivered, delivered by Federal Express or other courier service, delivered by facsimile transmission with proof of transmittal or deposited in the United States Mail, postage prepaid, return receipt requested. If given by regular mail, the notice shall be deemed to have been given within a required time if received, evidenced by the return receipt, within the time limit. For the purpose of calculating time limits which run from the giving of a particular notice, the time shall be calculated from actual receipt of the notice. Notices shall be addressed as follows:

TO THE LESSOR AT: Hickman Trust
 Post Office Box 941618
 Maitland, Florida 32794
 (407) 629-9192 (fax)

TO THE LESSEE AT: Faro Technologies, Inc.
 125 Technology Park
 Lake Mary, Florida 32746
 (407) 562-5287 (fax)

Such addresses may be changed from time to time by either party by serving notices as above provided, but Lessee shall at all times have a physical street address within the continental United States of America as one of the addresses to which notices may be delivered.

39. Entire Agreement:

39.01 This Lease contains the entire and only agreement between the parties concerning the Premises and no prior oral or written statement or representations, if any, of any party hereto or any representative of a party hereto, not contained in this instrument, shall have any force or effect. This Lease shall not be modified in any way except by a written document executed by Lessor and Lessee.

40. Authority To Execute:

40.01 If Lessee is a corporation (or partnership), each individual executing this Lease on behalf of said corporation (or partnership) represents and warrants that he/she is duly authorized to execute and deliver this Lease on behalf of said corporation (or partnership) in accordance with a duly adopted resolution of the Board of Directors of said corporation or in accordance with the bylaws of said corporation (or under the pertinent partnership agreements), that any required consents or approvals of third parties have been obtained, and that this Lease is binding upon said corporation (or partnership) in accordance with its terms. Lessor represents and warrants that all necessary approval action has been undertaken by the entity as necessary to approve its representative's execution hereof and that it is binding upon said entity in accordance with its terms.

41. Lease Not Recordable:

41.01 At the request of either party, Lessor and Lessee shall promptly execute, acknowledge and deliver a memorandum or short form of lease sufficient for recording. In no event shall this Lease be recorded and if Lessee records this Lease in violation of the terms hereof, in addition to any other remedy available to Lessor upon Lessee's default, Lessor shall have the option to terminate this Lease by recording a notice to such effect. If a memorandum or short form of lease is recorded, on the termination of this Lease, Lessee shall execute, acknowledge and deliver to Lessor an instrument in writing releasing and quit-claiming to Lessor all right, title and interest of Lessee in and to the premises by reason of this Lease or otherwise.

42. Radon Gas:

42.01 Radon gas is a naturally occurring radioactive gas that when it has accumulated in a building in sufficient quantities, may present health risks to persons who are exposed to it over time. Levels of radon testing may be obtained from your county public health unit.

43. Time Of Essence:

43.01 It is understood and agreed between the parties hereto that time is of the essence as to all of the terms, provisions, covenants and conditions of this Lease.

44. Attorneys' Fees:

44.01 The prevailing party in any litigation arising out of this Lease, including any appellate proceedings, insolvency proceedings and bankruptcy proceedings, shall be entitled to the award of its reasonable attorney's fees and costs.

45. Severability:

45.01 If any provision of this Lease or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such provisions to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby and each provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

46. Applicable Law:

46.01 This Lease shall be construed under the laws of the State of Florida and the venue of any action to enforce rights hereunder shall be Seminole County, Florida.

47. Accord And Satisfaction:

47.01 Lessor is entitled to accept, receive and cash or deposit any payment made by Lessee for any reason or purpose, or in any amount whatsoever and apply the same at Lessor's option to any obligation of Lessee and the same shall not constitute payment of any amount owed except that to which Lessor has applied the same. No endorsement or statement on any check or letter of Lessee shall be deemed an accord and satisfaction or otherwise recognized for any purpose whatsoever. The acceptance of any such check or payment shall be without prejudice to Lessor's right to recover any and all amounts owed by Lessee hereunder and Lessor's right to pursue any other available remedy and shall not be deemed to constitute a waiver of any of Lessor's rights hereunder.

48. Lessor's Right To Satisfy Lessee's Obligations:

48.01 If Lessee fails to observe or perform any term or condition of this Lease within the grace period, if any, applicable thereto, then Lessor may immediately or at any time thereafter perform the same for the account of Lessee. If Lessor makes any expenditure or incurs any obligation for the payment of money in connection with such performance for Lessee's account (including reasonable attorneys' fees and costs in instituting, prosecuting and/or defending any action or proceeding through appeal), the sums paid or obligations incurred, together with interest at the highest rate allowable by law, shall be paid by Lessee to Lessor upon demand. In the event Lessee, in the performance or non-performance of any term or condition of this Lease, should cause an emergency situation to occur or arise upon the Premises, Lessor will have all rights set forth in this paragraph immediately without the necessity of providing Lessee any advance notice.

49. Estoppel Statement:

49.01 Upon the request of either party at anytime and from time to time, Lessor and Lessee agree to execute and deliver to the other within ten (10) days after receipt of such request, a written instrument, duly executed, addressed to either Lessor or Lessee, as may be applicable, and/or to any person designated by either Lessor or Lessee, at their sole cost and expense, (a) ratifying this Lease; (b) stating the commencement and termination dates of this Lease and (c) certifying (1) that this Lease is in full force and effect and has not been assigned, modified, supplemented or amended except by such writing as shall be stated, (2) that all conditions under this Lease to be performed by either the Lessor or Lessee have been satisfied (stating exceptions, if any), (3) no defenses or offsets against the enforcement of this Lease by Lessor or Lessee exist (or, if any, stating those claimed), (4) advance rent, if any, paid by Lessee, (5) the date to which rent has been paid, (6) the amount of security deposited with Lessor, and such other information as either party may reasonably require. Persons receiving such statements shall be entitled to rely upon them.

50. Captions And Headings:

50.01 The captions and headings of this Lease are inserted only as a matter of convenience and in no way define, limit, construe, or describe the scope or intent of such paragraphs of this Lease or in any way affect this Lease.

51. Hazardous Substances:

51.01 Lessee shall comply with all applicable Laws with respect to Lessee's use or occupancy of the Premises and the conduct of its business. Lessee shall not, nor shall Lessee permit its agents, contractors, employees, licensees and invitees to discharge, release, dump, spill or store on the Premises any Hazardous Materials (as hereinafter defined) in violation of any of the Environmental Laws (as hereinafter defined). Upon the unlawful discharge, release, dump, spill or storage by Lessee, Lessee, at its sole expense, shall remediate any Hazardous Materials on or under the Premises in a timely manner and in accordance with any applicable Environmental Laws.

51.02 As used herein "Laws" shall mean all federal, state, county and local laws, statutes, codes, ordinances, rules, regulations, decrees, orders and other such requirements now or hereafter imposed, including, but not limited to, the ADA (as hereinafter defined) and any and all Environmental Laws (as hereinafter defined). As used herein, "ADA" means The Americans With Disabilities Act of 1990 (42 U.S.C. '1201 et seq) and the regulations and guidelines promulgated or published thereunder as any of the foregoing may be amended. As used herein "Environmental Laws" means, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. '9601 et seq., the Solid Waste Disposal Act, as amended, 42 U.S.C. '6901 et seq., the Federal Water Pollution Control Act, as amended, 33 U.S.C. '1251 et seq., the Toxic Substances Control Act of 1976, 15 U.S.C. '2601 et seq., the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. '11001 et seq., the Clean Air Act of 1966, as amended, 42 U.S.C. '7401 et seq., the National Environmental Policy Act of 1969, 42 U.S.C. '4321, the Rivers and Harbors Appropriations Act of 1899, 33 U.S.C. '401 et seq., the Endangered Species Act of 1973, as amended, 16 U.S.C. '1531 et seq., the Occupational Safety and Health Act of 1970, as amended, 29 U.S.C. '651 et seq., and the Safe Drinking Water Act of 1974, as amended, 42 U.S.C. '300f et seq., and the regulations and guidelines promulgated or published thereunder as any of the foregoing may be amended, and any other applicable present or future federal, state or local laws, statutes, codes, ordinances, rules, regulations, decrees, orders and other such requirements.

51.03 As used herein "Hazardous Materials" shall mean any hazardous or toxic substances, materials or wastes, including, but not limited to, those substances, materials and wastes listed in the United States Department of Transportation Hazardous Materials Table (49 C.F.R. ' 172.101 and any amendments thereto) or by the Environmental Protection Agency as hazardous substances (40 C.F.R. Part 302 and any amendments thereto), or such substances, materials, and wastes which are or become regulated under any applicable federal, state or local law including, without limitation, any material, waste or substance which is: (i) asbestos; (ii) polychlorinated biphenyls; or (iii) defined as a "hazardous waste," "extremely hazardous waste," "restricted hazardous waste," "hazardous substance," "hazardous material," "regulated substance," or other similar term under the Environmental Laws.

51.04 Lessee, its agents, employees, contractors or invitees, shall not use the Premises in any manner that violates any applicable Environmental Laws, including, but not limited to, any such law, regulation or ordinance pertaining to air and water quality, the handling, transportation, storage, treatment, usage or disposal of Hazardous Materials, air emissions and other environmental matters. Lessee shall not cause or permit the Premises to be used for the generation, handling, storage, transportation, disposal or release of any Hazardous Materials, except as exempted or properly permitted under applicable Environmental Laws.

51.05 Lessee represents and warrants to Lessor that:

(a) Lessee is not in violation of or subject to any existing, pending or threatened investigation by any governmental authority under any applicable Environmental Laws, including, but not limited to, those pertaining to air and water quality, the handling, transportation, storage, treatment, usage or disposal of Hazardous Materials, air emissions and other environmental matters.

(b) The activities to be conducted upon the Premises by Lessee shall not pose any significant hazard to human health or the environment or violate any Environmental Laws.

(c) Lessee's intended use of the Premises will not result in the disposal, release or discharge of any Hazardous Materials on, under or to the Premises, except as permitted under any Environmental Laws.

(d) Lessee does not and will not use any Hazardous Materials on the Premises, except as permitted under any Environmental Laws.

51.06 Lessee agrees to indemnify Lessor and hold Lessor and its employees, partners, heirs, personal representatives, successors and assigns harmless from and against any and all claims, losses, damages (including all foreseeable and unforeseeable consequential damages), liabilities, fines, penalties, charges, interest, administrative or judicial proceedings and orders, judgments, remedial action requirements, enforcement actions of any kind, and all costs and expenses incurred in connection therewith (including without limitation attorney's fees and expenses), directly or indirectly resulting in whole or in part from Lessee's violation of any Environmental Laws applicable to the Premises or any activity conducted thereon, or from any present or future use, generation, handling, storage, transportation, disposal or release by Lessee of Hazardous Materials at or in connection with the Premises, or any decontamination, detoxification, closure, cleanup or other remedial measures required with respect to the Premises under any Environmental Laws resulting from Lessee's use or occupancy of the Premises (collectively, the "Lessee's Violations"). Lessor shall be reimbursed by Lessee immediately upon demand for any and all sums paid and costs incurred by Lessor with respect to the foregoing matters. Said sums paid and costs incurred shall bear interest at the highest rate permitted by law and same shall be paid to Lessor by Lessee immediately upon demand. The foregoing Lessee's environmental indemnity shall survive the expiration or termination of this Lease and/or any transfer of all or any portion of the Premises, or of any interest in this Lease.

51.07 Lessee shall immediately notify Lessor in writing of all spills or releases of any Hazardous Materials, all failures to comply with any Environmental Laws, all inspections of the Premises by any regulatory entity concerning the same, all notices, orders, fines or communications of any kind from any governmental entity or third party that relate to the existence of or potential for environmental pollution of any kind existing on or resulting from the use of the Premises or any activity conducted thereon, and all responses or interim cleanup action taken by or proposed to be taken by any government entity or private party on the Premises.

51.08 If Lessee is not in compliance with the provisions of this paragraph, Lessor, without waiving or releasing any right or remedy it may have with respect to such noncompliance, shall have the right to immediately enter upon the Premises to remedy any contamination caused by Lessee's failure to comply, notwithstanding any other provision of this Lease. Lessor shall use reasonable efforts to minimize interference with Lessee's business but shall not be liable for any interference caused thereby.

51.09 In the event any investigation, site monitoring, containment, cleanup, removal, restoration or other remedial work ("Remedial Work") of any kind is necessary under any applicable Environmental Laws, or is required by any governmental entity or other third person because of or in connection with the presence or suspected presence of Hazardous Materials on or under the Premises resulting from Lessee's Violations, Lessee shall assume responsibility for all such Remedial Work and shall promptly commence and thereafter diligently prosecute to completion all such Remedial Work. Lessee shall pay for all costs and expenses of such Remedial Work, including, without limitation, Lessor's reasonable attorneys' fees and costs incurred in connection with monitoring or review of such Remedial Work. In the event Lessee shall fail to timely commence, or cause to be commenced, or fail to diligently prosecute to completion, such Remedial Work, Lessor may, but shall not be required to, cause such Remedial Work to be performed and all costs and expenses thereof, or incurred in connection therewith, shall become immediately due and payable, as additional rent to the Lessor from the Lessee.

