AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 6, 1997
REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

FLORIDA	3829	59-3157093
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

125 TECHNOLOGY PARK
LAKE MARY, FLORIDA 32746
(407) 333-9911
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

GREGORY A. FRASER, PH.D.
EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
FARO TECHNOLOGIES, INC.
125 TECHNOLOGY PARK
LAKE MARY, FLORIDA 32746
(407) 333-9911
(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

MARTIN A. TRABER, ESQ. RUSSELL T. ALBA, ESQ. FOLEY & LARDNER 100 NORTH TAMPA STREET, SUITE 2700 TAMPA, FLORIDA 33602 (813) 229-2300	JEFFREY M. STEIN, ESQ. KING & SPALDING 191 PEACHTREE STREET, N.E. ATLANTA, GEORGIA 30303-1763 (404) 572-4600

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of this prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
Common Stock, $.001 par value...	2,645,000 shares	$12.00	$31,740,000	$9,618

(1) Includes 345,000 shares of Common Stock that would be purchased upon exercise of an over-allotment option granted to the Underwriters.
(2) Estimated solely for the purpose of calculating the registration fee

pursuant to Section 6(b) and Rule 457(o) of the Securities Act of 1933.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

==========

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED , 1997

2,300,000 SHARES

[FARO LOGO]
COMMON STOCK

Of the 2,300,000 shares of Common Stock offered hereby, 1,700,000 shares are being issued and sold by FARO Technologies, Inc. (the "Company") and 600,000 shares are being sold by certain shareholders of the Company (the "Selling Shareholders"). See "Principal and Selling Shareholders." The Company will not receive any proceeds from the sale of Common Stock by the Selling Shareholders.

Prior to this offering, there has been no public market for the Common Stock. It is currently estimated that the initial public offering price of the Common Stock will be between $10.00 and $12.00 per share. See "Underwriting" for information relating to the determination of the initial public offering price.

The Company has applied to have the Common Stock quoted on the Nasdaq Stock Market's National Market under the symbol "FARO."

SEE "RISK FACTORS" ON PAGES 6 THROUGH 10 FOR CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS(1)	PROCEEDS TO COMPANY(2)	PROCEEDS TO SELLING SHAREHOLDERS(2)
Per Share.....	$	$	$	$
Total(3).....	$	$	$	$

(1) Excludes additional compensation to be received by the Representatives of the Underwriters in the form of warrants. The Company and the Selling Shareholders have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933. See "Underwriting."
(2) Before deducting expenses, estimated at $500,000, payable by the Company.
(3) Certain Selling Shareholders have granted the Underwriters a 30-day option to purchase up to 345,000 additional shares of Common Stock on the same terms and conditions as the securities offered hereby solely to cover over-allotments, if any. If such option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions, Proceeds to Company and Proceeds to Selling Shareholders will be $, $, $ and $, respectively. See "Underwriting."

The shares of Common Stock are offered by the several Underwriters, subject to prior sale, when, as and if delivered to and accepted by them, and subject to other conditions including the right of the Underwriters to withdraw, cancel, modify or reject any order in whole or in part. It is expected that delivery of the shares will be made on or about , 1997, at the office of Raymond James & Associates, Inc., St. Petersburg, Florida.

RAYMOND JAMES & ASSOCIATES, INC. HANIFEN, IMHOFF INC.

The date of this Prospectus is , 1997.

3

The following six photographs appear here:

1. Individual using a FAROArm to measure a jet aircraft engine.

2. Individuals using a FAROArm to measure an automobile body during the manufacturing process.

3. Individual using a FAROArm to measure an automobile subcomponent during the manufacturing process.

4. Individual using a FAROArm to measure a contoured surface.

5. All six models of the FAROArm manufactured by the Company, including three different sizes of the Bronze Series FAROArm and three different sizes of the Silver Series FAROArm.

6. Close-up of a Silver Series FAROArm.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SECURITIES OFFERED HEREBY, INCLUDING OVER-ALLOTMENT AND STABILIZING TRANSACTIONS, THE PURCHASE OF SUCH SECURITIES TO COVER SYNDICATE SHORT POSITIONS AND THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and the Consolidated Financial Statements, including the notes thereto, appearing elsewhere in this Prospectus. Unless otherwise indicated, the information in this Prospectus (i) has been adjusted to reflect a 1 for 1.422272107 reverse split of the issued and outstanding shares of Common Stock effective at June 30, 1997, and (ii) assumes no exercise of the Underwriters' overallotment option. Investors should carefully consider the information set forth under the heading "Risk Factors." As used herein, the terms "FARO" and the "Company" refer to FARO Technologies, Inc. and its subsidiaries, except where the context indicates otherwise.

THE COMPANY

FARO Technologies, Inc. ("FARO" or the "Company") designs, develops, markets and supports portable, software-driven, three-dimensional ("3-D") measurement systems that are used in a broad range of manufacturing and industrial applications. The Company's principal products are the FAROArm(R) articulated measuring device and its companion AnthroCam(R) software. Together, these products integrate the measurement and quality inspection function with computer-aided design ("CAD"), computer-aided manufacturing ("CAM") and computer-aided engineering ("CAE") technology to improve productivity, enhance product quality and decrease rework and scrap in the manufacturing process. The Company's products bring precision measurement, quality inspection and specification conformance capabilities, integrated with leading CAD software, to the factory floor. The Company is a pioneer in the development and marketing of 3-D measurement technology for manufacturing and industrial applications and currently holds or has pending 18 patents in the United States, eight of which also are held or pending in other jurisdictions. The Company's products have been purchased by more than 600 customers worldwide, ranging from small machine shops to such large manufacturing and industrial companies as General Motors, Chrysler, Ford, Boeing, Lockheed Martin, General Electric, Westinghouse Electric, Caterpillar and Komatsu Dresser.

The processes of product design and manufacturing have evolved rapidly during the past decade through the adoption of 3-D software and CAD/CAM technology. This evolution has been driven by increasing global and competitive pressures for shorter product cycles, greater customization and higher quality and lower cost products. Despite such technological advances in design and manufacturing, the measurement and quality inspection function of the manufacturing process generally remains limited to manual, analog technology or traditional, fixed-based coordinate measurement machines ("CMMs") that are largely restricted to a metrology laboratory and often lengthen the manufacturing process. These global and competitive pressures have created a significant demand for measurement systems that bridge the gap between the virtual 3-D world of the CAD process and the physical 3-D world of the factory floor. The Company believes that the FAROArm(R) and AnthroCam(R) provide that bridge by integrating CAD/CAM technology into a manufacturer's design, production and measurement and quality inspection processes, serving a much broader range of the manufacturing process than traditional measurement tools.

The FAROArm(R) is a portable, six-axis, instrumented, articulated device that approximates the range of motion and dexterity of the human arm. AnthroCam(R) is the Company's proprietary companion software for the FAROArm(R). This CAD-based measurement software provides an interface between the FAROArm(R) and CAD technology for design, manufacturing and measurement and quality inspection applications. The Company's products provide its customers an affordable way to integrate CAD technology throughout the manufacturing process. These products are based on an open architecture and are designed to be used by shop personnel with minimal prior computer or CAD experience and to be operated in the often harsh environments typical of manufacturing facilities.

The Company's objective is to enhance its position as a leading provider of portable, software-driven, 3-D measurement systems. To achieve this objective, the Company has adopted the following principal strategies: (i) focus on the portable 3-D measurement market; (ii) further penetrate its installed customer base; (iii) increase international sales; (iv) leverage its technology; and (v) expand its product line and service offerings.

As a result of the implementation of the Company's strategies, total sales have increased from $4.5 million in 1994 to $14.7 million in 1996 and $10.3 million for the first six months of 1997. The Company's operating results have improved from an operating loss of $247,000 in 1994 to operating income of $2.7 million in 1996 and $2.1 million for the first six months of 1997.

The Company commenced operations in Canada in 1982 and reincorporated in Florida in 1992. The Company's executive offices and principal operating facilities are located at 125 Technology Park, Lake Mary, Florida 32746 and its telephone number is (407) 333-9911.

THE OFFERING

Common Stock offered by the Company.....	1,700,000 shares
Common Stock offered by the Selling Shareholders.....	600,000 shares
Common Stock to be outstanding after the Offering.....	8,700,000 shares(1)
Use of Proceeds.....	Repayment of indebtedness, capital expenditures, working capital and general corporate purposes, including possible acquisitions. See "Use of Proceeds."
Nasdaq National Market Symbol.....	FARO

- ---

(1) Excludes 383,513 shares of Common Stock issuable upon the exercise of outstanding stock options at a weighted average exercise price of $1.53 per share.

SUMMARY CONSOLIDATED FINANCIAL DATA

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
STATEMENT OF OPERATIONS DATA:					
Sales	$4,508,837	$9,862,242	$14,656,337	$6,460,113	$10,318,535
Cost of sales	2,222,085	4,987,779	6,486,268	2,744,994	4,188,280
Gross profit	2,286,752	4,874,463	8,170,069	3,715,119	6,130,255
Operating expenses:					
Selling	1,569,014	2,008,301	3,731,762	1,653,693	2,512,066
General and administrative	521,040	503,184	744,206	349,645	622,092
Depreciation and amortization	270,615	341,494	230,799	125,388	124,646
Research and development	173,400	363,871	730,124	236,539	394,839
Employee stock options(1)	--	106,700	23,100	11,550	364,146
Total operating expenses	2,534,069	3,323,550	5,459,991	2,376,815	4,017,789
Income (loss) from operations	(247,317)	1,550,913	2,710,078	1,338,304	2,112,466
Other income	11,706	62,212	25,145	7,814	46,067
Interest expense	(192,543)	(355,468)	(212,669)	(122,806)	(65,853)
Income (loss) before income taxes	(428,154)	1,257,657	2,522,554	1,223,312	2,092,680
Income tax expense (benefit)	--	(342,000)	1,115,892	541,152	837,072
Net income (loss)	$ (428,154)	$1,599,657	$ 1,406,662	$ 682,160	$ 1,255,608
Net income (loss) per common share and common equivalent share	$ (0.06)	$ 0.22(2)	$ 0.19	$ 0.09	$ 0.17
Weighted average common shares and common equivalent shares(3)	7,149,690	7,166,740	7,349,042	7,354,292	7,333,290

	AT JUNE 30, 1997	
	ACTUAL	AS ADJUSTED(4)
BALANCE SHEET DATA:		
Working capital	$ 4,976,323	$21,033,554
Total assets	10,558,549	25,949,113
Total debt	1,500,436	--
Total shareholders' equity	5,349,468	22,240,468

- ---

(1) Reflects compensation expense incurred upon the vesting of options having an exercise price less than the fair market value of the Common Stock on the date of grant. The weighted average exercise price of such vested options is $0.36 per share.
(2) Includes a benefit of $0.11 per share resulting from a reduction in the deferred tax asset valuation allowance.
(3) Includes 7,000,000 common shares outstanding in each period plus the effect of stock options granted, using the Treasury Stock Method, assuming an initial public offering price of $11.00 per share. See Notes 1 and 11 to the Consolidated Financial Statements.
(4) Adjusted to give effect to the sale of 1,700,000 shares of Common Stock offered by the Company hereby (assuming an initial public offering price of $11.00 per share) and the application of the estimated net proceeds therefrom. See "Use of Proceeds."

RISK FACTORS

An investment in the shares offered hereby involves a high degree of risk, including the risks described below. Prospective investors should carefully consider the following risk factors together with the other information contained in this Prospectus before purchasing the shares offered hereby.

FLUCTUATIONS IN QUARTERLY OPERATING RESULTS

The Company's quarterly operating results have varied in the past and may vary significantly in the future depending on many factors including, among others, the size, timing and recognition of revenue from significant orders; increases in operating expenses required for product development and new product marketing; the timing and market acceptance of new products and product enhancements; customer order deferrals in anticipation of new products and product enhancements; the Company's success in expanding its sales and marketing programs; and general economic conditions. Further, the Company's operating results have been, and are expected to continue to be, highly sensitive to the length of the Company's sales cycle, from initial contact through product shipment. Moreover, the Company has historically incurred higher expenses relating to marketing and production in the first and second quarters of each year. Based upon all of the foregoing factors, the Company believes that its quarterly revenue, expenses and operating results are likely to vary significantly in the future, that period-to-period comparisons of its results of operations may not be meaningful and that, in any event, such comparisons should not be relied upon as indications of future performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Quarterly Results."

EMERGING MARKET; DEPENDENCE ON A SINGLE PRODUCT LINE

The products from which the Company derives substantially all of its revenues were introduced in 1993, and the Company's future performance will depend on market acceptance of these products. The measurement industry is currently dominated by manufacturers of hand-measurement tools and traditional, fixed-base coordinate measurement machines ("CMMs"). As a result, the Company's focus on a new measurement technology requires its customers to reevaluate their historical measurement procedures and methodologies. There can be no assurance that the Company's products will attain broad market acceptance. The inability of the Company's products to attain broad market acceptance would have a material adverse effect on the Company's results of operations and financial condition.

The Company has developed and marketed two closely interdependent products (the FAROArm(R) and AnthroCam(R)) for use in the 3-D measurement field. Substantially all of the Company's revenues are currently derived from sales of these products, and the Company plans to continue its business strategy of focusing on the portable, software-driven, 3-D measurement market for the foreseeable future. Consequently, the Company's financial performance will depend on continued market acceptance of these products and, to a lesser extent, on the Company's introduction and market acceptance of related products. If the Company's products are not widely accepted in the 3-D measurement field, the Company will have reduced sales and will be required to make increased expenditures on research and development for new applications in other fields or new products. There can be no assurance that such efforts to develop new products or diversify the Company's products into other fields would be successful. Management believes that continued market acceptance of the Company's products will depend largely on the Company's ability to enhance and broaden its product line. Additionally, other factors adversely affecting sales of the Company's products, such as delays in development, significant hardware or software flaws, incompatibility with significant software or negative evaluation of the Company's products, could have a material adverse effect on the Company's results of operations and financial condition. See "Business -- The FARO Strategy" and "Business -- FARO Products."

COMPETITION

The broad market for measurement devices for manufacturing and industrial applications, which consists primarily of hand-measurement tools and CMMs, is highly competitive. Manufacturers of hand-measurement

tools and CMMs include a significant number of well-established companies that are substantially larger and possess substantially greater financial, technical and marketing resources than the Company. The Company's products compete on the basis of portability, accuracy, application features, ease-of-use, quality, price and technical support. These entities or others may develop products or technologies that will directly compete with those of the Company. Furthermore, there can be no assurance that the Company will have sufficient resources to make additional investments in such products and technologies or that the Company's product development efforts will allow the Company to compete successfully as the industry evolves.

The worldwide trend toward CAD-based factory floor metrology has resulted in the introduction of CAD-based inspection software for conventional CMMs by most of the large CMM manufacturers. Certain CMM manufacturers also are miniaturizing, and in some cases increasing the mobility of, their conventional CMMs. There can be no assurance that CMM manufacturers will not alter their products to provide functions which are competitive with those of the Company's products.

The Company also competes with a number of smaller companies that market articulated arm measuring devices. There can be no assurance that such companies will not devote additional resources to the development and marketing of products that compete with those of the Company. See "Business -- Competition."

DEPENDENCE ON PROPRIETARY TECHNOLOGY

The Company has utilized proprietary technology in the development of its products. The Company relies on a combination of patents, copyrights, trademarks, trade secrets, confidentiality procedures and contractual rights to establish and protect its proprietary rights. Despite these efforts, third parties might attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. In addition, the laws of some foreign countries may not protect the Company's proprietary rights to the same extent as do the laws of the United States. Policing unauthorized use of its proprietary technology is difficult, expensive and time-consuming. There can be no assurance that the Company's means of protecting its proprietary rights will be adequate or that its competitors will not independently develop similar technology. In addition, third parties might reverse-engineer unpatented features of the Company's products. The Company's inability to protect its proprietary rights could have a material adverse effect on its results of operations and financial condition.

Moreover, there can be no assurance that infringement or invalidity claims will not be asserted against the Company or that any such assertions will not have a material adverse effect on the Company. Any such claims, whether with or without merit, could result in time-consuming and costly litigation and diversion of the Company's management and financial resources.

TECHNOLOGICAL CHANGE

The market for the Company's products has only recently emerged and is characterized by rapid technological change. Any technology in the measurement industry, including the Company's technology, may be rendered obsolete or non-competitive by future discoveries and developments. As a result, the Company's growth and future financial performance depends upon its ability to introduce new products and enhance existing products that accommodate the latest technological advances and customer requirements. There can be no assurance that any such products will be successfully introduced or will achieve market acceptance. In addition, the Company believes that a substantial amount of capital will be required for future research and development. Any failure by the Company to anticipate or respond adequately to changes in technology and customer preferences, or any significant delays in product development or introductions, could have a material adverse effect on its results of operations and financial condition. There can be no assurance that technological developments will not render actual and proposed products or technologies of the Company uneconomical or obsolete.

DEPENDENCE ON KEY PERSONNEL

The development of new products, enhancements to existing products, and the success of the Company are largely dependent upon the efforts, direction and guidance of Simon Raab and Gregory A. Fraser, the Company's founders. The Company's continued growth and success also depends in part on its ability to attract and retain qualified managers and on the ability of its executive officers and key employees to manage its operations successfully. The loss of any of the Company's senior management or key personnel, particularly Messrs. Raab or Fraser, or its inability to attract and retain key management personnel in the future, could have a material adverse effect on the Company's results of operations and financial condition. The Company currently carries key man life insurance policies on Messrs. Raab and Fraser in the amount of $3.0 million each. See "Management."

MANAGEMENT OF GROWTH

The Company has grown rapidly in recent years, with sales increasing from $4.5 million in 1994 to $14.7 million in 1996, and this growth has from time to time placed burdens on the Company's managerial resources and systems. As part of its business strategy, the Company intends to continue pursuing rapid growth, which is likely to place substantial demands on the Company's financial, managerial, operational and other resources. Effective management of growth will require the addition and training of personnel throughout the Company, expanded customer services and support, expanded operational, financial and management information systems and the implementation of additional control procedures, including those related to the Company's international operations. There can be no assurance that the Company will be able to maintain its recent rate of revenue growth, continue its profitable operations or manage future growth successfully. See "Management's Discussion and Analysis of Results of Operations and Financial Condition."

INTERNATIONAL OPERATIONS

In 1995, 1996 and the first six months of 1997, international sales accounted for $2.1 million, $3.0 million and $2.7 million, or 21.6%, 20.5% and 26.0%, respectively, of the Company's total sales. The Company anticipates that international sales will account for an increasing portion of the Company's total sales. The Company's international business is subject to special risks, including fluctuating exchange rates, uncertainties in patent enforcement or the protection of other proprietary rights, changes in import and export controls and changes in tax policies, trade policies, tariffs, product safety and other regulatory requirements, in addition to currency controls and political and economic risks. A portion of the Company's sales is in foreign currencies and changes in the value of these foreign currencies relative to the United States dollar could affect the Company's results of operations and financial position, and gains and losses on translation to United States dollars could contribute to fluctuations in the Company's results of operations. Although the Company has not historically engaged in any hedging transactions to limit risks of currency fluctuations, it intends to do so in the future. There can be no assurance that engaging in hedging transactions would materially reduce the effects of fluctuations in foreign currency exchange rates on the Company's results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Overview."

DEPENDENCE ON KEY SUPPLIERS

The Company purchases the major component parts for the FAROArm(R) from third parties and conducts final assembly, customization and inspection of the FAROArm(R) at its manufacturing facility. Although there is more than one potential supplier of each of these components, the Company currently relies on single sources of supply for several components. Accordingly, the Company is vulnerable to the possible business interruption of its suppliers, and the Company could experience temporary delays or interruptions while alternative sources of supply are secured. Any such delays or interruptions could have a material adverse effect on the Company's results of operations and financial condition.

In particular, the Company currently purchases the vast majority of the transducers used in certain models of the FAROArm(R) from a single supplier located in Europe. Although there are a number of alternative suppliers for this class of transducers, switching to these suppliers could result in temporary delays

or interruptions. While the Company maintains supplies of such transducers for at least several months in its inventories, any reductions or interruptions in supply, or material increases in the price of these components, could cause the Company to suffer disruptions in the operation of its business or to incur higher costs, which could have a material adverse effect on the Company's results of operations and financial condition.

CYCLICALITY OF END USER MARKETS

A significant portion of the Company's sales are to manufacturers in the automotive, aerospace and heavy equipment industries. Each of these industries experiences cyclicality and may be adversely affected during recessionary periods. The cyclical nature of these industries may exert significant influence on the Company's revenues and results of operations. The volume of orders for and prices of the Company's products are likely to be adversely impacted by decreases in capital spending by a significant portion of its end users during recessionary periods. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations."

