

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 1999

Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 0-23081

FARO TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

FLORIDA

59-3157093

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

125 TECHNOLOGY PARK DRIVE, LAKE MARY, FLORIDA

32746

(Address of Principal Executive Offices)

(Zip Code)

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

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

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

Class: Voting Common Stock, \$.001 Par Value

Outstanding at November 12, 1999: 11,351,670

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31, 1998	SEPTEMBER 30, 1999 (UNAUDITED)
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,183,656	\$ 1,747,152
Short term investments	8,314,337	10,600,492
Accounts receivable - net of allowance	8,963,343	7,879,215
Income taxes refundable	716,048	1,336,785
Inventories	6,443,618	8,290,160
Prepaid expenses and other assets	155,037	311,713
Deferred income taxes	121,543	26,543
	-----	-----
Total current assets	25,897,582	30,192,060
	-----	-----
PROPERTY AND EQUIPMENT - at cost:		
Machinery and equipment	1,873,146	2,438,047
Furniture and fixtures	899,616	936,838
Leasehold improvements	28,889	34,120
	-----	-----
Total	2,801,651	3,409,005
Less accumulated depreciation	(1,276,459)	(1,932,909)
	-----	-----
Property and equipment, net	1,525,192	1,476,096
	-----	-----
INTANGIBLE ASSETS - net	12,821,191	11,351,302
NOTES RECEIVABLE	178,688	132,196
Long-term investments	8,697,494	4,337,620
DEFERRED INCOME TAXES	--	52,617
	-----	-----
TOTAL ASSETS	\$ 49,120,147	\$ 47,541,891
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short term notes payable to banks	\$ 296,230	
Accounts payable and accrued liabilities	2,852,452	\$ 4,490,462
Current portion of unearned service revenues	329,731	463,268
Current portion of long-term debt	4,156	--
Customer deposits	114,738	108,310
	-----	-----
Total current liabilities	3,597,307	5,062,040
DEFERRED INCOME TAXES	78,220	--
UNEARNED SERVICE REVENUES - less current portion	31,905	66,895
LONG TERM DEBT - less current portion	37,324	6,275
	-----	-----
TOTAL LIABILITIES	3,744,756	5,135,210
	-----	-----
SHAREHOLDERS' EQUITY:		
Class A preferred stock - par value \$.001, 10,000,000 shares authorized, no shares issued and outstanding		
Common stock - par value \$.001, 50,000,000 shares authorized, 11,048,137 and 11,058,336 issued and 11,008,137 and 11,018,336 outstanding, respectively	11,048	11,059
Additional paid-in-capital	47,520,732	47,542,190
Unearned compensation	(292,316)	(165,632)
Retained earnings (deficit)	(1,912,829)	(4,881,925)
Accumulated other comprehensive income:		
Cumulative translation adjustments, net of tax	199,381	51,614
Treasury stock	(150,625)	(150,625)

	-----	-----
Total shareholders' equity	45,375,391	42,406,681
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 49,120,147	\$ 47,541,891
	=====	=====

See accompanying notes to condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1999	1998	1999
Sales	\$ 4,972,182	\$ 7,025,005	\$ 19,376,191	\$ 22,540,937
Cost of sales	2,460,143	3,391,029	7,921,748	9,577,211
Gross profit	2,512,039	3,633,976	11,454,443	12,963,726
Operating expenses:				
Selling	2,870,373	2,824,957	6,665,432	8,120,043
General and administrative	851,532	1,511,350	1,967,250	4,017,697
Depreciation and amortization	1,038,391	879,535	1,718,729	2,607,631
Research and development	737,732	895,227	1,559,710	2,582,794
Employee stock options	43,041	42,243	129,123	126,717
Purchased in-process research and development costs	--	--	3,210,000	--
Total operating expenses	5,541,069	6,153,312	15,250,244	17,454,882
Loss from operations	(3,029,030)	(2,519,336)	(3,795,801)	(4,491,156)
Interest income	215,766	165,393	838,545	522,116
Other (expense) income	19,391	230,522	22,145	380,923
Interest expense	(3,234)	(1,945)	(11,099)	(1,945)
Loss before income taxes	(2,797,107)	(2,125,366)	(2,946,210)	(3,590,062)
Income tax (expense) benefit	56,298	461,616	(480,939)	620,966
Net loss	\$ (2,740,809)	\$ (1,663,750)	\$ (3,427,149)	\$ (2,969,096)
NET LOSS PER SHARE - BASIC	\$ (0.25)	\$ (0.15)	\$ (0.33)	\$ (0.27)
NET LOSS PER SHARE - DILUTED	\$ (0.25)	\$ (0.15)	\$ (0.33)	\$ (0.27)

See accompanying notes to condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)

	COMMON SHARES -----	STOCK AMOUNTS -----	ADDITIONAL PAID-IN CAPITAL -----	UNEARNED COMPENSATION -----	RETAINED EARNINGS (DEFICIT) -----
BALANCE DECEMBER 31, 1996	7,000,000	\$ 7,000	\$ 3,961,564	\$ (6,500)	\$ (188,365)
Net income					3,206,630
Currency translation adjustment, net of tax					
Comprehensive income					
Granting of employee and director stock options			866,793	(501,834)	
Amortization of unearned compensation				43,854	
Issuance of common stock	2,919,000	2,919	31,673,647		
BALANCE DECEMBER 31, 1997	9,919,000	9,919	36,502,004	(464,480)	3,018,265
Net loss					(4,931,094)
Currency translation adjustment, net of tax					
Comprehensive loss					
Issuance of common stock	1,129,137	1,129	10,323,564		
Income tax benefit resulting from the exercise of stock options			695,164		
Amortization of unearned compensation				172,164	
Acquisition of treasury stock	(40,000)				
BALANCE, DECEMBER 31, 1998	11,008,137	11,048	47,520,732	(292,316)	(1,912,829)
Net loss					(2,969,096)
Currency translation adjustment, net of tax					
Comprehensive loss					
Issuance of common stock	10,199	11	21,458		
Amortization of unearned compensation				126,684	
BALANCE, SEPTEMBER 30, 1999	11,018,336 =====	\$ 11,059 =====	\$ 47,542,190 =====	\$ (165,632) =====	\$ (4,881,925) =====

	ACCUMULATED OTHER COMPREHENSIVE INCOME -----	TREASURY STOCK -----	TOTAL -----
BALANCE DECEMBER 31, 1996			\$ 3,773,699
Net income			3,206,630
Currency translation adjustment, net of tax	\$(126,297)		(126,297)
Comprehensive income			3,080,333
Granting of employee and director stock options			364,959
Amortization of unearned compensation			43,854

Issuance of common stock			31,676,566
BALANCE DECEMBER 31, 1997	(126,297)	0	38,939,411
Net loss			(4,931,094)
Currency translation adjustment, net of tax	325,678		325,678

Comprehensive loss			(4,605,416)
Issuance of common stock			10,324,693
Income tax benefit resulting from the exercise of stock options			695,164
Amortization of unearned compensation			172,164
Acquisition of treasury stock		(150,625)	(150,625)
	-----	-----	-----
BALANCE, DECEMBER 31, 1998	199,381	(150,625)	45,375,391
Net loss			(2,969,096)
Currency translation adjustment, net of tax	(147,767)		(147,767)

Comprehensive loss			(3,116,863)
Issuance of common stock			21,469
Amortization of unearned compensation			126,684
	-----	-----	-----
BALANCE, SEPTEMBER 30, 1999	51,614	(150,625)	42,406,681

See accompanying notes to condensed financial statements.

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1999
OPERATING ACTIVITIES:		
Net loss	\$ (3,427,149)	\$ (2,969,096)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation, amortization and other	1,829,314	2,800,828
In-process research and development	3,210,000	--
Deferred income taxes	(1,391,422)	42,383
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(575,203)	1,084,128
Income taxes refundable	--	(698,957)
Inventories	(1,537,663)	(1,846,542)
Notes receivable	--	46,491
Prepaid expenses and other assets	(42,878)	(177,522)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(992,933)	1,638,008
Income taxes payable	1,403,017	--
Unearned service revenues	(169,056)	168,527
Customer deposits	39,643	(6,429)
	-----	-----
Net cash (used in) provided by operating activities	(1,654,330)	81,819
	-----	-----
INVESTING ACTIVITIES:		
Sales of investments	9,239,075	2,073,718
Purchases of property and equipment	(852,906)	(607,354)
Payments of patent costs	(65,587)	(121,665)
Payments of product design costs	(485,120)	(358,592)
Payments for other intangibles	--	(173,384)
Acquisition of business, net of cash acquired	(5,306,057)	--
	-----	-----
Net cash provided by investing activities	2,529,405	812,723
	-----	-----
FINANCING ACTIVITIES:		
Payments on debt	--	(331,435)
Proceeds from issuance of common stock, net	225,228	148,156
Acquisition of treasury stock	(150,625)	--
	-----	-----
Net cash provided by (used in) financing activities	74,603	(183,279)
	-----	-----
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(32,868)	(147,767)
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS	916,810	563,496
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	717,498	1,183,656
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,634,308	\$ 1,747,152
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 11,099	\$ 1,945
	=====	=====
Cash paid for income taxes	\$ 492,749	\$ --
	=====	=====
Noncash financing activities:		
Acquisition of business:		
Fair value of assets acquired	\$ 17,667,382	
Common stock issued	10,395,000	
Liabilities assumed	(1,614,000)	

See accompanying notes to condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1999

NOTE A - DESCRIPTION OF ORGANIZATION AND BUSINESS

FARO Technologies Inc. and Subsidiaries (the "Company") develops, manufactures, markets and supports Computer Aided Design (CAD)-based quality assurance products and CAD-based inspection and statistical process control software.