51.10 Any default of Lessee under these provisions shall be an Event of Default hereunder, enabling Lessor to exercise any of the remedies set forth in this Lease.

51.11 The provisions of this paragraph shall survive the termination or expiration of this Lease.

52. Independent Covenants:

52.01 The covenants to pay Rent, additional rent and other amounts hereunder are independent covenants, and Lessee shall not have the right to hold back, offset, or fail to pay any such amounts for default by Lessor or any other reason whatsoever.

53. Construction And Interpretation:

53.01 The fact that a party may be deemed to have drafted or structured any provision hereof shall not be considered in construing that particular provision either in favor of or against such party.

54. Quiet Enjoyment:

54.01 Upon payment by the Lessee of the rents herein provided, and upon the observance and performance of all covenants, terms and conditions of Lessee's part to be observed and performed, Lessee shall peacefully and quietly hold and enjoy the Premises for the term hereby demised without hindrance or interruption by Lessor, subject nevertheless, to the terms and conditions of this Lease.

55. Relationship Of Parties:

55.01 Notwithstanding anything contained herein to the contrary, it is agreed that the Lessor shall in no event be deemed to be a partner or engaged in a joint venture with, or an associate of, Lessee in the conduct of its business, nor shall Lessor be liable for any debts incurred by Lessee in the conduct of its business. Nothing in this Lease contained shall be deemed or construed to confer upon Lessor any interest in the business of the Lessee. The relationship of the parties during the Lease Term shall at all times be that of Lessor and Lessee.

IN WITNESS WHEREOF, intending to be legally bound, the parties hereto have set their hands and seals on the dates indicated below their respective signatures.

Witnesses:

/s/ Paul Sills
Print Name: Paul Sills

/s/ Susan Luther
Print Name: Susan Luther

/s/ Paul Sills
Print Name: Paul Sills

/s/ Susan Luther
Print Name: Susan Luther

/s/ John Townsley
Print Name: John Townsley

/s/ Nancy Setteducati
Print Name: Nancy Setteducati

LESSOR

JAMES W. HICKMAN REVOCABLE TRUST

/s/ Andre F. Hickman
ANDRE F. HICKMAN, Co-Trustee
Date: July 10, 2008

/s/ Harold A. Miller
HAROLD A. MILLER, Co-Trustee
Date: July 10, 2008

LESSEE

FARO TECHNOLOGIES, INC., a Florida corporation

By: /s/ Jay W. Freeland
Name Printed: Jay W. Freeland
Title: President and CEO
Date: July 8, 2008

LEASE AGREEMENT

LANDLORD: NB MS NEBC LLC
TENANT: FARO Technologies, Inc.
BUILDING ADDRESS: 35 New England Business Center Drive Andover, Massachusetts 01810

SUBMISSION NOT AN OPTION

THE SUBMISSION OF THIS LEASE FOR EXAMINATION AND NEGOTIATION DOES NOT CONSTITUTE AN OFFER TO LEASE, A RESERVATION OF, OR OPTION FOR THE PREMISES AND SHALL VEST NO RIGHT IN ANY PARTY. TENANT OR ANYONE CLAIMING UNDER OR THROUGH TENANT SHALL HAVE THE RIGHTS TO THE PREMISES AS SET FORTH HEREIN AND THIS LEASE BECOMES EFFECTIVE AS A LEASE ONLY UPON EXECUTION, ACKNOWLEDGEMENT AND DELIVERY THEREOF BY LANDLORD AND TENANT TO EACH OTHER, REGARDLESS OF ANY WRITTEN OR VERBAL REPRESENTATION OF ANY AGENT, MANAGER OR EMPLOYEE OF LANDLORD TO THE CONTRARY.

FROM THE OFFICE OF:

Rappaport, Aserkoff & Gelles
60 State Street, Suite 1525
Boston, Massachusetts 02109
617-227-7345

LEASE

NB MS NEBC LLC (“Landlord”)
to
FARO Technologies, Inc. (“Tenant”)

Table Of Contents

SECTION I. PREMISES	1
SECTION II. USE	1
SECTION III. TERM	2
SECTION IV. RENT	3
SECTION V. CONSTRUCTION AND PREPARATION OF THE PREMISES	4
SECTION VI. BUILDING AND EQUIPMENT; TENANT’S CARE OF PREMISES	5
SECTION VII. FLOOR LOAD, HEAVY MACHINERY	6
SECTION VIII. SERVICES	6
SECTION VIII-A. LANDLORD’S FAILURE TO PROVIDE SERVICES	7
SECTION IX. UTILITIES	7
SECTION X. ADDITIONAL RENT AND ESCALATION	8
SECTION XI. SALES TAX	13
SECTION XII. IMPROVEMENTS AND ALTERATIONS	13
SECTION XIII. INSPECTION	14
SECTION XIV. CASUALTY	14
SECTION XV. EMINENT DOMAIN	15
SECTION XVI. INDEMNIFICATION	16
SECTION XVII. PROPERTY OF TENANT	16
SECTION XVIII. INJURY AND DAMAGE	16
SECTION XIX. ASSIGNMENT, MORTGAGING, AND SUBLETTING	16
SECTION XX. SIGNS, WINDOW TREATMENT, AND ADVERTISING	18
SECTION XXI. INSURANCE COMPLIANCE	18
SECTION XXII. INFLAMMABLES, ODORS	18
SECTION XXIII. DEFAULT	19
SECTION XXIV. SUBORDINATION AND ESTOPPEL	20
SECTION XXV. NOTICES	21
SECTION XXVI. RULES AND REGULATIONS	21
SECTION XXVII. QUIET ENJOYMENT	22
SECTION XXVIII. BINDING AGREEMENT	22
SECTION XXIX. PARTNERSHIP	22
SECTION XXX. SEISIN	22
SECTION XXXI. INSURANCE	22
SECTION XXXII. SUBROGATION, INSURANCE PREMIUMS	23
SECTION XXXIII. REZONING	23
SECTION XXXIV. SEPARABILITY	23
SECTION XXXV. WAIVER OF TRIAL BY JURY	23
SECTION XXXVI. NO WAIVER	23
SECTION XXXVII. REMOVAL OF GOODS AND TENANT’S REPAIRS; HOLDING OVER	24
SECTION XXXVIII. CAPTIONS, PLURAL, GENDER	24
SECTION XXXIX. BROKERAGE	24
SECTION XL. HAZARDOUS WASTE	25
SECTION XLI. SECURITY DEPOSIT; GUARANTY	25

SECTION XLII. LANDLORD'S RIGHT TO PERFORM FOR TENANT	26
SECTION XLIII. GOVERNING LAW	26
SECTION XLIV. RELOCATION	26
SECTION XLV. FORCE MAJEURE	26
SECTION XLVI. FINANCIAL INFORMATION	26
SECTION XLVII. PARKING	26
SECTION XLVIII. MULTIPLE COUNTERPARTS	27

LIST OF EXHIBITS:

Exhibit A	Lease Plan
Exhibit B	Landlord's Work and Tenant's Work
Exhibit B-1	Plans and Specifications
Exhibit B-2	Construction Rules
Exhibit C	Legal Holidays
Exhibit D	Scope of Services – Cleaning
Exhibit E	Subordination, Non-Disturbance and Attornment Agreement
Exhibit F	Form of Guaranty
Exhibit G	Bill of Sale
Rules and Regulations	

THIS LEASE (the "**Lease**") made and entered into as of this ___ day of August, 2008 by and between NB MS NEBC LLC, a Delaware limited liability company, having a business address at 60 State Street, Suite 1500, Boston, Massachusetts 02109 (the "**Landlord**") and FARO TECHNOLOGIES, INC., a Florida corporation having a business address at 125 Technology Park, Lake Mary, Florida 32746 (the "**Tenant**").

SECTION I. PREMISES. Landlord leases to Tenant, and Tenant hereby hires and takes from Landlord the following described premises subject to the mortgages as hereinafter provided, and to all encumbrances of record.

The "**Premises**" are that portion of a building located in the Town of Andover, Massachusetts 01810 having a mailing address of 35 New England Business Center Drive (the "**Building**") substantially as shown on *Exhibit A* hereto attached and made a part hereof, consisting of approximately 5,096 square feet of net rentable area (the "**Net Rentable Area**") on the second floor of the Building. The Building and the parcel of land on which it is located are hereinafter referred to as the "**Property**". The Property is part of the business park commonly known as New England Business Center comprised of 10, 15, 20, 25 and 35 New England Business Center Drive (the "**Business Park**").

Landlord reserves and excepts all rights of ownership and use of the Property outside the Premises except that at all times during the term of this Lease Tenant shall have a reasonable means of access from the street to the Premises. Without limiting the foregoing reservation of rights by Landlord, it is understood that, Landlord in its sole discretion shall have the right to change, add, relocate and eliminate facilities structures and improvements in and to the Building and Property, to permit the use of or lease all or part thereof for exhibition and displays, to sell, lease or dedicate all or part thereof to public use, provided that the Premises continues to be usable for the purposes permitted by this Lease.

Concurrently with the execution and delivery of this Lease by Landlord, for the consideration stated therein, Landlord shall execute and deliver to Tenant a Bill of Sale in the form of *Exhibit G* attached hereto, appropriately completed (the "**Bill of Sale**"), and convey to Tenant the Property, pursuant to and as defined in the Bill of Sale.

SECTION II. USE. Tenant shall have the right to use, in common with others so entitled, all common areas associated with the Building including all corridors, elevator(s), loading dock(s), access ways, walkways, nonexclusive parking area(s), and courtyards and landscaped areas, if any. Tenant shall use the Premises for general office use, research and electronics and software testing and other reasonable uses incidental and related thereto and for no other purpose, provided that Tenant shall not use, permit nor suffer anything to be done or anything to be brought into or kept in the Premises or on the Property or Business Park which in Landlord's reasonable judgment occasions discomfort or annoyance to any other tenants or occupants of the Building, Business Park, and parking area(s), if any, or which may tend to impair the reputation or appearance of the Building, the Property or the Business Park, or tend to interfere with the proper and economic operation of the Building, parking area(s), if any, or the Property or the Business Park by Landlord, or which shall violate the Certificate of Occupancy for the Building or any law or regulation of any governmental body. If, due to Tenant's use of the Premises, improvements or alterations to the Premises or the Building are necessary to comply with any requirements imposed by law, Tenant shall pay the entire cost of such improvements or alterations.

Tenant will notify Landlord if the Premises will be vacant for more than thirty (30) consecutive days at any time during the term of this Lease, except by reason of casualty, taking or loss of access.

SECTION III. TERM.

(a) **Initial Term.** The term of this Lease shall be approximately five (5) years commencing on September 15, 2008 or such earlier date as Tenant occupies the Premises for the conduct of Tenant's business in the ordinary course (the "**Commencement Date**"), and terminating sixty (60) months thereafter, plus the remaining portion of any unexpired calendar month at the end of the term (the "**Termination Date**").

(b) **Early Access.** Tenant shall have access to the Premises without the payment of Rent or Additional Rent, but otherwise subject to the terms and conditions of this Lease, including, without being limited to, the provisions of *Exhibit B*, after the execution and delivery of this Lease by Landlord and Tenant and the approval by Landlord and Tenant of Tenant's Work Plans and Specifications, as defined in *Exhibit B*, for the purpose of performing Tenant's Work, installing cabling and wiring and installing any furniture and equipment of Tenant.

(c) **Option to Extend.** Provided Tenant is not in default in its obligations hereunder beyond any applicable cure period, Tenant shall have an option to extend this Lease for an additional term (hereinafter referred to as "**Extended Term**") commencing immediately upon the expiration of the initial term hereof and continuing for a period of five (5) years, provided that Tenant proceeds strictly in accordance with the provisions of this Section III(c). Not later than two hundred seventy (270) days prior to the last day of the initial term hereof (the "**Notice Date**"), Tenant shall advise Landlord in writing that Tenant wishes to extend the term of this Lease (hereinafter referred to as "**Tenant's Extension Notice**"). If at the time Landlord receives Tenant's Extension Notice this Lease is in full force and effect without default on the part of the Tenant beyond any applicable cure period, then, during the next thirty (30) days, Landlord shall notify Tenant in writing of the Rent pursuant to Section IV of the Lease which shall be due for the Extended Term. The Rent specified by Landlord shall be that which the Landlord projects will be the fair market rent as of the commencement of the Extended Term, but in no event less than the rent for the last year during the initial term of this Lease. Within three (3) weeks after Landlord has given Tenant notice of the Rent pursuant to Section IV of this Lease for the Extended Term, Tenant shall notify Landlord whether or not it agrees to pay such Rent. If Tenant shall agree in writing to pay such Rent, then this Lease shall be extended for the Extended Term without the execution of any additional documents, and each and every term and condition of this Lease shall apply during the Extended Term except only that the Rent specified in Section IV of this Lease during the Extended Term shall be that agreed upon by Landlord and Tenant, and the phrase "term of this Lease" shall be construed to mean the Extended Term of this Lease. If Tenant shall not agree in writing to pay such Rent, this Lease shall terminate as provided in Section III(a) of this Lease and Tenant shall vacate the Premises on or before such date in accordance with the provisions of this Lease. If Tenant shall fail to give Landlord written notice on or before the Notice Date, as hereinbefore specified, Tenant shall have no right to extend this Lease for the Extended Term, and this Lease shall terminate as provided in Section III(a) of this Lease and Tenant shall vacate the Premises on or before such date in accordance with the provisions of this Lease, unless Tenant shall have elected by written notice to Landlord during said three (3) week period to have the rent for the Extended Term determined by the arbitration system described herein.