DEPENDENCE ON KEY CUSTOMERS

Sales to the Company's ten largest customers represented 28.1% and 17.5% of the Company's sales in 1996 and the first six months of 1997, respectively. Sales to Boeing represented 10.0% of the Company's sales in 1996. No customer represented 10.0% or more of the Company's sales in the first six months of 1997. The Company does not maintain long-term purchase agreements with any of its customers, all of which may unilaterally reduce or discontinue their purchases of the Company's products. The Company's loss of, or the failure to continue to make additional sales to, any of its key customers could have a material adverse effect on the Company's results of operations and financial condition. See "Business -- Customers."

WARRANTY LIABILITY AND MAINTENANCE CONTRACTS

The Company provides an initial one-year basic warranty, without additional charge, on all its products. Historically, warranty costs associated with providing the basic warranty have not been material. Additionally, the Company currently offers its customers one, two and three year extended maintenance contracts for its products. The Company recognizes the revenue from these sales ratably over the contract term and recognizes the cost of claims as incurred. While the Company's deferred revenues have been sufficient to cover the expenses of such claims, there can be no assurance that such deferred revenues will be adequate in the future. The occurrence of a significant number of extended warranty claims could have a material adverse effect on the Company's results of operations and financial condition.

PRODUCT LIABILITY AND INSURANCE COVERAGE

The Company licenses and supports certain specialty products based on its articulated arm technology that are used in medical applications. The sale of the Company's medical products entails a risk of product liability claims. Although no claims have been asserted to date, product liability or other claims might be asserted against the Company by persons who allege that the use of the Company's products resulted in injury or other adverse effects, and such claims could involve large amounts of alleged damages and significant defense costs. Although the Company currently maintains product liability insurance, the liability limits or scope of the Company's insurance policies could be inadequate to protect against potential claims. In addition, the Company's insurance policies are subject to annual renewal. Although the Company has been able to obtain product liability insurance in the past, the cost and availability of this insurance varies and such coverage could be difficult to obtain in the future. A successful claim against the Company in excess of its available insurance coverage could have a material adverse effect on the Company's results of operations and financial condition. In addition, the Company's business reputation could be adversely affected by product liability claims, regardless of their merit or the eventual outcome of such claims.

CONTROL BY PRINCIPAL SHAREHOLDERS; ANTI-TAKEOVER CONSIDERATIONS

Upon the conclusion of this offering, Messrs. Simon Raab and Gregory A. Fraser will, in the aggregate, beneficially own approximately 39.4% of the outstanding Common Stock (37.4% if the Underwriters' over-

allotment option is exercised in full). As a result, Messrs. Raab and Fraser will retain significant voting power with respect to the election of the Company's directors and the outcome of other matters requiring shareholder approval. The voting power of Messrs. Raab and Fraser, together with the staggered Board of Directors and the anti-takeover effects of certain provisions contained in both the Florida Business Corporation Act and in the Company's Articles of Incorporation and Bylaws (including, without limitation, the ability of the Board of Directors of the Company to issue shares of Preferred Stock and to fix the rights and preferences thereof), may have the effect of delaying, deferring, or preventing an unsolicited change in the control of the Company, which may adversely affect the market price of the Common Stock. See "Management," "Principal and Selling Shareholders" and "Description of Capital Stock."

SHARES ELIGIBLE FOR FUTURE SALE

Upon the completion of this offering, the Company will have outstanding 8,700,000 shares of Common Stock. Of these shares, 3,997,984 shares, including the 2,300,000 shares of Common Stock sold in this offering (2,645,000 shares if the Underwriters' over-allotment option is exercised in full), will be freely tradeable by persons other than affiliates of the Company without restriction under the Securities Act of 1933, as amended (the "Securities Act"). The remaining 4,702,016 shares of Common Stock will be "restricted" securities within the meaning of Rule 144 under the Securities Act and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available. All of such shares will be beneficially owned by persons who are affiliates of the Company and, commencing 90 days after the date of this Prospectus, would be eligible for public sale subject to the volume and other limitations of Rule 144. However, the Company's directors, executive officers and principal shareholders and the Selling Shareholders have agreed not to sell, contract to sell or otherwise dispose of any shares of Common Stock for a period of 180 days after the date of this Prospectus without the prior written consent of Raymond James & Associates, Inc. The sale of a substantial number of shares of Common Stock could adversely affect the market price of the Common Stock. See "Shares Eligible for Future Sale."

NO PRIOR PUBLIC MARKET AND POSSIBLE VOLATILITY OF STOCK PRICE

Prior to this offering, there has not been a public market for the Common Stock, and there is no assurance that an active trading market will develop or continue following this offering. Accordingly, purchasers in this offering may experience difficulty in selling or otherwise disposing of their shares of Common Stock. In addition, there is no assurance that the market price of the Common Stock will not decline below the initial public offering price. The initial public offering price for the Common Stock will be determined by negotiations among the Company, the Selling Shareholders and the Underwriters based on several factors, and may not be indicative of the market price for the Common Stock after this offering. See "Underwriting."

The Company believes that various factors such as general economic conditions, changes or volatility in the financial markets, and quarterly or annual variations in the Company's financial results could cause the market price of the Common Stock to fluctuate substantially.

DILUTION TO NEW INVESTORS

The initial public offering price is substantially higher than the per share net tangible book value of the Common Stock. Purchasers of Common Stock in this offering will incur immediate and substantial dilution of $8.51 per share in the net tangible book value of their shares of Common Stock. See "Dilution."

USE OF PROCEEDS

The net proceeds to the Company (after deducting underwriting discounts and estimated offering expenses payable by the Company) from the sale of 1,700,000 shares of Common Stock offered by the Company, assuming an initial public offering price of $11.00 per share, are estimated to be approximately $16.9 million. The Company will not receive any proceeds from the sale of shares of Common Stock by the Selling Shareholders. See "Principal and Selling Shareholders."

The Company intends to use approximately $1.5 million of the net proceeds of this offering to repay indebtedness incurred to finance operations, which accrues interest at the 30-day commercial paper rate plus 2.7% per annum (8.31% at June 30, 1997), and matures in September 1999. The balance of the net proceeds of this offering will be used for expansion of the Company's sales and marketing activities for existing and new products, investment in new technologies, including product development, capital expenditures and for working capital and general corporate purposes, including possible acquisitions. The Company has not yet identified the specific amounts of proceeds to be expended for these respective corporate purposes. The amounts actually expended for each purpose may vary significantly depending on a number of factors, including future revenue growth, the amount of cash generated or used by the Company's operations, the progress of the Company's new product development efforts, technological advances and the status of competitive products. Currently, the Company has no arrangements or understandings with respect to any acquisition. Pending any such uses, the Company plans to invest the net proceeds of this offering in short-term, investment grade securities or money market instruments.

DIVIDEND POLICY

The Company has never declared or paid any cash dividends on the Common Stock. The Company currently anticipates that all of its earnings will be retained for development and expansion of its business and does not anticipate paying any cash dividends in the foreseeable future. In addition, the Company's loan agreement prohibits the Company from declaring any dividends. Any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon the Company's financial condition, results of operations, capital requirements, limitations which may be included in loan and other agreements and such other factors as the Board of Directors deems relevant.

CAPITALIZATION

The following table sets forth the current portion of long-term debt and the capitalization of the Company (i) at June 30, 1997, and (ii) as adjusted to give effect to the sale by the Company of 1,700,000 shares of Common Stock offered hereby (assuming an initial public offering price of $11.00 per share) and the application of the estimated net proceeds therefrom as described under "Use of Proceeds." This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Consolidated Financial Statements and the notes thereto contained elsewhere in this Prospectus.

	AT JUNE 30, 1997	
	ACTUAL	AS ADJUSTED
Current portion of long-term debt	$ 666,667	$ --
Long-term debt, less current portion	$ 833,769	$ --
Shareholders' equity:		
Class A Preferred Stock, $0.001 par value, 10,000,000 shares authorized; no shares issued and outstanding	--	--
Common Stock, $0.001 par value, 20,000,000 shares authorized; 7,000,000 shares issued and outstanding, 8,700,000 shares issued and outstanding as adjusted(1)	7,000	8,700
Additional paid-in capital	4,827,544	21,716,844
Retained earnings	1,067,243	1,067,243
Unearned compensation	(508,334)	(508,334)
Cumulative translation adjustments	(43,985)	(43,985)
Total shareholders' equity	5,349,468	22,240,468
Total capitalization	$6,183,237	$22,240,468

- ---

(1) Excludes 383,513 shares of Common Stock issuable upon the exercise of outstanding stock options at a weighted average exercise price of $1.53 per share. In July 1997, the Company's Board of Directors and shareholders approved the Company's Amended and Restated Articles of Incorporation (the "Articles of Incorporation"), which increased the authorized shares of Common Stock to 50,000,000 shares.

DILUTION

The net tangible book value of the Company at June 30, 1997 was $4.7 million, or $0.68 per share of Common Stock. Net tangible book value per share represents the amount of the Company's tangible net worth (total assets less patents and total liabilities) divided by the total number of shares of Common Stock outstanding. After giving effect to the sale of 1,700,000 shares of Common Stock by the Company in this offering (assuming an initial public offering price of $11.00 per share) and the application of the estimated net proceeds therefrom (after deducting underwriting discounts and estimated offering expenses payable by the Company), the pro forma net tangible book value of the Company at June 30, 1997 would have been $21.6 million, or $2.49 per share of Common Stock. This represents an immediate increase in net tangible book value of $1.81 per share to existing shareholders and an immediate dilution of $8.51 per share to purchasers of shares in this offering. The following table illustrates this per share dilution:

Assumed initial public offering price		$11.00
Net tangible book value before this offering	$0.68	
Increase attributable to new investors	1.81	
Pro forma net tangible book value after this offering		2.49
Dilution to new investors		$ 8.51

The following table sets forth the number of shares of Common Stock purchased from the Company, the total consideration paid and the average price per share paid by the Company's existing shareholders and to be paid by new investors in this offering (assuming an initial public offering price of $11.00 per share):

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing shareholders(1)	7,000,000	80.5%	$ 3,832,264	17.0%	$ 0.55
New investors	1,700,000	19.5	18,700,000	83.0	11.00
Total	8,700,000	100.0%	$22,532,264	100.0%	2.59

- ---

(1) Does not reflect the sale of 600,000 shares of Common Stock by the Selling Shareholders in this offering (945,000 shares if the over-allotment option is exercised in full) and excludes 383,513 shares of Common Stock issuable upon the exercise of outstanding stock options. See "Management -- Stock Option Plans." To the extent outstanding stock options are exercised, there will be further dilution to new investors.

Assuming the over-allotment option is not exercised, sales by the Selling Shareholders in this offering will reduce the number of shares held by existing shareholders to 6,400,000 shares (or 73.6% of the total number of shares of Common Stock outstanding after this offering) and will increase the number of shares held by new investors to 2,300,000 shares (or 26.4% of the total number of shares of Common Stock outstanding after this offering).

SELECTED CONSOLIDATED FINANCIAL DATA

The selected data presented below are derived from the consolidated financial statements of the Company and its subsidiaries at December 31, 1994, 1995 and 1996 and for the years then ended, which are included elsewhere in this Prospectus and have been audited by Deloitte & Touche LLP, independent public accountants. The selected consolidated financial data at December 31, 1992 and 1993 and for the years then ended have been derived from audited consolidated financial statements not included herein. The selected consolidated financial data for the six months ended June 30, 1996 and June 30, 1997 have been derived from the Company's unaudited consolidated financial statements. In the opinion of management, all unaudited consolidated financial statements used to derive the information presented have been prepared on the same basis as the audited consolidated financial statements and include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results for the periods presented. The information for the six months ended June 30, 1997 is not necessarily indicative of the operating results to be expected for any future period. The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Results of Operations and Financial Condition" and the Consolidated Financial Statements and related notes and other financial information included elsewhere in this Prospectus.

	YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	1992	1993	1994	1995	1996	1996	1997
STATEMENT OF OPERATIONS DATA:							
Sales	$4,727,637	$5,106,270	$4,508,837	$9,862,242	$14,656,337	$6,460,113	$10,318,535
Cost of sales	2,359,693	2,266,296	2,222,085	4,987,779(1)	6,486,268	2,744,994	4,188,280
Gross profit	2,367,944	2,839,974	2,286,752	4,874,463	8,170,069	3,715,119	6,130,255
Operating expenses:							
Selling	1,839,527	1,971,177	1,569,014	2,008,301	3,731,762	1,653,693	2,512,066
General and administrative	454,606	424,026	521,040(2)	503,184	744,206	349,645	622,092
Depreciation and amortization	122,613	211,682	270,615	341,494(3)	230,799	125,388	124,646
Research and development	282,829	276,489	173,400	363,871	730,124	236,539	394,839
Employee stock options(4)	--	--	--	106,700	23,100	11,550	364,146
Total operating expenses	2,699,575	2,883,374	2,534,069	3,323,550	5,459,991	2,376,815	4,017,789
Income (loss) from operations	(331,631)	(43,400)	(247,317)	1,550,913	2,710,078	1,338,304	2,112,466
Other income	4,035	12,648	11,706	62,212	25,145	7,814	46,067
Interest expense	(76,780)	(110,504)	(192,543)	(355,468)	(212,669)	(122,806)	(65,853)
Income (loss) before income taxes	(404,376)	(141,256)	(428,154)	1,257,657	2,522,554	1,223,312	2,092,680
Income tax expense (benefit)	--	--	--	(342,000)	1,115,892	541,152	837,072
Net income (loss)	$ (404,376)	$ (141,256)	$ (428,154)	$1,599,657	$ 1,406,662	$ 682,160	$ 1,255,608
Net income (loss) per common share and common equivalent share	$ (0.06)	$ (0.02)	$ (0.06)	$ 0.22(5)	$ 0.19	$ 0.09	$ 0.17
Weighted average common shares and common equivalent shares(6)	7,149,690	7,149,690	7,149,690	7,166,740	7,349,042	7,354,292	7,333,290

	AT DECEMBER 31,					AT JUNE 30, 1997	
	1992	1993	1994	1995	1996	ACTUAL	AS ADJUSTED(7)
BALANCE SHEET DATA:							
Working capital	$ 193,499	$ (109,760)	$ (718,564)	$1,321,517	$3,832,424	$4,976,323	$21,033,554
Total assets	3,406,815	3,877,445	4,229,551	5,479,698	7,815,668	10,558,549	25,949,113
Total debt	1,430,000	2,100,000	2,925,000	2,200,000	1,501,267	1,500,436	--
Total shareholders' equity	1,299,290	1,158,034	637,580	2,343,937	3,773,699	5,349,468	22,240,468

(footnotes on following page)

- ---------------

(1) Includes $531,186 from a change in the estimated life of product development costs. See Note 1 to the Consolidated Financial Statements, "Product Design Costs."
(2) Includes $146,541 for costs incurred in a terminated private stock offering.
(3) Includes a charge for unamortized patent costs of $192,570 due to the discontinuance of certain products sold in the medical field.
(4) Reflects compensation expense incurred upon the vesting of options having an exercise price less than the fair market value of the Common Stock on the date of grant. The weighted average exercise price of such vested options is $0.36 per share.
(5) Includes a benefit of $0.11 per share resulting from a reduction in the deferred tax asset valuation allowance.
(6) Includes 7,000,000 common shares outstanding in each period plus the effect of stock options granted, using the Treasury Stock Method, assuming an initial public offering price of $11.00 per share. See Notes 1 and 11 to the Consolidated Financial Statements.
(7) Adjusted to give effect to the sale of 1,700,000 shares of Common Stock being offered by the Company hereby (assuming an initial public offering price of $11.00 per share) and the application of the estimated net proceeds therefrom. See "Use of Proceeds."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the Consolidated Financial Statements of the Company, including the notes thereto, included elsewhere in this Prospectus.

OVERVIEW

The Company designs, develops, markets and supports portable, software-driven, 3-D measurement systems that are used in a broad range of manufacturing and industrial applications. The Company's principal products are the FAROArm(R) articulated measuring device and its companion AnthroCam(R) software. Together, these products integrate the measurement and quality inspection function with CAD and CAM technology to improve productivity, enhance product quality and decrease rework and scrap in the manufacturing process. The Company's products have been purchased by more than 600 customers worldwide, ranging from small machine shops to such large manufacturing and industrial companies as General Motors, Chrysler, Ford, Boeing, Lockheed Martin, General Electric, Westinghouse Electric, Caterpillar and Komatsu Dresser.

From its inception in 1982 through 1992, the Company focused on providing computerized, 3-D measurement devices to the orthopedic and neurosurgical markets. During this period, the Company introduced a knee laxity measurement device, a diagnostic tool for measuring posture, scoliosis and back flexibility, and a surgical guidance device utilizing a six-axis articulated arm.

In 1992, in an effort to capitalize on a demand for 3-D portable measurement tools for the factory floor, the Company made a strategic decision to target its core measurement technology to the manufacturing and industrial markets. In order to focus on manufacturing and industrial applications of its technology, the Company phased out the direct sale of its medical products and entered into licensing agreements with two major neurosurgical companies for its medical technology. Since that time, sales to the manufacturing and industrial markets have increased to 96.5% of sales in 1996 and 98.0% of sales in the six months ended June 30, 1997. In 1995, the Company made a strategic decision to target international markets. The Company established sales offices in France and Germany in 1996 and the United Kingdom in 1997. International sales represented 21.6% of sales in 1995, 20.5% of sales in 1996 and 26.0% of sales in the six months ended June 30, 1997.

The Company derives revenues primarily from the sale of the FAROArm(R), its six-axis articulated measuring device, and AnthroCam(R), its companion 3-D measurement software. The majority of the Company's revenues are derived from the sale of its bundled hardware and software measurement systems. Revenue related to these products is recognized upon shipment.

Revenue growth has resulted primarily from increased unit sales due to an expanded sales effort that included the addition of sales personnel at existing offices, the opening of new sales offices, expanded promotional efforts and the addition of new product features. Additionally, during this period, the Company lowered its prices on its bundled 3-D measurement systems to stimulate volume. The Company expects to continue its revenue growth through further penetration of its installed customer base, expansion of its domestic and international sales force and expansion of its product line and service offerings. See "Business -- The FARO Strategy."

In addition to providing a one-year basic warranty without additional charge, the Company offers its customers one, two and three-year extended maintenance contracts, which include on-line help services, software upgrades and hardware warranties. In addition, the Company sells training and technology consulting services relating to its products. The Company recognizes the revenue from extended maintenance contracts ratably over the contract term and recognizes the cost of claims as incurred.

Cost of sales consists primarily of materials, production, overhead and labor. Selling expenses consist primarily of salaries and commissions to sales and marketing personnel, and promotion, advertising, travel and telecommunications expenses. General and administrative expenses consist primarily of salaries for administrative personnel, rent, utilities and professional and legal expenses. Research and development expenses represent salaries, equipment and third-party services.

Accounting for wholly-owned foreign subsidiaries is maintained in the currency of the respective foreign jurisdiction and, therefore, fluctuations in exchange rates may have an impact on intercompany accounts reflected in the Company's Consolidated Financial Statements. Although the Company has not historically engaged in any hedging transactions to limit risks of currency fluctuations, it intends to do so in the future.

RESULTS OF OPERATIONS

The following table sets forth for the periods presented the percentage of sales represented by certain items in the Company's Consolidated Statements of Operations:

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
STATEMENT OF OPERATIONS DATA:					
Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	49.3	50.6	44.3	42.5	40.6
Gross profit	50.7	49.4	55.7	57.5	59.4
Operating expenses:					
Selling	34.8	20.4	25.5	25.6	24.3
General and administrative	11.6	5.1	5.1	5.4	6.0
Depreciation and amortization	6.0	3.5	1.6	1.9	1.2
Research and development	3.8	3.7	5.0	3.7	3.8
Employee stock options	--	1.1	0.2	0.2	3.5
Total operating expenses	56.2	33.8	37.4	36.8	38.8
Income (loss) from operations	(5.5)	15.6	18.3	20.7	20.6
Other income	0.3	0.6	0.2	0.1	0.4
Interest expense	(4.3)	(3.6)	(1.5)	(1.9)	(0.6)
Income (loss) before income taxes	(9.5)	12.6	17.0	18.9	20.4
Income tax expense (benefit)	--	(3.5)	7.6	8.4	8.1
Net income (loss)	(9.5)%	16.1%	9.4%	10.5%	12.3%

SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

Sales. Sales increased $3.9 million, or 59.7%, from $6.5 million for the first six months of 1996 to $10.3 million for the first six months of 1997. The increase was primarily the result of increased unit sales due to an expanded sales effort that included the addition of sales personnel at existing offices, the opening of new sales offices, expanded promotional efforts and the addition of new product features. International sales increased $1.5 million, or 123.4%, from $1.2 million for the first six months of 1996 to $2.7 million for the first six months of 1997. This growth was attributable to the opening of the Company's European sales offices in France and Germany in 1996 and the United Kingdom in 1997 and an increase in the number of international distributors.

Gross profit. Gross profit increased $2.4 million, or 65.0%, from $3.7 million for the first six months of 1996 to $6.1 million for the first six months of 1997. Gross margin increased from 57.5% for the first six months of 1996 to 59.4% for the first six months of 1997. This margin increase was attributable to a reduction in product costs as a result of technological improvements, purchasing economies and production efficiencies, partially offset by a decrease in average unit prices.