On May 15, 1998 the Company acquired all the stock of privately held CATS Computer Aided Technologies, Computeranwendungen in der Fertigungssteuerung, GmbH ("CATS") of Karlsruhe, Germany for \$5 million in cash, 916,668 shares of common stock of the Company, plus the right to receive up to an additional 333,332 shares of Company common stock if CATS meets certain performance goals. In addition, the Company assumed certain of CATS outstanding liabilities. CATS develops, markets and supports 3-D measurement retrofit and statistical process control software used in both mainframe and PC based CAD environments. The acquisition was treated as a purchase for accounting purposes.

The Company has three wholly owned operating subsidiaries, FARO Worldwide, Inc., Faro Europe GmbH and Co. KG, a German company, and Antares LDA, a Portuguese company. In connection with a restructuring of legal entities in Europe, effective January 1, 1999, CATS was consolidated under the name of Faro Europe GmbH and Co. KG.

NOTE B - BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and footnote disclosure required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated financial position and operating results for the interim periods have been included. The consolidated results of operations for the three and nine months ended September 30, 1999 are not necessarily indicative of results that may be expected for the year ending December 31, 1999. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company as of December 31, 1997 and 1998, and for each of the three years in the period ended December 31, 1998 included in the Company's Annual Report to Stockholders included by reference within the Company's Annual Report on Form 10-K and in conjunction with the Form S-1, as amended, dated August 7, 1998.

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

Certain prior year amounts have been reclassified to conform to current year presentation.

NOTE C - ACQUISITION OF CATS

The operating results of CATS have been included in the consolidated statements since May 15, 1998, the date of the acquisition. The following unaudited pro forma results of operations are presented for

informational purposes assuming that the Company had acquired CATS as of January 1, 1998. The \$3.2 million charge off for in process research and development has been excluded from the pro forma results as it represents a material non-recurring charge.

	NINE MONTHS ENDED SEPTEMBER 30, 1998

Revenues	\$ 20,200,000
Net income (loss)	(1,798,000)
Income (loss) per share:	
Basic	\$ (.16)
Diluted	\$ (.16)

The pro forma results of operations have been provided for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred on the date indicated, or which may result in the future.

NOTE D - 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 SEPTEMBER 30,	1998		1999	
	SHARES	PER-SHARE AMOUNT	SHARES	PER-SHARE AMOUNT
	-----	-----	-----	-----
Basic EPS				
Weighted-Average Shares	11,028,890	\$ (.25)	11,017,810	\$ (.15)
Effect of Dilutive Securities				
Stock Options	-----		-----	
Diluted EPS				
Weighted-Average Shares and Assumed Conversions	11,028,890 =====	\$ (.25)	11,017,810 =====	\$ (.15)
Nine months ended September 30,	1998		1999	
	SHARES	PER-SHARE AMOUNT	SHARES	PER-SHARE AMOUNT
	-----	-----	-----	-----
Basic EPS				
Weighted-Average Shares	10,506,189	\$ (.33)	11,013,885	\$ (.27)
Effect of Dilutive Securities				
Stock Options	-----		-----	
Diluted EPS				
Weighted-Average Shares and Assumed Conversions	10,506,189 =====	\$ (.33)	11,013,885 =====	\$ (.27)

NOTE E - SEGMENT GEOGRAPHIC DATA

The Company develops, manufactures, markets and supports Computer Aided Design (CAD)-based quality assurance products and CAD-based inspection and statistical process control software. This one line of business represents more than 99% of consolidated sales. The Company operates through sales teams established by geographic area. Each team is equipped to deliver the entire line of Company products to customers within its geographic area. The Company has aggregated the sales teams into a single operating segment as a result of the similarities in the nature of products sold, the type of customers and the methods used to distribute the Company's products. The following table presents information about the Company by geographic area:

SALES:	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1999	1998	1999
United States	\$ 2,496,012	\$ 2,297,742	\$10,664,459	\$10,449,564
Germany	1,303,421	1,849,935	3,296,021	5,100,516
United Kingdom	264,037	450,032	1,368,561	1,791,406
Canada	158,977		1,108,009	
Other foreign	749,735	2,427,296	2,939,141	5,199,451
	-----	-----	-----	-----
Total	\$ 4,972,182	\$ 7,025,005	\$19,376,191	\$22,540,937
	=====	=====	=====	=====

LONG-LIVED ASSETS (NET)	DECEMBER 31, 1998	SEPTEMBER 30, 1999
UNITED STATES	\$ 2,707,920	\$ 3,058,709
GERMANY	11,592,360	9,726,073
OTHER FOREIGN	46,103	42,615
	-----	-----
TOTAL	\$14,346,383	\$12,827,397
	=====	=====

PART I. FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING INFORMATION SHOULD BE READ IN CONJUNCTION WITH THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY, INCLUDING THE NOTES THERETO, INCLUDED ELSEWHERE IN THIS FORM 10-Q, AND THE MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS INCLUDED IN THE COMPANY'S QUARTERLY REPORTS ON FORM 10-Q DATED MAY 14, 1999 AND AUGUST 13, 1999.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 1999 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1998

SALES. Sales increased \$2.1 million, or 41.3%, from \$5.0 million for the three months ended September 30, 1998 to \$7.0 million for three months ended September 30, 1999. The increase was due to increases in product sales in the United States (\$1.3 million) and in the three European countries where the Company has sales offices (\$757,000).

GROSS PROFIT. Gross profit increased \$1.1 million, or 44.7%, from \$2.5 million for the three months ended September 30, 1998 to \$3.6 million for the three months ended September 30, 1999. Gross margin increased to 51.7% for the three months ended September 30, 1999 from 50.5% for the three months ended September 30, 1998. The increase in gross margin was primarily a result of smaller price discounts in the three months ended September 30, 1999, partially offset by fewer sales of higher margin software.

SELLING EXPENSES. Selling expenses decreased \$45,000, or 1.6%, from \$2.9 million for the three months ended September 30, 1998 to \$2.8 million for the three months ended September 30, 1999. This decrease was primarily a result of lower selling expenses in the United States (\$373,000), partially offset by an increase in selling expenses in Europe (\$327,000).

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased \$660,000, or 77.5%, from \$852,000 for the three months ended September 30, 1998 to \$1.5 million for the three months ended September 30, 1999. The increase was due to increases across many categories related to the company's expansion in the United States and Europe. The Company's United States operations accounted for \$492,000 of the increase, including increases in professional and legal (\$158,000), salaries (\$111,000), subcontractor expenses (\$60,000), telecommunications (\$47,000) and hiring and training costs (\$43,000). Expenses in Europe increased primarily as a result of staffing additions (\$160,000).

DEPRECIATION AND AMORTIZATION EXPENSES. Depreciation and amortization expenses decreased \$159,000, or 15.3%, from \$1.0 million for the three months ended September 30, 1998 to \$880,000 for the three months ended September 30, 1999. This decrease was primarily due to the completion of the amortization of existing product technology in 1998.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased \$157,000, or 21.3%, from \$738,000 for the three months ended September 30, 1998 to \$895,000 for the three months ended September 30, 1999. The increase was primarily due to increases in salaries (\$106,000) in the United States, and expenses in Europe (\$85,000).

INTEREST INCOME. Interest income decreased \$50,000, or 23.3%, from \$216,000 for the three months ended September 30, 1998, to \$165,000 for the three months ended September 30, 1999. The decrease was primarily attributable to a decrease in the amount of interest-earning cash, cash equivalents, and investments.