Each of Landlord and Tenant shall at its own cost and expense retain a real estate broker, who must have ten (10) years experience in commercial leasing in the greater Boston metropolitan market, to determine the fair market rent for the Premises as of the commencement date of the Extended Term, which appraisals must be completed and submitted within thirty (30) days of the commencement of the appraisal process by Tenant's notice. If the two appraisals are within ten percent (10%) of each other, the average of the two amounts shall constitute the rent which shall be due during the Extended Term. If the two appraisals are not within ten percent (10%) of each other, the two brokers shall select a third real estate broker (who must also possess the minimum qualifications described above), who

within the next thirty (30) days shall select which of the two initial amounts shall constitute the rent which shall be due during the Extended Term. Landlord and Tenant shall each bear one-half of the cost of said third broker. The appraisal process shall be binding upon both Landlord and Tenant, and once the process is initiated, Tenant may not withdraw the exercise of the Option to Extend. If Tenant shall fail to give Landlord written notice not less than two hundred seventy (270) days prior to the expiration of the initial term of this Lease, Tenant shall have no right to extend this Lease for the Extended Term, and this Lease shall terminate as provided in Section III, and Tenant shall vacate the Premises on or before such date in accordance with the provisions of this Lease.

SECTION IV. RENT. Tenant shall pay the following annual “**Rent**”, based upon the annual per square foot rental rate(s) set forth below multiplied by the Net Rentable Area of the Premises as set forth in Section I of this Lease:

<u>Lease Year</u>	<u>Monthly Rent</u>	<u>Annual Rent Per Square Foot</u>
Lease Year 1	\$ 7,219.34	\$ 17.00
Lease Year 2	\$ 7,219.34	\$ 17.00
Lease Year 3	\$ 7,644.00	\$ 18.00
Lease Year 4	\$ 7,856.34	\$ 18.50
Lease Year 5	\$ 8,068.67	\$ 19.00

For the purposes of this Section IV, the term “**Lease Year**” shall mean the twelve (12) month period commencing upon the Commencement Date, plus the remaining portion of any unexpired calendar month at the end of the first Lease Year, and each successive twelve (12) month period during the term hereof.

The Rent shall be paid in equal installments of one-twelfth ($1/12$) of the annual Rent in advance on the first day of each calendar month.

Tenant shall pay a proportionate share of such monthly installment for any fraction of a calendar month at the beginning or end of the term of this Lease.

Tenant shall pay the Rent and Additional Rent (as hereinafter defined) without demand or notice and without deduction, abatement, counterclaim, or set-off, to the Landlord, NB MS NEBC LLC, P.O. Box 845974, Boston, Massachusetts 02284-5974, or at such other place as designated from time to time by Landlord in writing.

Upon the first time in any calendar year that Tenant fails to pay Rent or Additional Rent and such failure continues for five (5) days, Tenant shall pay interest at the rate of one and one-half percent ($1-1/2\%$) per month on the unpaid Rent or Additional Rent from the due date until the date paid. Upon the second time in the same calendar year that Tenant fails to pay Rent or Additional Rent when due (whether or not such failure continues for five (5) days), and each time thereafter in the same calendar year that Tenant fails to pay Rent or Additional Rent when due, Tenant shall pay, in addition to such interest, upon demand by Landlord, a late charge in an amount equal to five percent (5%) of the unpaid Rent or Additional Rent. All amounts other than Rent that Tenant is required to pay in accordance with the provisions of this Lease, together with all interest and penalties that may accrue thereon or in respect of Rent, shall be “**Additional Rent,**” and in the event of non-payment thereof by Tenant, Landlord shall have all the rights and remedies that would accrue to Landlord for non-payment of Rent.

SECTION V. CONSTRUCTION AND PREPARATION OF THE PREMISES.

(a) Landlord's Work. Landlord shall do the work, if any, shown on *Exhibit B* attached hereto and made a part hereof as the work on the part of Landlord in a good and workmanlike manner in accordance with all laws, rules, regulations and ordinances applicable thereto (the "**Landlord's Work**"). Landlord's Work shall be done at Landlord's expense except as otherwise provided on *Exhibit B*. To the extent practical, Landlord shall give advance notice to the Tenant of the approximate date upon which Landlord's Work shall be "substantially completed". "Substantial Completion" or "substantially completed" shall mean that Landlord's Work has been completed, except for minor details of mechanical adjustment, decoration and finish which do not materially interfere with Tenant's ability to use and occupy the Premises for the purposes permitted hereunder. If Substantial Completion of Landlord's Work is delayed due to any act or omission of Tenant or Tenant's representative, including, but not limited to, any delay by Tenant in the submission of plans, drawings, specifications or other information, or in approving any working drawings or estimates or in giving any authorization or approval, the Premises shall be deemed substantially completed on the date when they would have been ready but for such delay. The taking of possession of the Premises by Tenant shall be conclusive evidence of the acceptance of the Premises by Tenant and that the Premises are in good and satisfactory condition, in accordance with Landlord's obligations hereunder.

(b) Tenant's Work. Tenant shall do the work, if any, shown on *Exhibit B* as the work on the part of the Tenant (the "**Tenant's Work**"), at its expense, and in a good and workmanlike manner in accordance with "Plans and Specifications" (as hereinafter defined) which have been prepared at Tenant's expense and which have Landlord's written approval, which approval of any non-structural work shall not be unreasonably withheld or delayed but which may be withheld as to any structural work in Landlord's sole discretion, prior to the commencement of Tenant's Work. Among other items, Landlord's review of said Plans and Specifications may include potential impact on, and potential upgrades required to, base building systems. Landlord's approval of Tenant's Plans and Specifications, if given, shall not be deemed or construed as a representation by Landlord that said Plans and Specifications comply with applicable law, or are adequate or appropriate for Tenant's requirements. Further, Landlord's approval of Tenant's Plans and Specifications, if given, may be conditioned upon Tenant payment for upgrades to base building systems required or necessitated by Tenant's Work, or upon such other reasonable conditions as Landlord may impose. Tenant shall furnish and install any and all necessary trade fixtures, equipment and other items necessary for the proper conduct of Tenant's business. "**Plans and Specifications**", as used in this Section V(b) and in Section XII, shall mean documents and drawings sufficient for contract bidding and work completion, and shall include, but not be limited to, stamped, certified architectural, mechanical, electrical and plumbing plans. All of the foregoing work and all work Tenant may undertake pursuant to Section XII of this Lease shall be done in accordance with all laws, rules, regulations and ordinances applicable thereto, including, if necessary, compliance with the Americans With Disabilities Act, as amended from time to time, and the acquisition by Tenant of a Building Permit from the municipal department having jurisdiction, if required. In no event shall Landlord be required to provide or install any trade fixtures or equipment.

Landlord hereby approves J&J Construction Services as the contractor to be retained for the construction of the Tenant's Work and any work under Section XII of this Lease. Tenant shall ensure that J&J Construction Services and its labor will work in harmony with other labor working in and about the Building, Property, and the Business Park and with suppliers of materials for use in construction in and about the Building, Property, and Business Park, and Tenant agrees that it will not do or permit to be done anything which would cause any labor difficulty in connection with any construction in and about the Building, Property, and Business Park.

Tenant shall require all of its contractors to carry (i) Worker's Compensation Insurance in accordance with statutory requirements and (ii) Commercial General Liability Insurance and

Automobile Liability Insurance covering such contractors in or about the Premises, Building, Property and Business Park in amounts not less than Two Million Dollars (\$2,000,000) combined single limits for property damage, for injury or death of more than one person in a single accident, and to submit certificates of insurance evidencing such coverage to Landlord prior to commencement of such work, which name Landlord as an additional insured thereunder as its interest may appear. Tenant agrees to indemnify, exonerate, and hold harmless Landlord and its management agent from all claims, liabilities, penalties, costs, expenses (including reasonable attorneys' fees) actions, proceedings, demands and causes of actions occasioned by, on account of, or upon (i) Tenant's contractors being on or about the Premises, the Building, the Property, or the Business Park, and/or (ii) any work done on the Premises pursuant to this Section V or Section XII of this Lease whether performed prior to the Commencement Date, during or after the term of this Lease, including, but not limited to, any claims, actions, demands or causes of action asserted by any other tenants in the Building against Landlord as a result of breach of covenant of quiet enjoyment. In case any action or proceeding is brought against Landlord by reason of any such claim, Tenant, upon notice from Landlord, shall, at Tenant's expense, resist or defend such action or proceeding and employ counsel therefor reasonably satisfactory to Landlord, it being agreed that such counsel as may act for insurance underwriters of Tenant engaged in such defense shall be deemed satisfactory.

All contractors, subcontractors, mechanics, laborers, materialmen, and others who perform any work, labor or services, or furnish any materials, or otherwise participate in the improvement or alteration of the Premises, are hereby given notice that Tenant is not authorized to subject Landlord's interest in the Premises, Building or Property to any claim for mechanics', laborers' and materialmen's liens, and all persons dealing directly or indirectly with Tenant may not look to the Premises, Building or Property as security for payment. Tenant shall save Landlord harmless from and against all expenses, liens, claims or damages to either property or person which arise from the making of any such additions, improvements, alterations and/or installations and shall remove any mechanics', laborers' and/or materialmen's liens within ten (10) business days after the same have been filed.

SECTION VI. BUILDING AND EQUIPMENT; TENANT'S CARE OF PREMISES.

(a) Landlord's Obligations. Landlord shall keep in good condition and repair the structure and exterior of the Building, the roof, the elevator(s), if any, the plumbing and electrical systems, and the heating, ventilating and air conditioning systems servicing the Building and the Premises (except for such equipment and service lines installed by Tenant or exclusively serving the Premises and except as otherwise provided in Section VIII), and the exterior parking area(s) serving the Building. The Landlord shall comply with applicable governmental rules, regulations, laws and ordinances affecting the Building, unless the violation is caused by Tenant or Tenant's use of the Premises, or by any other tenant in the Building. Landlord shall keep the sidewalks, common corridors, stairways, elevator(s), if any, and all other means of ingress and egress for the Premises and all public portions of the Building in serviceable repair and in a reasonably clean and safe condition. Landlord reserves the right to interrupt, curtail, stop and suspend the furnishing of any services and operation of the plumbing and electrical, heating, ventilating, and air conditioning systems, and elevator(s), if any, when necessary, by reason of accident or emergency or for repairs, alterations, replacements or improvements, which may become necessary or when it cannot secure supplies or labor or by reason of any other cause beyond its control, without liability or any abatement of Rent or Additional Rent being due thereby, except as otherwise expressly provided herein.

(b) Tenant's Obligations. Tenant shall maintain the Premises including all mechanical, electrical and plumbing systems installed by Tenant within the Premises or servicing the Premises exclusively (whether or not installed by Tenant), all partitions, walls (other than the structure of load bearing walls), floor coverings within the Premises, doors,

loading dock(s) and glass within the Premises (other than exterior windows), and all other portions thereof in the condition each of the same were in at the time of the delivery thereof to Tenant, but in all events in good and tenable working order, condition and repair, and will maintain, repair and replace the same when necessary so as to comply with the foregoing, except only for reasonable wear and tear and damage due to casualty for which and to the extent Landlord is required to purchase casualty insurance as provided in this Lease, and so as to comply with applicable laws.

SECTION VII. FLOOR LOAD, HEAVY MACHINERY. Tenant shall not place a load upon any floor of the Premises exceeding the floor load per square foot area which the floor was designed to carry and which is allowed by law which is equal to 40 pounds per square foot live load/20 pounds per square foot dead. Business machines and mechanical equipment shall be placed and maintained by Tenant at Tenant's expense in settings sufficient to prevent transmission of noise and vibration to any other part of the Building. Any moving of any machinery and/or equipment into, out of, or within the Premises shall be done only with the prior written consent of Landlord in each instance, which consent shall not be unreasonably withheld, and shall be at the sole risk and hazard of Tenant, and at times specifically approved by Landlord. Tenant shall not in any way break, cut into, or damage the exterior perimeter walls or insulating panels of the Building in installing, ventilating or exhausting its equipment or in any other manner.