Selling expenses. Selling expenses increased $858,000, or 51.9%, from $1.7 million for the first six months of 1996 to $2.5 million for the first six months of 1997. This increase was primarily a result of the Company's expansion of sales and marketing staff in the United States and Europe and expanded promotional efforts. Selling expenses as a percentage of sales decreased from 25.6% for the first six months of 1996 to 24.3% for the first six months of 1997.

General and administrative expenses. General and administrative expenses increased $272,000, or 77.9%, from $350,000 for the first six months of 1996 to $622,000 for the first six months of 1997. This increase resulted from the hiring of additional administrative personnel, including network services and accounting personnel. General and administrative expenses as a percentage of sales increased from 5.4% for the first six months of 1996 to 6.0% for the first six months of 1997.

Research and development expenses. Research and development expenses increased $158,000, or 66.9%, from $237,000 for the first six months of 1996 to $395,000 for the first six months of 1997. This increase was primarily a result of increased efforts leading to the introduction of new electronic circuitry, enhanced mechanical features and 32-bit functionality. Research and development expenses as a percentage of sales increased from 3.7% for the first six months of 1996 to 3.8% for the first six months of 1997.

Employee stock options expenses. Employee stock options expenses increased $353,000 from $12,000 for the first six months of 1996 to $364,000 for the first six months of 1997. This increase was primarily attributable to the grant of 52,733 options in May 1997, which was made at an exercise price below the fair market value of the Common Stock on the date of grant.

Interest expense. Interest expense decreased $57,000, or 46.4%, from $123,000 for the first six months of 1996 to $66,000 for the first six months of 1997. This reduction was attributable to the refinancing of the Company's indebtedness, resulting in a reduced principal balance and lower interest rate.

Income tax expense. Income tax expense increased $296,000, or 54.7%, from $541,000 for the first six months of 1996 to $837,000 for the first six months of 1997. The provision for income taxes as a percentage of income before income taxes was 44.2% in the first six months of 1996 and 40.0% in the first six months of 1997.

Net income. Net income increased $573,000, or 84.1%, from $682,000 for the first six months of 1996 to $1.3 million for the first six months of 1997.

1996 COMPARED TO 1995

Sales. Sales increased $4.8 million, or 48.6%, from $9.9 million in 1995 to $14.7 million in 1996. This increase was attributable to a shift in product mix to higher priced Silver Series models of the FAROArm(R) and increased unit sales resulting from completion of the Company's shift in focus from the medical market to the manufacturing and industrial markets.

Gross profit. Gross profit increased $3.3 million, or 67.6%, from $4.9 million in 1995 to $8.2 million in 1996. Gross margin increased from 49.4% in 1995 to 55.7% in 1996. This increase was due to a reduction in product costs as a result of technological improvements and to an increase in sales of higher margin Silver Series models of the FAROArm(R). In addition, gross profit for 1995 was adversely affected by a $531,000 charge to cost of sales relating to a change in the estimated life of product design costs.

Selling expenses. Selling expenses increased $1.7 million, or 85.8%, from $2.0 million in 1995 to $3.7 million in 1996 primarily as a result of the Company's expansion of sales and marketing staff and the opening of additional sales offices in the United States and Europe in the second half of 1996. Selling expenses as a percentage of sales increased from 20.4% in 1995 to 25.5% in 1996.

General and administrative expenses. General and administrative expenses increased $241,000, or 47.9%, from $503,000 in 1995 to $744,000 in 1996. This increase was a result of additional accounting personnel and corporate legal expenses related to the opening of new offices in Europe. General and administrative expenses as a percentage of sales remained unchanged at 5.1% in 1996 compared to 1995.

Research and development expenses. Research and development expenses increased $366,000, or 100.7%, from $364,000 in 1995 to $730,000 in 1996. This increase was a result of the hiring of additional personnel to design and develop improved hardware, software and product functionality. Research and development expenses as a percentage of sales increased from 3.7% in 1995 to 5.0% in 1996.

Employee stock options expenses. Employee stock options expenses decreased $84,000, or 78.4%, from $107,000 in 1995 to $23,000 in 1996. The Company did not grant options in 1996, and compensation expense relating to options granted in 1995 was significantly lower in 1996 than in 1995.

Interest expense. Interest expense decreased $143,000, or 40.2%, from $355,000 in 1995 to $213,000 in 1996 due to a reduction in the amount of the Company's indebtedness.

Income tax expense. Income tax expense increased $1.5 million from a benefit of $342,000 in 1995 to an expense of $1.1 million in 1996. The provision for income taxes as a percentage of income before income taxes was 44.2% in 1996. In 1995, the Company had an income tax benefit as a result of the reversal of a deferred tax valuation allowance.

Net income. Net income decreased $193,000, or 12.1%, from $1.6 million in 1995 to $1.4 million in 1996.

1995 COMPARED TO 1994

Sales. Sales increased $5.4 million, or 118.7%, from $4.5 million in 1994 to $9.9 million in 1995. The increase was due to increased unit sales resulting from a shift in focus from the medical market to the manufacturing and industrial markets and the Company's release of its AnthroCam(R) software in late 1994. The release of AnthroCam(R) led to increased sales of the Company's FAROArm(R) products, particularly of higher priced Silver Series models.

Gross profit. Gross profit increased $2.6 million, or 113.2%, from $2.3 million in 1994 to $4.9 million in 1995 due to an increase in 1995 in sales of Silver Series models of the FAROArm(R) and AnthroCam(R) software, compared to Bronze Series models and the Company's medical and surgical products. Gross margins as a percentage of sales declined from 50.7% in 1994 to 49.4% in 1995, primarily because of price reductions made to increase sales volume and a $531,000 charge to cost of sales relating to a change in the estimated life of product design costs.

Selling expenses. Selling expenses increased $439,000, or 28.0%, from $1.6 million in 1994 to $2.0 million in 1995. This increase was primarily a result of the hiring of additional personnel related to the Company's continued expansion of sales to manufacturing and industrial markets and related marketing activities. Selling expenses as a percentage of sales decreased from 34.8% in 1994 to 20.4% in 1995. This decrease was due to an increase in sales without a commensurate increase in selling expenses.

General and administrative expenses. General and administrative expenses decreased $18,000, or 3.4%, from $521,000 in 1994 to $503,000 in 1995. General and administrative expenses as a percentage of sales decreased from 11.6% in 1994 to 5.1% in 1995. This decrease reflects a one-time expense of $147,000 in 1994 related to a terminated private stock offering. Net of this one-time expense, general and administrative expenses increased $129,000, or 34.4%, from $374,000 in 1994 due to increases in legal fees, administrative salaries and insurance, all associated with the Company's growth. However, general and administrative expenses decreased as a percentage of sales from 8.3% in 1994 to 5.1% in 1995.

Research and development expenses. Research and development expenses increased $190,000, or 109.8%, from $173,000 in 1994 to $364,000 in 1995. This increase was primarily a result of a substantial effort to expand the Company's product line. Research and development expenses as a percentage of sales decreased from 3.8% in 1994 to 3.7% in 1995.

Employee stock options expenses. The Company granted stock options for the first time in 1995 under its 1993 Stock Option Plan. As a result, the Company recognized employee stock options expenses of $107,000 in 1995 compared to none in 1994.

Interest expense. Interest expense increased $163,000, or 84.6%, from $193,000 in 1994 to $355,000 in 1995. This increase was due to new borrowings that were obtained to finance additional working capital needs to complete the transition from the medical market to the manufacturing and industrial markets.

Income tax expense. The Company recognized an income tax benefit of $342,000 in 1995 compared to no provision for income taxes in 1994. In 1994, the deferred income tax benefit of $146,000 was offset by a valuation allowance due to the Company's history of operating losses. In 1995, the Company's income tax provision was offset by a corresponding reduction in its deferred tax valuation allowance. In addition, the remaining deferred tax asset valuation allowance was reversed because the Company had commenced profitable operations.

Net income (loss). The Company's net income (loss) for 1995 increased $2.0 million from a net loss of $428,000 in 1994 to net income of $1.6 million in 1995.

QUARTERLY RESULTS

The following table sets forth certain unaudited statements of income data for each of the eight quarters in the period ending June 30, 1997. This data has been derived from unaudited financial statements which, in the opinion of management, have been prepared on the same basis as the audited financial statements and include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results for the periods presented. The results of operations for the interim periods are not necessarily indicative of future results.

	QUARTER ENDED							
	1995		1996				1997	
	SEPT. 30	DEC. 31	MARCH 31	JUNE 30	SEPT. 30	DEC. 31	MARCH 31	JUNE 30
Sales	$1,855,175	$3,233,317	$3,037,610	$3,422,503	$4,083,193	$4,113,031	$4,889,471	$5,429,064
Cost of sales	658,225	1,687,246	1,186,666	1,558,328	1,756,120	1,985,154	1,948,549	2,239,731
Gross profit	1,196,950	1,546,071	1,850,944	1,864,175	2,327,073	2,127,877	2,940,922	3,189,333
Operating expenses:								
Selling	383,026	699,756	731,549	922,144	940,900	1,137,169	1,158,559	1,353,507
General and administrative	104,328	63,981	166,166	183,479	195,216	199,345	302,523	319,569
Depreciation and amortization	37,231	37,231	80,450	44,938	48,682	56,729	58,873	65,773
Research and development	18,320	244,626	93,580	142,959	191,917	301,668	178,073	216,766
Employee stock options	--	106,700	5,775	5,775	5,775	5,775	3,270	360,876
Total operating expenses	542,905	1,152,294	1,077,520	1,299,295	1,382,490	1,700,686	1,701,298	2,316,491
Income from operations	654,045	393,777	773,424	564,880	944,583	427,191	1,239,624	872,842
Other income	3,558	3,217	2,770	5,044	12,866	4,465	(5,810)	51,877
Interest expense	(85,696)	(72,358)	(64,147)	(58,659)	(53,650)	(36,213)	(34,262)	(31,591)
Income before income taxes	571,907	324,636	712,047	511,265	903,799	395,443	1,199,552	893,128
Income tax expense (benefit)	(155,521)	(88,280)	314,986	226,166	399,810	174,930	479,821	357,251
Net income	$ 727,428	$ 412,916	$ 397,061	$ 285,099	$ 503,989	$ 220,513	$ 719,731	$ 535,877
Net income (loss) per common share and common equivalent share	$ 0.10	$ 0.06	$ 0.05	$ 0.04	$ 0.07	$ 0.03	$ 0.10	$ 0.07
Weighted average common shares and common equivalent shares	7,149,690	7,217,891	7,354,292	7,354,292	7,354,292	7,333,290	7,333,290	7,333,290

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations to date through a combination of cash flow from operations, borrowings and private equity financings.

Net cash provided by operating activities for the six months ended June 30, 1997 was $268,000 compared to $732,000 for the six months ended June 30, 1996. Net cash provided by operating activities in this period decreased primarily due to increases in accounts receivable. Net cash provided by operating activities for 1996 was $1.5 million compared to $936,000 for 1995. Net cash provided by operating activities in 1996 increased primarily due to increases in accounts payable and unearned service revenues.

Net cash used in investing activities was $413,000 for the six months ended June 30, 1997 compared to $265,000 for the six months ended June 30, 1996. Net cash used in investing activities was $550,000 for 1996 compared to $285,000 for 1995. Net cash used in investing activities increased for the six months ended June 30, 1997 and for 1996 primarily due to increased purchases of property and equipment and increased patent costs.

Net cash used in financing activities for the six months ended June 30, 1997 was $1,000 compared to $300,000 for the six months ended June 30, 1996. The $300,000 of net cash used in financing activities in the first six months of 1996 primarily reflects the repayment of related party loans. Net cash used in financing activities for 1996 was $715,000 compared to $725,000 for 1995. Net cash used in financing activities decreased primarily due to the repayment of related party loans of $2.2 million in 1996, offset by proceeds from debt of $1.6 million.

The Company has a loan agreement in the form of a term note and a line of credit that matures in September 1999. The Company had available borrowings under the line of credit in the amount of $443,000 at June 30, 1997. Advances outstanding under the loan bear interest at the 30-day commercial paper rate plus 2.7% per annum (8.31% at June 30, 1997). Principal payments of $611,000, $667,000 and $223,000 will be due in 1997, 1998 and 1999, respectively. The loan is collateralized by substantially all of the Company's assets. The loan agreement contains restrictive covenants, including the maintenance of certain amounts of working capital and tangible net worth and limits on loans to related parties. In April 1997, the Company also obtained a one-year unsecured $1.0 million line of credit from the same lender which bears interest at the 30-day commercial paper rate plus 2.65% per annum (8.26% at June 30, 1997).

The Company's principal commitments at June 30, 1997 were leases on its headquarters and regional offices, and there were no material commitments for capital expenditures at that date. The Company believes that the proceeds of this offering, cash generated from operations and borrowings under its credit facilities will be sufficient to satisfy its working capital and capital expenditure needs for at least one year.

INFLATION

The Company believes that inflation has not had a material impact on its results of operations in recent years and does not expect inflation to have a material impact on its operations in 1997.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share." This Statement establishes standards for computing and presenting earnings per share ("EPS") and applies to all entities with publicly held common stock or potential common stock. This Statement replaces the presentation of primary EPS and fully diluted EPS with a presentation of basic EPS and diluted EPS, respectively. Basic EPS excludes dilution and is computed by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding for the period. Similar to fully diluted EPS, diluted EPS reflects the potential dilution of securities that could share in the earnings. This Statement is effective for the Company's financial statements for the year ended December 31, 1997.

CERTAIN FORWARD-LOOKING INFORMATION

Certain matters discussed in this Prospectus are forward-looking statements within the meaning of the federal securities laws. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, there can be no assurance that its expectations will be achieved. Factors that could cause actual results to differ materially from the Company's current expectations include market acceptance of the Company's products, which consist of two closely interdependent products, the amount and timing of expenses associated with the development and marketing of new products, the Company's ability to protect and continue to develop its proprietary technology in the face of competition and technological change, risks associated with the Company's international operations, general economic conditions and the other risks set forth under the caption "Risk Factors."

BUSINESS

GENERAL

The Company designs, develops, markets and supports portable, software-driven, 3-D measurement systems that are used in a broad range of manufacturing and industrial applications. The Company's principal products are the FAROArm(R) articulated measuring device and its companion AnthroCam(R) software. Together, these products integrate the measurement and quality inspection function with computer-aided design ("CAD"), computer-aided manufacturing ("CAM") and computer-aided engineering ("CAE") technology to improve productivity, enhance product quality and decrease rework and scrap in the manufacturing process. The Company's products bring precision measurement, quality inspection and specification conformance capabilities, integrated with leading CAD software, to the factory floor. The Company is a pioneer in the development and marketing of 3-D measurement technology in manufacturing and industrial applications and currently holds or has pending 18 patents in the United States, eight of which also are held or pending in other jurisdictions. The Company's products have been purchased by more than 600 customers worldwide, ranging from small machine shops to such large manufacturing and industrial companies as General Motors, Chrysler, Ford, Boeing, Lockheed Martin, General Electric, Westinghouse Electric, Caterpillar and Komatsu Dresser.

INDUSTRY BACKGROUND

The creation of physical products involves the processes of design, engineering, production and measurement and quality inspection. These basic processes have been profoundly affected by the computer hardware and software revolution that began in the 1980s. CAD software was developed to automate the design process, providing manufacturers with computerized 3-D design capability. Today, most manufacturers use some form of CAD software to create designs and engineering specifications for new products and to quantify and modify designs and specifications for existing products. The benefits of CAD are significant. The CAD process offers a three-dimensional, highly-efficient and inherently flexible alternative to traditional design methods. Many manufacturers have also recently adopted CAM technology, in which CAD data directs machines in the manufacturing process. CAM has further improved the efficiency and quality of the production of manufactured goods. According to International Data Corporation, the worldwide market for mechanical CAD, CAM and CAE-based software products amounted to $3.0 billion in 1996 and is expected to grow at the rate of 16.5% per year to $5.6 billion in 2000.

A significant aspect of the manufacturing process which traditionally has not benefitted from computer-aided technology is measurement and quality inspection. Historically, manufacturers have measured and inspected products using hand-measurement tools such as scales, calipers, micrometers and plumb lines for simple measuring tasks, test fixtures for certain large manufactured products and traditional coordinate measurement machines ("CMMs") for objects that require higher precision measurement. However, the broader utility of each of these measurement methods is limited. Although hand-measurement tools are often appropriate for simple measurements, their use for complex measurements is time-consuming and limited in adaptability. Test fixtures (customized fixed tools used to make comparative measurements of production parts to "master parts") are relatively expensive and must be reworked or discarded each time a dimensional change is made in the part being measured. In addition, these manual measuring devices do not permit the manufacturer to compare the dimensions of an object with its CAD model.

Conventional CMMs are generally large, fixed-base machines that provide very high levels of precision but have only recently begun to provide a link to the CAD model of the object being measured. CMMs require that the object being measured be brought to the fixed-based CMM and that the object fit within the CMM's measurement grid. In addition, conventional CMMs generally operate in metrology laboratories or environmentally-stable quality inspection departments of manufacturing facilities rather than on the factory floor. According to Frost & Sullivan, an independent industry research group, the worldwide market for fixed-base CMMs amounted to $1.2 billion in 1995.

Isolation from the factory floor and the relatively small measurement grids of CMMs limit their utility to small, readily portable workpieces that require high levels of measurement precision. As manufactured subassemblies increase in size and become integrated into even larger assemblies, they become less transportable, thus diminishing the utility of a conventional CMM. Consequently, manufacturers must continue to use hand-measuring tools or expensive customized test fixtures to measure large or unconventionally shaped objects.

An increasingly competitive global marketplace has created a demand for higher quality products with shorter life cycles. While manufacturers previously designed their products to be in production for longer periods of time, current manufacturing practices must accommodate more frequent product introductions and modifications, while satisfying more stringent quality and safety standards. In most cases, only a relatively small percentage of the components of a manufactured product requires highly precise measurements (less than one-thousandth of an inch). Conventional CMMs provide manufacturers with very precise measurement capabilities and cost up to $2 million per unit. However, they are not responsive to manufacturers' increasing need for cost-effective intermediate precision measurement capabilities. The Company believes that a greater percentage of components requires intermediate precision measurements (between one- and twenty-thousandths of an inch). In the absence of intermediate precision measuring systems, manufacturers often are unable to make appropriate measurements or part-to-CAD comparisons during the manufacturing process, resulting in decreased productivity, poor product quality and unacceptable levels of product rework and scrap. Manufacturers increasingly require more rapid design, greater control of the manufacturing process, tools to compare components to their CAD specifications and the ability to measure precisely components that cannot be measured or inspected by conventional CMMs. Moreover, they increasingly require measurement capabilities to be integrated into the manufacturing process and to be available on the factory floor.

THE FARO SOLUTION

The Company designs, develops, markets and supports portable, software-driven, 3-D measurement systems that are used in a broad range of manufacturing and industrial applications. The Company's principal products, the FAROArm(R) articulated measuring device and its companion AnthroCam(R) software, integrate the measurement and quality inspection function with CAD and CAM technology to improve productivity, enhance product quality and decrease rework and scrap in the manufacturing process. The Company's products overcome many limitations of hand-measurement tools, test fixtures and conventional CMMs by incorporating the following features:

Integration with CAD Technology. The Company's products provide a bridge between the virtual 3-D world of the CAD process and the physical 3-D world of the factory floor. The interface to CAD allows manufacturers to integrate design, production and measurement and quality inspection processes on a common software platform. The Company believes that this integration creates significant savings by reducing the need for test fixtures and improves productivity by reducing production set-up times. Finally, the Company's integration with CAD technology significantly enhances product quality by maximizing the opportunities to make precise measurements based on engineering specifications within the manufacturing process.

Six-Axis Articulating Arm. The FAROArm(R) incorporates a six-axis instrumented, articulating device that approximates the range of motion and dexterity of the human arm. The flexibility of the FAROArm(R) enables the user to measure complex shapes and ergonomic structures and to reach behind, underneath and into previously inaccessible spaces, such as interior surfaces of aircraft or automobiles. The flexibility of the FAROArm(R) allows customers to measure more accurately and efficiently than previously possible.

Portability and Adaptability. The FAROArm(R) is lightweight, portable and designed for operation in the often harsh environments typical of manufacturing facilities. The FAROArm(R) can be moved to multiple locations on the factory floor to measure large parts and assemblies that cannot be easily moved to a conventional CMM. This portability extends 3-D measurement to previously inaccessible areas of the factory floor and eliminates the travel time to and from quality inspection departments.

Levels of Precision Responsive to Industry Needs. The Company's products respond to manufacturers' need for intermediate levels of measurement precision. Although high levels of precision (less than one-thousandth of an inch) are required for certain manufacturing applications, the FAROArm(R) satisfies the greater demand for measurements that require intermediate precision (one- to twenty-thousandths of an inch). The Company's products meet the precision measurement requirements of a substantial portion of products in the manufacturing process and address the underserved market for intermediate precision measurement systems.