INCOME TAX BENEFIT. Income tax benefit increased \$406,000 from \$56,000 for the three months ended September 30, 1998, to \$462,000 for the three months ended September 30, 1999. The tax

benefit in the three months ended September 30, 1999 resulted from tax benefits in the United States (\$416,000) and Europe (\$46,000).

NET LOSS. Net loss decreased \$1.1 million from \$2.7 million for the three months ended September 30, 1998 to \$1.7 million for the three months ended September 30, 1999 due to the factors stated above.

NINE MONTHS ENDED SEPTEMBER 30, 1999 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1998

SALES. Sales increased \$3.2 million, or 16.3%, from \$19.4 million for the nine months ended September 30, 1998 to \$22.5 million for the nine months ended September 30, 1999. The increase was primarily a result of an increase in product sales in Germany (\$2.5 million), primarily as a result of the Company's acquisition of CATS in May 1998.

GROSS PROFIT. Gross profit increased \$1.5 million, or 13.2%, from \$11.5 million for the nine months ended September 30, 1998 to \$13.0 million for the nine months ended September 30, 1999. Gross margin decreased to 57.5% for the nine months ended September 30, 1999 from 59.1% for the nine months ended September 30, 1998. The decrease in gross margin was primarily a result of a decrease in the average selling price of the Company's FAR0Arm products, beginning in September 1998.

SELLING EXPENSES. Selling expenses increased \$1.5 million, or 21.8%, from \$6.7 million for the nine months ended September 30, 1998 to \$8.1 million for the nine months ended September 30, 1999. This increase was a result of the Company's expansion of sales and marketing staff and activities, including those resulting from the Company's acquisition of CATS in May 1998.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased \$2.1 million, or 104.2%, from \$2.0 million for the nine months ended September 30, 1998 to \$4.0 million for the nine months ended September 30, 1999. The increase from the Company's United States operations was \$1.2 million, including increases in salaries (\$530,000), professional and legal expenses (\$408,000) and subcontractor expenses (\$190,000). The increase in the Company's European operations was \$811,000, primarily from the addition of CATS in May 1998.

DEPRECIATION AND AMORTIZATION EXPENSES. Depreciation and amortization expenses increased \$889,000, or 51.7%, from \$1.7 million for the nine months ended September 30, 1998 to \$2.6 million for the first nine months of 1999. This increase was primarily due to the amortization expenses related to the intangible assets associated with the Company's acquisition of CATS.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased \$1.0 million or 65.6%, from \$1.6 million for the nine months ended September 30, 1998 to \$2.6 million for the nine months ended September 30, 1999. The increase was primarily due to increases in salaries in the United States of \$555,000, and an increase in expenses in Europe of \$644,000, resulting from the Company's acquisition of CATS, offset in part by a reduction in other research and development expenses in the United States of \$176,000.

IN-PROCESS RESEARCH AND DEVELOPMENT RESULTING FROM ACQUISITION. In-process research and development expenses of \$3.2 million were recorded in the second quarter of 1998 related to the acquisition of CATS.

INTEREST INCOME. Interest income decreased \$316,000, or 37.7%, from \$839,000 for the nine months ended September 30, 1998, to \$522,000 for the nine months ended September 30, 1999. The decrease was primarily attributable to a decrease in the amount of interest-earning cash, cash equivalents, and investments.

INCOME TAX EXPENSE (BENEFIT). Income tax expense decreased \$1.1 million, or 229.1%, from expense of \$481,000 for the nine months ended September 30, 1998, to a benefit of \$621,000 for the nine months ended September 30, 1999. The Company had income tax expense for the nine months ended September 30, 1998 due to U. S. taxable income and the writeoff of the deferred tax asset relating to

German net operating loss carryforwards. The Company had a net tax benefit for the nine months ended September 30, 1999, primarily due to the generation of U. S. taxable losses.

NET LOSS. Net loss decreased \$458,000 from \$3.4 million for the nine months ended September 30, 1998 to \$3.0 million for the nine months ended September 30, 1999, due to the factors stated above.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended September 30, 1999, net cash provided by operating activities was \$82,000 compared to cash used in operating activities of \$1.7 million for the nine months ended September 30, 1998. The increase was due to decreases in accounts receivable and increases in accounts payable and accrued liabilities. Net cash provided by investing activities was \$813,000 for the nine months ended September 30, 1999, compared to net cash provided by investing activities of \$751,000 for the nine months ended September 30, 1998. Net cash used in financing activities for the nine months ended September 30, 1999 was \$183,000 compared to net cash provided of \$75,000 for the nine months ended September 30, 1998. This increase was due to payments on debt during the nine months ended September 30, 1999.

In April 1997, the Company obtained a one-year unsecured \$1.0 million line of credit which bears interest at the 30-day commercial paper rate plus 2.65% per annum. There were no outstanding borrowings under this loan agreement at September 30, 1999.

The Company's principal commitments at September 30, 1999 were leases on its headquarters and regional offices and a loan commitment to the two former shareholders of CATS (see Part II, Item 5, Other Information). There were no material commitments for capital expenditures at that date. The Company believes that its cash, investments, cash flows from operations and funds available from its credit facilities will be sufficient to satisfy its working capital, loan commitment and capital expenditure needs at least through 1999.

FOREIGN EXCHANGE EXPOSURE

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

YEAR 2000

The Company has invested significant resources in the latest information technologies over the past five years and therefore has minimized the effect of Year 2000 issues. Management initiated a program to evaluate all internal computer systems and applications, and products with computer systems and determined the adjustments necessary to become Year 2000 compliant. Management believes that existing internal resources are sufficient to correct any internal systems deficiencies that have or may be determined. The Company has completed compliance of internal computer systems, applications, and products. A final roll-over test of the Company's headquarters' internal computer systems will be held by November 30, 1999. The Company has received positive responses from its major customers and substantially all of its suppliers regarding their Year 2000 readiness. However, there can be no assurance that the systems of other companies on which the Company relies will be timely corrected, or that any failure by another company to correct such systems would not have a material adverse effect on the Company. Contingency plans have been developed to be implemented in the event any information

technology system, non-information technology system, third party or supplier is not Year 2000 compliant in a timely manner.

The total cost to the Company of these Year 2000 Compliance activities has not been and is not anticipated to be material to its financial position or results of operations in a given year. This is based on Management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party modification plans, and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ from those plans. The Company does not separately track the internal costs incurred on Year 2000 Compliance activities, and such costs are principally the payroll costs of employees participating in these activities.

EFFECTS OF INFLATION

Inflation generally affects the Company by increasing the cost of labor, equipment and raw materials. The Company does not believe that inflation has had any material effect on the Company's business over the last three years.

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."

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On May 15, 1998, the Company acquired CATS Computer Aided Technologies, GmbH ("CATS"), a company based in Karlsruhe, Germany that develops, markets, and supports 3-D measurement retrofit and statistical process control software. The CATS acquisition agreement provided that the Company would provide a loan to the two former shareholders of CATS to fund their tax liability in connection with the shares of FARO common stock that they received in the acquisition. The former CATS shareholders remain key employees of the Company.

Pursuant to a Loan Agreement dated August 2, 1999 with each of the former CATS shareholders, the Company has agreed to loan to the former CATS shareholders an amount equal to their tax obligation to the German tax authorities in connection with the acquisition of CATS. The aggregate amount of the loans is estimated to be approximately \$2 million. The Company is not obligated to provide the loans until the German tax authorities request payment for the tax from the former CATS shareholders, which has not yet occurred. Moreover, the loan commitment will cease if the Company's share price rises to \$11.34 per share (the price establishing the tax liability) for several consecutive days.

If the loans are made, they will be for a term of three years, at an interest rate of approximately 4.3%, with an option for the borrower to extend the term for an additional three years. As collateral for the loans, the former CATS shareholders will pledge to the Company the number of shares of Company common stock equal to the amount of the loan divided by \$6.375. If the amount of the loans is \$ 2 million, the loans will be secured by 313,725 shares. The loans will be a non-recourse obligation of the former CATS shareholders.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a.) Exhibits

EXHIBIT NO.	DESCRIPTION
27.1	Financial Data Schedule (FOR SEC USE ONLY)

- 99.1 Loan Agreement dated August 2, 1999 between FARO Technologies, Inc. and Wendelin Karl Johannes Scharbach
- 99.2 Loan Agreement dated August 2, 1999 between FARO Technologies, Inc. and Siegfried Kurt Buss

b.) Reports on Form 8-K

None

SIGNATURES

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

Date: November 12, 1999

FARO TECHNOLOGIES, INC.
(Registrant)

By: /s/ STUART W. JONES

Stuart W. Jones
Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal
Financial Officer)

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
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99.2	Loan Agreement dated August 2, 1999 between FARO Technologies, Inc. and Siegfried Kurt Buss

LOAN AGREEMENT

THIS LOAN AGREEMENT (the "Agreement") is dated and entered into as of August 2, 1999, by and between FARO TECHNOLOGIES, INC., a Florida corporation ("Lender"), whose current mailing address is 125 Technology Park, Lake Mary, Florida 32746, and WENDELIN KARL JOHANNES SCHARBACH, an individual resident of the Federal Republic of Germany ("Borrower"), whose current mailing address is Schwarzwaldstrasse 94, 68163 Mannheim, Germany.