SECTION VIII. SERVICES. Landlord shall provide or cause:

(a) Access to the Building from the lobby Monday through Friday, except for holidays listed on *Exhibit C*, hereinafter referred to as "business days", during normal business hours. Normal business hours are Monday through Friday, 8:00 AM to 6:00 PM, holidays excepted. At all other times, that is, twenty-four (24) hours a day, seven (7) days a week, Landlord shall provide restricted access to the Building in accordance with such Building standard entry system as shall from time to time be in effect. As of the Commencement Date, access to the Building at other than normal business hours shall be through either a card key or personnel identification pinstation system. Tenant shall be entitled to three (3) key cards per 1,000 net rentable square feet of Premises leased. Additional cards shall be provided to Tenant at a per card cost of Seven Dollars and 50/100 (\$7.50). Upon the expiration or earlier termination of this Lease, Tenant shall surrender all key cards to Landlord; Tenant shall pay to Landlord Fifteen and 00/100 Dollars (\$15.00) for each key card not so returned, which payment shall be deemed Additional Rent and may be withheld from Tenant's security deposit or otherwise collected in accordance with applicable law. The Landlord reserves the right to alter the Building standard entry system from time to time as it sees fit.

(b) Use, in common with others, of all elevator facilities, subject to such reasonable rules and regulations as Landlord may prescribe.

(c) Building standard heat and air conditioning during normal business hours and from 9:00 AM to 1:00 PM on Saturdays which is reasonably required for reasonably comfortable occupation of the Premises, under normal business operation at an occupancy of not more than one person per 250 square feet of Net Rentable Area and an electrical demand load not exceeding the demand load of a typical office use for premises the size of the Premises, subject to all governmental laws, regulations or restrictions now or hereafter in force pertaining to the furnishing or use of such heat and air conditioning. Landlord shall provide heat and air conditioning to Tenant at other than normal business hours, provided that Tenant pays Landlord its charges for supplying the same. As of the Commencement Date, Landlord's charge for supplying heat and air conditioning to Tenant at other than normal business hours is \$75.00 per hour. Landlord reserves the right to increase this charge from time to time throughout the term of this Lease upon prior written notice to Tenant. Tenant shall not introduce into the Premises personnel or equipment which overloads the capacity of the Building systems or in any other way interferes with any system's ability to perform adequately

its proper functions. If Tenant violates the foregoing, Landlord may, at its option, upon prior notice to Tenant, elect to provide supplementary systems or take other steps to cure such violation, at Tenant's sole cost and expense.

(d) The Premises to be kept reasonably clean as hereinafter described, provided the Premises are kept in order by Tenant. The cleaning services provided hereunder are limited to those set forth on *Exhibit D* attached hereto and made a part hereof which sets forth the scope of the cleaning services. The cleaning services shall be provided only Monday through Friday, legal holidays excepted. Notwithstanding the foregoing, at no time and under no circumstances shall Landlord have any responsibility for the storage or removal of any "medical waste", "infectious waste", "hazardous medical waste", "hazardous waste", as such terms may from time to time be defined in such municipal, state and federal statutes, laws, ordinances, rules and regulations as may apply to Tenant or to the Premises because of the business, profession or activity carried on in the Premises by Tenant, Tenant's servants, agents, employees, invitees or anyone claiming by, through or under Tenant.

(e) Hot and cold running water, toilet paper, paper towels and hand soap for common area wash rooms and lavatories.

(f) Electricity for normal lighting of main lobby, elevator(s), stairways, parking areas, walkways and corridors.

SECTION VIII-A. LANDLORD'S FAILURE TO PROVIDE SERVICES. If all or a material portion of the Premises is rendered untenable solely as a result of Landlord's negligence, misconduct or intentional actions, or solely as a result of Landlord's failure to fulfill any covenant or provision of this Lease on its part to be performed (unless such failure is caused in whole or in part by the action or inaction of Tenant), and such negligence, misconduct, intentional act, or failure to perform affects the life safety, mechanical, electrical and/or plumbing systems of the Building ("**Essential Services**"), or solely as a result of the United States Environmental Protection Agency, or any other federal, state or municipal governmental agency, officially declaring the Building or the Premises untenable (unless such condition is caused in whole or in part by the action or inaction of Tenant), and the foregoing conditions materially and adversely interfere with the conduct of Tenant's business ("**Material Failure to Provide Services**"), then Tenant shall have the right hereinafter set forth. During such period of Material Failure to Provide Services, Landlord will, if reasonably practical, arrange for the provision of Essential Services on an interim basis via temporary measures until final corrective measures can be accomplished. In the event a Material Failure to Provide Services is not remedied by Landlord within five (5) consecutive business days after written notice thereof from a corporate officer of Tenant, then Tenant shall have the right to abate the Rent due or becoming due under this Lease until said Material Failure to Provide Services is remedied by Landlord, but only to the extent that the Premises have been rendered untenable. Said rent abatement shall be taken as a credit in four (4) equal installments against Tenant's Rent obligations for the next four (4) successive calendar months hereunder. This Section VIII-A shall be Tenant's sole and exclusive remedy on account of Landlord's failure to provide services hereunder.

SECTION IX. UTILITIES. If any utilities are furnished directly to the Premises by a utility provider and separately metered, Tenant shall pay directly to the utility provider all costs of such utilities. Landlord shall have the right, at Landlord's expense, to separately meter or check meter the Premises for any utilities. In such event, the cost of all such utilities shall be billed directly to Tenant by the appropriate utility provider or Tenant shall pay the cost thereof to Landlord based on readings of such check-meter, at the rate charged by the utility provider to its customers similarly situated with Tenant, as applicable.

(a) **Demand and Usage.** The electricity for the Premises shall meet a demand requirement (utilizing the demand measurement standards established by the supplying utility under the rate applicable to Landlord) not to exceed that of a typical office use for premises the size of the Premises with respect to Premises' lighting and convenience outlets. Tenant agrees Tenant's use of the Premises shall not exceed such requirements or any limits from time to time established under applicable laws or regulations, or regulations of the utility provider(s). Except at any time when the Premises is separately metered or check metered for electricity, in addition to the Rent set forth in Section IV of this Lease and as part of the Additional e due under this Lease, Tenant shall pay Landlord the sum of \$1.50 per square foot per annum of Net Rentable Area of the Premises as an "**Electricity Charge**". The Electricity Charge shall be paid in equal installments of one-twelfth ($1/12$) of the Electricity Charge each in advance on the first day of each calendar month without deduction, demand, notice or set off, together with Rent and other Additional Rent described in this Lease. If the cost of Tenant's electricity consumption exceeds the foregoing per square foot charge, Tenant shall pay the cost of such excess electricity usage.

(b) **Consumption.** If Landlord reasonably determines that Tenant's consumption of electricity exceeds such rate or the demand or consumption limitations set forth above, then, upon demand accompanied by an explanation of such determination in reasonable detail, and in addition to any other rights Landlord may have hereunder, Tenant shall reimburse Landlord, as part of Tenant's Additional Rent, for the cost of electricity usage or demand in excess of such limitations or per square foot cost.

SECTION X. ADDITIONAL RENT AND ESCALATION.

(a) **Additional Rent/Taxes.** In addition to the Rent set forth in Section IV of this Lease and as part of the Rent due pursuant to the provisions of this Lease, Tenant shall pay Landlord as Additional Rent the Tax Excess as set forth in this Section X. For the purposes of this Section X, the following words and terms shall have the following meaning:

(1) "**Taxes**" shall mean the total of all real estate taxes, charges, and assessments, extraordinary as well as ordinary, and any payments in lieu of such real estate taxes, levied, imposed, or assessed for a particular tax year during the term of this Lease by governmental authorities upon or attributable to the Property and/or the Business Park, or to any and all personalty owned by Landlord installed in or about the same by Landlord and any and all other taxes, levies, betterments, assessments and charges arising from the ownership and/or operation of the Property. If the taxation method changes and any franchise, income, profit or other tax shall be levied against Landlord in substitution or in lieu of any tax which would otherwise constitute a real estate tax or payment in lieu of real estate tax, or if a specific tax on rentals from the Property shall be levied against Landlord, such franchise, income, profit, rental or other tax shall be deemed to constitute "Taxes" for the purposes hereof.

(2) "**Tax Base**" shall mean the Taxes for the fiscal tax year 2009, commencing July 1, 2008 and terminating June 30, 2009 as abated, if abated.

(3) "**Tenant's Proportionate Share of Taxes**" shall be five and eighty-seven hundredths percent (5.87%). In the event that the Net Rentable Area of the Building is increased or decreased, Tenant's Proportionate Share of Taxes shall be adjusted to reflect the portion of the Net Rentable Area of the Building leased to Tenant.

(4) "**Tax Year**" shall mean the twelve-month period commencing July 1, 2009, and each twelve-month period commencing on an anniversary of said date during the term of the Lease.

(5) "**Tax Excess**" shall mean the amount, in any Tax Year by which the Taxes for said year exceed the Tax Base, multiplied by Tenant's Proportionate Share of Taxes.

(6) "**Tax Excess Statement**" shall mean a statement setting forth in reasonable detail the amount payable by Tenant as Tax Excess for said Tax Year.

Appropriate credit against Tax Excess shall be given for any refund obtained by reason of a reduction in any Taxes. The original computation of Tax Excess, as well as reimbursement or payments of additional charges, if any, or allowances, if any, under the provisions of this Section X(a) shall be based on the original assessed valuations with adjustments to be made at a later date when the tax refund, if any, shall be paid to Landlord by the taxing authority. Expenditures for legal fees and for other expenses incurred in analyzing the desirability of pursuing or obtaining the tax refund shall be charged against the tax refund before the adjustments are made for the Tax Year but, if there is no tax refund, Tenant shall be charged for such fees and other expenses as Operating Costs. In no event shall Tenant be entitled to receive a credit against Tax Excess for any Tax Year in an amount greater than Tenant's share of the Tax Excess for such Tax Year, and in no event shall Tenant be entitled to receive a credit or refund against Rent or Additional Rent other than Tax Excess because of a reduction in Taxes.

(b) **Additional Rent/Operating Costs.** In addition to the Rent set forth in Section IV of this Lease and as part of the Rent due pursuant to the provisions of this Lease, Tenant shall pay Landlord as Additional Rent the Operating Cost Excess as set forth in this Section X(b). For the purposes of this Section X(b), the following words and terms shall have the following meaning:

(1) "**Operating Costs**" shall mean all costs incurred and expenditures of whatever nature made by the Landlord, whether directly or by allocation, in the operation, management, repair, cleaning and maintenance of the Building, the Property, related equipment and facilities and appurtenant parking and landscaped areas, if any, heating and cooling equipment, including but not limited to the following:

(a) All costs for fire, extended coverage, casualty, liability, worker's compensation, rental interruption insurance, and all other bonds and insurance as may be required by the holder or guarantor of the mortgage upon the Building in which the Premises are located, or otherwise reasonably required.

(b) Water and sewer charges.

(c) Fuel charges, except to the extent that the same are separately metered or apportioned to tenants.

(d) Heating, ventilating and air conditioning equipment and filter service contracts.

(e) Rubbish removal.

(f) Electricity charges except to the extent that the same are separately metered or apportioned to tenants, including without limitation, the cost of electric current for the operation of elevator(s), if any, and public lights inside and outside the Building, and the parking area(s), if any.

(g) Security service equipment contracts, if any.

(h) Exterminating services and contracts.

(i) Wages, including all fringe benefits, federal and state payroll, unemployment and old age taxes paid by Landlord on account of all employees at or below the grade of property manager who are employed in, about or on account of the Property, the Building or other improvements of which the Premises are a part. Employees shall include administrative and overhead personnel. Such costs of any employee assigned less than full-time to the Property shall be allocated proportionately.

(j) The cost of labor and materials used in cleaning the Building, surrounding areaways and windows in the Building, and the parking area(s), if any.

(k) Supplies.

(l) Elevator service contracts, if any.

(m) All costs for permits and fees, except those associated with work undertaken solely for an individual tenant.

(n) The cost of capital improvements made after the Commencement Date to the Building and any parking areas, that Landlord in good faith believes will reduce (or reduce foreseeable increases in) Operating Costs or that are required for compliance with any applicable law, rule, regulation or code enacted or first applied to the Property after the date of this Lease, the cost thereof amortized over the estimated useful life of such improvements together with interest at a rate equal to two percent (2%) above the prime or base rate of interest announced from time to time by Bank of America, N.A. or its successor(s), with only the amortization and interest attributable to any calendar year to be included in Operating Costs for such year.

(o) All management fees paid for the Manager of the Building, and all asset management fees, not to exceed in the aggregate five percent (5%) of gross revenue of the Property.

(p) All fees, dues, assessments or charges with respect to the Building, Property, and/or the common areas of the Business Park in which the Property is located on account of any existing or future business improvement district, or similar association or designation affecting the Building and/or Property.