Broad Affordability. The Company offers various models of the FAROArm(R) ranging in price from $14,000 to $70,000, while conventional CMMs range in price from $20,000 to $2 million. The relatively low cost of the Company's products compared to conventional CMMs has afforded manufacturers the opportunity to introduce cost-effective measurement and quality inspection functions throughout the manufacturing process. Manufacturers are able to purchase multiple units to be used at different locations within a single manufacturing facility and to introduce measurement and quality inspection at additional points in the manufacturing process.

Ease of Use. The Company's software products have been specifically designed to be used by production line personnel with minimal prior computer or CAD experience. The bundled hardware and software system is designed to require minimal training for production line personnel to reach proficiency with the product. To take a measurement, the operator simply touches the object to be measured with a probe at the end of the arm and presses a button. The FAROArm(R) is also ergonomically designed to facilitate use in typical factory floor applications.

Paperless Data Collection. The FAROArm(R) allows for paperless data collection by a connected computer hosting related CAD application software. This function responds to current trends toward automated statistical process controls for facilitating data analysis. Paperless data collection improves productivity and eliminates the risk of error in transcribing the collected information.

Open Architecture. The FAROArm(R) and AnthroCam(R) have been designed as an open architecture system, allowing the user to unbundle the hardware and software to interface the FAROArm(R) with other CAD-based software packages and to interface AnthroCam(R) with other 3-D measurement devices. In addition, the Company's software and hardware are built in accordance with computer and communications industry standards so that these products may be integrated with a broad range of application software packages.

THE FARO STRATEGY

The Company's objective is to strengthen its position as the leading provider of portable, software-driven, 3-D measurement systems. To achieve this objective, the Company has adopted the following principal strategies:

Focus on the Portable 3-D Measurement Market. The Company is a pioneer in the development and marketing of portable, software-driven, 3-D measurement systems. The Company believes that the market for these products is substantial, but is currently underserved. The Company expects its intensive efforts to document and publicize new applications to lead to a greater market awareness of the benefits of the Company's technology.

Further Penetrate its Installed Customer Base. The Company has more than 600 customers that use its products in a broad range of manufacturing and industrial applications. Many of these customers are large manufacturers with multiple facilities. For many of its customers, the Company's products are used only at certain manufacturing facilities or by certain divisions. Accordingly, the Company will seek to leverage successful installations of its products to encourage adoption at additional customer sites.

Increase International Sales. The Company believes that substantial international demand exists for portable, software-driven, 3-D measurement systems. Therefore, the Company plans to extend its significant commitment to international sales and support to take advantage of worldwide market opportunities. International sales represented 20.5% of the Company's sales for 1996 and 26.0% for the

first six months of 1997. The Company intends to increase international sales by expanding its current sales organization in Europe and entering new markets, such as the Pacific Rim and Latin America.

Leverage its Technology. The Company has made a substantial investment in the development of its technology, employs a number of proprietary manufacturing processes and currently holds or has pending 18 patents in the United States, eight of which are also held or pending in other jurisdictions. The Company believes that the foundation of its successes to date has been the technological superiority and affordability of its products. The Company intends to leverage its existing technology to lower the cost of producing, and enhance the functionality, of its products.

Expand its Product Line and Service Offerings. The Company intends to introduce new products to meet the requirements of its customers. The Company also intends to capitalize on its experience in solving unique production problems to increase revenues through technical service offerings. In addition, the Company may seek to acquire complementary businesses or technologies to expand its product and service offerings.

FARO PRODUCTS

The Company designs, develops, markets and supports portable, software-driven, 3-D measurement systems that are used in a broad range of manufacturing and industrial applications. The Company's principal products are the FAROArm(R) articulated measuring device and its companion AnthroCam(R) software. Together, these products integrate the measurement and quality inspection function with CAD and CAM technology to improve productivity, enhance product quality and decrease rework and scrap in the manufacturing process. The following is a schematic diagram of the Company's Silver Series FAROArm(R):

SILVER SERIES MODEL

[NUMBERS 1-6 INDICATE AXES (GRAPH)]

A schematic drawing of the Company's Silver Series FAROArm(R) showing (i) six numbered axes of motion, (ii) an on-board controller and (iii) a probe, hardgrip and data switch on one end and a laptop computer connected at the other end with the Company's Autro Cam logo on the computer screen.

FAROArm(R)

The FAROArm(R) is a portable, six-axis, instrumented, articulated device that approximates the range of motion and dexterity of the human arm. Each articulated arm is comprised of three major joints, each of which may consist of one, two or three axes of motion. The FAROArm(R) is available in a variety of sizes, configurations and precision levels that are suitable for a broad range of applications. To take a measurement, the operator simply touches the object to be measured with a probe at the end of the arm and presses a button. Data can be captured as either individual points or a series of points. Digital rotational transducers located at each of the joints of the arm measure the angles at those joints. This rotational measurement data is transmitted to an on-board controller that converts the arm angles to precise locations in 3-D space using "xyz" position coordinates and "ijk" orientation coordinates.

The FAROArm(R) has been designed as an open architecture system. The communications parameters of the on-board processors have the ability to combine advanced sensing probes, integrate with conventional CMM software and communicate with different CAD software packages and a variety of computer operating systems. This open architecture is designed to provide for easy integration of the FAROArm(R) into the manufacturing environment. The customer's ability to use an installed base of computing hardware and software further reduces the cost of installation and training while initiating the transition to the Company's preferred group of CAD-based products. To encourage integration of the FAROArm(R) into the manufacturing environment, the Company provides a group of seamless interface drivers for leading CAD/CAM packages, including AutoCAD(R), CADKey(R) and SURFCAM(R). The Company also provides a full serial communication command protocol to the FAROArm(R) for customers who write their own interfaces.

The Company offers several models of the FAROArm(R) under two product lines: the Silver Series and the Bronze Series.

Silver Series. The Silver Series models are the Company's higher precision (P.003 to P.007 inches) measuring devices and are available in six, eight and twelve foot measurement diameters. These models are most frequently used for factory floor inspection and fit-checking applications. Depending on the size, configuration and precision level, the Silver Series models are priced between $50,000 and $70,000 when sold as a turnkey system including hardware and AnthroCam(R) software and between $30,000 and $60,000 without AnthroCam(R) software.

Bronze Series. The Bronze Series models are the Company's medium precision (P.012 to P.016 inches) measuring devices and are available in six, eight and ten foot measurement diameters. These models are most frequently used for applications that do not require high-level precision, such as 3-D modeling, mold production and reverse-engineering applications. Depending on the size, configuration and precision level, the Bronze Series models are priced between $30,000 and $50,000 when bundled with AnthroCam(R) software and between $14,000 and $23,000 without AnthroCam(R) software.

AnthroCam(R)

AnthroCam(R) is the Company's proprietary measurement software. It is built on the AutoCAD/AutoSurf software development platform, which allows users to benefit from extensive hardware, software, interfacing and product support libraries and teaching products. AnthroCam(R) software is offered with the FAROArm(R) and is also offered as an unbundled product. When unbundled from the FAROArm(R), AnthroCam(R) sells for $15,000.

AnthroCam(R) is the Company's software-based bridge to CAD and CAM; it allows users to compare measurements of manufactured components with complex CAD data. In conventional design applications, curved or ergonomic shapes are typically modeled physically and then converted into data for manufacturing. AnthroCam(R) provides an alternative to the time and expense of this physical modeling process with a digital solution. For older parts without data files, AnthroCam(R) enables pre-existing parts to be measured in order to adapt them to current manufacturing technologies.

AnthroCam(R) has been designed as an open architecture system, allowing for efficient integration into the manufacturing environment. The Company provides a full serial communication command protocol to the

AnthroCam(R) software for customers who write interfaces to their own software. The Company also provides comprehensive training and support for AnthroCam(R) and offers this product in a number of international versions.

AnthroCam(R) is a Windows-based, 32-bit application written for the most recent PC-based technology. AnthroCam(R) has been entirely designed and programmed by the Company utilizing field input and industry wide beta site installations. AnthroCam(R) is written as an AutoCAD runtime extension (ARX) that is the AutoCAD(R) Application Programming Interface (API). The software is written in the C++ development language using Microsoft Foundation Class (MFC) standards. The software fully implements UNICODE standards for worldwide translation allowing the Company to create foreign language versions to enter international markets more effectively.

Specialty Products

The Company licenses and supports certain specialty products based on its articulated arm technology that are used in medical and multimedia applications. License and support fees from these products do not represent a significant portion of the Company's revenues and the Company does not intend to actively market these products.

CUSTOMERS

The Company's products have been purchased by more than 600 customers ranging from small machine shops to large manufacturing and industrial companies. The Company's ten largest customers by revenue represented 28.1% and 17.5% of the Company's total revenues in 1996 and the six months ended June 30, 1997, respectively. Sales to Boeing represented 10.0% of the Company's sales in 1996. No customer represented 10.0% or more of the Company's sales in the first six months of 1997. The following table illustrates, by vertical market, the Company's diverse customer base:

AEROSPACE
Boeing
GE Aircraft Engines
Lockheed Martin
Nordam Repair Division
Northrop Grumman
Orbital Sciences
Dee Howard

APPAREL AND FOOTWEAR
Nike
Reebok

AUTOMOTIVE
AO Smith
Chrysler
Ford
General Motors
Honda
Hyundai
Johnson Controls
Lear Corporation
Mercedes Benz
Porsche
Samsung Motors
Toyota
Vehma International

BUSINESS AND CONSUMER MACHINES
Corning Asahi
Xerox

ELECTRIC UTILITIES AND MANUFACTURERS
General Electric
Southern California Edison
Tennessee Valley Authority
Westinghouse Electric

FARM/LAWN EQUIPMENT
New Holland North America
Toro

HEAVY EQUIPMENT MANUFACTURERS
Caterpillar
Komatsu Dresser
Champion Road Machinery
Texas Steel

PERSONAL ROAD/ WATER/SNOW CRAFT
Harley Davidson
Polaris Industries

PLASTICS
Able Design Plastics
Paramount Plastics
Thermoform Plastics

CUSTOMER CASE STUDIES

The following case studies illustrate the use of the Company's products and services by its customers:

Chrysler Canada Corporation. Chrysler Canada Corporation ("Chrysler") manufactures the Dodge Ram truck, van and wagon at its Windsor, Ontario plant. This plant builds approximately 420

vehicles per shift, with two shifts per day. Chrysler discovered certain fit problems with its large panels and bodyside assemblies. Previous inspection tools, such as test fixtures, templates and patterns, could not meet Chrysler's requirements for on-site product measurement. The FAROArm(R) was originally introduced as an interim solution. Chrysler identified one of its three production lines as its "ideal" or "good" line and used the FAROArm(R) to compare the products produced by the lines and adjust the two "bad" lines. Within two weeks, Chrysler experienced significantly improved product quality. The Company's "interim" solution resulted in measurable production improvements for the plant, together with significant capital savings as custom test fixtures were replaced with the FAROArm(R).

Champion Road Machinery. Champion Road Machinery ("Champion") is a worldwide manufacturer of road graders. Similar to a snow plow, road graders are essential for shaping and smoothing new roadbeds, and are also used in surface mining, dam work and land reclamation. Champion identified the need to reduce the number of "reworks" or the custom fit of subassemblies to its frames because of dimensional variations. Historically, each time component parts did not fit together, Champion corrected the deviations on a case-by-case basis by custom-fitting the parts. With the FAROArm(R) and its companion AnthroCam(R) software, Champion was able to capture measurement data from the parts and identify the origin of the variations, which allowed it to address the source of the problems rather than continue to make individual adjustments. Champion's use of the FAROArm(R) resulted in a systematic solution for a recurring and expensive manufacturing problem.

Southern California Edison. Southern California Edison ("SCE") is a large public utility company. Like other utilities, SCE experienced significant expense and customer dissatisfaction as a result of lengthy downtimes. During routine turbine overhauls, scheduled and unscheduled maintenance and forced outage conditions, SCE typically made numerous repairs and modifications to make its equipment functional. Common problems encountered by SCE included obsolete parts, long turnaround times for replacement parts and difficulty in returning damaged parts to full functionality. Using the FAROArm(R), SCE was able to measure large damaged blades and create CAD drawings for quick manufacture of replacements. This allowed SCE to bring its power generation units online without undue delay and expense.

Texas Steel. Texas Steel is a foundry that produces steel castings for off-road, mining, oil field and construction equipment. Its castings weigh as much as 25,000 pounds and have diameters as large as twelve feet. Texas Steel used the FAROArm(R) to improve the accuracy of dimensional checks of these large castings, and found it to be safer, faster and more efficient than its previous measurement methods. Texas Steel reported a 75% time-savings in making these checks by using the FAROArm(R). In addition, the FAROArm(R) allowed Texas Steel to measure exceptionally large parts where such measurements were not possible with previous methods. The ease of use of the FAROArm(R) and AnthroCam(R) also encouraged Texas Steel to expand the range of parts checked, further increasing production quality.

Polaris Industries, Inc. Polaris Industries, Inc. ("Polaris") is a leading manufacturer of all-terrain vehicles ("ATVs"). To satisfy its own stringent quality standards, Polaris engineers routinely check all ATV subassemblies and weldments to ensure quality and reduce the number of reworks caused by dimensional variations. Before Polaris began using the FAROArm(R), measuring the subassemblies took approximately 2.5 hours. Polaris' engineers would manually measure various points on the subassemblies to ensure that they matched blueprint specifications. These measurements were difficult to make because of the complex size and shape of the subassemblies. Using the FAROArm(R), Polaris reduced the measurement time for subassemblies to approximately 15 minutes. Polaris reports that its use of the FAROArm(R) has resulted in a significant increase in productivity.

SALES AND MARKETING

The Company directs its sales and marketing efforts from its headquarters in Lake Mary, Florida. At June 30, 1997, the Company employed 40 sales professionals who operate from the Company's five domestic regional sales offices located in Chicago, Dallas, Detroit, Los Angeles and Seattle, and three international sales

offices located in London, Paris and Stuttgart. The Company also utilizes three domestic and 12 international distributors in territories where the Company does not have regional sales offices.

The Company uses a process of integrated lead qualification and sales demonstration. Once a customer opportunity is identified, the Company employs a team-based sales approach involving inside and outside sales personnel who are supported by application engineers.

The Company employs a variety of marketing techniques, including direct mail, trade shows, and advertising in trade journals, and proactively seeks publicity opportunities for customer testimonials. Management believes that word-of-mouth advertising from the Company's existing customers provides an important marketing advantage. The Company also has a computerized sales and marketing software system with telemarketing, lead tracking and analysis, as well as customer support capabilities. Each of the Company's sales offices is linked electronically to the Company's headquarters.

In June 1996, the Company entered into an OEM agreement with Mitutoyo Corporation ("Mitutoyo"), a Japanese company that is the world's largest manufacturer of metrology tools. Mitutoyo markets the FAROArm(R) in Japan under the name SPINARM(R). The agreement, which grants Mitutoyo a non-exclusive right to sales in Japan, expires in June 1999 and is renewable for one year terms.

RESEARCH AND DEVELOPMENT

The Company believes that its future success depends on its ability to achieve technological leadership, which will require ongoing enhancements of its products and the development of new applications and products that provide 3-D measurement solutions. Accordingly, the Company intends to continue to make substantial investments in the development of new technologies, the commercialization of new products that build on the Company's existing technological base and the enhancement and development of additional applications for its products.

The Company's research and development efforts are directed primarily at enhancing the technology of its current products and developing new and innovative products that respond to specific requirements of the emerging market for 3-D measurement systems. The Company's research and development efforts have been devoted primarily to mechanical hardware, electronics and software. The Company's engineering development efforts will continue to focus on the FAROArm(R) and AnthroCam(R) products. Significant efforts are also being directed toward the development of new measurement technologies and additional features for existing products. See "-- Technology."

At June 30, 1997, the Company employed 16 scientists and technicians in its research and development efforts. Research and development expenses were $730,000 in 1996 and $395,000 in the first six months of 1997. Research and development activities, especially with respect to new products and technologies, are subject to significant risks, and there can be no assurance that any of the Company's research and development activities will be completed successfully or on schedule, or, if so completed, will be commercially accepted. See "Risk Factors -- Technological Change."

TECHNOLOGY

The primary measurement function of the FAROArm(R) is to provide orientation and position information with respect to the probe at the end of the FAROArm(R). This information is processed by software and can be compared to the desired dimensions of the CAD data of a production part or assembly to determine whether the measured data conforms to meet dimensional specifications.

To accomplish this measurement function, the FAROArm(R) is designed as an articulated arm with six or seven joints. The arm consists of aluminum links and rotating joints that are combined in different lengths and configurations, resulting in human arm-like characteristics. Each joint is instrumented with a rotational transducer, a device used to measure rotation, which is based on optical digital technology. The position and orientation of the probe in three dimensions is determined by applying trigonometric calculations at each joint. The position of the end of a link of the arm can be determined by using the angle measured and the known

length of the link. Through a complex summation of these calculations at each joint, the position and orientation of the probe is determined.

The Company's products are the result of a successful integration of state-of-the-art developments in mechanical and electronic hardware and applications software. The unique nature of the Company's technical developments is evidenced by the Company's numerous U.S. and international patents. The Company maintains low cost product design processes by retaining development responsibilities for all electronics, hardware and software.

Mechanical Hardware. The FAROArm(R) is designed to function in diverse environments and under rigorous physical conditions. The arm monitors its temperature to adjust for environments ranging from -10 degrees to +50 degrees Celsius. The arm is constructed of pre-stressed precision bearings to resist shock loads. Low production costs are attained by the proprietary combination of reasonably priced electromechanical components accompanied by the optimization and on-board storage of calibration data. Many of the Company's innovations relate to the environmental adaptability of its products. Significant features include integrated counter-balancing, configuration convertibility and temperature compensation.

Electronics. The rotational information for each joint is processed by an on-board computer that is designed to handle complex analyses of joint data as well as communications with a variety of host computers. The Company's electronics are based on digital signal processing and surface mount technologies. The Company's products meet all mandatory electronic safety requirements. Advanced circuit board development, surface mount production and automated testing methods are used to ensure low cost and high reliability.

Software. AnthroCam(R) is a Windows-based, 32-bit application written for the most recent PC-based technology. AnthroCam(R) has been entirely designed and programmed by the Company utilizing field input and industry wide beta site installations. AnthroCam(R) is written as an AutoCAD runtime extension (ARX) that is the AutoCAD(R) Application Programming Interface (API). The software is written in the C++ development language using Microsoft Foundation Class (MFC) standards. The software fully implements UNICODE standards for worldwide translation allowing the Company to create foreign language versions to enter international markets more effectively. The software is developed with the cooperation of diverse user beta sites and a well developed system for tracking and implementing market demands.

INTELLECTUAL PROPERTY

The Company holds or has pending 18 patents in the United States, eight of which also are held or pending in other jurisdictions. The Company also has 16 registered trademarks in the United States and 12 trademark applications pending in the United States and the European Union.

The Company relies on a combination of contractual provisions and trade secret laws to protect its proprietary information. There can be no assurance that the steps taken by the Company to protect its trade secrets and proprietary information will be sufficient to prevent misappropriation of its proprietary information or to preclude third-party development of similar intellectual property.

Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. The Company intends to vigorously defend its proprietary rights against infringement by third parties. However, policing unauthorized use of the Company's products is difficult, particularly overseas, and the Company is unable to determine the extent to which piracy of its software products exists. In addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as the laws of the United States.

The Company does not believe that any of its products infringe on the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by the Company with respect to current or future products. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the

Company or at all, which could have a material adverse effect upon the Company's business, operating results and financial condition.

MANUFACTURING AND ASSEMBLY

The Company manufactures its products primarily at its headquarters in Lake Mary, Florida. Manufacturing consists primarily of assembling components and subassemblies purchased from suppliers into finished products. The primary components, which include machined parts and electronic circuit boards, are produced by subcontractors according to the Company's specifications. All products are assembled, calibrated and finally tested for accuracy and functionality before shipment. In limited circumstances, the Company performs in-house circuit board assembly and part machining. The Company's facilities and operations are in the process of completing requirements for ISO 9000 registration.

COMPETITION

The broad market for measurement devices, which includes hand-measurement tools, test fixtures and conventional, fixed-base CMMs, is highly competitive. Manufacturers of hand-measurement tools and traditional CMMs include a significant number of well-established companies that are substantially larger and possess substantially greater financial, technical and marketing resources than the Company. There can be no assurance that these entities or others will not succeed in developing products or technologies that will directly compete with those of the Company. The Company will be required to make continued investments in technology and product development to maintain its technological advantage over its competition. There can be no assurance that the Company will have sufficient resources to make such investments or that the Company's product development efforts will be sufficient to allow the Company to compete successfully as the industry evolves. The Company's products compete on the basis of portability, accuracy, application features, ease-of-use, quality, price and technical support.

The Company's only significant direct competitor is a joint venture of Romer SRL (France) and Romer, Inc. (California). The Company is aware of a direct competitor in Germany and two new direct competitors in Italy, each of which the Company believes currently has negligible sales. The Company also has an established, indirect competitor in Japan that markets a measuring device that is mobile but not portable. There can be no assurance that such companies will not devote additional resources to the development and marketing of products that compete with those of the Company.