In consideration of the Loan described below and the mutual covenants and agreements contained herein, and intending to be legally bound hereby, Borrower and Lender agree as follows:

1. LOAN. Lender hereby agrees to make a loan (the "Loan") to Borrower in an aggregate principal face amount of such number of United States Dollars that is necessary to enable Borrower to satisfy his tax obligations to the competent German tax authority as a result of Borrower's receipt of 458,334 shares of the issued and outstanding common stock of the Lender (which shares Borrower received in connection with the May 15, 1998 transaction more fully described in Section 4 below). To evidence his obligation to repay the Loan, and to otherwise induce Lender to make the Loan, Borrower shall execute and deliver to Lender a Promissory Note, Stock Pledge Agreement, Affidavit and Indemnity Agreement, Stock Power and UCC-1 Financing Statement in the forms attached hereto as EXHIBITS A, B, C, D and E, respectively (together, the "Loan Documents"). Lender will be obligated to make the Loan to Borrower within three (3) business days after Borrower presents written evidence to Lender that the competent German tax authority has requested payment of the tax obligations described in Section 4 of this Agreement.

2. LENDER'S COMMITMENT. Lender's obligation to extend the Loan to Borrower is a valid, legal, irrevocable and binding corporate obligation which shall not be rescinded or withdrawn in the event of a change of Lender's present management or ownership.

3. TERMS AND CONDITIONS OF LOAN. The Loan shall be governed by the following terms and conditions in addition to all terms and conditions set forth in the Loan Documents.

A. PAYMENT.

i. Notwithstanding any contrary provision set forth herein or in any document related hereto, Borrower shall be obligated to pay all outstanding principal, together with all then accrued and unpaid interest under the Loan, on or before the earlier of (a) the end of the three year period that commences on the date the Borrower executes and delivers the Loan Documents to Lender, or (b) that date when the preceding five (5) trading days of the Lender's common stock yields an average closing price of \$11.34 per share (each such date hereinafter referred to as the "Maturity Date"). On such Maturity Date as defined in Section 3A(i)(b), it shall be within Borrower's discretion to repay the Loan either in cash, or, in lieu thereof, with shares of the common stock of Lender at an agreed upon price of \$11.34 per share. For the purpose of repaying the Loan with shares of the Lender's common stock as provided for in this Section 3A(i), Borrower shall be required to utilize that portion of the Collateral (as defined in Section 3E below) which is equal in value to the Loan obligation being repaid.

ii. Notwithstanding the foregoing, in the event the Loan is still outstanding at end of the three year period that commences on the date Borrower executes and delivers the Loan Documents to the Lender, Borrower shall have the option of either: (a) requiring Lender to renew or extend the Loan for an additional term of three (3) years or (b) canceling the Loan, effective as of the three year anniversary date, by providing Lender with written notice in accordance with the provisions of Section 10 below, and in exchange for such cancellation Borrower shall irrevocably authorize Lender to dispose of the Collateral in accordance with the terms and conditions of Section 9 below. The parties hereby agree that the three year anniversary date shall be the date which coincides with the end of the three year period that commences on the date Borrower executes and delivers the Loan Documents to the Lender, and if Borrower elects to cancel the loan effective as of such date, the date shall hereinafter be referred to as the "Anniversary Cancellation Date." If on the Anniversary Cancellation Date, the value of the Collateral is less than the sum of: (i) the outstanding principal balance of the Loan; (ii) any accrued but unpaid interest on the Loan; (iii) any fees authorized and due and owing to Lender pursuant to the Promissory Note; and (iv) any costs and expenses authorized and due and owing to Lender pursuant to the Promissory Note, Borrower shall not be required to pay to Lender the amount by which the sum of items (i) through (iv) exceeds the value of the Collateral. On the other hand, if on the Anniversary Cancellation Date, the value of the Collateral exceeds the sum of items (i) through (iv), Lender shall be required to release and return to

Borrower, free and clear of all liens and encumbrances, the portion of the Collateral which exceeds the sum of items (i) through (iv). For purposes of determining the value of the Collateral on the Anniversary Cancellation Date, the parties shall utilize the closing price of the shares of Lender's common stock (as traded on the NASDAQ National Market) on that particular date, or, if that date is not a trading day on the NASDAQ National Market, the immediately preceding trading day.

iii. All Shares used by Borrower to repay the Loan pursuant to the provisions of Section 3A(i) above, as well as all Shares comprising the Collateral used by Borrower to compensate Lender for the cancellation of the Loan pursuant to the provisions of Section 3A(ii) above, shall be subject to sale by Lender on Borrower's behalf in accordance with the terms and conditions of Section 9 below, and Borrower shall cooperate with Lender in effecting any such sale.

B. INTEREST.

i. Except as otherwise provided in Section 5 of the Promissory Note, interest shall accrue on the outstanding principal balance of the Loan at a rate that is equal to the sum of (a) the EURIBOR rate that is in effect at 10:00 A.M. on the date of this Agreement (and which is applicable to loans with a maturity date of one year); and (b) 1.57%. Interest on the outstanding principal balance of the Loan shall be paid annually, on the last business day in December of each year, until the entire principal is paid.

ii. Interest shall be calculated on the basis of a 360 day year based upon the actual number of days elapsed. No interest shall accrue after the Maturity Date (as defined in Section 3A(i) above), the Anniversary Cancellation Date (as defined in Section 3A(ii) above), or the Cancellation Date (as defined in Section 8 below).

iii. The total liability of Borrower under the Loan for payment of interest shall not exceed any limitations imposed on the payment of interest by applicable usury laws. If any interest is received or charged in excess of that amount, Borrower shall be entitled to a refund of the excess.

iv. Upon the occurrence of an Event of Default under the Promissory Note, interest shall accrue at the Default Rate thereunder set forth notwithstanding the provisions of this section.

C. PREPAYMENT. The Borrower shall be entitled to prepay the Loan in whole or in part at any time without penalty.

D. APPLICATION OF PAYMENTS. All payments under the Promissory Note shall be applied first to the Lender's costs and expenses, then to fees authorized thereunder, then to interest and then to principal.

E. GRANT OF SECURITY INTEREST. To secure the due and punctual payment of the Loan and all of his other liabilities to Lender arising in connection with the Loan, and all reasonable costs and expenses incurred by Lender in connection with enforcement or collection of the Loan or any liability of Borrower in connection therewith (including reasonable legal fees and expenses incurred in trial, appellate, bankruptcy, and judgment-execution proceedings) and all reasonable costs and expenses incurred in connection with realizing on the value of the Collateral (including appraisal fees, broker-dealer fees, and legal fees incurred in trial, appellate, bankruptcy, and judgment-execution proceedings), Borrower shall pledge, hypothecate, assign,

convey and grant to Lender a first lien and security interest (collectively, the "Security Interest") in the following:

- i. Such number of shares (the "Shares") of the issued and outstanding common stock of FARO Technologies, Inc., a Florida corporation, which is arrived at as a result of dividing (i) the original principal sum of the Note (stated in US dollars) by (ii) US \$6.375; the denominator of US \$6.375 being the closing price of each share of Lender's common stock (as traded on the NASDAQ National Market) on March 31, 1999.
- ii. All dividends, additional shares or other property or securities that are receivable or otherwise distributable at any time and from time to time in respect of, or in exchange or substitution for, the Shares and all profits therefrom; and
- iii. All proceeds of the foregoing.

As used herein, the term "Collateral" refers to all the property described in this Section 3E, as well as any portion or any interest in it.