Notwithstanding the foregoing, Operating Costs shall not include the following:

(a) costs of alterations and other leasehold improvements (including the supervision and administration of such construction) and relocations of the premises of tenants of the Building;

(b) depreciation or amortization charges;

(c) interest and principal payments on mortgage loans or any loan fees payable in connection therewith;

(d) ground rental payments;

(e) legal fees and other costs and expenses incurred in connection with negotiating leases with tenants in the Building, enforcing lease obligations of tenants in the Building, or resolving disputes with tenants in the Building;

(f) interest, fines and penalties for delinquent payments made by Landlord;

(g) real estate brokerage and leasing commissions;

(h) any expenditures for which Landlord has been directly reimbursed by tenants of the Building (other than pursuant to tax and operating expense reimbursement provisions in leases, such as Operating Costs and Taxes);

(i) the costs of providing services to other tenants of the Building without a charge (i.e., excluding any services paid for such tenants through payment of operating expenses and taxes, such as Operating Costs and Taxes) that are in excess of those services provided or made available to Tenant without a charge (i.e., excluding any services provided to Tenant and paid for through payment of Operating Costs and Taxes hereunder), to the extent of such excess;

(j) expenses for repairs, maintenance or replacements for which Landlord is reimbursed from or pursuant to insurance or condemnation proceeds (or for which Landlord would have been so reimbursed had it maintained the insurance required hereunder) or pursuant to product or service warranties or guaranties;

(k) advertising expenses, leasing commissions and promotional expenses relating to leasing of space at the Building;

(l) excluding management fees provided in to Section X(b)(1)(o), amounts paid to subsidiaries or affiliates of Landlord for services to the Building, to the extent only that the costs of such services exceed the costs of such services rendered on arm's-length terms by unrelated third parties;

(m) rentals of Building systems, elevators or other equipment ordinarily considered to be of a capital nature, other than temporary rentals to provide service during installation, repair, modification, etc., of base Building systems;

(n) damages awarded against Landlord or other costs incurred by Landlord by reason of Landlord's breach of any agreement, including any lease;

(o) without limiting Landlord's and Tenant's obligations herein, the costs to remediate any violations of ADA or of environmental laws existing at the Building as of the Commencement Date, based on the requirements of ADA and of environmental laws in effect as of the Commencement Date; or

(p) costs, other than those incurred for ordinary maintenance, security and insurance, for any sculpture, paintings or other objects of fine art displayed in the Building.

(2) "**Operating Cost Base**" shall mean the actual Operating Costs for the calendar year 2008 (the "**Operating Cost Base Year**"). If and to the extent the Building is less than fully occupied during the Operating Cost Base Year, then those Operating Costs which are variable based upon occupancy levels shall be equitably adjusted to reflect the Operating Costs which would have been incurred had the Building been fully occupied during such Operating Cost Base Year.

(3) "**Computation Year**" shall mean each calendar year beginning with the calendar year 2009.

(4) **“Tenant’s Proportionate Share of Operating Costs”** shall be five and eighty-seven hundredths percent (5.87%). In the event that the Building is enlarged or diminished so as to increase or decrease the Net Rentable Area of the Building, Tenant’s Proportionate Share of Operating Costs shall be adjusted to reflect accurately the portion of the Net Rentable Area of the Building leased to Tenant.

(5) **“Operating Cost Excess”** shall mean the amount, in any Computation Year by which the Operating Costs for said year exceed the Operating Cost Base, multiplied by Tenant’s Proportionate Share of Operating Costs. If and to the extent that the Building is less than fully occupied during any Computation Year, then those Operating Costs which are variable based upon occupancy levels shall be equitably adjusted to reflect the Operating Costs which would have been incurred had the Building been fully occupied during such Computation Year.

(6) **“Operating Cost Excess Statement”** shall mean a statement setting forth in reasonable detail the amount payable by Tenant as Operating Cost Excess for the Computation Year.

(c) **Additional Rent/Billing.** Landlord may, at its sole discretion, bill Tenant monthly, quarterly, semi-annually or annually for Tax Excess and/or Operating Cost Excess. Any bill for a month, quarter or half-year may be rendered on an estimated basis, in which event (i) the Tax Excess estimate shall be Landlord’s reasonable estimate of what the increase or decrease in Taxes for such period during the current Tax Year shall be and (ii) the Operating Cost Excess estimate shall be Landlord’s reasonable estimate of what the increase or decrease in the cost of the items comprising Operating Costs for the current year shall be. Any estimated bill need not include all of the items mentioned in Section X(a) or (b). Any annual bill shall be rendered on the basis of actual costs only. If Landlord shall render a monthly, quarterly or semi-annual bill on account of any Tax Year or calendar year, as applicable, then within one hundred eighty (180) days after the close of such year, Landlord shall render an annual bill for such year which annual bill shall make all adjustments as may be necessary to reflect actual Taxes or changes during that year including, without limitation, any refund as may be due to Tenant, to be taken as a credit against future payments of Additional Rent due hereunder. All bills for Tax Excess and/or Operating Cost Excess shall be due at the same time and in the same manner as the next monthly installment of Rent is due pursuant to Section IV of this Lease, or if the term of this Lease has terminated or expired, within ten (10) days of receipt of such bill.

(d) **Tenant Audit Rights.** Provided that Tenant is not in default beyond the expiration of any applicable notice and cure period, Tenant shall have the right to audit the books, records and computations of Landlord relative to Operating Costs, provided that: (i) Tenant gives Landlord thirty (30) days prior written notice of its intent to audit; (ii) the audit occurs during Landlord’s normal business hours and in Landlord’s principal offices within the metropolitan Boston, Massachusetts, area; (iii) Tenant may audit said books and records once with respect to each calendar year; (iv) Tenant may only conduct the audit of a calendar year’s books and records if Tenant gives Landlord notice of intent to audit within one hundred twenty (120) days after receipt of the final statement for such calendar year; (v) the auditor shall not be compensated on a contingency basis; (vi) Tenant provides Landlord a copy of the auditor’s report; and (vii) the auditor agrees to execute a confidentiality agreement with respect to such audit. Tenant agrees to use reasonable efforts to keep all of the information obtained through said audit, as well as any compromise, settlement, or adjustment reached between Landlord and Tenant relative to the results of the audit, held in strict confidence by Tenant and Tenant’s officers, agents and employees, and Tenant also agrees to use reasonable, good faith efforts to cause such information not to be revealed in any manner to any person (other than Tenant’s accountants, attorneys, officers, agents and employees) except upon the written consent of Landlord, which consent may be withheld in Landlord’s sole discretion, unless such disclosure

is required pursuant to any litigation or other dispute resolution between Landlord and Tenant materially related to the facts disclosed by such audit, or otherwise required by law. The right of audit provided in this Section shall not be construed as postponing or delaying any payment of Rent or Additional Rent provided for herein.

If a Tenant audit demonstrates that Tenant has overpaid Operating Costs for any calendar year, the amount of any such overpayment shall be applied as a credit against the next succeeding payments of Tenant's Proportionate Share of Operating Costs payable hereunder until such credit is exhausted. If the term of this Lease shall expire or otherwise be terminated (other than upon an Event of Default) before such credit is so applied, Landlord shall pay to Tenant the remaining balance of such overpayment amount within thirty (30) days after the expiration or earlier termination of the term hereof. If a Tenant audit demonstrates that Tenant has underpaid Operating Costs for any calendar year, Tenant shall pay to Landlord the amount of such underpayment within thirty (30) days after delivery of the report of such audit to Landlord as Additional Rent.

(1) If the Commencement Date or the Termination Date of the Lease occurs in the middle of a Tax Year or Computation Year, Tenant shall be liable for only that portion of the Tax Excess or Operating Cost Excess in respect of such Tax Year or Computation Year, as applicable, represented by a fraction, the numerator of which is the number of days of the herein term which falls within the Tax Year or Computation Year, and the denominator of which is three hundred sixty-five (365).

(2) In the event of any taking of the Building or Property whereby this Lease shall not terminate under the provisions of Section XV, then (i) for the purpose of determining Operating Cost Excess, the Operating Cost Base shall be adjusted pro-rata to reflect the proportion of the Building and/or Property remaining after such taking and (ii) for the purpose of determining Tax Excess, in the event that the valuation of the Property is lowered to reflect the taking, the Tax Base shall be lowered proportionately in relation to the reduced valuation. In the event the taking includes a portion of the Premises or the Building of which it is a part, Tenant's Proportionate Share shall be adjusted pro-rata to reflect the proportion of the Premises and/or Building remaining after such taking.

(3) Any obligation under Section X(a) or Section X(b) of Tenant which shall not have been paid at the expiration of the term of this Lease shall survive such expiration and shall be paid when and as the amount of same shall be determined to be due.

SECTION XI. SALES TAX. In the event that any sales tax shall be levied by any authority having jurisdiction, upon the Rent and/or the Additional Rent, Tenant shall pay the exact amount of such tax to Landlord at the same time each installment of Rent and/or Additional Rent is paid to the Landlord.

SECTION XII. IMPROVEMENTS AND ALTERATIONS.

(a) Tenant may place such partitions, fixtures (including light fixtures), personal property, equipment, machinery and the like (subject to Section VII) in the Premises and may make, at its own expense, such improvements and alterations pursuant to Plans and Specifications that have the prior written approval of Landlord in each instance, which approval as to any non-structural items shall not be unreasonably withheld or delayed but which as to structural items may be granted or denied in Landlord's sole discretion, provided that all work done by Tenant in the Premises shall be done in accordance with all zoning, building, fire and other codes applicable thereto. When Tenant submits Plans and Specifications for approval, it shall also list separately or otherwise clearly indicate all elements of the proposed work that Tenant desires to retain the right to remove from the Premises, during or at expiration of the term of this Lease, and as part of its response to Tenant's

submission, Landlord shall make any objections it has to such list and shall also list or otherwise indicate such elements of the proposed work as Landlord retains the right to require Tenant to remove at the expiration or earlier termination of the term of this Lease. So long as Tenant is not then in default under the Lease, Tenant shall have the right to remove all equipment, furnishings and furniture and such fixtures, improvements and appurtenances as have been approved by Landlord for removal at the time of its response to Tenant's Plans and Specifications or otherwise, and paid for by Tenant and attached to or built into the Premises prior to or during the term of this Lease ("**Tenant's Removable Property**"). Upon removal of any such fixtures, equipment, improvements and appurtenances, Tenant shall restore the Premises at least to its condition as of time of delivery of the Premises to Tenant. If Tenant fails to remove any Tenant's Removable Property at the end of the term of this Lease the provisions of Section XXXVII shall apply. In the case of damage to or destruction of such items during the term of this Lease, Tenant shall have the right to recover its loss from any insurance company with which it has insured the same, notwithstanding that any of such things might be considered part of the Premises at the end of the term of this Lease. Landlord shall not require removal of pipes, wires and the like from the walls, ceilings or floors, provided that the Tenant properly cuts, caps and disconnects such pipes and wires and seals them off in a safe and lawful manner flush with the applicable wall, floor or ceiling and redecorates the area consistent with the remainder of the Premises. Tenant shall be responsible for any damage to the Building or to the property of other tenants caused by the malfunction of its equipment or the removal of its property as aforesaid.

SECTION XIII. INSPECTION. The Landlord and any mortgagee of the Building or of the Building and Property, or of Landlord's interest therein, and their representatives, shall have the right at all times to enter the Premises to inspect the same and to make repairs or replacements therein as required by this Lease and to introduce conduits and pipes or ducts; provided, however, that the Landlord shall use reasonable efforts to provide notice of any such inspection (except in the event of an emergency for which no notice shall be given), and not to unduly disturb the Tenant's use and occupancy.

SECTION XIV. CASUALTY.

(a) If the Premises, the Building or Property shall be damaged or destroyed by fire or other casualty insurable under standard coverage insurance to the extent of less than twenty-five percent (25%) of the reasonable replacement value thereof at the time of such damage or destruction, Landlord shall, except as otherwise provided herein, repair and/or rebuild the same with reasonable diligence. Tenant shall repair or restore with due diligence all trade fixtures, equipment and other installations theretofore installed by Tenant to the extent of Tenant's obligations as set forth in *Exhibit B* and damaged or destroyed by such fire or casualty. If the Premises, the Building, the Property, or any portion of the Business Park owned by Landlord shall be damaged or destroyed (i) to the extent of twenty-five percent (25%) or more of the reasonable replacement value thereof at the time of such damage or destruction, or (ii) as a result of a risk which is not covered by insurance, or (iii) to any extent by any cause in the last three (3) years of the then current term of this Lease (unless Tenant shall have exercised prior to the date of said fire or other casualty any remaining option to extend the term of this Lease), then the Landlord may at its sole election restore or rebuild the Premises, the Building, the Property, or any portion of the Business Park, as the case may be, or terminate this Lease.

(b) If Landlord elects to terminate this Lease by reason of such damage or destruction, it shall give Tenant notice of its election within sixty (60) days after such damage or destruction. If Landlord is obligated to or elects to repair or rebuild, Landlord shall deliver to Tenant within seventy-five (75) days after the date of the casualty, Landlord's good faith estimate of the time necessary to complete such repair or rebuilding. If the estimated time to completion exceeds two hundred seventy (270) days, Tenant shall have the right to terminate

this Lease by notice to Landlord given within thirty (30) days after Tenant's receipt of Landlord's notice of estimated time to completion. If this Lease is not terminated by reason of such casualty damage, Landlord shall restore or rebuild reasonable diligence and Tenant shall replace or restore with reasonable diligence all trade fixtures, equipment and other installations theretofore installed by Tenant and damaged or destroyed by such fire or other casualty. Landlord's obligation under this Section XIV shall be to restore or rebuild to no greater extent than its obligations in connection with the original construction as set forth in *Exhibit B* and shall be subject to zoning and building laws then applicable to the Premises. Landlord's obligation under this Section XIV shall be limited to the proceeds received and retained by Landlord (net of any amounts required to be paid to Landlord's mortgagee) under the insurance policy which is allocable to the Premises, and Landlord shall not be obligated to commence such repairs and/or rebuilding until such insurance proceeds are released to Landlord. Landlord shall not be liable for delays in the making of any such repairs which are due to governmental regulations, casualties, strikes, unavailability of labor and materials, and other causes beyond the reasonable control of Landlord. If the actual time to repair or rebuild exceeds two hundred seventy (270) days, Tenant may terminate this Lease by written notice to Landlord given within thirty (30) days after such 270-day period and received prior to completion of such repair or rebuilding, and such termination shall be effective upon receipt by Landlord of such notice.