The worldwide trend toward CAD-based factory floor metrology has resulted in the introduction of CAD-based inspection software for conventional CMMs by most of the large CMM manufacturers. Certain CMM manufacturers are miniaturizing, and in some cases increasing the mobility of, their conventional CMMs. Nonetheless, these CMMs still have small measurement volumes, lack the adaptability typical of portable, articulated arm measurement devices and lose accuracy outside the controlled environment of the metrology lab.

BACKLOG

At June 30, 1997, the Company had orders representing $1.9 million in sales, compared to $1.5 million at June 30, 1996. The Company expects to ship all such outstanding orders by August 31, 1997. The Company affords its customers the right to cancel any order at any time before the product is shipped. Historically, the number of canceled orders has been negligible. Nonetheless, there can be no assurance that all orders in backlog will be shipped, and backlog may not be indicative of future sales.

EMPLOYEES

At June 30, 1997, the Company had 104 full time employees, consisting of 40 sales/application engineering staff, 27 production staff, 16 research and development staff, 13 administrative staff, and eight customer service specialists. None of the Company's employees is represented by a labor organization, and the Company is not a party to any collective bargaining agreements. The Company believes its employee relations

are good. Management believes that its future growth and success will depend in part on its ability to retain and continue to attract highly skilled personnel.

FACILITIES

The Company's headquarters and principal operations are located in a leased building in Lake Mary, Florida containing approximately 18,000 square feet. The Company currently is in the process of increasing the size of its headquarters facility to 36,000 square feet. The expanded facility will be used to increase the Company's production, research and development, and training capabilities. The Company believes that, after this expansion, its headquarters will be adequate for its foreseeable needs and that it will be able to locate suitable space for additional regional offices as those needs develop.

In addition, the Company has five sales offices in the United States and three sales offices in Europe. The following table sets forth additional information concerning these sales offices:

LOCATION	DATE OPENED
London, United Kingdom	May 1997
Paris, France	April 1996
Stuttgart, Germany	April 1996
Chicago, Illinois	March 1996
Dallas, Texas	March 1996
Los Angeles, California	March 1996
Seattle, Washington	March 1995
Detroit, Michigan	January 1995

LEGAL PROCEEDINGS

The Company is not a party to any litigation, and is not aware of any pending or threatened litigation, that is expected to have a material adverse effect on the Company or its business.

MANAGEMENT

EXECUTIVE OFFICERS, DIRECTORS AND KEY EMPLOYEES

The executive officers and directors of the Company, as well as certain key employees, and their ages as of August 1, 1997 are as follows:

NAME	AGE	POSITION	TERM AS DIRECTOR EXPIRES
EXECUTIVE OFFICERS AND DIRECTORS:			
Simon Raab, Ph.D.	44	Chairman of the Board, President, Chief Executive Officer and Director	2000
Gregory A. Fraser, Ph.D.	42	Chief Financial Officer, Executive Vice President, Secretary, Treasurer and Director	1999
Hubert d'Amours	58	Director	2000
Philip R. Colley	59	Director	1999
Andre Julien	54	Director	2000
Martin M. Koshar	64	Director	1999
Alexandre Raab	72	Director	1998
Norman H. Schipper, Q.C.	67	Director	1998
KEY EMPLOYEES:			
Daniel T. Buckles	42	Vice President -- Sales	
Ali S. Sajedi	37	Chief Engineer	

- ---

Simon Raab, Ph.D., a co-founder of the Company, has served as the Chairman of the Board, Chief Executive Officer and a director of the Company since its inception in 1982 and as President since 1986. Mr. Raab holds a Ph.D. in Mechanical Engineering from McGill University, Montreal, Canada, a Masters of Engineering Physics from Cornell University and a Bachelor of Science in Physics with a minor in Biophysics from the University of Waterloo, Canada.

Gregory A. Fraser, Ph.D., a co-founder of the Company, has served as Chief Financial Officer and Executive Vice President since May 1997 and as Secretary, Treasurer and a director of the Company since its inception in 1982. Mr. Fraser holds a Ph.D. in Mechanical Engineering from McGill University, Montreal, Canada, a Masters of Theoretical and Applied Mechanics from Northwestern University and a Bachelor of Science and Bachelor of Mechanical Engineering from Northwestern University.

Hubert d'Amours has been a director since 1990. Mr. d'Amours has served as president of Montroyal Capital Inc. and Capimont Inc., two venture capital investment firms, since 1990. Mr. d'Amours also serves as a director of a number of privately held companies.

Philip R. Colley has been a director since 1984. Mr. Colley has been the President of Colley, Borland and Vale Insurance Brokers Ltd. in Ontario, Canada, since 1967.

Andre Julien has been a director since 1986. Mr. Julien was a co-founder in 1970 and a major shareholder until 1977 of Performance Sail Craft, Inc., a Montreal-based sailboat manufacturer which produces the Laser(TM) sailboat. From 1969 until his retirement in 1994, Mr. Julien was president and the owner of Chateau Paints, Inc., a coatings and paint manufacturer in Montreal Canada. Since his retirement in 1994, Mr. Julien has sat on boards of directors of, and provided consulting services to, a number of private companies.

Martin M. Koshar has been a director since 1992. From 1988 until his retirement in 1992, Mr. Koshar was President of the Aerospace and Naval Division of Martin Marietta Corporation, where he managed the production of various aircraft structures, the VLS missile launching system and various SONAR systems and

undersea recovery devices. Since his retirement in 1992, Mr. Koshar has provided consulting services to a number of organizations, including Lockheed Martin and the U.S. Army Missile Command.

Alexandre Raab has been a director since the Company's inception in 1982. Mr. Raab has served as the Chairman of the Board of Advanced Agro Enterprises, a privately held company in Ontario, Canada, since 1991. From 1953 through 1990, Mr. Raab was the principal shareholder and Chief Executive Officer of White Rose Nurseries, Ltd., a privately held horticultural firm. Mr. Raab is the father of Simon Raab.

Norman H. Schipper, Q.C., has been a director since the Company's inception in 1982. Mr. Schipper has been a partner in the Toronto office of the law firm of Goodman, Phillips & Vineberg since 1962.

Daniel T. Buckles has been Vice President -- Sales for the Company since May 1997. From 1993 to May 1997, he served as the Director of Marketing for the Company's Industrial Products Group. From 1991 to 1993, Mr. Buckles was the Manager of Product Assurance Technical Operations for the Aerospace and Naval Division of Martin Marietta Corporation. From 1987 to 1991, Mr. Buckles held program management positions for a variety of advanced development and manufacturing programs at Martin Marietta Corporation. From 1976 to 1987, Mr. Buckles held various program management and manufacturing positions at the Submarine Signal Division of Raytheon Company. Mr. Buckles holds a Bachelor of Arts in Theoretical and Quantitative Economics and a Masters of Business Administration from the University of Massachusetts -- Dartmouth.

Ali S. Sajedi has been Chief Engineer for the Company since its inception in 1982. Mr. Sajedi has been responsible for implementation of research and development plans and for production oversight of the Company's self-managed production team. Mr. Sajedi holds a Bachelor of Mechanical Engineering from McGill University.

COMMITTEES OF THE BOARD

The Board of Directors has established the following committees:

Audit Committee. The Audit Committee is comprised of Messrs. d'Amours, Julien and Simon Raab and is responsible for reviewing the independence, qualifications and activities of the Company's independent certified accountants and the Company's financial policies, control procedures and accounting staff. The Audit Committee recommends to the Board the appointment of the independent certified public accountants and reviews and approves the Company's financial statements. The Audit Committee also reviews transactions between the Company and any officer or director or any entity in which an officer or director of the Company has a material interest.

Compensation Committee. The Compensation Committee is comprised of Messrs. Koshar (committee chair), d'Amours and Julien and is responsible for establishing the compensation of the Company's directors, officers and other managerial personnel, including salaries, bonuses, termination arrangements and other benefits. In addition, the Committee administers the Company's 1993 Stock Option Plan, 1997 Employee Stock Option Plan and 1997 Non-Employee Director Stock Option Plan.

COMPENSATION OF DIRECTORS

Directors who are executive officers of the Company do not receive compensation for service as members of either the Board of Directors or committees thereof. Directors who are not executive officers of the Company receive $1,000 for each Board meeting and $500 for each committee meeting attended. The outside directors also receive options to purchase Common Stock under the Company's 1997 Non-Employee Director Stock Option Plan. See "-- Stock Option Plans -- 1997 Non-Employee Director Stock Option Plan."

The Company's 1997 Non-Employee Directors' Fee Plan permits non-employee directors to elect to receive directors' fees in the form of Common Stock rather than cash. Shares issued in lieu of cash directors' fees are issued at the end of the quarter in which the fees are earned, with the number of shares being based on the fair market value of the Common Stock for the five trading days immediately preceding the last business

day of the quarter. Directors may defer the receipt of fees for federal income tax purposes, whether payable in cash or in shares.

In May 1997, in consideration for his serving on the Board of Directors, the Company granted Martin M. Koshar options under the 1993 Stock Option Plan to purchase 52,732 shares of Common Stock at an exercise price of $0.36 per share. These options become exercisable in full upon the completion of this offering.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee are Messrs. d'Amours, Julien and Koshar. Compensation decisions for 1996 were made by the Compensation Committee. There have been no transactions during the last three years between the Company and members of the Compensation Committee or entities in which they own an interest.

EXECUTIVE COMPENSATION

The following table sets forth certain information concerning compensation paid to the Company's Chief Executive Officer and each of the Company's other most highly compensated executive officers who earned more than $100,000 in salary and bonus for the year ended December 31, 1996.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION	
	SALARY	BONUS
Simon Raab, Ph.D. President and Chief Executive Officer.....	$130,000	--
Gregory A. Fraser, Ph.D. Chief Financial Officer and Executive Vice President.....	$111,467	$11,643

STOCK OPTION PLANS

The Company maintains three stock option plans to attract, motivate and retain key employees and members of the Board of Directors who are not employees of the Company.

1993 Stock Option Plan. The Company's 1993 Stock Option Plan (the "1993 Plan") provides for the grant of incentive or nonqualified stock options to key employees and nonqualified stock options to non-employee directors. An aggregate of 703,100 shares of Common Stock are reserved for issuance pursuant to the 1993 Plan. The 1993 Plan is administered by the Compensation Committee of the Board of Directors, which has broad discretion in the granting of awards. As of the date of this Prospectus, 21 key employees and one non-employee director hold an aggregate of 383,513 options under the 1993 Plan with a term of ten years and a weighted average exercise price of $1.53 per share. The executives named in the Summary Compensation Table do not hold any options under the 1993 Plan.

1997 Employee Stock Option Plan. The Company also has adopted a 1997 Employee Stock Option Plan (the "1997 Plan") that provides for the grant to key employees of the Company of incentive or nonqualified stock options. An aggregate of 750,000 shares of Common Stock are reserved for issuance pursuant to the 1997 Plan. The 1997 Plan is administered by the Compensation Committee of the Board of Directors, which has broad discretion in the granting of awards. The exercise price of all options granted under the 1997 Plan must be at least equal to the fair market value of the Common Stock on the date of grant. Options granted under the 1997 Plan will be exercisable after the period or periods specified in the option agreement with respect to such grants and expire ten years from the date of grant. As of the date of this Prospectus, no options have been granted under the 1997 Plan. It is anticipated that upon completion of this offering, Simon Raab will be granted 80,000 options, Gregory A. Fraser will be granted 60,000 options and approximately 74 other employees will be granted options to purchase a total of 220,000 shares of Common Stock at the initial public offering price (except for options granted at 110% of the initial public offering price

to qualify for treatment as incentive stock options). These options will become exercisable in one-third increments on each anniversary of the date of grant, commencing in 1998.

1997 Non-Employee Director Stock Option Plan. The Company's 1997 Non-Employee Director Stock Option Plan (the "Non-Employee Plan") provides for the grant of nonqualified stock options to purchase up to 250,000 shares of Common Stock to members of the Board of Directors who are not employees of the Company. As of the date of this Prospectus, no options had been granted under the Non-Employee Plan. Under the formula grant provisions of the Non-Employee Plan; (i) each outside director will be granted options to purchase 3,000 shares of Common Stock upon the completion of this offering; (ii) thereafter, on the date on which a new outside director is first elected or appointed, he or she will automatically be granted options to purchase 3,000 shares of Common Stock; and (iii) each outside director also will be granted options to purchase 3,000 shares of Common Stock annually on the day following the annual meeting of shareholders. The Non-Employee Plan also permits discretionary option grants approved by the Board of Directors, and it is anticipated that upon completion of this offering the Board will grant an aggregate of 160,000 options pursuant to these provisions. All options granted under the Non-Employee Plan will have an exercise price equal to the then fair market value of the Common Stock. Options will become exercisable in one-third increments on each anniversary of the date of grant.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of August 1, 1997 and as adjusted to reflect the sale of Common Stock offered hereby, with respect to: (i) each director and executive officer of the Company; (ii) all directors and executive officers of the Company as a group; (iii) each person known by the Company to be the beneficial owner of five percent or more of the outstanding Common Stock; and (iv) the Selling Shareholders. Except as otherwise indicated, the Company believes that all beneficial owners named below have sole voting and investment power with respect to all shares of Common Stock beneficially owned by them.

	SHARES BENEFICIALLY OWNED BEFORE THE OFFERING		SHARES BEING	SHARES BENEFICIALLY OWNED AFTER THE OFFERING	
NAME OF BENEFICIAL OWNER(1)	NUMBER(2)	PERCENT	OFFERED	NUMBER(2)	PERCENT
DIRECTORS AND EXECUTIVE OFFICERS:					
Simon Raab, Ph.D.(3)	3,102,723	44.3%	165,000	2,937,723	33.8%
Gregory A. Fraser, Ph.D	542,265	7.7	48,226	494,039	5.7
Hubert d'Amours(4)	59,572	*	5,106	54,466	*
Phillip R. Colley(5)	144,611	2.1	10,649	133,962	1.5
Alexandre Raab(6)	463,158	6.6	--	463,158	5.3
Martin M. Koshar(7)	52,732	*	--	52,732	*
Norman H. Schipper, Q.C.(8)	166,529	2.4	14,274	152,255	1.8
Andre Julien(9)	510,139	7.3	43,726	466,413	5.4
All directors and executive officers as a group (8 persons)	5,041,729	71.5	286,981	4,754,748	54.3
OTHER SELLING SHAREHOLDERS:					
William Alcamo	19,944	*	3,457	16,487	*
Alexis Nihon Credit Inc	43,686	*	7,572	36,114	*
Thomas Beck(10)	341,298	4.9	59,158	282,140	3.2
Alec Bloom	13,106	*	2,272	10,834	*
Charles Rosner Bronfman Family Trust	87,373	1.3	15,145	72,228	*
Capital CDPQ, Inc	144,959	2.1	25,126	119,833	1.4
Stephen Cole	2,440	*	423	2,017	*
Consumers Glass Company Ltd. Pension Fund	119,145	1.7	20,652	98,493	1.1
William and Gail Cornwall	20,683	*	3,585	17,098	*
Fiducie de Quebec	26,211	*	4,543	21,668	*
Island City Investments Ltd	19,858	*	3,442	16,416	*
Josyd Inc	11,915	*	2,065	9,850	*
John Leopold	5,834	*	1,011	4,823	*
Les Fiduciares de la Cite et du District de Montreal	26,211	*	4,543	21,668	*
Levesque Beaubien Geoffrion Inc	11,915	*	2,065	9,850	*
L'Industrielle-Alliance, Compagnie d'Assurance sur la Vie	48,055	*	8,330	39,725	*
O. Jack Mandel	95,931	1.4	16,628	79,303	*
Remi Marcoux	15,886	*	2,754	13,132	*
Marleau Lemire Inc	11,915	*	2,065	9,850	*
Mar-Pick Enterprises, Inc	14,485	*	2,511	11,974	*
Nicanco Holdings Inc	11,915	*	2,065	9,850	*
Nodel Investments Limited	11,915	*	2,065	9,850	*
Power Corporation of Canada	43,686	*	7,572	36,114	*
Rash Holdings Reg'd	15,886	*	2,754	13,132	*
Redpoll Holdings Ltd	17,475	*	3,029	14,446	*
Richard Renaud	131,595	1.9	22,810	108,785	1.3
Michael Rosenbloom	13,106	*	2,272	10,834	*

NAME OF BENEFICIAL OWNER(1)	SHARES BENEFICIALLY OWNED BEFORE THE OFFERING		SHARES BEING OFFERED	SHARES BENEFICIALLY OWNED AFTER THE OFFERING	
	NUMBER(2)	PERCENT		NUMBER(2)	PERCENT
Ali S. Sajedi	184,563	2.6	15,820	168,743	1.9
Martin Scheim	8,334	*	1,445	6,889	*
Lionel Schipper	165,387	2.4	28,667	136,720	1.6
James Scott	162,431	2.3	28,155	134,276	1.5
Starjay Holdings Inc	13,106	*	2,272	10,834	*
T.N.G. Corporation Inc	23,035	*	3,993	19,042	*
Stephen Vineberg	15,886	*	2,754	13,132	*

- ---

* Less than 1%

(1) The business address for each of the officers and directors is 125 Technology Park, Lake Mary, Florida 32746. The business address for Alexandre Raab is 675 Cochrane Drive, Suite 504, Markham, Ontario L3R OB8.

(2) Except as noted, all shares are held beneficially and of record.

(3) Represents shares owned by Xenon Research, Inc. All of the outstanding capital stock of Xenon Research, Inc. is owned by Mr. Raab and Diana Raab, his spouse.

(4) Includes 29,786 shares owned by Mr. d'Amours' spouse. Of the shares being sold by this shareholder, 2,553 shares are being sold by Mr. d'Amours and 2,553 shares are being sold by his wife.

(5) Includes 49,995 shares owned by 483663 Ontario Ltd. Mr. Colley owns a controlling interest in 483663 Ontario Ltd. Of the shares being sold by this shareholder, 6,968 shares are being sold by Mr. Colley and 3,682 shares are being sold by 483663 Ontario Ltd.

(6) Represents shares owned by Geanal Holdings, Inc. All of the outstanding capital stock of Geanal Holdings, Inc. is owned by Mr. Raab and his spouse.

(7) Represents options which become exercisable upon consummation of this offering.

(8) Represents shares owned by Shanklin Investments. Mr. Schipper owns a controlling interest in Shanklin Investments.

(9) Consists of 438,652 shares owned by Philanderer Tree, Inc. ("Tree") and 71,487 shares owned by Philanderer Six Inc. ("Six"), over which Mr. Julien has shared voting and investment power. Tree and Six are (i) private investment companies of which Mr. Julien is an executive officer, director and shareholder and (ii) are selling 37,599 shares and 6,127 shares, respectively, in the offering.

(10) Includes 300,851 shares owned by H.T. Beck Investments. Mr. Beck owns a controlling interest in H.T. Beck Investments. Of the shares being sold by this shareholder, 8,666 shares are being sold by Mr. Beck and 50,493 shares are being sold by H.T. Beck Investments.

CERTAIN TRANSACTIONS

The Company leases its headquarters from Xenon Research, Inc. ("Xenon"), a 44.3% shareholder. All of the issued and outstanding capital stock of Xenon is owned by Simon Raab, the Company's President and Chief Executive Officer, and Diana Raab, Mr. Raab's wife. The term of the lease expires on February 28, 2001, and the Company has two five-year renewal options. Base rent under the lease was $150,000 for 1996 and $148,000 for both 1995 and 1994. Upon completion of the expansion of the leased facility, base rent will increase to $300,000 per year. Base rent during renewal periods will reflect changes in the U.S. Bureau of Labor Statistics Consumer Price Index for all Urban Consumers. The terms of the lease were approved by an independent committee of the Company's Board of Directors upon review of an independent market study of comparable rental rates and such terms are, in the opinion of the Board of Directors, no less favorable than those that could be obtained on an arms-length basis.

In June 1994, the Company obtained a $3.5 million line of credit from Xenon which was secured by substantially all of the Company's assets. Advances under the line accrued interest at a varying interest rate that was determined by an independent committee of the Company's Board of Directors after an independent review of interest rates charged by lenders on comparable loans to third parties. The Company repaid the outstanding balance and terminated the line in September 1996. The Company also received an unsecured $100,000 demand, non-interest bearing loan from Simon Raab in November 1995, which the Company repaid in January 1996.

The Audit Committee of the Board of Directors is responsible for reviewing all future transactions between the Company and any officer, director or principal shareholder of the Company or any entity in which an officer, director or principal shareholder has a material interest. Any such transactions must be on terms no less favorable than those that could be obtained on an arms-length basis from independent third parties.

DESCRIPTION OF CAPITAL STOCK

GENERAL

The authorized capital stock of the Company consists of 50,000,000 shares of Common Stock, par value $0.001 per share, and 10,000,000 shares of Preferred Stock, par value $0.001 per share. As of the date of this prospectus, 7,000,000 shares of Common Stock and no shares of Preferred Stock were issued and outstanding.