4. PURPOSE OF LOAN. The purpose of the Loan will be to enable Borrower to timely satisfy his obligation to pay certain taxes in the Federal Republic of Germany in connection with Borrower's sale on May 15, 1998 of all of his right, title and interest in and to the "Quotas" (defined to mean all of the then issued and outstanding capital stock of Cats computer aided technologies, Computeranwendungen in der Fertigungssteuerung GmbH, a limited liability company organized under the laws of the Federal Republic of Germany). The parties hereby acknowledge that, as part of the consideration (the "Consideration") paid to Borrower in connection with his sale on May 15, 1998 of all of his right, title and interest in and to the Quotas, Borrower received 458,334 shares of the issued and outstanding common stock of Lender at or immediately subsequently to the closing of that stock sale transaction. Lender will make a loan (the "Loan") to Borrower in an aggregate principal amount of such number of United States Dollars that is equal to the amount of taxes that Borrower is required to pay to the competent German tax authority in connection with and as a result of the 458,334 shares of Lender's common stock received by Borrower at or immediately subsequently to the closing of the stock sale transaction. Lender will be obligated to make the Loan to Borrower within three (3) business days after Borrower presents written evidence to Lender that the competent German tax authority has requested payment of the tax obligations.

5. REPRESENTATIONS AND WARRANTIES. Borrower hereby represents and warrants to lender as follows:

A. AUTHORITY AND COMPLIANCE. Borrower has full power and authority to execute and deliver this Agreement and the Loan Documents and to incur and perform the obligations provided for therein. No consent or approval of any public authority or other third party is required as a condition to the validity of this Agreement or any of the Loan Documents, and Borrower is in compliance with all laws and regulatory requirements to which they are subject.

B. BINDING AGREEMENT. This Agreement and the Loan Documents executed by Borrower constitute valid and legally binding obligations of Borrower, enforceable in accordance with their terms.

C. LITIGATION. There is no proceeding involving Borrower pending or, to the knowledge of Borrower, threatened before any court or governmental authority, agency or arbitration authority, except as disclosed to Lender in writing and acknowledged by Lender prior to the date of this Agreement.

D. NO CONFLICTING AGREEMENTS. There is no charter, bylaw, stock provision, partnership agreement or other document pertaining to the power or authority of Borrower and no provision of any existing agreement, mortgage, indenture or contract binding on Borrower or affecting his property, which would conflict with or in any way prevent the execution, delivery or carrying out of the terms of this Agreement and the Loan Documents.

E. OWNERSHIP OF COLLATERAL. Borrower has good title to the collateral that will secure the loan, and the collateral is, and will be kept, free and clear of liens, except those to be granted to Lender pursuant to the Stock Pledge Agreement attached hereto in the form of EXHIBIT B.

6. DEFAULT. Borrower shall be in default under this Agreement and under each of the Loan Documents if he shall default in the payment of any amounts due and owing to Lender pursuant to the Loan Documents or should he fail to timely and properly observe, keep or perform any term, covenant, agreement or condition in any Loan Document or in any other loan agreement, promissory note, security agreement, deed of trust, deed to secure debt, mortgage, assignment or other contract securing or evidencing payment of any indebtedness of Borrower to Lender or any affiliate or subsidiary of Lender.

7. REMEDIES UPON DEFAULT. If an event of default shall occur, Lender shall have all rights, powers and remedies available under each of the Loan Documents as well as all rights and remedies available at law or in equity.

8. BORROWER'S OPTION TO CANCEL LOAN. Notwithstanding anything to the contrary in any document or agreement between Borrower and Lender, Borrower shall have the option, in his sole discretion, at anytime, to cancel the Loan, and in exchange for such cancellation Borrower shall irrevocably authorize Lender to dispose of the Collateral in accordance with the terms and conditions of Section 9 below. For purposes of this Section 8, the "Date of Cancellation" shall be the date on which Lender receives a written notice from Borrower to cancel the Loan. The written notice shall be furnished in accordance with the notice provisions of Section 10 below. PROVIDED, HOWEVER, that if on the Date of Cancellation, the value of the Collateral is less than the sum of (i) the outstanding principal balance of the Loan; (ii) any accrued but unpaid interest on the Loan; (iii) any fees authorized and due and owing to Lender pursuant to the Promissory Note; and (iv) any costs and expenses authorized and due and owing to Lender pursuant to the Promissory Note, Borrower shall be required to pay to Lender the amount by which the sum of items (i) through (iv) listed in this Section 8 exceeds the value of the Collateral. Borrower shall have the option of making the payment herein provided for to

Lender in either additional cash or additional shares of Lender's issued and outstanding common stock. If on the Date of Cancellation, the value of the Collateral exceeds the sum of items (i) through (iv) listed in this Section 8, Lender shall be required to release and return to Borrower, free and clear of all liens and encumbrances, the portion of the Collateral which exceeds the sum of items (i) through (iv) of this Section 8. For purposes of determining the value of the Collateral and additional shares on the Date of Cancellation, the parties shall utilize the closing price of the shares of Lender's common stock (as traded on the NASDAQ National Market) on the Date of Cancellation. Any Shares used by Borrower to compensate Lender in consideration for the cancellation of the Loan pursuant to the provisions of this Section 8 shall be subject to sale by Lender on Borrower's behalf pursuant to the terms and conditions of Section 9 below, and Borrower shall cooperate with Lender in effecting any such sale.

9. MECHANISM FOR SALE OF SHARES. The Shares to be pledged by Borrower to Lender pursuant to the Stock Pledge Agreement will, in part, consist of a portion of the 343,750 shares of Lender common stock registered with the United States Securities and Exchange Commission (the "SEC") pursuant to that certain S-1 Registration Statement dated and filed with the SEC on June 22, 1998 (the "Registered Shares"). The balance of the Shares to be pledged to Lender by Borrower pursuant to the Stock Pledge Agreement shall consist of shares of Lender's common stock that have not been registered with the SEC (the "Non-registered Shares"). It is also contemplated that if Borrower is required to utilize additional shares to compensate Lender pursuant to the provisions of Section 8 above or under any of the Loan Documents, Borrower will utilize Registered Shares and/or Non-registered Shares. If, in order to satisfy any of Borrower's obligations or commitments pursuant to any Loan Document, a sale must be made of any or all of the Registered Shares or Non-registered Shares pledged or otherwise delivered by Borrower to Lender, Borrower shall authorize Lender to make such sale as an agent of Borrower and on Borrower's behalf. Any sale of Registered Shares as provided for in this Section 9 shall be made pursuant to the S-1 Registration Statement, and shall be deemed to be a sale by Borrower through his duly appointed and authorized agent. Any sale of Non-Registered Shares as provided for in this Section 9 shall be made pursuant to and in satisfaction of the requirements of Rule 144 promulgated by the SEC under the Securities Act of 1933, as amended, and shall be deemed to be a sale by Borrower through his duly appointed and authorized agent. Lender shall have the right to keep and maintain custody of any and all proceeds of any sale of Registered Shares or Non-registered Shares in satisfaction of any sum due and owing to Lender pursuant to the Loan transaction. Borrower's appointment of Lender as his agent for purposes of this Section 9, and the authorization to be granted to Lender to sell Registered Shares and/or Non-registered Shares on behalf of Borrower, shall be set forth in the Promissory Note, Stock Pledge Agreement and Stock Power delivered to Lender along with the pledged Shares (and in the Stock Power alone, in the case of any additional shares delivered to Borrower). Further, Borrower shall covenant and agree to make all such reasonable arrangements, do and perform all such reasonable acts and things, execute and deliver all such certificates, documents and other instruments, and to take such further reasonable actions as Lender may deem necessary or advisable to effect the sale of Registered Shares pursuant to the S-1 Registration Statement, or Non-registered Shares in compliance with the requirements of Rule 144, as the case may be, as Borrower's agent and on Borrower's behalf.

10. NOTICES. All notices, requests or demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing, and may be by means of facsimile transmission, delivered to the other party at the following address:

If to Lender:

FARO Technologies, Inc.
125 Technology Park
Lake Mary, Florida 32746
Telecopy: (407) 333-4181

Attention: Gregory A. Fraser

With a copy to:

Foley & Lardner
100 North Tampa St., Suite 2700
Tampa, Florida 33602
Telecopy: (813) 221-4210

Attention: Martin A. Traber

If to Borrower:

Wendelin Karl Johannes Scharbach
Schwarzwaldstrasse 94
68163 Mannheim
Germany
Telecopy: 011 49 711 2222 444

With a copy to:

Hasche Eschenlohr Peltzer Riesenkampff Fischotter
Neidenau 68
60325 Frankfurt/Main
Germany
Telecopy: 011-49-69-71-701-230

Attention: Thomas Link

or to such other address as any party may designate by written notice to the other party. Each such notice, request and demand shall be deemed given or made as follows: (i) if sent by mail, upon the earlier of the date of receipt or five (5) days after deposit in the U.S. Mail, first class postage prepaid; (ii) if electronically transmitted, the next business day after transmission (and

the sender shall bear the burden of proof of delivery), or (iii) if sent by any other means, upon delivery.

11. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Lender immediately upon demand the full amount of all costs and expenses, including reasonable attorneys' fees (to include outside counsel fees) incurred by Lender in connection with Lender's enforcement of its rights hereunder or under the Loan Documents.