(c) Landlord shall not be liable for any inconvenience or annoyance to Tenant or injury to the business of Tenant resulting from reasonable delays in the making of any such repairs. If the Premises, or any part thereof, shall be damaged or destroyed by fire or other casualty, and if as a result thereof the Premises shall be rendered untenable, then a just proportion of the Rent reserved hereunder shall be suspended or abated according to the extent to which Tenant may be reasonably required to discontinue its business in the Premises until the work of restoration to be done by Landlord as aforesaid shall be substantially completed.

(d) In the event Landlord elects to terminate this Lease pursuant hereto, the effective termination date shall be not less than thirty (30) days after the date on which a termination notice is received by Tenant, and the yearly Rent and Additional Rent shall be apportioned as of such date.

SECTION XV. EMINENT DOMAIN. If the whole of the Premises, the Building, the Property, or any portion of the Business Park owned by Landlord shall be taken by condemnation or rights of eminent domain (the words "condemnation" and "eminent domain" as used herein to include purchase in lieu thereof) hereinafter collectively referred to as "**taking**", then the term of this Lease shall cease as of the date of the vesting of title or as of the day possession shall be taken thereunder, whichever is earlier. If twenty-five percent (25%) or more of the Property or the Premises or the Building or any portion of the Business Park owned by Landlord shall be taken, Landlord shall be entitled to terminate this Lease effective as of the day of vesting of title or as of the day possession shall be taken thereunder, whichever Landlord shall elect, by giving Tenant notice of its election within sixty (60) days of such vesting of title or taking of possession; but if Landlord does not elect to so terminate this Lease, it shall with due diligence restore the Premises and/or the Building and/or the Property and/or the Business Park to an architectural unit as nearly like its condition prior to such taking as shall be practical. If this Lease is not terminated as hereinbefore provided, all of the provisions hereof shall continue in effect, but in case there shall be a reduction of the net rentable area of the Premises by reason of such taking, the Rent and Additional Rent shall be equitably abated to the extent of the reduction of the net rentable area of the Premises from the time possession shall be taken for the balance of the term of this Lease.

In the event of restoration, Landlord's obligation under this Section XV to restore shall be limited to the obligations of Landlord in connection with the original construction as set

forth on *Exhibit B* and limited to the extent of the damages awarded for the taking and released to Landlord (net of any amounts required to be paid to Landlord's mortgagee). Landlord's obligations under this Section XV shall be subject to zoning and building laws then applicable to the Premises. Tenant shall repair or restore all trade fixtures or equipment and other installations theretofore installed by Tenant. All damages awarded for any such taking, shall belong to and be the property of Landlord whether such damages shall be awarded as compensation for diminution in value to the leasehold or to the fee or otherwise; provided, however, that Tenant shall be entitled to receive and retain any amounts which may be specifically awarded to it by reason of the loss of its trade fixtures or furniture to the extent such award does not diminish Landlord's award. Tenant shall have the right to prosecute any claim for its relocation or moving expenses.

SECTION XVI. INDEMNIFICATION. Except to the extent caused by or resulting from Landlord's negligence, Tenant shall save Landlord harmless, and will exonerate and indemnify Landlord from and against any and all claims, liabilities or penalties asserted by or on behalf of any person, firm or public authority on account of or based upon any injury to person, or loss of or damage to property, sustained or occurring on the Property on account of or based upon the act, omission, fault, or neglect of Tenant, its servants, agents, employees, licensees, invitees and guests or arising out of the use or occupancy of the Property by the Tenant or by any person claiming by, through or under Tenant.

In case any action or proceeding is brought against Landlord by reason of any such claim, Tenant, upon notice from Landlord, shall, at Tenant's expense, resist or defend such action or proceeding and employ counsel therefor reasonably satisfactory to Landlord, it being agreed that such counsel as may act for insurance underwriters of Tenant engaged in such defense shall be deemed satisfactory.

SECTION XVII. PROPERTY OF TENANT. In addition to and not in limitation of other provisions of this Lease, Tenant covenants and agrees that all of its merchandise, furniture and property of every kind, nature and description which may be in or upon the Premises, Building, or Property, in the public corridors, or on the sidewalks, areaways, and approaches thereto, or parking area(s), if any, or entrusted to employees of Landlord before, during or after the term of this Lease, shall be at the sole risk and hazard of Tenant, and that if the whole or any part thereof shall be damaged, destroyed, stolen or removed by any cause whatsoever, no part of said damage or loss shall be charged to or borne by Landlord. Tenant shall, at Tenant's expense, obtain and keep in force "all risk" property insurance covering Tenant against damage to or loss of any personal property, fixtures and equipment of Tenant, and provide for coverage for the full replacement cost of such property Tenant hereby acknowledges and agrees that Landlord's insurance does not cover any property of Tenant.

SECTION XVIII. INJURY AND DAMAGE. Except to the extent caused by or resulting from Landlord's negligence, Landlord shall not be liable for any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, electrical disturbance, water, rain or snow, or leaks from any part of the Building or parking area(s), if any, or from the pipes, appliances, or plumbing works or from the roof, street or subsurface or from any other place or from dampness or by any other cause of whatever nature, whether caused by other tenants or persons in the Building, or on the Property, or in any parking area(s), if any, or caused by operations in construction of any private, public or quasi-public work.

SECTION XIX. ASSIGNMENT, MORTGAGING, AND SUBLETTING. Tenant covenants and agrees that neither this Lease nor the term and estate hereby granted, nor any interest herein or therein, will be assigned, mortgaged, pledged, encumbered or otherwise transferred, and that neither the Premises, nor any part thereof will be encumbered in any manner by reason of any act or omission on the part of Tenant, or used or occupied, or utilized for desk

space or for mailing privileges, by anyone other than Tenant, or for any use or purpose other than as stated herein, or be sublet or offered or advertised for subletting, without the prior written consent of Landlord in each and every case, which consent to any requested assignment or subletting shall not be unreasonably withheld or delayed. Tenant shall not sublet or assign all or any portion of the Premises (i) if the proposed subtenant is an existing tenant of Landlord or (ii) if the proposed subtenant is in lease negotiations with, or has received a lease proposal from, Landlord or its affiliates within the prior six (6) months. Not in limitation of the foregoing, Tenant's request for Landlord's consent to subletting or assignment shall be submitted in writing no later than thirty (30) days in advance of the proposed effective date of such proposed assignment or sublease, which request shall be accompanied by all reasonable information requested by Landlord. Tenant also shall promptly supply Landlord with financial statements and other information as Landlord may request, prepared in accordance with generally accepted accounting principles not more than ninety (90) days old when delivered to Landlord, indicating the net worth, liquidity and credit worthiness of the proposed assignee or subtenant in order to permit Landlord to evaluate the proposed assignment or sublease. Tenant agrees to reimburse Landlord for reasonable legal fees up to \$1,500 and any other reasonable expenses and costs incurred by Landlord in connection with any proposed assignment or subletting.

Landlord's consent shall be granted only if any and all rights contained within this Lease of expansion, extension, renewal, first offer, termination, and the like are deleted and/or waived by Tenant, and if requested by Landlord such assignee or subtenant, and only if the assignee or subtenant shall promptly execute, acknowledge, and deliver to Landlord an agreement in form and substance satisfactory to Landlord whereby the assignee or subtenant shall agree to be bound by and upon the covenants, agreements, terms, provisions and conditions set forth in this Lease (the "**Assignment Agreement**"). If Tenant shall sublet the Premises, having first obtained Landlord's consent, at a rental in excess of the rent and additional rent due and payable by Tenant under the provisions of this Lease, fifty percent (50%) of such excess Rent and Additional Rent, after the deduction of the costs of the tenant improvements, reasonable legal fees and brokerage fees in connection with such sublease amortized over the term of such sublease, shall become the sole property of Landlord, it being agreed, however, that Landlord shall not be responsible for any deficiency if Tenant shall sublet the Premises at a rental less than that provided for herein.

Further, it is agreed that in lieu of withholding or granting its consent, Landlord may, within thirty (30) days of receipt of a request for consent from Tenant, cancel this Lease as to the entire Premises if Tenant requests an assignment or as to so much of the Premises as Tenant has proposed for subletting. If Landlord shall elect to cancel this Lease as to all or a portion of the Premises, it shall give Tenant written notice of its election, containing a "termination date" which shall be not less than sixty (60) or more than one hundred twenty (120) days from the receipt by Landlord of Tenant's request to assign or sublet, and on that "termination date" Tenant shall surrender the Premises or portion thereof for which this Lease has been canceled, in accordance with the provisions of this Lease. If the cancellation shall be as to a portion of the Premises only, then the Rent and Additional Rent shall be adjusted proportionately to reflect said cancellation.

It is hereby expressly understood and agreed, however, if Tenant is a corporation, that the assignment, or transfer of this Lease, and the term and estate granted, to any corporation into which Tenant is merged or with which Tenant is consolidated, which corporation shall have a net worth at least equal to that of Tenant as of the date hereof and immediately prior to such merger or consolidation (such corporation being hereinafter called "**Assignee**"), without the prior written consent of Landlord shall not be deemed to be prohibited hereby, if, and upon the express condition that, Assignee and Tenant shall promptly execute, acknowledge, and deliver to Landlord the Assignment Agreement whereby Assignee shall expressly agree that the provisions of this Section XIX shall, notwithstanding such assignment or transfer, continue to

be binding upon it with respect to all future assignments and transfers. The listing of any name other than that of Tenant, whether on the doors of the Premises or on the Building directory, or otherwise, shall not operate to vest any right or interest in this Lease or in the Premises or be deemed to be the written consent of Landlord mentioned in this Section XIX, it being expressly understood that such listing is a privilege extended by Landlord revocable at will by written notice to Tenant.

If this Lease is assigned, or if the Premises or any part thereof is sublet or occupied by anybody other than Tenant, Landlord may, after default by Tenant, collect Rent and/or Additional Rent from the Assignee, subtenant or occupant, and apply the net amount collected to the Rent and/or Additional Rent herein reserved, but no such assignment, subletting, occupancy or collection shall be deemed a waiver of this covenant, or the acceptance of the Assignee, subtenant or occupant as a tenant, or a release of Tenant from the further performance by Tenant of covenants on the part of Tenant herein contained. The consent by Landlord to an assignment or subletting shall not in any way be construed to relieve Tenant from obtaining the express consent in writing of Landlord to any further assignment or subletting. No assignment, subletting or use of the Premises by any party shall affect the purpose for which the Premises may be used as stated in Section II. Notwithstanding any permitted assignment or subletting, Tenant shall at all times remain directly, primarily and fully responsible and liable for the payment of all sums payable under the Lease and for compliance with all the obligations of Tenant under the Lease.

SECTION XX. SIGNS, WINDOW TREATMENT, AND ADVERTISING. Except as hereinafter provided, Tenant may not place on the interior or exterior of the Premises (including both interior and exterior surfaces or doors and interior surfaces of windows) or on any part of the Building outside the Premises, any signs, symbol, advertisement or the like visible to the public view outside of the Premises. Any signs or letters in the public corridors or on the doors must be in accordance with a plan or sketch of the sign submitted to Landlord for written approval before installation, which installation shall be at the sole expense of Tenant. Landlord shall withhold consent for signs or lettering on the entry doors to the Premises, unless such signs or lettering conform to Building standards adopted by Landlord. All signage must be in accordance with all applicable laws. No signs may be installed in or on any window. Tenant may install its own window treatment, only if the same shall not in any way interfere with the Building standard blinds or be visible from the exterior of the Building.

Landlord agrees, however, to maintain a tenant directory in the lobby of the Building in which will be placed the Tenant's name and the location of the Premises in the Building. Neither Landlord's name, nor the name of the Building or any Center, Office Park or other complex of which the Building is a part, or the name of any other structure erected therein shall be used without Landlord's consent in any advertising material (except on business stationery or as an address in advertising matter), nor shall any such name, as aforesaid, be used in any undignified, confusing, detrimental or misleading manner.

SECTION XXI. INSURANCE COMPLIANCE. Tenant will not do or omit to do or keep anything in, upon or about the Premises which may prevent the obtaining of any fire, liability or other insurance upon or written in connection with the Premises, the Building or the Property, or which may make any such insurance void or voidable, or which may create any extra premiums or increase the rate of any such insurance over that normally applicable to office buildings, unless the Tenant pays such extra or increased premiums.