COMMON STOCK

The holders of Common Stock are entitled to one vote for each share held of record on all matters to be voted upon by the shareholders. The Company's Articles of Incorporation do not provide for cumulative voting. Subject to preferences that might be applicable to any then outstanding Preferred Stock, holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of funds legally available therefor. See "Dividend Policy." In the event of liquidation, dissolution or winding up of the Company, holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of Preferred Stock, if any, then outstanding. Holders of Common Stock have no conversion, preemptive or other rights to subscribe for additional shares or other securities. There are no redemption or sinking fund provisions applicable to the Common Stock. The issued and outstanding shares of Common Stock are, and the shares offered hereby will be upon payment therefor, fully paid and nonassessable.

PREFERRED STOCK

The Company is authorized to issue up to 10,000,000 shares of Preferred Stock with such designations, rights and preferences as may be determined from time to time by the Board of Directors. Accordingly, the Board of Directors is empowered, without shareholder approval, to issue Preferred Stock with dividend, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of the Company's Common Stock and, in certain instances, could adversely affect the market price of such stock. In the event of issuance, the Preferred Stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the Company. No shares of Preferred Stock are outstanding and the Company has no present intention to issue any shares of its Preferred Stock.

CERTAIN STATUTORY AND OTHER PROVISIONS

Statutory Provisions. The Company is subject to several anti-takeover provisions under Florida law that apply to public corporations organized under Florida law unless the corporation has elected to opt out of those provisions in its Articles of Incorporation or (depending on the provision in question) its Bylaws. The Company has not elected to opt out of these provisions. The Florida Business Corporation Act (the "Florida Act") prohibits the voting of shares in a publicly held Florida corporation that are acquired in a "control share acquisition" unless the board of directors approves the control share acquisition or the holders of a majority of the corporation's voting shares (exclusive of shares held by officers of the corporation, inside directors or the

acquiring party) approve the granting of voting rights as to the shares acquired in the control share acquisition. A "control share acquisition" is defined as an acquisition that immediately thereafter entitles the acquiring party to, directly or indirectly, exercise voting power in the election of directors within any of the following ranges: (i) one-fifth or more but less than one-third of such voting power, (ii) one-third or more but less than a majority of such voting power and (iii) a majority or more of such voting power. This statutory voting restriction is not applicable in certain circumstances set forth in the Florida Act.

The Florida Act also contains an "affiliated transaction" provision that prohibits a publicly-held Florida corporation from engaging in a broad range of business combinations or other extraordinary corporate transactions with an "interested shareholder" unless (i) the transaction is approved by a majority of disinterested directors, (ii) the Company has not had more than 300 shareholders of record during the past three years, (iii) the interested shareholder has owned at least 80% of the Company's outstanding voting shares for at least five years, (iv) the interested shareholder is the beneficial owner of at least 90% of the voting shares (excluding shares acquired directly from the Company in a transaction not approved by a majority of the disinterested directors), (v) consideration is paid to the holders of the Company's shares equal to the highest amount per share paid by the interested shareholder for the acquisition of Company shares in the last two years or fair market value and certain other conditions are met or (vi) the transaction is approved by the holder of two-thirds of the Company's voting shares other than those owned by the interested shareholder. An interested shareholder is defined as a person who, together with affiliates and associates, beneficially owns (as defined in Section 607.0901(1)(e) of the Florida Act) more than 10% of the Company's outstanding voting shares.

Classified Board of Directors. The Company's Articles of Incorporation and Bylaws provide that the Board of Directors of the Company will be divided into three classes, with staggered terms of three years for each class. The term of one class expires each year. The Company's Articles of Incorporation provide that any vacancies on the Board of Directors will be filled only by the affirmative vote of a majority of the directors then in office, even if less than a quorum. The Articles of Incorporation of the Company also provide that any director may be removed from office, but only for cause and only upon the affirmative vote of the holders of at least two-thirds of the Common Stock.

Special Voting Requirements. The Company's Articles of Incorporation provide that all actions taken by the shareholders must be taken at an annual or special meeting of the shareholders or by written consent of the holders of not less than two-thirds of the Company's outstanding voting shares. The Articles of Incorporation provide that special meetings of the shareholders may be called only by the President, the Chairman of the Board, a majority of the members of the Board of Directors, or the holders of not less than 50% of the Company's outstanding voting shares. Under the Company's Bylaws, shareholders will be required to comply with advance notice provisions with respect to any proposal submitted for shareholder vote, including nominations for elections to the Board of Directors. The Articles of Incorporation and Bylaws of the Company contain provisions requiring the affirmative vote of the holders of at least two-thirds of the Common Stock to amend certain provisions of the Company's Articles of Incorporation and Bylaws.

Indemnification and Limitation of Liability. The Florida Act authorizes Florida corporations to indemnify any person who was or is a party to any proceeding (other than an action by, or in the right of, the corporation), by reason of the fact that he or she is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation or other entity, against liability incurred in connection with such proceeding, including any appeal thereof, if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. In the case of an action by or on behalf of a corporation, indemnification may not be made if the person seeking indemnification is adjudged liable, unless the court in which such action was brought determines such person is fairly and reasonably entitled to indemnification. The indemnification provisions of the Florida Act require indemnification if a director or officer has been successful on the merits or otherwise in defense of any action, suit or proceeding to which he or she was a party by reason of the fact that he or she is or was a director or officer of the corporation. The indemnification authorized under Florida law is not exclusive and is in addition to any other rights granted to

officers and directors under the Articles of Incorporation or Bylaws of the corporation or any agreement between officers and directors and the corporation. A corporation may purchase and maintain insurance or furnish similar protection on behalf of any officer or director against any liability asserted against the officer or director and incurred by the officer or director in such capacity, or arising out of the status, as an officer or director, whether or not the corporation would have the power to indemnify him or her against such liability under the Florida Act.

The Company's Articles of Incorporation provide for the indemnification of directors and executive officers of the Company to the maximum extent permitted by Florida law and for the advancement of expenses incurred in connection with the defense of any action, suit or proceeding that the director or executive officer was a party to by reason of the fact that he or she is or was a director or executive officer of the Company.

Under the Florida Act, a director is not personally liable for monetary damages to the Company or any other person for acts or omissions in his or her capacity as a director except in certain limited circumstances such as certain violations of criminal law and transactions in which the director derived an improper personal benefit. As a result, shareholders may be unable to recover monetary damages against directors for actions taken by them which constitute negligence or gross negligence or which are in violation of their fiduciary duties, although injunctive or other equitable relief may be available.

The foregoing provisions of the Florida Act and the Company's Articles of Incorporation and Bylaws could have the effect of preventing or delaying a person from acquiring or seeking to acquire a substantial equity interest in, or control of, the Company.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Stock is Firstar Trust Company, Milwaukee, Wisconsin.

SHARES ELIGIBLE FOR FUTURE SALE

Upon the completion of this offering, the Company will have 8,700,000 shares of Common Stock outstanding. Of these shares, 3,997,984 shares, including the 2,300,000 shares of Common Stock sold in this offering (2,645,000 shares if the Underwriters' over-allotment option is exercised in full), will be freely tradeable by persons other than affiliates of the Company, without restriction under the Securities Act. The remaining 4,702,016 shares of Common Stock will be "restricted" securities within the meaning of Rule 144 under the Securities Act and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available. All of such shares will be beneficially owned by persons who are affiliates of the Company and, commencing 90 days after the date of this Prospectus, would be eligible for public sale subject to the volume and other limitations of Rule 144. However, the Company's directors, executive officers and principal shareholders and the Selling Shareholders have agreed not to sell, contract to sell or otherwise dispose of any shares of Common Stock for a period of 180 days after the date of this Prospectus without the prior written consent of Raymond James & Associates, Inc.

In general, Rule 144, as currently in effect, allows a shareholder (including persons who are deemed "affiliates" of the Company) who has beneficially owned restricted shares for at least one year (including the prior holding period of any prior owner other than an affiliate) to sell within any three-month period that number of shares which does not exceed the greater of (i) 1% of the outstanding shares of the Common Stock or (ii) the average weekly trading volume during the four calendar weeks preceding such sale. Sales under Rule 144 also are subject to certain manner of sale and notice requirements and the availability of current public information about the Company. A person (or persons whose shares are aggregated) who is not an "affiliate" of the Company at any time during the 90 days immediately preceding the sale and who has beneficially owned shares for at least two years (including the holding period of any prior owner other than an affiliate) is entitled to sell such shares under Rule 144 without regard to the limitations described above. Shares properly sold in reliance on Rule 144 to persons who are not "affiliates" thereafter are freely tradeable without restriction or registration under the Securities Act.

Before this offering, there has been no public market for the Common Stock. Sales of substantial amounts of Common Stock in the public market could adversely affect prevailing market prices.

UNDERWRITING

The Underwriters named below, acting through their representatives, Raymond James & Associates, Inc. and Hanifen, Imhoff, Inc. (the "Representatives") have severally agreed, subject to the terms and conditions of the underwriting agreement by and among the Company, the Selling Shareholders and the Underwriters (the "Underwriting Agreement"), to purchase from the Company and the Selling Shareholders the number of shares of Common Stock set forth opposite their respective names below:

UNDERWRITERS	NUMBER OF SHARES
Raymond James & Associates, Inc.	
Hanifen, Imhoff Inc.	
Total	2,300,000

The Underwriting Agreement provides that the Underwriters are obligated to purchase all of the shares offered hereby, if any are purchased. The Company and the Selling Shareholders have been advised by the Representatives that the Underwriters propose initially to offer the shares to the public at the offering price set forth on the cover page of this Prospectus and to certain selected dealers, including the Underwriters, at such price less a concession not in excess of $ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $ per share to certain other dealers. The public offering price and concession may be changed after the initial offering to the public. The Representatives have informed the Company and the Selling Shareholders that the Underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

The Underwriting Agreement provides for indemnification among the Company, the Selling Shareholders and the Underwriters against certain liabilities in connection with this offering, including liabilities under the Securities Act.

The Company, each of its officers and directors and the Selling Shareholders have agreed not to sell any shares of Common Stock to the public, other than shares offered hereby, without the consent of Raymond James & Associates, Inc. for a period of 180 days following the closing of this offering. This restriction does not apply to certain issuances of Common Stock by the Company pursuant to its stock option plans. See "Shares Eligible for Future Sale."

Certain Selling Shareholders have granted to the Underwriters an option exercisable during a 30-day period after the date of this Prospectus to purchase up to an aggregate of 345,000 additional shares at the same price per share as the Selling Shareholders receive for the 600,000 shares which the Underwriters have agreed to purchase from the Selling Shareholders, for the sole purpose of covering over-allotments, if any. To the extent that the Underwriters exercise such option, each Underwriter will be committed, subject to certain conditions, to purchase a number of the additional shares of Common Stock proportionate to each Underwriter's initial commitment.

The Company has agreed to grant to the Representatives and their designees warrants (the "Representatives' Warrants") to purchase up to 100,000 shares of Common Stock for a period of five years from the date of this Prospectus (the "Warrant Exercise Term") at 110% of the initial public offering price. The Representatives' Warrants may not be transferred for one year from the date of this Prospectus, except to the officers, employees and shareholders of the Representatives. During the Warrant Exercise Term, the holders of the Representatives' Warrants are given the opportunity to profit from a rise in the market price of the

Common Stock. Any profit realized by the Representatives on the sale of the Representatives' Warrants or the underlying shares of Common Stock may be deemed additional underwriting compensation.

The foregoing contains a summary of the principal terms of the Underwriting Agreement and does not purport to be complete. Reference is made to the copy of the Underwriting Agreement that is on file as an exhibit to the Registration Statement of which this Prospectus is a part.

Prior to the offering, there has been no public market for the Common Stock. The initial public offering will be determined by negotiation among the Company, the Selling Shareholders and the Representatives. Among the factors to be considered in determining the initial public offering price will be prevailing market and economic conditions, revenues and earnings of the Company, market valuations of other companies engaged in activities similar to the Company, estimates of the business potential and prospects of the Company, the present state of the Company's business operations, the Company's management and other factors deemed relevant.

The Representatives, on behalf of the Underwriters, may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934, as amended. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Syndicate covering transactions involve purchases of the Common Stock in the open market after the distribution has been completed in order to cover syndicate short positions. In "passive" market making, market makers in the Common Stock who are Underwriters or prospective underwriters may, subject to certain limitations, make bids for or purchases of the Common Stock until the time, if any, at which a stabilizing bid is made. Penalty bids permit the Representatives to reclaim a selling concession from a syndicate member when shares of Common Stock originally sold by such syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. Such stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the Common Stock to be higher than it would otherwise be in the absence of such transactions. These transactions may be effected on The Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

LEGAL MATTERS

The validity of the issuance of the shares of Common Stock offered hereby will be passed upon for the Company and the Selling Shareholders by Foley & Lardner, Tampa, Florida. The validity of the Common Stock offered hereby will be passed upon for the Underwriters by King & Spalding, Atlanta, Georgia.

EXPERTS

The Consolidated Financial Statements at December 31, 1995 and 1996, and for each of the three years in the period ended December 31, 1996 included in this Prospectus and in the registration statement, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein and in the registration statement, and have been so included herein in reliance upon the report of said firm given upon their authority as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement (of which this Prospectus is a part) under the Securities Act with respect to the securities offered hereby. This Prospectus does not contain all the information set forth in the Registration Statement, certain portions of which have been omitted as permitted by the rules and regulations of the Commission. Statements contained in the Prospectus as to the contents of any contract or other document are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects

by such reference and the exhibits and schedules thereto. For further information regarding the Company and the Common Stock offered hereby, reference is hereby made to the Registration Statement and such exhibits and schedules which may be obtained from the Commission at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. In addition, the Registration Statement can be obtained from the Commission's web site at http://www.sec.gov.

The Company intends to furnish its shareholders written annual reports containing audited financial statements certified by an independent public accounting firm and quarterly reports containing unaudited financial statements for the first three quarters of each calendar year.

FARO TECHNOLOGIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
of FARO Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of FARO Technologies, Inc. and subsidiaries as of December 31, 1995 and 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of FARO Technologies, Inc. and subsidiaries as of December 31, 1995 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Jacksonville, Florida
February 24, 1997
(July 30, 1997 as to Note 10)

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,		JUNE 30,
	1995	1996	1997
			(UNAUDITED)
ASSETS			
CURRENT ASSETS:			
Cash	$ 3,921	$ 263,342	$ 117,537
Accounts and notes receivable -- net of allowance	2,177,764	2,992,681	4,852,362
Inventories	2,068,287	3,298,744	3,778,618
Prepaid expenses	96,306	40,871	25,127
Deferred taxes	111,000	102,500	193,978
Total current assets	4,457,278	6,698,138	8,967,622
PROPERTY AND EQUIPMENT -- At cost:			
Leasehold improvements	14,938	14,938	14,938
Machinery and equipment	245,195	700,799	923,159
Furniture and fixtures	492,681	453,892	496,477
Total	752,814	1,169,629	1,434,574
Less accumulated depreciation	425,435	568,279	669,966
Property and equipment -- net	327,379	601,350	764,608
PATENTS -- net of accumulated amortization of $186,223, $270,925 and $293,884, respectively	441,041	486,480	611,795
DEFERRED TAXES	254,000	29,700	214,524
TOTAL ASSETS	$ 5,479,698	$7,815,668	$10,558,549
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term debt	$ --	$ 611,111	$ 666,667
Related party loans	2,200,000	--	--
Accounts payable and accrued liabilities	735,828	1,710,814	1,850,670
Income taxes payable	23,000	128,216	777,306
Current portion unearned service revenues	--	185,180	413,876
Customer deposits	176,933	230,393	282,780
Total current liabilities	3,135,761	2,865,714	3,991,299
UNEARNED SERVICE REVENUES -- less current portion	--	286,099	384,013
LONG-TERM DEBT -- less current portion	--	890,156	833,769
COMMITMENTS (Note 7)			
SHAREHOLDERS' EQUITY:			
Class A preferred stock -- par value $.001, 10,000,000 shares authorized, no shares issued and outstanding	--	--	--
Common stock -- par value $.001, 20,000,000 shares authorized, 7,000,000 issued and outstanding	7,000	7,000	7,000
Additional paid-in capital	3,971,764	3,961,564	4,827,544
Retained earnings (accumulated deficit)	(1,595,027)	(188,365)	1,067,243
Unearned compensation	(39,800)	(6,500)	(508,334)
Cumulative translation adjustments	--	--	(43,985)
Total shareholders' equity	2,343,937	3,773,699	5,349,468
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 5,479,698	$7,815,668	$10,558,549

See notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
				(UNAUDITED)	
SALES	$4,508,837	$9,862,242	$14,656,337	$6,460,113	$10,318,535
COST OF SALES	2,222,085	4,987,779	6,486,268	2,744,994	4,188,280
Gross profit	2,286,752	4,874,463	8,170,069	3,715,119	6,130,255
OPERATING EXPENSES:					
Selling	1,569,014	2,008,301	3,731,762	1,653,693	2,512,066
General and administrative	521,040	503,184	744,206	349,645	622,092
Depreciation and amortization	270,615	341,494	230,799	125,388	124,646
Research and development	173,400	363,871	730,124	236,539	394,839
Employee stock options	--	106,700	23,100	11,550	364,146
Total operating expenses	2,534,069	3,323,550	5,459,991	2,376,815	4,017,789
INCOME (LOSS) FROM OPERATIONS	(247,317)	1,550,913	2,710,078	1,338,304	2,112,466
OTHER INCOME (EXPENSE):					
Other income	11,706	62,212	25,145	7,814	46,067
Interest expense	(192,543)	(355,468)	(212,669)	(122,806)	(65,853)
INCOME (LOSS) BEFORE INCOME TAXES	(428,154)	1,257,657	2,522,554	1,223,312	2,092,680
INCOME TAX EXPENSE (BENEFIT)	--	(342,000)	1,115,892	541,152	837,072
NET INCOME (LOSS)	$ (428,154)	$1,599,657	$ 1,406,662	$ 682,160	$ 1,255,608
PER COMMON SHARE AND COMMON EQUIVALENT SHARE:					
NET INCOME (LOSS)	$ (0.06)	$ 0.22	$ 0.19	$ 0.09	$ 0.17
WEIGHTED AVERAGE COMMON SHARES AND COMMON EQUIVALENT SHARES	7,149,690	7,166,740	7,349,042	7,354,292	7,333,290

See notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN	UNEARNED	CUMULATIVE TRANSLATION	RETAINED EARNINGS (ACCUMULATED	
	SHARES	AMOUNTS	CAPITAL	COMPENSATION	ADJUSTMENT	DEFICIT)	TOTAL
BALANCE, JANUARY 1, 1994	7,000,000	$7,000	$3,825,264	$ --	$ --	$(2,766,530)	$1,065,734
Net loss	--	--	--	--	--	(428,154)	(428,154)
BALANCE, DECEMBER 31, 1994	7,000,000	7,000	3,825,264	--	--	(3,194,684)	637,580
Granting of employee stock options	--	--	146,500	(39,800)	--	--	106,700
Net income	--	--	--	--	--	1,599,657	1,599,657
BALANCE, DECEMBER 31, 1995	7,000,000	7,000	3,971,764	(39,800)	--	(1,595,027)	2,343,937
Employee stock options, forfeitures and amortization of unearned compensation	--	--	(10,200)	33,300	--	--	23,100
Net income	--	--	--	--	--	1,406,662	1,406,662
BALANCE, DECEMBER 31, 1996	7,000,000	7,000	3,961,564	(6,500)	--	(188,365)	3,773,699
Granting of employee and director stock options (unaudited)	--	--	865,980	(501,834)	--	--	364,146
Currency translation adjustment (unaudited)	--	--	--	--	(43,985)	--	(43,985)
Net income for period (unaudited)	--	--	--	--	--	1,255,608	1,255,608
BALANCE, JUNE 30, 1997 (unaudited)	7,000,000	$7,000	$4,827,544	$(508,334)	$(43,985)	$ 1,067,243	$5,349,468

See notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
				(UNAUDITED)	
OPERATING ACTIVITIES:					
Net income (loss)	$ (428,154)	$1,599,657	$ 1,406,662	$ 682,160	$ 1,255,608
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	270,615	341,494	230,799	125,388	124,646
Private placement costs	146,541	--	--	--	--
Product design costs	--	531,186	--	--	--
Employee stock options	--	106,700	23,100	11,550	364,146
Provision for bad debts	31,207	24,806	28,432	--	--
Provision for obsolete inventory	--	27,629	--	--	--
Deferred income taxes	--	(365,000)	232,800	365,000	(276,302)
Changes in operating assets and liabilities:					
Decrease (Increase) in:					
Accounts receivable	(241,474)	(1,147,174)	(843,349)	(159,992)	(1,903,666)
Notes receivable	80,994	47,947	--	--	--
Inventory	(35,821)	(453,120)	(1,230,457)	(861,615)	(479,874)
Prepaid expenses and other assets	(22,971)	(47,193)	55,435	(7,659)	15,744
Increase (Decrease) in:					
Accounts payable and accrued liabilities	(94,359)	126,925	990,993	419,081	139,856
Income taxes payable	--	23,000	105,216	44,652	649,090
Unearned service revenues	--	--	471,278	162,218	326,610
Customer deposits	49,619	118,865	53,460	(48,410)	52,387
Net cash provided by (used in) operating activities	(243,803)	935,722	1,524,369	732,373	268,245
INVESTING ACTIVITIES:					
Purchases of property and equipment	(89,266)	(210,868)	(416,162)	(194,026)	(264,945)
Payment of patent costs	(122,120)	(74,088)	(134,046)	(71,178)	(148,274)
Payments for product design costs	(304,703)	--	--	--	--
Net cash used in investing activities	(516,089)	(284,956)	(550,208)	(265,204)	(413,219)
FINANCING ACTIVITIES:					
Proceeds from related party loans	2,525,000	--	--	--	--
Repayment of related party loans	--	(725,000)	(2,200,000)	(300,000)	--
Proceeds from debt	--	--	1,625,816	--	--
Payments on debt	(1,700,000)	--	(140,556)	--	(831)
Net cash (used in) provided by financing activities	825,000	(725,000)	(714,740)	(300,000)	(831)
INCREASE (DECREASE) IN CASH	65,108	(74,234)	259,421	167,169	(145,805)
CASH, BEGINNING OF PERIOD	13,047	78,155	3,921	3,921	263,342
CASH, END OF PERIOD	$ 78,155	$ 3,921	$ 263,342	$ 171,090	$ 117,537
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for interest	$ 182,399	$ 352,987	$ 256,654	$ 127,237	$ 19,226
Cash paid for income taxes	$ --	$ --	$ 777,876	$ 135,500	$ 464,283
Translation adjustment effect on accounts receivable	$ --	$ --	$ --	$ --	$ (43,985)

See notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1994, 1995 AND 1996
AND SIX MONTHS ENDED JUNE 30, 1996 AND 1997 (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business. FARO Technologies, Inc. (the "Company") develops, manufactures, markets and supports portable, software-driven, 3-D measurement systems that are used in a broad range of manufacturing and industrial applications. The Company has two wholly-owned subsidiaries, FARO Worldwide, Inc. and FARO FRANCE, s.a.s., which distribute the Company's 3-D measurement equipment throughout Europe through two primary offices located in France and Germany. FARO FRANCE, s.a.s., commenced operations in July 1996.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Revenue Recognition, Product Warranty and Extended Maintenance Contracts. Revenue related to the Company's 3-D measurement equipment is recognized upon shipment. Extended maintenance plan revenues are recognized ratably over the period services are performed. The Company warrants its products against defects in design, materials and workmanship for one year. A provision for estimated future costs relating to warranty expenses is recorded when products are shipped. Costs relating to extended maintenance plans are recognized as incurred.