12. MISCELLANEOUS. Borrower and Lender further covenant and agree as follows, without limiting any requirement of any of the Loan Documents:

A. CUMULATIVE RIGHTS AND NO WAIVER. Each and every right granted to Lender under any Loan Document, or allowed it by law or equity shall be cumulative of each other and may be exercised in addition to any and all other rights of Lender, and no delay in exercising any right shall operate as a waiver thereof, nor shall any single or partial exercise by Lender of any right preclude any other or future exercise thereof or the exercise of any other right. Borrower expressly waives any presentment, demand, protest or other notice of any kind, including but not limited to notice of intent to accelerate and notice of acceleration. No notice to or demand on Borrower in any case shall, of itself, entitle Borrower to any other or future notice or demand in similar or other circumstances.

B. LEGAL MATTERS. The validity, construction, enforcement, and interpretation of this Agreement shall be governed by the laws of the State of Florida and the United States of America, without regard to principles of conflict of laws. Each party to this Agreement (a) consents to the personal jurisdiction of the state and federal courts having jurisdiction in Seminole County, Florida, (b) stipulates that the proper, exclusive, and convenient venue for any legal proceeding arising out of this Agreement is Seminole County, Florida, for state court proceedings, and the Middle District of Florida, Orlando Division, for federal district court proceedings, and (c) waives any defense, whether asserted by a motion or pleading, that Seminole County, Florida, or the Middle District of Florida, Orlando Division, is an improper or inconvenient venue. In any mediation, arbitration, or legal proceeding arising out of this Agreement, the losing party shall reimburse the prevailing party, on demand, for all costs incurred by the prevailing party in enforcing, defending, or prosecuting any claim arising out of this Agreement, including all fees, costs, and expenses of experts, attorneys, witnesses, collection agents, and supersedeas bonds, whether incurred before or after demand or commencement of legal proceedings, and whether incurred pursuant to trial, appellate, mediation, arbitration, bankruptcy, administrative, or judgment-execution proceedings.

C. LOAN TO BE DEEMED REPAYED. The Loan shall be deemed to have been repaid effective as of the earliest of: (i) the date on which Borrower prepays the Loan (as allowed under Section 3C above); (ii) the Maturity Date (as defined in Section 3A(i) above); (iii) the Anniversary Cancellation Date (as defined in Section 3A(ii) above); or (iv) the Cancellation Date (as defined in Section 8 above), so long as by the particular date Lender has received from Borrower any combination of cash and/or shares of Lender's stock sufficient to cover the then outstanding Loan obligations in accordance with the provisions of this Agreement. From and after the repayment date, Borrower shall have no obligations to Lender pursuant to or under this

Agreement or the Loan Documents, except for Borrower's obligation to cooperate with lender in disposing of the Collateral Shares (and any additional shares delivered to Lender) pursuant to the provisions of Section 9 above.

D. AMENDMENT. No modification, consent, amendment or waiver of any provision of this Agreement, nor consent to any departure by Borrower therefrom, shall be effective unless the same shall be in writing and signed by an officer of Lender, and then shall be effective only in the specified instance and for the purpose for which given. This Agreement is binding upon Borrower, his heirs, successors and assigns, and inures to the benefit of Lender, its successors and assigns; however, no assignment or other transfer of Borrower's rights or obligations hereunder shall be made or be effective without Lender's prior written consent, nor shall it relieve Borrower of any obligations hereunder. There is no third party beneficiary of this Agreement.

E. PARTIAL INVALIDITY. The unenforceability or invalidity of any provision of this Agreement shall not affect the enforceability or validity of any other provision herein and the invalidity or unenforceability of any provision of any Loan Document to any person or circumstance shall not affect the enforceability or validity of such provision as it may apply to other persons or circumstances.

13. NO ORAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

To the extent permitted by law, the Borrower agrees to and does hereby waive trial by jury in any action, proceeding, or counterclaim brought by either the Borrower or the Lender on any matters whatsoever arising out of or in any way connected with this Agreement or any claim of damage resulting from any act or omission of the Borrower or Lender or either of them in any way connected with this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed under seal by their duly authorized representatives as of the date first above written.

LENDER

FARO Technologies, Inc.

/s/ SIMON RAAB

Simon Raab
President

BORROWER

/s/ WENDELIN KARL JOHANNES SCHARBACH

Wendelin Karl Johannes Scharbach

LOAN AGREEMENT

THIS LOAN AGREEMENT (the "Agreement") is dated and entered into as of August 2, 1999, by and between FARO TECHNOLOGIES, INC., a Florida corporation ("Lender"), whose current mailing address is 125 Technology Park, Lake Mary, Florida 32746, and SIEGFRIED KURT BUSS, an individual resident of the Federal Republic of Germany ("Borrower"), whose current mailing address is Erbprinzenstr. 31, Karlsruhe, Deutschland 76133.

In consideration of the Loan described below and the mutual covenants and agreements contained herein, and intending to be legally bound hereby, Borrower and Lender agree as follows:

1. LOAN. Lender hereby agrees to make a loan (the "Loan") to Borrower in an aggregate principal face amount of such number of United States Dollars that is necessary to enable Borrower to satisfy his tax obligations to the competent German tax authority as a result of Borrower's receipt of 458,334 shares of the issued and outstanding common stock of the Lender (which shares Borrower received in connection with the May 15, 1998 transaction more fully described in Section 4 below). To evidence his obligation to repay the Loan, and to otherwise induce Lender to make the Loan, Borrower shall execute and deliver to Lender a Promissory Note, Stock Pledge Agreement, Affidavit and Indemnity Agreement, Stock Power and UCC-1 Financing Statement in the forms attached hereto as EXHIBITS A, B, C, D and E, respectively (together, the "Loan Documents"). Lender will be obligated to make the Loan to Borrower within three (3) business days after Borrower presents written evidence to Lender that the competent German tax authority has requested payment of the tax obligations described in Section 4 of this Agreement.

2. LENDER'S COMMITMENT. Lender's obligation to extend the Loan to Borrower is a valid, legal, irrevocable and binding corporate obligation which shall not be rescinded or withdrawn in the event of a change of Lender's present management or ownership.

3. TERMS AND CONDITIONS OF LOAN. The Loan shall be governed by the following terms and conditions in addition to all terms and conditions set forth in the Loan Documents.

A. PAYMENT.

i. Notwithstanding any contrary provision set forth herein or in any document related hereto, Borrower shall be obligated to pay all outstanding principal, together with all then accrued and unpaid interest under the Loan, on or before the earlier of (a) the end of the three year period that commences on the date the Borrower executes and delivers the Loan Documents to Lender, or (b) that date when the preceding five (5) trading days of the Lender's common stock yields an average closing price of \$11.34 per share (each such date hereinafter

referred to as the "Maturity Date"). On such Maturity Date as defined in Section 3A(i)(b), it shall be within Borrower's discretion to repay the Loan either in cash, or, in lieu thereof, with shares of the common stock of Lender at an agreed upon price of \$11.34 per share. For the purpose of repaying the Loan with shares of the Lender's common stock as provided for in this Section 3A(i), Borrower shall be required to utilize that portion of the Collateral (as defined in Section 3E below) which is equal in value to the Loan obligation being repaid.

ii. Notwithstanding the foregoing, in the event the Loan is still outstanding at end of the three year period that commences on the date Borrower executes and delivers the Loan Documents to the Lender, Borrower shall have the option of either: (a) requiring Lender to renew or extend the Loan for an additional term of three (3) years or (b) canceling the Loan, effective as of the three year anniversary date, by providing Lender with written notice in accordance with the provisions of Section 10 below, and in exchange for such cancellation Borrower shall irrevocably authorize Lender to dispose of the Collateral in accordance with the terms and conditions of Section 9 below. The parties hereby agree that the three year anniversary date shall be the date which coincides with the end of the three year period that commences on the date Borrower executes and delivers the Loan Documents to the Lender, and if Borrower elects to cancel the loan effective as of such date, the date shall hereinafter be referred to as the "Anniversary Cancellation Date." If on the Anniversary Cancellation Date, the value of the Collateral is less than the sum of: (i) the outstanding principal balance of the Loan; (ii) any accrued but unpaid interest on the Loan; (iii) any fees authorized and due and owing to Lender pursuant to the Promissory Note; and (iv) any costs and expenses authorized and due and owing to Lender pursuant to the Promissory Note, Borrower shall not be required to pay to Lender the amount by which the sum of items (i) through (iv) exceeds the value of the Collateral. On the other hand, if on the Anniversary Cancellation Date, the value of the Collateral exceeds the sum of items (i) through (iv), Lender shall be required to release and return to Borrower, free and clear of all liens and encumbrances, the

portion of the Collateral which exceeds the sum of items (i) through (iv). For purposes of determining the value of the Collateral on the Anniversary Cancellation Date, the parties shall utilize the closing price of the shares of Lender's common stock (as traded on the NASDAQ National Market) on that particular date, or, if that date is not a trading day on the NASDAQ National Market, the immediately preceding trading day.

iii. All Shares used by Borrower to repay the Loan pursuant to the provisions of Section 3A(i) above, as well as all Shares comprising the Collateral used by Borrower to compensate Lender for the cancellation of the Loan pursuant to the provisions of Section 3A(ii) above, shall be subject to sale by Lender on Borrower's behalf in accordance with the terms and conditions of Section 9 below, and Borrower shall cooperate with Lender in effecting any such sale.