SECTION XXII. INFLAMMABLES, ODORS. Tenant shall not bring or permit to be brought or kept in or on the Premises or elsewhere in the Building, any inflammable, combustible or explosive fluids, material, chemical or substance (other than small quantities of industrial solvents used in the normal course of cleaning and maintenance), or cause or permit any odors of cooking or other processes, or any unusual or other objectionable odors to emanate from or permeate the Premises.

SECTION XXIII. DEFAULT. Any one of the following shall be deemed to be an “Event of Default”:

(a) Tenant’s failure to pay when due Rent, Additional Rent or other charges payable pursuant to this Lease and such failure continuing for five (5) days after written notice from Landlord.

(b) Failure on the part of Tenant to comply with any non-monetary term, condition, covenant, or requirement of this Lease and such failure continuing for ten (10) business days after Landlord has sent to Tenant written notice of such non-monetary default. If such non-monetary default is not capable of cure within said ten (10) business days, Tenant shall have such additional period of time as is necessary to cure said non-monetary default, so long as Tenant commences and diligently prosecutes to completion said cure, but in no event more than thirty (30) days.

(c) The commencement of any of the following proceedings: (i) the estate hereby created being taken on execution or by other process of law; (ii) Tenant or Guarantor (as defined in Section XLI) being judicially declared bankrupt or insolvent according to law; (iii) an assignment being made of the property of Tenant or Guarantor for the benefit of creditors; (iv) a receiver, guardian, conservator, trustee in involuntary bankruptcy or other similar officer being appointed to take charge of all or any substantial part of Tenant’s or Guarantor’s property by a court of competent jurisdiction; or (v) a petition being filed for the reorganization or rearrangement of Tenant or Guarantor under any provisions of the United States Bankruptcy Code now or hereafter enacted.

Tenant hereby expressly waives any and all common law and statutory notices to quit, and expressly agrees that the notice provisions contained herein shall be in lieu thereof. Upon an Event of Default, Landlord may, but shall not be obligated to, serve upon Tenant a notice of lease termination, which shall terminate the Lease upon service to Tenant.

If an Event of Default shall occur, then in addition to any other remedy Landlord may have at law or equity, Landlord may (i) apply the Security Deposit, if any, specified in Section XLI toward the satisfaction of such Event of Default or make demand under the Guaranty (as defined in Section XLI) without waiving any of Landlord’s other rights hereunder, (ii) cure Tenant’s Event of Default at Tenant’s cost and expense, and/or (iii) lawfully enter the Premises or any part thereof in the name of the whole or mail or deliver a notice of termination addressed to Tenant at the Premises, and upon entering or mailing as aforesaid repossess the same as the former estate of the Landlord and expel the Tenant and those claiming by, through or under the Tenant without being deemed guilty of any manner of trespass and without prejudice to any other remedies which the Landlord may have for arrears of Rent or Additional Rent or preceding breach of covenant.

Tenant covenants that in case of Lease termination, whether as aforesaid or otherwise, Tenant shall indemnify the Landlord against all losses Landlord may incur by reason of such termination; and at Landlord’s election, Tenant shall immediately be liable for, and pay to Landlord as damages, either (i) all such losses, including without limitation, all Rent, Additional Rent and other charges due pursuant to the Lease up until the normal expiration of the term of this Lease (had the Lease not been terminated), projected on the basis of experience under the Lease, together with all costs Landlord may incur in obtaining possession of, or in reletting the Premises (including without limitation attorneys’ fees, brokerage commissions, leasehold improvements, alterations, repairs and decorations to the Premises as Landlord in its sole judgment considers advisable or necessary to relet the same), less the fair market rental

value of the Premises until the normal expiration of the term of this Lease, together with interest at the rate of one and one-half percent (1.5%) per month until said monies are paid in full, or such lesser interest rate as may be permitted under applicable law, or (ii) all Rent, Additional Rent and other charges which would have been payable had the Lease not so terminated, payable upon the due dates specified herein (subject to offset for net rents actually received from reletting after subtraction of the expenses of reletting).

Landlord shall, to the extent required by applicable law, and not otherwise, use reasonable efforts to relet the Premises on such terms and conditions as Landlord in its sole discretion may determine (including a term different from the term of this Lease, rental concessions, and alterations to, and improvement of, the Premises). In no event shall Landlord be obligated to relet the Premises at below market rates; nor shall Landlord be obligated to relet the Premises before leasing other portions of the Building. Landlord shall not be liable for, nor shall Tenant's obligations hereunder be diminished because of, Landlord's failure to relet the Premises or to collect rent due for such reletting. In the event of reletting, Landlord shall have no liability to account to Tenant for any proceeds received from such reletting, except as otherwise expressly set forth herein.

All of Landlord's rights and remedies under this Lease, or at law or equity, are cumulative, and may be exercised as Landlord sees fit.

SECTION XXIV. SUBORDINATION AND ESTOPPEL. This Lease is subject and subordinate in all respects to all mortgages which may now or hereafter be placed on or affect the real property of which the Premises are a part, or Landlord's interest or estate therein, and to each advance made and/or hereafter to be made under any such mortgages, and to all renewals, modifications, consolidations, replacements and extensions thereof and all substitutions therefor. This Section XXIV shall be self-operative and no further instrument of subordination shall be required. Notwithstanding the generality of the foregoing provisions of this Section XXIV, Tenant agrees that any such mortgagee shall have the right at any time to subordinate any such mortgages or other instruments of security to this Lease on such terms and subject to such conditions as such mortgagee may deem appropriate in its discretion. Tenant further covenants and agrees upon demand by Landlord's mortgagee at any time, before or after the institution of any proceedings for the foreclosure of any such mortgages or other instruments of security, or sale of the Building pursuant to any such mortgages or other instruments of security (which agreement shall survive any such foreclosure sale), to attorn to such mortgagee or such purchaser upon any such sale and to recognize such purchaser as Landlord under this Lease, provided that Tenant's possession shall not be disturbed except under the provisions of this Lease, and further agrees to execute any and all documents as such mortgagee may require to confirm such attornment within a reasonable time.

Tenant shall, from time to time, within ten (10) business days after request from Landlord, or from any mortgagee or potential mortgagee of Landlord, or any potential purchaser of the Building, or potential mortgagee of such purchaser, execute, acknowledge and deliver a subordination, non-disturbance and attornment agreement in the form attached hereto as *Exhibit E* ("SNDA") and an estoppel certificate ("**Estoppel Certificate**") certifying, to the extent true, that this Lease is in full force and effect and unmodified (or, if there have been modifications, that the same is in full force and effect as modified and stating the modifications); that the term has commenced and the full amount of the Rent and Additional Rent then accruing thereunder; the dates to which the Rent and Additional Rent has been paid; that Tenant has accepted possession of the Premises and that any improvements required by the provisions of this Lease to be made by Landlord have been completed to the satisfaction of Tenant; the amount, if any, that Tenant has paid to Landlord as a security deposit; that no Rent under this Lease has been paid more than thirty (30) days in advance of its due date; that the address for notices to be sent to Tenant is as set forth in this Lease (or has been changed by notice duly given and is as set forth in the SNDA and/or Estoppel

Certificate); that Tenant, as of the date of such SNDA and/or Estoppel Certificate, has no charge, lien, or claim of offset under this Lease or otherwise against Rent or Additional Rent due or to become due hereunder; that, to the knowledge of Tenant, Landlord is not then in default under this Lease; and such other matters as may be reasonably requested by Landlord or any mortgagee or potential mortgagee of Landlord, or any purchaser of the Building, or potential mortgagee of such purchaser. Any SNDA or Estoppel Certificate may be relied upon by Landlord, any successor of Landlord, any mortgagees of Landlord or any prospective purchaser or mortgagee of the Building.

SECTION XXV. NOTICES. Any notice or demand by Tenant to Landlord shall be served by receipted hand delivery, or by Sheriff, Constable, or by certified mail, postage prepaid, or by recognized overnight courier, addressed to Landlord as set forth below, and any notice or demand by Landlord to Tenant shall be served by receipted hand delivery, or by Sheriff, Constable, or by certified mail, postage prepaid, or by recognized overnight courier to the Tenant as set forth below, except that notice of termination pursuant to Section XXIII shall be sufficient if sent regular mail postage prepaid to Tenant at the Premises only.

To Landlord: NB MS NEBC LLC
60 State Street, Suite 1500
Boston, Massachusetts 02109-1803
facsimile 617-227-4727
telephone 617-723-7760

with a copy to: Rappaport, Aserkoff & Gelles
60 State Street, Suite 1525
Boston, Massachusetts 02109-1803
facsimile 617-227-4727
telephone 617-227-7345

with a copy to: New Boston Management Services, Inc.
60 State Street, Suite 1500
Boston, Massachusetts 02109-1803
facsimile 617-227-4727
telephone 617-723-7760

To Tenant: FARO Technologies, Inc.
125 Technology Park
Lake Mary, Florida 32746
Attention: CFO
Facsimile 407-562-5268
telephone 407-333-9911

It is agreed that certified mail shall be conclusively deemed received three (3) business days after it is mailed, postage prepaid, and that an item sent by recognized overnight courier shall be conclusively deemed received the day it is scheduled to be delivered. Landlord and Tenant may each change their address for notices, as well as their phone number and facsimile number, by providing notice of such change to the other in the manner specified in this Section XXV.

SECTION XXVI. RULES AND REGULATIONS. Tenant will faithfully observe and comply with the Rules and Regulations annexed hereto and such other further Rules and Regulations as Landlord hereafter at any time or from time to time may make and may communicate in writing to Tenant. In the case of any conflict between the provisions of this Lease and any such Rules and Regulations, the provisions of this Lease shall control. Nothing contained in this Lease shall be construed to impose upon Landlord any duty or obligation to

enforce the Rules and Regulations or the terms, covenants or conditions in any other lease as against any other tenant, and Landlord shall not be liable to Tenant for violation of the same by any other tenant, or any other tenant's servants, employees, agents, visitors, invitees or licensees.

SECTION XXVII. QUIET ENJOYMENT. The Tenant, on paying the said Rent and Additional Rent and performing the covenants of this Lease on its part to be performed, shall and may peaceably and quietly have, hold and enjoy the Premises in accordance with this Lease for the term aforesaid and any extension thereof, free from disturbance by Landlord or anyone claiming by, through or under Landlord.

SECTION XXVIII. BINDING AGREEMENT. This Lease shall bind and inure to the benefit of the parties hereto and their respective heirs, representatives, successors and assigns. This Lease contains the entire agreement of the parties and may not be modified except by instrument in writing signed by the parties hereto.

SECTION XXIX. LANDLORD LIABILITY. Tenant agrees that it shall not hold any partner, shareholder, member, trustee, or beneficiary of Landlord personally responsible for any of the covenants of Landlord under this Lease, and in the event it has a claim against Landlord, Tenant shall look only to Landlord's interest in the Building for recovery of any judgment from Landlord; it being specifically agreed that neither the Landlord nor anyone claiming by, through or under Landlord shall ever be personally liable for any such judgment, or for the payment of any monetary obligation to Tenant.

SECTION XXX. SEISIN. In the event of a sale or other disposition of the Building and/or land underlying it by Landlord, Landlord shall be entirely free and relieved from the performance and observance thereafter of all covenants and obligations of Landlord hereunder, it being understood and agreed that the successor to Landlord's ownership shall thereupon and thereafter assume and perform and observe, any and all of such covenants and obligations of Landlord.

SECTION XXXI. INSURANCE.

(a) Tenant shall maintain in full force and effect the following insurance written by one or more responsible companies with an A.M. Best rating of A-VIII or better, licensed to do business in the state in which the Premises is located in form and content reasonably satisfactory to Landlord, including, except as to subsection (2) of this Section XXXI, Landlord and Landlord's managing agent as additional insureds, and Tenant shall keep deposited with the Landlord copies of all policies of insurance, or certificates thereof, with endorsements on such policies or certificates to the effect that such insurance shall not be cancelled by the insurer without at least fifteen (15) days prior notice to Landlord:

(1) Commercial General Liability insurance in the broadest form of such coverage as is available from time to time in the jurisdiction in which the Premises is located, applying to the use and occupancy of the Premises and all operations of the Tenant written on an occurrence basis with the following minimum limits: One Million Dollars (\$1,000,000) each occurrence, Two Million Dollars (\$2,000,000) general aggregate, and Two Million Dollars (\$2,000,000) products and completed operations aggregate. Such coverage shall include personal injury, including death, to one or more than one person arising out of any one incident, premises and operations, products and completed operations, contractual liability coverage, broad form property damage liability (included completed operations of subcontractors) and personal and advertising injury liability coverage, and shall also include a minimum limit of Three Hundred Thousand Dollars (\$300,000) for property damage to rented premises (per occurrence). At any time during the term hereof upon sixty (60) days' notice, Landlord may require the Tenant to increase the amount of insurance required hereunder to a greater commercially reasonable amount as may be required by Landlord or recommended by Landlord's insurance advisor or required by Landlord's mortgagee.

(2) Worker's compensation insurance in the minimum amount required by statute covering all employees of Tenant, and, if Tenant shall contract with any independent contractor for the furnishing of labor, materials or services to Tenant, Tenant shall require such independent contractor to maintain worker's compensation insurance covering all its employees and all the employees of any subcontractor.