For the years ended December 31, 1994, 1995 and 1996 export sales totaled approximately $449,000, $2,135,000 and $2,610,000, respectively. One customer accounted for approximately 10% of total sales for the year ended December 31, 1996.

Inventories. Inventories are stated at the lower of cost (determined on the first-in, first-out method) or market value. In order to achieve a better matching of production costs with the revenues generated in production, certain fixed overhead costs and certain general and administrative costs that are related to production are capitalized into inventory when they are incurred and are charged to cost of sales as product costs at the time of sale.

Property and Equipment. Property and equipment are recorded at cost. Depreciation is computed using the straight-line and declining-balance methods over the estimated useful lives of the various classes of assets as follows:

Machinery and equipment	5 years
Furniture and fixtures	5 years
Computer equipment	2 years

Leasehold improvements are amortized on the straight-line basis over the lesser of the life of the asset or term of the lease.

Patents. Patents are recorded at cost. Amortization is computed using the straight-line method over the lives of the patents, which is 17 years. In addition, unamortized patents of $192,570 relating to certain products sold in the medical field were charged to amortization expense in 1995 due to the discontinuance of those products.

Research and Development. Research and development costs incurred in the discovery of new knowledge and the resulting translation of this new knowledge into plans and designs for new products, prior to the attainment of the related products' technological feasibility, are recorded as expenses in the period incurred.

Product Design Costs. Prior to 1995, costs incurred in the refinement of products after technological feasibility is attained were capitalized and amortized using the straight-line method over the 5-year estimated lives of the related products. However, based on the current rate of technological development, products now

have estimated lives of less than one year. As a result, the $531,186 unamortized balance of product design costs at January 1, 1995 was charged to cost of product sales in 1995, and such costs incurred since that date are recorded as costs in the period in which they are incurred.

Income Taxes. The Company utilizes the asset and liability method to measure and record deferred income tax assets and liabilities. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Private Placement Costs. Costs incurred relating to a terminated private stock offering, in the amount of $146,541, were charged to general and administrative expense in 1994.

Earnings Per Common Share and Common Equivalent Share. Earnings per common share and common equivalent share for the years ended December 31, 1994, 1995 and 1996 were computed as follows: (i) 7,000,000 common shares issued and outstanding each year, plus (ii) 149,690 common shares issuable under the 1997 stock options granted under the 1993 stock option plan based on the Treasury Stock Method assuming an initial public offering price of $11.00 per share, plus (iii) common shares issuable under the 1995 stock options granted under the 1993 stock option plan of 17,050 in 1995 and 199,352 in 1996, respectively, based on the Treasury Stock Method assuming an initial public offering price of $11.00 per share.

The Company intends to file a registration statement with the Securities and Exchange Commission for the initial public offering of 1,700,000 shares of its common stock at an estimated price of $11 per share. The Company plans on utilizing a portion of the proceeds from the sale of such stock to retire debt. On a supplemental basis, for the year ended December 31, 1996 and the six months ended June 30, 1997, net income per common share and common equivalent share would have been $.23 and $.22, respectively, had such transaction been made effective December 31, 1995.

Concentration of Credit Risk. Financial instruments which potentially expose the Company to concentrations of credit risk consist principally of operating demand deposit accounts. The Company's policy is to place its operating demand deposit accounts with high credit quality financial institutions.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles 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.

New Accounting Standards. Effective January 1, 1996, the Company adopted the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS No. 121) which requires that long-lived assets and certain intangibles to be held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The adoption of SFAS No. 121 did not have a material impact on the Company.

Effective January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). SFAS No. 123 establishes a fair value based method of accounting for stock-based employee compensation plans; however, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. The Company has elected to continue to account for its employee stock compensation plans under APB Opinion No. 25 with pro forma

disclosures of net earnings and earnings per share, as if the fair value based method of accounting defined in SFAS No. 123 has been applied. See Note 8.

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS No. 128). This Statement establishes standards for computing and presenting earnings per share ("EPS") and applies to all entities with publicly held common stock or potential common stock. This Statement replaces the presentation of primary EPS and fully diluted EPS with a presentation of basic EPS and diluted EPS, respectively. Basic EPS excludes dilution and is computed by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding for the period. Similar to fully diluted EPS, diluted EPS reflects the potential dilution of securities that could share in the earnings. This Statement is effective for the Company's financial statements for the year ended December 31, 1997. The proforma effect of applying SFAS No. 128 is as follows:

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994	1995	1996	1996	1997
				(UNAUDITED)	
Basic income (loss) per common share.....	$(0.06)	$ 0.23	$ 0.20	$ 0.10	$ 0.18
Diluted income (loss) per common share and common equivalent share.....	(0.06)	0.22	0.19	0.09	0.17

On June 30, 1997, the FASB issued SFAS No. 131, "Disclosure About Segments of Enterprise and Related Information." This statement establishes additional standards for segment reporting in the financial statements and is effective for fiscal years beginning after December 15, 1997. Management has not determined the effect of this statement on its financial statement disclosure.

Reclassifications. Certain reclassifications have been made in the 1994 and 1995 financial statements to conform to the 1996 presentation.

Interim Financial Information. Interim Financial Information at June 30, 1997 and for the six months ended June 30, 1996 and 1997 is unaudited. The unaudited interim financial statements reflect all adjustments, consisting of only normal recurring adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods. Information for the interim periods is not necessarily indicative of results to be achieved for the full year.

2. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable are net of an allowance for doubtful accounts of $25,002, $5,655 and $9,534 as of December 31, 1994, 1995 and 1996, respectively.

3. INVENTORIES

Inventories consist of the following:

	DECEMBER 31,		JUNE 30,
	1995	1996	1997
			(UNAUDITED)
Raw materials.....	$1,063,219	$1,888,227	$1,954,451
Finished goods.....	387,234	472,408	593,472
Sales demonstration.....	617,834	938,109	1,230,695
	$2,068,287	$3,298,744	$3,778,618

4. LONG-TERM DEBT

The Company has a loan agreement (the "Agreement") in the form of a term note and a line of credit. The Agreement combines the equivalent of three successive one-year term loans, each equal to that portion of the loan that will be fully amortized in the ensuing year, with a line of credit equal to that portion of the loan that will not be amortized in the ensuing year. The Company has available borrowings under the line of credit in the amount of $443,177 as of December 31, 1996. Principal is due in the amount of $611,111 in 1997, $666,667 in 1998 and $223,489 in 1999. Interest accrues at the 30-day commercial paper rate plus 2.7% (8.1% at December 31, 1996) and is payable monthly. The loans are collateralized by the Company's accounts and notes receivable, inventory, property and equipment, intangible assets, and deposits. The Agreement contains restrictive covenants, including the maintenance of certain amounts of working capital and tangible net worth and limits on loans to related parties, and prohibits the Company from declaring dividends.

5. RELATED PARTY TRANSACTIONS

The Company leases its plant and office building from Xenon Research, Inc. ("Xenon"), a 44.3% shareholder. The lease expires on February 28, 2001, and the Company has two five-year renewal options. The base rent during renewal periods will reflect changes in the U.S. Bureau of Labor Statistics, Consumer Price Index for all Urban Consumers. Rent expense under this lease was approximately $148,000 for both 1994 and 1995 and $150,000 for 1996.

Related party loans payable consisted of the following:

Xenon Research, Inc. Revolving line of credit, which was repaid and terminated in 1996. Interest was at prime plus 5% (13.5% at December 31, 1995) and amounted to $192,543 in 1994, $355,468 in 1995 and $185,585 in 1996.

Stockholder Loan. An unsecured noninterest bearing $100,000 note was outstanding at December 31, 1995 and repaid during 1996.

6. INCOME TAXES

The components of the expense (benefit) for income taxes is comprised of the following as of December 31:

	1994	1995	1996
Current:			
Federal	$ --	$ 23,000	$ 721,700
State	--	--	161,392
	--	23,000	883,092
Deferred:			
Federal		(334,000)	221,100
State	--	(31,000)	11,700
	--	(365,000)	232,800
	$ --	$(342,000)	$1,115,892

Income taxes for the years ended December 31, 1994, 1995 and 1996 differ from the amount computed by applying the federal statutory corporate rate to income before income taxes. The differences are reconciled as follows:

	1994	1995	1996
Tax expense (benefit) at statutory rate	$(145,600)	$ 428,000	$ 857,700
State income taxes, net of federal benefit	--	46,000	114,200
Research and development credit	--	(30,000)	--
Nondeductible items	--	--	61,000
Other	--	--	82,992
Change in deferred tax asset valuation allowance	145,600	(786,000)	--
Total income tax expense (benefit)	$ --	$(342,000)	$1,115,892

The components of the Company's net deferred tax asset at December 31, 1995 and 1996 are as follows:

	1995	1996
Deferred tax assets:		
Inventory write-down	$ 97,000	$ --
Other	14,000	9,400
Employee stock options	40,000	51,300
Unearned service revenue	--	186,200
Net operating loss carryforwards and alternative minimum tax credits	197,000	--
Research and development credits	134,000	--
Gross deferred assets	482,000	246,900
Deferred tax liabilities:		
Patent amortization	83,000	88,200
Depreciation	6,000	26,500
Other	28,000	--
Gross deferred tax liabilities	117,000	114,700
Net deferred tax asset	$365,000	$132,200

7. COMMITMENTS

The following is a schedule of future minimum lease payments required under noncancelable leases, including leases with related parties (see Note 5), in effect at December 31, 1996:

YEAR ENDING DECEMBER 31,	AMOUNT
1997	$236,200
1998	205,600
1999	168,400
2000	166,700
2001	27,800
Total future minimum lease payments	$804,700

8. EMPLOYEE STOCK OPTION PLAN

In 1993, the Company adopted the 1993 Stock Option Plan (the "Plan"). The Company reserved 703,100 shares of common stock for issuance to eligible participants under the Plan. Options granted under

the Plan generally vest over a four-year period and are exercisable ten years from the date of the grant. The exercisability of such options accelerates in the event of an initial public offering of the Company's common stock. On December 19, 1995, the Company granted options to purchase shares of common stock of the Company to certain employees at an exercise price of $0.36. At December 31, 1995, the estimated fair value of one share of common stock was determined to be $1.07, based on a third-party offer for Company stock.

Compensation cost charged to operations was $0, $106,700 and $23,100 in 1994, 1995 and 1996 respectively. Compensation cost was based on the difference between the estimated fair value of the stock and its exercise price, multiplied by the number of shares vested in each year.

SFAS No. 123 Required Disclosure

If compensation cost for stock options was determined based on the fair value at the grant dates for 1995 and 1996 consistent with the method prescribed by SFAS No. 123, the Company's net income and income per share would have been adjusted to the pro forma amounts indicated below:

	1995	1996
Net income:		
As reported	$1,599,657	$1,406,662
Pro forma	1,572,628	1,382,140
Income per share:		
As reported	$ 0.22	$ 0.19
Pro forma	0.22	0.19

Under SFAS No. 123, the fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for options in 1995: dividend yield of 0%, expected volatility of 90%, risk-free interest rate of 5.63%, and expected life of 10 years. There were no stock options granted in 1996.

A summary of the status of options under the Company's stock-based compensation plans as of December 31, 1995 and 1996, and changes during the years ending on those dates is presented below:

	1995		1996	
	OPTIONS	WEIGHTED-AVERAGE EXERCISED PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISED PRICE
Outstanding at beginning of year	--		210,902	$0.36
Granted	210,902	$0.36	--	
Exercised	--		--	
Forfeited	--		(20,390)	0.36
Outstanding at end of year	210,902	0.36	190,512	0.36
Grants exercisable at year-end	--		--	
Weighted-average fair value of options granted during the year	$225,700		--	

The following table summarizes information about the outstanding grants at December 31, 1996:

		OPTIONS OUTSTANDING		
YEAR GRANTED	EXERCISE PRICE	NUMBER OUTSTANDING AT DECEMBER 31, 1996	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE
1995	$0.36	190,512	10	$0.36

No options were exercisable as of December 31, 1996. Non-exercisable options become exercisable in 2005 unless the Company completes a public offering of its common stock. In that case, all vested options become exercisable immediately and unvested options become exercisable immediately upon vesting.

9. BENEFIT PLAN

During 1996, the Company established a defined contribution retirement plan (401(k) Plan) for its employees, which provides benefits for all employees meeting certain age and service requirements. The Company may make a discretionary contribution each Plan year as determined by its Board of Directors. Discretionary contributions or employer matches can be made to the participant's account but cannot exceed 4% of the participant's annual compensation. The Company made no contribution to the 401(k) Plan in 1996.

10. SUBSEQUENT EVENTS

All per share amounts, number of common shares and capital accounts in the accompanying financial statements have been restated to give retroactive effect for all periods presented for a 1 for 1.422272107 reverse stock split effective June 30, 1997. The par value of the common stock was not changed. As a result, $2,956, representing the reduction in par value for the shares no longer issued was transferred to additional paid-in capital from common stock.

On January 1, 1997, the Company granted certain employees options to purchase 140,269 shares of common stock at $3.57 per share, vesting over the earlier to occur of ten years from the date of grant or a period of three years commencing with an initial public offering of the Company's stock. The options are exercisable upon the earlier to occur of (i) ten years from the date of grant, or (ii) upon completion of vesting after the consummation of the Company's initial public offering.

11. SUPPLEMENTAL INTERIM INFORMATION (UNAUDITED)

On May 1, 1997, as consideration for his serving on the Board of Directors, a director was granted options for 52,732 shares of common stock at $0.36 per share, exercisable upon the earlier to occur of (i) ten years from the date of grant, or (ii) upon completion of the Company's initial public offering. Such options are deemed to be immediately vested; consequently, the associated compensation expense is reported in the six months ended June 30, 1997.

In July 1997, the Company adopted the 1997 Employee Stock Option Plan (the "1997 Plan") that provides for the grant to key employees of the Company of incentive or nonqualified stock options. An aggregate of 750,000 shares of common stock are reserved for issuance pursuant to the 1997 Plan. The 1997 Plan is administered by the Compensation Committee of the Board of Directors, which has broad discretion in the granting of awards. The exercise price of all options granted under the 1997 Plan must be at least equal to the fair market value of the common stock on the date of grant. Options granted under the 1997 Plan will be exercisable after the period or periods specified in the option agreement with respect to such grants and expire ten years from the date of grant. As of the date of this Prospectus, no options have been granted under the 1997 Plan. It is anticipated that upon completion of this offering, Simon Raab will be granted 80,000 options, Gregory A. Fraser will be granted 60,000 options and approximately 74 other employees will be granted

options to purchase a total of 220,000 shares of common stock at the initial public offering price (except for options granted at 110% of the initial public offering price to qualify for treatment as incentive stock options). These options will become exercisable in one-third increments on each anniversary of the date of grant, commencing in 1998.

In July 1997, the Company adopted the 1997 Non-Employee Director Stock Option Plan (the "Non-Employee Plan") which provides for the grant of nonqualified stock options to purchase up to 250,000 shares of common stock to members of the Board of Directors who are not employees of the Company. As of the date of this Prospectus, no options had been granted under the Non-Employee Plan. Each outside director will be granted options to purchase 3,000 shares of common stock upon the completion of this offering. Thereafter, on the date on which a new outside director is first elected or appointed, he or she will automatically be granted options to purchase 3,000 shares of common stock. Each outside director also will be granted options to purchase 3,000 shares of common stock annually on the day following the annual meeting of shareholders. All options granted under the Non-Employee Plan will have an exercise price equal to the then fair market value of the common stock. Options will become exercisable in one-third increments on each anniversary of the date of grant.

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 (8.26% at June 30, 1997).

NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THIS OFFERING OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER TO SELL IS NOT AUTHORIZED OR IN WHICH THE PERSON IS NOT AUTHORIZED TO DO SO OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF.

TABLE OF CONTENTS

UNTIL , 1997 (25 DAYS AFTER THE COMMENCEMENT OF THIS OFFERING), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN addition TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

2,300,000 SHARES

[FARO LOGO]

COMMON STOCK

PROSPECTUS

RAYMOND JAMES & ASSOCIATES, INC.

HANIFEN, IMHOFF INC.

, 1997

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

Securities and Exchange Commission filing fee	$ 9,618
NASD filing fee	3,674
Nasdaq listing fee	39,250
Transfer agent expenses and fees	10,000
Printing and engraving	100,000
Accountants' fees and expenses	100,000
Consultants' fees and expenses	75,000
Legal fees and expenses	125,000
Miscellaneous	37,458
Total	$500,000

- ---

* All of the above fees, costs and expenses above will be paid by the Company. Other than the SEC filing fee and NASD filing fee, all fees and expenses are estimated.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Florida Business Corporation Act (the "Florida Act") permits a Florida corporation to indemnify a present or former director or officer of the corporation (and certain other persons serving at the request of the corporation in related capacities) for liabilities, including legal expenses, arising by reason of service in such capacity if such person shall have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and in any criminal proceeding if such person had no reasonable cause to believe his conduct was unlawful. However, in the case of actions brought by or in the right of the corporation, no indemnification may be made with respect to any matter as to which such director or officer shall have been adjudged liable, except in certain limited circumstances.

The Company's Articles of Incorporation and Bylaws provide that the Company shall indemnify directors and executive officers to the fullest extent now or hereafter permitted by the Florida Act. In addition, the Company may enter into Indemnification Agreements with its directors and executive officers in which the Registrant has agreed to indemnify such persons to the fullest extent now or hereafter permitted by the Florida Act.

The indemnification provided by the Florida Act and the Company's Bylaws is not exclusive of any other rights to which a director or officer may be entitled. The general effect of the foregoing provisions may be to reduce the circumstances which an officer or director may be required to bear the economic burden of the foregoing liabilities and expense.

The Company may obtain a liability insurance policy for its directors and officers as permitted by the Florida Act which may extend to, among other things, liability arising under the Securities Act.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

The Company has not sold any of its securities within the past three years.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits.