B. INTEREST.

i. Except as otherwise provided in Section 5 of the Promissory Note, interest shall accrue on the outstanding principal balance of the Loan at a rate that is equal to the sum of (a) the EURIBOR rate that is in effect at 10:00 A.M. on the date of this Agreement (and which is applicable to loans with a maturity date of one year); and (b) 1.57%. Interest on the outstanding principal balance of the Loan shall be paid annually, on the last business day in December of each year, until the entire principal is paid.

ii. Interest shall be calculated on the basis of a 360 day year based upon the actual number of days elapsed. No interest shall accrue after the Maturity Date (as defined in Section 3A(i) above), the Anniversary Cancellation Date (as defined in Section 3A(ii) above), or the Cancellation Date (as defined in Section 8 below).

iii. The total liability of Borrower under the Loan for payment of interest shall not exceed any limitations imposed on the payment of interest by applicable usury laws. If any interest is received or charged in excess of that amount, Borrower shall be entitled to a refund of the excess.

iv. Upon the occurrence of an Event of Default under the Promissory Note, interest shall accrue at the Default Rate thereunder set forth notwithstanding the provisions of this section.

C. PREPAYMENT. The Borrower shall be entitled to prepay the Loan in whole or in part at any time without penalty.

D. APPLICATION OF PAYMENTS. All payments under the Promissory Note shall be applied first to the Lender's costs and expenses, then to fees authorized thereunder, then to interest and then to principal.

E. GRANT OF SECURITY INTEREST. To secure the due and punctual payment of the Loan and all of his other liabilities to Lender arising in connection with the Loan, and all reasonable costs and expenses incurred by Lender in connection with enforcement or collection of the Loan or any liability of Borrower in connection therewith (including reasonable legal fees and expenses incurred in trial, appellate, bankruptcy, and judgment-execution proceedings) and all reasonable costs and expenses incurred in connection with realizing on the value of the Collateral (including appraisal fees, broker-dealer fees, and legal fees incurred in trial, appellate, bankruptcy, and judgment-execution proceedings), Borrower shall pledge, hypothecate, assign, convey and grant to Lender a first lien and security interest (collectively, the "Security Interest") in the following:

i. Such number of shares (the "Shares") of the issued and outstanding common stock of FARO Technologies, Inc., a Florida corporation, which is arrived at as a result of dividing (i) the original principal sum of the Note (stated in US dollars) by (ii) US \$6.375; the denominator of US \$6.375 being the closing price of each share of Lender's common stock (as traded on the NASDAQ National Market) on March 31, 1999.

ii. All dividends, additional shares or other property or securities that are receivable or otherwise distributable at any time and from time to time in respect of, or in exchange or substitution for, the Shares and all profits therefrom; and

iii. All proceeds of the foregoing.

As used herein, the term "Collateral" refers to all the property described in this Section 3E, as well as any portion or any interest in it.

4. PURPOSE OF LOAN. The purpose of the Loan will be to enable Borrower to timely satisfy his obligation to pay certain taxes in the Federal Republic of Germany in connection with Borrower's sale on May 15, 1998 of all of his right, title and interest in and to the "Quotas" (defined to mean all of the then issued and outstanding capital stock of Cats computer aided technologies, Computeranwendungen in der Fertigungssteuerung GmbH, a limited liability company organized under the laws of the Federal Republic of Germany). The parties hereby acknowledge that, as part of the consideration (the "Consideration") paid to Borrower in connection with his sale on May 15, 1998 of all of his right, title and interest in and to the Quotas, Borrower received 458,334 shares of the issued and outstanding common stock of Lender at or immediately subsequently to the closing of that stock sale transaction. Lender will make a loan (the "Loan") to Borrower in an aggregate principal amount of such number of United States Dollars that is equal to the amount of taxes that Borrower is required to pay to the competent German tax authority in connection with and as a result of the 458,334 shares of Lender's common stock received by Borrower at or immediately subsequently to the closing of the stock sale transaction. Lender will be obligated to make the Loan to Borrower within three (3) business days after Borrower presents written evidence to Lender that the competent German tax authority has requested payment of the tax obligations.

5. REPRESENTATIONS AND WARRANTIES. Borrower hereby represents and warrants to lender as follows:

A. AUTHORITY AND COMPLIANCE. Borrower has full power and authority to execute and deliver this Agreement and the Loan Documents and to incur and perform the obligations provided for therein. No consent or approval of any public authority or other third party is required as a condition to the validity of this Agreement or any of the Loan Documents, and Borrower is in compliance with all laws and regulatory requirements to which they are subject.

B. BINDING AGREEMENT. This Agreement and the Loan Documents executed by Borrower constitute valid and legally binding obligations of Borrower, enforceable in accordance with their terms.

C. LITIGATION. There is no proceeding involving Borrower pending or, to the knowledge of Borrower, threatened before any court or governmental authority, agency or arbitration authority, except as disclosed to Lender in writing and acknowledged by Lender prior to the date of this Agreement.

D. NO CONFLICTING AGREEMENTS. There is no charter, bylaw, stock provision, partnership agreement or other document pertaining to the power or authority of Borrower and no provision of any existing agreement, mortgage, indenture or contract binding on Borrower or affecting his property, which would conflict with or in any way prevent the execution, delivery or carrying out of the terms of this Agreement and the Loan Documents.

E. OWNERSHIP OF COLLATERAL. Borrower has good title to the collateral that will secure the loan, and the collateral is, and will be kept, free and clear of liens, except those to be granted to Lender pursuant to the Stock Pledge Agreement attached hereto in the form of EXHIBIT B.

6. DEFAULT. Borrower shall be in default under this Agreement and under each of the Loan Documents if he shall default in the payment of any amounts due and owing to Lender pursuant to the Loan Documents or should he fail to timely and properly observe, keep or perform any term, covenant, agreement or condition in any Loan Document or in any other loan agreement, promissory note, security agreement, deed of trust, deed to secure debt, mortgage, assignment or other contract securing or evidencing payment of any indebtedness of Borrower to Lender or any affiliate or subsidiary of Lender.

7. REMEDIES UPON DEFAULT. If an event of default shall occur, Lender shall have all rights, powers and remedies available under each of the Loan Documents as well as all rights and remedies available at law or in equity.

8. BORROWER'S OPTION TO CANCEL LOAN. Notwithstanding anything to the contrary in any document or agreement between Borrower and Lender, Borrower shall have the option, in his sole discretion, at anytime, to cancel the Loan, and in exchange for such cancellation Borrower shall irrevocably authorize Lender to dispose of the Collateral in accordance with the terms and conditions of Section 9 below. For purposes of this Section 8, the "Date of Cancellation" shall be the date on which Lender receives a written notice from Borrower to cancel the Loan. The written notice shall be furnished in accordance with the notice provisions of Section 10 below. PROVIDED, HOWEVER, that if on the Date of Cancellation, the value of the Collateral is less than the sum of (i) the outstanding principal balance of the Loan; (ii) any accrued but unpaid interest on the Loan; (iii) any fees authorized and due and owing to Lender pursuant to the Promissory Note; and (iv) any costs and expenses authorized and due and owing to Lender pursuant to the Promissory Note, Borrower shall be required to pay to Lender the amount by which the sum of items (i) through (iv) listed in this Section 8 exceeds the value of the Collateral. Borrower shall have the option of making the payment herein provided for to Lender in either additional cash or additional shares of Lender's issued and outstanding common stock. If on the Date of Cancellation, the value of the Collateral exceeds the sum of items (i) through (iv) listed in this Section 8, Lender shall be required to release and return to Borrower, free and clear of all liens and encumbrances, the portion of the Collateral which exceeds the sum of items (i) through (iv) of this Section 8. For purposes of determining the value of the Collateral and additional shares on the Date of Cancellation, the parties shall utilize the closing price of the shares of Lender's common stock (as traded on the NASDAQ National Market) on the Date of Cancellation. Any Shares used by Borrower to compensate Lender in consideration for the cancellation of the Loan pursuant to the provisions of this Section 8 shall be subject to sale by

Lender on Borrower's behalf pursuant to the terms and conditions of Section 9 below, and Borrower shall cooperate with Lender in effecting any such sale.