(3) Extended coverage property damage insurance covering Tenant's personal property located at the Premises (furniture, fixtures and equipment on a replacement cost basis) and Tenant improvements, if any.

(b) Landlord's Insurance Obligations. At all times during the term of this Lease, Landlord shall maintain in effect, on a non-self insured basis, commercial general liability insurance, including contractual liability coverage, "all risks" property insurance on a full replacement cost basis as to the Building, and from time to time such other coverage as Landlord may deem prudent.

It is specifically understood that Landlord's insurance does not cover any personal property of Tenant and Tenant shall not make any claim for loss of or damage to such property against Landlord or Landlord's insurance carrier and shall not permit its insurance carrier to make any claim for loss or damage to such property against Landlord or Landlord's insurance carrier.

SECTION XXXII. SUBROGATION, INSURANCE PREMIUMS. Landlord and Tenant hereby waive any rights each may have against the other in connection with any of the damage occasioned to Landlord or Tenant, as the case may be, their respective property, the Building or its contents, arising from covered causes of loss for which property insurance is carried or required to be carried pursuant to this Lease. Each party on behalf of their respective insurance companies insuring their respective property against any such loss, hereby waives any right of subrogation that it may have against the other party. Tenant's insurance shall include, at Tenant's expense, a waiver of subrogation clause or endorsement in favor of Landlord. Landlord's insurance shall include at Landlord's expense, a waiver of subrogation clause or endorsement in favor of Tenant.

SECTION XXXIII. REZONING. Tenant agrees that it shall not oppose any petition and/or application for rezoning or variance instituted by Landlord, its successors or assigns.

SECTION XXXIV. SEPARABILITY. If any provision or any part of any provision of this Lease, or if the application of any provision or any part of any provision of this Lease to any person, entity, or circumstance shall be held invalid by a court of competent jurisdiction, such invalidity shall have no effect on any other provision or any part of any other provision of this Lease or its application to any other person, entity, or circumstance.

SECTION XXXV. WAIVER OF TRIAL BY JURY. Landlord and Tenant agree that they shall, and hereby do, waive trial by jury in any action arising out of this Lease or Tenant's use and occupancy of the Premises.

SECTION XXXVI. NO WAIVER. No act or thing done by Landlord or Landlord's agents during the term of this Lease shall constitute an eviction by Landlord, nor be deemed an acceptance of a surrender of the Premises, and no agreement to accept such surrender shall be valid unless in writing and signed by Landlord. The failure of Landlord to seek redress for violation of, or to insist upon the strict performance of this Lease, or any of the Rules and Regulations set forth in this Lease or hereafter adopted by Landlord, shall not constitute a

waiver in any respect nor prevent a subsequent act, which originally constituted a violation from having all force and effect of an original violation. The receipt by Landlord of Rent or Additional Rent with knowledge of the breach of any provision of this Lease shall not be deemed a waiver of such breach. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly Rent or Additional Rent herein stipulated shall be deemed to be other than on account, nor shall any endorsement or statement on any check, nor any letter accompanying any check or payment as Rent or Additional Rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or Additional Rent or pursue any other remedy in this Lease provided.

SECTION XXXVII. REMOVAL OF GOODS AND TENANT'S REPAIRS; HOLDING OVER. At the expiration or sooner termination of this Lease, Tenant will remove its goods and effects (except as elsewhere provided herein) and will peaceably yield up to the Landlord the Premises in as good order and condition as when delivered to it, excepting ordinary wear and tear (which shall not be deemed to include holes in walls or floors or special wiring caused by installation of Tenant's fixtures or equipment), and damage by fire or unavoidable casualty.

The Tenant shall be responsible for all damages or injury to the Premises, fixtures, appurtenances and equipment of Landlord, and to the Building and the Property, caused by Tenant's installation or removal of furniture, fixtures or equipment. If requested by Tenant, by notice given not later than thirty (30) days prior to the date of expiration or earlier termination (other than by reason of an Event of Default) of the term of this Lease, Landlord and Tenant shall conduct a walk-through of the Premises and any common corridors of the Building through which Tenant's Removable Property and other goods and effects would likely be removed, at a mutually convenient time within three (3) business days prior to Tenant's scheduled moving date. Without regard to whether Tenant requests such a pre-move inspection, Tenant shall reimburse Landlord for costs reasonably incurred by Landlord to repair or replace damage resulting from Tenant's removal from the Building, provided only that Landlord notifies Tenant within seven (7) business days after Tenant's removal of the nature of the damage Landlord intends to repair or restore and affords Tenant an opportunity to inspect, within three (3) business days after such notice is received by Tenant, such damage. Reimbursement shall be made by Tenant on demand by Landlord accompanied by receipts in reasonable detail, for the work performed or replacement items acquired. If Tenant fails to remove any of Tenant's Removable Property or any other of its goods or effects, Landlord shall have the right to remove such goods, effects, equipment fixtures or furniture from the Premises and dispose of the same at Tenant's sole cost. In the event Tenant or any party claiming by, through or under Tenant shall hold over in the Premises or any part thereof after the termination or expiration of the term of this Lease, such holding over shall constitute and be construed as a tenancy at sufferance only, provided that all the provisions of this Lease shall apply except that the Rent set forth in Section IV shall be calculated at a daily rate equal to the greater of one hundred fifty percent (150%) of the daily Rent reserved in said Section IV, or one hundred percent (100%) of the then fair market rent of the Premises. Nothing contained in this Section XXXVII shall be construed as Landlord's consent to Tenant or any party claiming by, through or under Tenant holding over.

SECTION XXXVIII. CAPTIONS, PLURAL, GENDER. The captions are inserted only as a matter of convenience and for reference and in no way define, limit or describe the scope of this Lease nor the intent of any provisions hereof. Whenever a masculine or singular pronoun is used in this Lease, it shall include the feminine and plural thereof whenever the context so permits or requires.

SECTION XXXIX. BROKERAGE. Tenant and Landlord each covenant to the other that it has dealt with no broker other than the brokers specified at the end of this Section XXXIX (the "Brokers"), as Tenant's Broker and as Landlord's Broker, in locating the Premises and in negotiating this Lease, and Tenant and Landlord each further covenant and agree with the

other that it shall hold the other harmless from any and all claims which may be asserted by any real estate broker other than the Brokers identified below in connection with the Premises or for any transaction involving this Lease or Premises.

Tenant's Broker: CRESA Partners

Landlord's Broker: CB Richard Ellis

SECTION XL. HAZARDOUS WASTE.

(a) For the purpose of this Section XL, "**Hazardous Substance**" shall mean any waste, substance or other material which may be dangerous to health or environment, including, without limitation, all "hazardous waste", "hazardous material", "hazardous substance", "toxic substance", "oil", "infectious medical waste" and "hazardous medical waste" as defined in any federal, state, or local law, regulation or ordinance, or otherwise".

(b) Tenant shall not dump, flush or in any way introduce any Hazardous Substance, which are regulated under the Resource Conservation and Recovery Act of 1976, as amended, (42 U.S.C. Section 6901, *et seq.* "RCRA") the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended (42 U.S.C. 9601 *et seq.* "CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), Public Law 99-499, 100 Stat 1613, *et seq.*, and/or any other applicable municipal, federal, or state law, into the sewerage, drainage or other waste disposal system serving the Premises, the Building or the Property.

(c) Tenant shall not generate, use, store or dispose of any Hazardous Substance regulated under RCRA, CERCLA, SARA and/or any other applicable municipal, federal or state environmental law, in or on the Premises, the Building or the Property, nor transport any Hazardous Substance from the Premises, the Building or the Property except in compliance with RCRA, CERCLA, SARA, and any other applicable municipal, federal or state environmental law.

(d) Tenant shall promptly notify Landlord in writing of any incident in the Premises, or the Building or the Property which might require the filing of a notice under any statute described in Section XL(b) of this Lease.

(e) Tenant shall indemnify and hold Landlord harmless from any and all costs, liabilities, demands, claims, civil or criminal actions, or causes of action, civil or criminal penalties, fines, losses, liens, assessments, damages, liabilities, costs, disbursements, expenses or fees of any kind or any nature (including without limitation all clean-up costs and attorneys' fees) which may at any time be imposed upon, incurred by or asserted or awarded against Landlord arising out of or on account of Tenant's failure to comply with the provisions of Section XL of this Lease, whether due to any action or non-action of Tenant.

(f) The provisions and covenants of this Section XL shall survive the expiration or earlier termination of the term of this Lease.

SECTION XLI. SECURITY DEPOSIT; GUARANTY.

(a) Security Deposit. None.

(b) Guaranty. None.

SECTION XLII. LANDLORD'S RIGHT TO PERFORM FOR TENANT. Landlord shall have the right, but shall not be required, to pay such sums and do any act, whether the same requires the expenditures of monies or not, which may be necessary or appropriate by reason of failure or neglect of Tenant to perform any of the provisions of this Lease, and in the event of the exercise of such right by Landlord, Tenant agrees to pay to Landlord forthwith upon demand the cost of performing the same, plus interest at one and one-half percent (1.5%) per month of such cost, or such lesser interest rate as may be allowed under applicable law; and if Tenant shall default in such payment, Landlord shall have the same rights and remedies as Landlord has hereunder for the failure of Tenant to pay the Rent or Additional Rent. Landlord may exercise the foregoing rights without waiving any other of its rights or releasing Tenant from any of its obligations under this Lease, and the exercise of these rights shall not be deemed an obligation of Landlord to perform such right in the future.

SECTION XLIII. GOVERNING LAW. This Lease shall be governed by the provisions hereof and by the laws of the state in which the Premises are located.

SECTION XLIV. RELOCATION. Landlord reserves and is hereby granted the right, upon not less than sixty (60) days written notice to Tenant to relocate Tenant and to substitute other premises within the Building for the Premises originally leased hereunder for all uses and purposes as though originally leased to Tenant at the time of the execution of this Lease, provided, however, that the substituted premises shall contain an area not less than the approximate square footage contained in the Premises, without any increase in Rent payable hereunder, shall be comparable in terms of layout (number of offices, number of windows), and shall be in a generally equally visible area of the Building. Landlord shall pay the furniture and equipment moving and installation costs reasonably incurred by Tenant in connection with such relocation, Tenant's costs of wiring and cabling the substituted premises, and costs of new stationery if made necessary by such relocation.

SECTION XLV. FORCE MAJEURE. In the event that either party shall be delayed or hindered in or prevented from the performance of actions required under this Lease, by reason of strikes, lockouts, labor troubles, inability to procure materials, failure of power, restrictive governmental laws or regulations, riots, insurrection, war or other reasons of a like nature not the fault of the party delayed in performing work or doing the acts required, then performance of such act shall be excused for the period of the delay and the period for such party's performance of any such act shall be extended for a period equivalent to the period of such delay. The provisions of this Section XLV shall in no event operate to excuse Tenant from the prompt payment of Rent or Additional Rent, or excuse performance due to lack of funds. In any case where work is to be paid for out of insurance proceeds of condemnation awards, due allowance shall be made, both to the party required to perform such work and to the party required to make such payments, for delays in the collection of such proceeds or awards.

SECTION XLVI. FINANCIAL INFORMATION. Within fifteen (15) days after written request by Landlord, from time to time, Tenant shall supply to Landlord and to any lender, purchaser or prospective lender or purchaser designated by Landlord a current financial statement, including a balance sheet and income statement, certified to be true and correct by an officer of the Tenant and prepared in accordance with generally accepted accounting principles consistently applied. Notwithstanding the foregoing, Tenant shall not be obligated to deliver any financial statements to Landlord so long as Tenant's capital stock is listed on any national stock exchange in the United States and current financial information is available through public or government sources.

SECTION XLVII. PARKING. Tenant shall have the right to use without additional payment, on a non-exclusive basis, up to 3.5 parking spaces for each 1,000 rentable square feet leased by Tenant from Landlord throughout the entire term of this Lease (or 18 spaces based upon 5,096 rsf), and any extensions thereof. Tenant shall comply with such registration

or identification standards as shall be reasonably established from time to time, and Tenant shall use only that portion of the parking facilities as may be designated for use by Tenant from time to time, it being understood and agreed that Landlord shall have the right to establish and enforce such reasonable policies, rules and regulations as Landlord and/or the parking operator has issued or may issue to facilitate the operation and management of the parking facilities.

SECTION XLVIII. MULTIPLE COUNTERPARTS. This Lease may be executed simultaneously in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

[THE REMAINDER OF THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK.
SIGNATURES ARE CONTAINED ON THE FOLLOWING PAGE.]

IN WITNESS WHEREOF, the parties hereto have set their hands and seals the day and year first above written.

Landlord:
NB MS NEBC LLC

By: New Boston NEBC LLC,
its sole Member

By: New Boston NEBC Limited Partnership,
its Manager

By: New Boston Fund IV, Inc.,
its General Partner

By /s/ Jon Gillman
hereunto duly authorized

Tenant:
FARO TECHNOLOGIES, INC.

By /s/ Jay W. Freeland
Its

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: November 3, 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: November 3, 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 September 27, 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

November 3, 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 September 27, 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

November 3, 2008