9. MECHANISM FOR SALE OF SHARES. The Shares to be pledged by Borrower to Lender pursuant to the Stock Pledge Agreement will, in part, consist of a portion of the 343,750 shares of Lender common stock registered with the United States Securities and Exchange Commission (the "SEC") pursuant to that certain S-1 Registration Statement dated and filed with the SEC on June 22, 1998 (the "Registered Shares"). The balance of the Shares to be pledged to Lender by Borrower pursuant to the Stock Pledge Agreement shall consist of shares of Lender's common stock that have not been registered with the SEC (the "Non-registered Shares"). It is also contemplated that if Borrower is required to utilize additional shares to compensate Lender pursuant to the provisions of Section 8 above or under any of the Loan Documents, Borrower will utilize Registered Shares and/or Non-registered Shares. If, in order to satisfy any of Borrower's obligations or commitments pursuant to any Loan Document, a sale must be made of any or all of the Registered Shares or Non-registered Shares pledged or otherwise delivered by Borrower to Lender, Borrower shall authorize Lender to make such sale as an agent of Borrower and on Borrower's behalf. Any sale of Registered Shares as provided for in this Section 9 shall be made pursuant to the S-1 Registration Statement, and shall be deemed to be a sale by Borrower through his duly appointed and authorized agent. Any sale of Non-Registered Shares as provided for in this Section 9 shall be made pursuant to and in satisfaction of the requirements of Rule 144 promulgated by the SEC under the Securities Act of 1933, as amended, and shall be deemed to be a sale by Borrower through his duly appointed and authorized agent. Lender shall have the right to keep and maintain custody of any and all proceeds of any sale of Registered Shares or Non-registered Shares in satisfaction of any sum due and owing to Lender pursuant to the Loan transaction. Borrower's appointment of Lender as his agent for purposes of this Section 9, and the authorization to be granted to Lender to sell Registered Shares and/or Non-registered Shares on behalf of Borrower, shall be set forth in the Promissory Note, Stock Pledge Agreement and Stock Power delivered to Lender along with the pledged Shares (and in the Stock Power alone, in the case of any additional shares delivered to Borrower). Further, Borrower shall covenant and agree to make all such reasonable arrangements, do and perform all such reasonable acts and things, execute and deliver all such certificates, documents and other instruments, and to take such further reasonable actions as Lender may deem necessary or advisable to effect the sale of Registered Shares pursuant to the S-1 Registration Statement, or Non-registered Shares in compliance with the requirements of Rule 144, as the case may be, as Borrower's agent and on Borrower's behalf.

10. NOTICES. All notices, requests or demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing, and may be by means of facsimile transmission, delivered to the other party at the following address:

If to Lender:

FARO Technologies, Inc.
125 Technology Park
Lake Mary, Florida 32746

Telecopy: (407) 333-4181

Attention: Gregory A. Fraser

With a copy to:

Foley & Lardner
100 North Tampa St., Suite 2700
Tampa, Florida 33602
Telecopy: (813) 221-4210

Attention: Martin A. Traber

If to Borrower:

Siegfried Kurt Buss
Erbprinzenstr. 31
Karlsruhe, Deutschland 76133
Telecopy: 011-49-711-2222-444
With a copy to:

Hasche Eschenlohr Peltzer Riesenkampff Fischotter
Neidenau 68
60325 Frankfurt/Main
Germany
Telecopy: 011-49-69-71-701-230

Attention: Thomas Link

or to such other address as any party may designate by written notice to the other party. Each such notice, request and demand shall be deemed given or made as follows: (i) if sent by mail, upon the earlier of the date of receipt or five (5) days after deposit in the U.S. Mail, first class postage prepaid; (ii) if electronically transmitted, the next business day after transmission (and the sender shall bear the burden of proof of delivery), or (iii) if sent by any other means, upon delivery.

11. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Lender immediately upon demand the full amount of all costs and expenses, including reasonable attorneys' fees (to include outside counsel fees) incurred by Lender in connection with Lender's enforcement of its rights hereunder or under the Loan Documents.

12. MISCELLANEOUS. Borrower and Lender further covenant and agree as follows, without limiting any requirement of any of the Loan Documents:

A. CUMULATIVE RIGHTS AND NO WAIVER. Each and every right granted to Lender under any Loan Document, or allowed it by law or equity shall be cumulative of each

other and may be exercised in addition to any and all other rights of Lender, and no delay in exercising any right shall operate as a waiver thereof, nor shall any single or partial exercise by Lender of any right preclude any other or future exercise thereof or the exercise of any other right. Borrower expressly waives any presentment, demand, protest or other notice of any kind, including but not limited to notice of intent to accelerate and notice of acceleration. No notice to or demand on Borrower in any case shall, of itself, entitle Borrower to any other or future notice or demand in similar or other circumstances.

B. LEGAL MATTERS. The validity, construction, enforcement, and interpretation of this Agreement shall be governed by the laws of the State of Florida and the United States of America, without regard to principles of conflict of laws. Each party to this Agreement (a) consents to the personal jurisdiction of the state and federal courts having jurisdiction in Seminole County, Florida, (b) stipulates that the proper, exclusive, and convenient venue for any legal proceeding arising out of this Agreement is Seminole County, Florida, for state court proceedings, and the Middle District of Florida, Orlando Division, for federal district court proceedings, and (c) waives any defense, whether asserted by a motion or pleading, that Seminole County, Florida, or the Middle District of Florida, Orlando Division, is an improper or inconvenient venue. In any mediation, arbitration, or legal proceeding arising out of this Agreement, the losing party shall reimburse the prevailing party, on demand, for all costs incurred by the prevailing party in enforcing, defending, or prosecuting any claim arising out of this Agreement, including all fees, costs, and expenses of experts, attorneys, witnesses, collection agents, and supersedeas bonds, whether incurred before or after demand or commencement of legal proceedings, and whether incurred pursuant to trial, appellate, mediation, arbitration, bankruptcy, administrative, or judgment-execution proceedings.

C. LOAN TO BE DEEMED REPAYED. The Loan shall be deemed to have been repaid effective as of the earliest of: (i) the date on which Borrower prepays the Loan (as allowed under Section 3C above); (ii) the Maturity Date (as defined in Section 3A(i) above); (iii) the Anniversary Cancellation Date (as defined in Section 3A(ii) above); or (iv) the Cancellation Date (as defined in Section 8 above), so long as by the particular date Lender has received from Borrower any combination of cash and/or shares of Lender's stock sufficient to cover the then outstanding Loan obligations in accordance with the provisions of this Agreement. From and after the repayment date, Borrower shall have no obligations to Lender pursuant to or under this Agreement or the Loan Documents, except for Borrower's obligation to cooperate with lender in disposing of the Collateral Shares (and any additional shares delivered to Lender) pursuant to the provisions of Section 9 above.

D. AMENDMENT. No modification, consent, amendment or waiver of any provision of this Agreement, nor consent to any departure by Borrower therefrom, shall be effective unless the same shall be in writing and signed by an officer of Lender, and then shall be effective only in the specified instance and for the purpose for which given. This Agreement is binding upon Borrower, his heirs, successors and assigns, and inures to the benefit of Lender, its successors and assigns; however, no assignment or other transfer of Borrower's rights or obligations hereunder shall be made or be effective without Lender's prior written consent, nor shall it relieve Borrower of any obligations hereunder. There is no third party beneficiary of this Agreement.

E. PARTIAL INVALIDITY. The unenforceability or invalidity of any provision of this Agreement shall not affect the enforceability or validity of any other provision herein and the invalidity or unenforceability of any provision of any Loan Document to any person or circumstance shall not affect the enforceability or validity of such provision as it may apply to other persons or circumstances.

13. NO ORAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

To the extent permitted by law, the Borrower agrees to and does hereby waive trial by jury in any action, proceeding, or counterclaim brought by either the Borrower or the Lender on any matters whatsoever arising out of or in any way connected with this Agreement or any claim of damage resulting from any act or omission of the Borrower or Lender or either of them in any way connected with this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed under seal by their duly authorized representatives as of the date first above written.

LENDER

FARO Technologies, Inc.

/s/ SIMON RAAB

Simon Raab
President

BORROWER

/s/ SIEGFRIED KURT BUSS

Siegfried Kurt Buss

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