EXHIBIT NUMBER		EXHIBIT DESCRIPTION
1.1*	--	Form of Underwriting Agreement
3.1	--	Form of Amended and Restated Articles of Incorporation of the Company
3.2	--	Bylaws of the Company
4.1*	--	Specimen Certificate for the Company's Common Stock
5.1*	--	Opinion of Foley & Lardner
10.1	--	1993 Stock Option Plan, as amended
10.2	--	1997 Employee Stock Option Plan
10.3	--	1997 Non-Employee Director Stock Option Plan
10.4	--	1997 Non-Employee Directors' Fee Plan
10.5	--	Term WCMA Loan and Security Agreement dated September 24, 1996, between the Company and Merrill Lynch Business Financial Services, Inc.
10.6	--	WCMA Note, Loan and Security Agreement dated April 23, 1997, between the Company and Merrill Lynch Business Financial Services, Inc.
10.7	--	Business Lease dated March 1, 1991, between the Company (as successor-by-merger to FARO Medical Technologies (U.S.), Inc.) and Xenon Research, Inc.
10.8	--	OEM Purchase Agreement dated June 7, 1996, between the Company and Mitutoyo Corporation
10.9	--	Nonexclusive Unique Application Reseller Agreement dated September 9, 1996, between the Company and Autodesk, Inc.
10.10	--	Form of Patent and Confidentiality Agreement between the Company and each of its employees
11.1*	--	Statement re computation of per share earnings
21.1	--	List of subsidiaries of the Company
23.1	--	Consent of Foley & Lardner (included in Exhibit 5.1)
23.2	--	Consent of Deloitte & Touche LLP
24.1	--	Power of Attorney relating to subsequent amendments (included on the signature page of this Registration Statement)
27.1	--	Financial Data Schedule -- six months ended June 30, 1997 (for SEC filing purposes only)
27.2	--	Financial Data Schedule -- year ended December 31, 1996 (for SEC filing purposes only)

- ---------------

* To be filed by amendment.

(b) Financial Statement Schedules.

Financial statement schedules have been omitted either because they are not applicable or because the information that would be included in such schedules is included elsewhere in this Registration Statement.

ITEM 17. UNDERTAKINGS.

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the

securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rules 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Orlando, and State of Florida, on this 4th day of August, 1997.

FARO TECHNOLOGIES, INC.

By: /s/ SIMON RAAB
Simon Raab
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated. Each person whose signature appears below constitutes and appoints Simon Raab and Gregory A. Fraser, and each of them individually, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement and any Rule 462(b) Registration Statement and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

SIGNATURE	TITLE	DATE
/s/ SIMON RAAB Simon Raab	Chairman of the Board of Directors, President and Chief Executive Officer	August 4, 1997
/s/ GREGORY A. FRASER Gregory A. Fraser	Director, Executive Vice President, Secretary, Treasurer, Chief Financial Officer	August 4, 1997
/s/ RONALD F. KISER Ronald F. Kiser	Controller	August 4, 1997
/s/ HUBERT D'AMOURS Hubert d'Amours	Director	August 4, 1997
/s/ PHILIP COLLEY Philip Colley	Director	August 5, 1997
/s/ ALEXANDRE RAAB Alexandre Raab	Director	August 5, 1997

SIGNATURE	TITLE	DATE
/s/ NORMAN H. SCHIPPER Norman H. Schipper	Director	August 5, 1997
/s/ MARTIN KOSHAR Martin Koshar	Director	August 4, 1997
Andre Julien	Director	August , 1997

EXHIBIT INDEX

EXHIBIT NUMBER		EXHIBIT DESCRIPTION
1.1*	--	Form of Underwriting Agreement
3.1	--	Amended and Restated Articles of Incorporation of the Company
3.2	--	Bylaws of the Company
4.1*	--	Specimen Certificate for the Company's Common Stock
5.1*	--	Opinion of Foley & Lardner
10.1	--	1993 Stock Option Plan, as amended
10.2	--	1997 Employee Stock Option Plan
10.3	--	1997 Non-Employee Director Stock Option Plan
10.4	--	1997 Non-Employee Directors' Fee Plan
10.5	--	Term WCMA Loan and Security Agreement dated September 24, 1996, between the Company and Merrill Lynch Business Financial Services, Inc.
10.6	--	WCMA Note, Loan and Security Agreement dated April 23, 1997, between the Company and Merrill Lynch Business Financial Services, Inc.
10.7	--	Business Lease dated March 1, 1991, between the Company (as successor-by-merger to FARO Medical Technologies (U.S.), Inc.) and Xenon Research, Inc.
10.8	--	OEM Purchase Agreement dated June 7, 1996, between the Company and Mitutoyo Corporation
10.9	--	Nonexclusive Unique Application Reseller Agreement dated September 9, 1996, between the Company and Autodesk, Inc.
10.10	--	Form of Patent and Confidentiality Agreement between the Company and each of its employees
11.1*	--	Statement re computation of per share earnings
21.1	--	List of subsidiaries of the Company
23.1	--	Consent of Foley & Lardner (included in Exhibit 5.1)
23.2	--	Consent of Deloitte & Touche LLP
24.1	--	Power of Attorney relating to subsequent amendments (included on the signature page of this Registration Statement)
27.1	--	Financial Data Schedule -- six months ended June 30, 1997 (for SEC filing purposes only)
27.2	--	Financial Data Schedule -- year ended December 31, 1996 (for SEC filing purposes only)

---

* To be filed by amendment.

EXHIBIT 3.1

RESTATED ARTICLES OF INCORPORATION
OF
FARO TECHNOLOGIES, INC.

Pursuant to Sections 607.1006 and 607.1007 of the Florida Business Corporation Act (the "FBCA"), FARO Technologies, Inc. adopts these Restated Articles of Incorporation:

FIRST: The name of the Corporation is FARO TECHNOLOGIES, INC.

SECOND: The Corporation's Articles of Incorporation are restated in their entirety to read as follows:

ARTICLE 1

NAME

The name of the Corporation is: FARO TECHNOLOGIES, INC.

ARTICLE 2
BUSINESS AND ACTIVITIES

The Corporation may, and is authorized to, engage in any activity or business now or hereafter permitted under the laws of the United States and of the State of Florida.

ARTICLE 3
CAPITAL STOCK

3.1 Authorized Shares. The total number of shares of all classes of capital stock that the Corporation shall have the authority to issue shall be 60,000,000 shares, of which 50,000,000 shares shall be Common Stock having a par value of $0.001 per share ("Common Stock") and 10,000,000 shares shall be Preferred Stock, having a par value of $0.001 per share ("Preferred Stock"). The Board of Directors is expressly authorized, pursuant to Section 607.0602 of the FBCA, to provide for the classification and reclassification of any unissued class or series of Common Stock or Preferred Stock and the issuance thereof in one or more classes or series without the approval of the shareholders of the Corporation, all within the limitations set forth in Section 607.0601 of the FBCA.

3.2 Common Stock.

(A) Relative Rights. The Common Stock shall be subject to all of the rights, privileges, preferences, and priorities of the Preferred Stock as set forth in the Articles of Amendment to these Articles of Incorporation that may hereafter be filed pursuant to Section 607.0602 of the FBCA to establish or reclassify a class or series of the Preferred Stock. Except as otherwise provided in these Articles of Incorporation, each share of Common Stock shall have the same rights as, and be identical in all respects to, all of the other shares of Common Stock.

(B) Voting Rights. Except as otherwise provided by the FBCA or these Articles of Incorporation, and except as may be determined by the Board of Directors with respect to the Preferred Stock, only the holders of Common Stock shall be entitled to vote for the election of directors of the Corporation and for all other corporate purposes. Upon any such vote, each holder of Common Stock shall, except as otherwise provided by the FBCA, be entitled to one vote for each share of Common Stock held by such holder. Cumulative voting in the election of directors shall not be permitted.

(C) Dividends. Whenever there shall have been paid, or declared and set aside for payment, to the holders of the shares of any class of stock having preference over the Common Stock as to the payment of dividends, the full amount of dividends and of sinking fund or retirement payments, if any, to which such holders are respectively entitled in preference to the Common Stock, then the holders of record of the Common Stock, and the holders of any class or series of stock entitled to participate therewith as to dividends, shall be entitled to receive dividends, when, as, and if declared by the Board of Directors, out of any assets legally available for the payment of dividends thereon.

(D) Dissolution, Liquidation, Winding Up. In the event of any dissolution, liquidation, or winding up of the Corporation, whether voluntary or involuntary, the holders of record of the Common Stock then outstanding, and all holders of any class or series of stock entitled to participate therewith in whole or in part as to the distribution of assets, shall become entitled to participate in the distribution of assets of the Corporation remaining after the Corporation shall have paid, or set aside for payment, to the holders of any class of stock having preference over the Common Stock in the event of dissolution, liquidation, or winding up, the full preferential amounts, if any, to which they are entitled and shall have paid or provided for payment of all debts and liabilities of the Corporation.

3.3 Preferred Stock.

(A) Issuance, Designations, Powers. The Board of Directors is expressly authorized, subject to the limitations prescribed by the FBCA and these Articles of Incorporation, to provide, by resolution and by filing Articles of Amendment to these Articles of Incorporation, which shall be effective without shareholder action pursuant to Section 607.0602(4) of the FBCA, for the issuance from time to time of the shares of Preferred Stock, to reclassify the Preferred Stock or designate one or more series of such class and provide for the issuance thereof, to establish from time to time the number of shares to be included in each such class or series, to fix the designations, powers, preferences, and other rights of each such class or series, and to fix the qualifications, limitations, and restrictions thereon, including, but without limiting the generality of the foregoing, the following:

(1) the number of shares constituting that class or series and the distinctive designation of that class or series;

(2) the dividend rate on the shares of that class or series, whether dividends shall be cumulative, noncumulative, or partially cumulative and, if so, from which date or dates, and the relative rights of priority, if any, of payments of dividends on shares of that class or series;

(3) whether that class or series shall have voting rights, in addition to the voting rights provided by the FBCA, and, if so, the terms of such voting rights;

(4) whether that class or series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board of Directors shall determine;

(5) whether or not the shares of that class or series shall be redeemable, and, if so, the terms and conditions of such redemption, including the dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates as the Board of Directors shall determine;

(6) whether that class or series shall have a sinking fund for the redemption or purchase of shares of that class or series, and, if so, the terms and amount of such sinking fund;

(7) the rights of the shares of that class or series in the event of voluntary or involuntary liquidation, dissolution, or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of that class or series; and

(8) any other relative powers, preferences, and rights of that class or series, and qualifications, limitations, or restrictions on that class or series.

(B) Dissolution, Liquidation, Winding Up. In the event of any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, the holders of Preferred Stock of each class or series shall be entitled to receive only such amount or amounts as shall have been fixed by the Articles of Amendment to these Articles of Incorporation or by the resolution or resolutions of the Board of Directors providing for the issuance of such class or series.

3.4 No Preemptive Rights. Except as the Board of Directors may otherwise determine, no shareholder of the Corporation shall have any preferential or preemptive right to subscribe for or purchase from the Corporation any new or additional shares of capital stock, or securities convertible into shares of capital stock, of the Corporation, whether now or hereafter authorized.

ARTICLE 4
BOARD OF DIRECTORS

4.1 Classification. Except as otherwise provided pursuant to the provisions of these Articles of Incorporation or Articles of Amendment filed pursuant to Section 3.3 hereof relating to the rights of the holders of any class or series of Preferred Stock, voting separately by class or series, to elect additional directors under specified circumstances, the number of directors of the Corporation shall be as fixed from time to time by or pursuant to these Articles of Incorporation or by bylaws of the Corporation (the "Bylaws"). The directors, other than those who may be elected by the holders of any class or series of Preferred Stock voting separately by class or series, shall be classified, with respect to the time for which they severally hold office, into three classes, Class I, Class II and Class III, each of which shall be as nearly equal in number as possible, and shall be adjusted from time to time in the manner specified in the Bylaws to maintain such proportionality. Each initial director in Class I shall hold office for a term expiring at the 2000 annual meeting of the shareholders; each initial director in Class II shall hold office for a term expiring at the 1999 annual meeting of the shareholders; and each initial director in Class III shall hold office for a term expiring at the 1998 annual meeting of the shareholders. Notwithstanding the foregoing provisions of this Section 4.1, each director shall serve until such director's successor is duly elected and qualified or until such director's earlier death, resignation, or removal. At each annual meeting of the shareholders, the successors to the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of the shareholders held in the third year following the year of their election and until their successors shall have been duly elected and qualified or until such director's earlier death, resignation, or removal.

4.2 Removal.

(A) Removal For Cause. Except as otherwise provided pursuant to the provisions of these Articles of Incorporation or Articles of Amendment filed pursuant to Section 3.3 hereof relating to the rights of the holders of any class or series of Preferred Stock, voting separately by class or series, to elect directors under specified circumstances, any director or directors may be removed from office at any time, but only for cause (as defined in Section 4.2(B) hereof) and only by the affirmative vote, at a special meeting of the shareholders called for such a purpose, of not less than sixty-six and two-thirds percent (66 2/3%) of the total number of votes of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, but only if notice of such proposed removal was contained in the notice of such meeting. At least 30 days prior to such special meeting of the shareholders, written notice shall be sent to the director or directors whose removal will be considered at such meeting. Any vacancy on the Board of Directors resulting from such removal or otherwise shall be filled only by vote of a majority of the directors then in office, although less than a quorum, and any director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor shall have been elected and qualified or until any such director's earlier death, resignation, or removal.

(B) "Cause" Defined. For the purposes of this Section 4.2, "cause" shall mean (i) misconduct as a director of the Corporation or any subsidiary of the Corporation which involves dishonesty with respect to a substantial or material corporate activity or corporate assets, or (ii) conviction of an offense punishable by one or more years of imprisonment (other than minor regulatory infractions and traffic violations that do not materially and adversely affect the Corporation).

4.3 Change of Number of Directors. In the event of any increase or decrease in the authorized number of directors, the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors so as to maintain such classes as nearly equal as possible. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

4.4 Directors Elected by Holders of Preferred Stock. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect one or more directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies, and other features of such directorships shall be governed by the terms of these Articles of Incorporation, as amended by Articles of Amendment applicable to such classes or series of Preferred Stock, and such directors so elected shall not be divided into classes pursuant to this Article 4 unless expressly provided by the Articles of Amendment applicable to such classes or series of Preferred Stock.

4.5 Exercise of Business Judgment. In discharging his or her duties as a director of the Corporation, a director may consider such factors as the director considers relevant, including the long-term prospects and interests of the Corporation and its shareholders, the social, economic, legal, or other effects of any corporate action or inaction upon the employees, suppliers, or customers of the Corporation or its subsidiaries, the communities and society in which the Corporation or its subsidiaries operate, and the economy of the State of Florida and the United States.

4.6 Number of Directors. The number of directors constituting the Board of Directors of the Corporation is eight. The number of directors may be increased or decreased from time to time as provided in the Bylaws, but in no event shall the number of directors be less than three or more than 15.

ARTICLE 5
ACTION BY SHAREHOLDERS

5.1 Call For Special Meeting. Special meetings of the shareholders of the Corporation may be called at any time, but only by (a) the President or Chairman of the Board of the Corporation, (b) a majority of the directors in office, although less than a quorum, and (c) the holders of at least fifty percent (50%) of the total number of votes of the then outstanding shares

of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class.

5.2 Shareholder Action by Written Consent. Any action required or permitted to be taken by the shareholders of the Corporation must be effected at a duly called annual or special meeting of the shareholders, and may not be effected by any consent in writing by such shareholders, unless such written consent is effected by the holders of at least sixty-six and two-thirds percent (66 2/3%) of the total number of votes of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class.

ARTICLE 6
INDEMNIFICATION

6.1 Provision of Indemnification. The Corporation shall, to the fullest extent permitted or required by the FBCA, including any amendments thereto (but in the case of any such amendment, only to the extent such amendment permits or requires the Corporation to provide broader indemnification rights than prior to such amendment), indemnify its Directors and Executive Officers against any and all Liabilities, and advance any and all reasonable Expenses, incurred thereby in any Proceeding to which any such Director or Executive Officer is a Party or in which such Director or Executive Officer is deposed or called to testify as a witness because he or she is or was a Director or Executive Officer of the Corporation. The rights to indemnification granted hereunder shall not be deemed exclusive of any other rights to indemnification against Liabilities or the advancement of Expenses which a Director or Executive Officer may be entitled under any written agreement, Board of Directors' resolution, vote of shareholders, the FBCA, or otherwise. The Corporation may, but shall not be required to, supplement the foregoing rights to indemnification against Liabilities and advancement of Expenses by the purchase of insurance on behalf of any one or more of its Directors or Executive Officers whether or not the Corporation would be obligated to indemnify or advance Expenses to such Director or Executive Officer under this Article. For purposes of this Article, the term "Directors" includes former directors of the Corporation and any director who is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, including, without limitation, any employee benefit plan (other than in the capacity as an agent separately retained and compensated for the provision of goods or services to the enterprise, including, without limitation, attorneys-at-law, accountants, and financial consultants). For purposes of this Article, the term "Executive Officers" includes those individuals who are or who were at any time "executive officers" of the Corporation as defined in Securities and Exchange Commission Rule 3b-7 promulgated under the Securities Exchange Act of 1934, as amended. All other capitalized terms used in this Article 6 and not otherwise defined herein have the meaning set forth in Section 607.0850 of the FBCA. The provisions of this Article 6 are intended solely for the benefit of the indemnified parties described herein and their heirs and personal representatives and shall not create any rights in

favor of third parties. No amendment to or repeal of this Article 6 shall diminish the rights of indemnification provided for herein prior to such amendment or repeal.

ARTICLE 7
AMENDMENTS

7.1 Articles of Incorporation. Notwithstanding any other provision of these Articles of Incorporation or the Bylaws of the Corporation (and notwithstanding that a lesser percentage may be specified by law) the affirmative vote of sixty-six and two-thirds percent (66 2/3%) of the total number of votes of the then outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required (unless separate voting by classes is required by the FBCA, in which event the affirmative vote of sixty-six and two-thirds percent (66 2/3%) of the number of shares of each class or series entitled to vote as a class shall be required), to amend or repeal, or to adopt any provision inconsistent with the purpose or intent of, Articles 4, 5, 6, or this Article 7 of these Articles of Incorporation. Notice of any such proposed amendment, repeal, or adoption shall be contained in the notice of the meeting at which it is to be considered. Subject to the provisions set forth herein, the Corporation reserves the right to amend, alter, repeal, or rescind any provision contained in these Articles of Incorporation in the manner now or hereafter prescribed by law.

7.2 Bylaws. The shareholders of the Corporation may adopt or amend a bylaw which fixes a greater quorum or voting requirement for shareholders (or voting groups of shareholders) than is required by the FBCA. The adoption or amendment of a bylaw that adds, changes, or deletes a greater quorum or voting requirement for shareholders must meet the same quorum or voting requirement and be adopted by the same vote and voting groups required to take action under the quorum or voting requirement then in effect or proposed to be adopted, whichever is greater.

ARTICLE 8
REGISTERED OFFICE AND AGENT

The address of the Registered Office of the Corporation is 101 E. Kennedy Blvd., Ste 4100, Tampa, Florida 33602 and the Registered Agent at such address is Richard A. Schlosser.

ARTICLE 9
PRINCIPAL OFFICE AND MAILING ADDRESS

The address of the Principal Office of the Corporation and its mailing address is 125 Technology Park, Lake Mary, Florida 32746. The location of the Principal Office and the mailing address shall be subject to change as may be provided in the Bylaws.

THIRD: The foregoing restatement of the Corporation's Articles of Incorporation amends the Corporation's Articles of Incorporation and was adopted and approved by a majority

of the shareholders of the Corporation pursuant to a written consent dated _____, 1997 and the number of votes cast by the shareholders was sufficient for approval.

FOURTH: The foregoing restatement of the Corporation's Articles of Incorporation will become effective upon the filing of these Restated Articles of Incorporation with the Florida Department of State.

IN WITNESS WHEREOF, these Restated Articles of Incorporation have been signed on behalf of the Corporation this_____day of _____, 1997.

Simon Raab, President

EXHIBIT 3.2

BYLAWS

OF

FARO TECHNOLOGIES, INC.
(A FLORIDA CORPORATION)

TABLE OF CONTENTS

ARTICLE 9
BOOKS AND RECORDS

ARTICLE 10
INDEMNIFICATION

ARTICLE 11
AMENDMENTS

ARTICLE 1
DEFINITIONS

Section 1.1 Definitions. The following terms shall have the following meanings for purposes of these bylaws:

"Act" means the Florida Business Corporation Act, as it may be amended from time to time, or any successor legislation thereto.

"Corporation" means FARO Technologies, Inc., a Florida corporation.

"Deliver" or "delivery" includes delivery by hand; United States mail; facsimile, telegraph, teletype or other form of electronic transmission, with written confirmation or other acknowledgment of receipt; and private mail carriers handling nationwide mail services.

"Principal office" means the office (within or without the State of Florida) where the Corporation's principal executive offices are located, as designated in the Articles of Incorporation until an annual report has been filed with the Florida Department of State, and thereafter as designated in the annual report.

ARTICLE 2
OFFICES

Section 2.1 Principal and Business Offices. The Corporation may have such principal and other business offices, either within or without the State of Florida, as the Board of Directors may designate or as the business of the Corporation may require from time to time.

Section 2.2 Registered Office. The registered office of the Corporation required by the Act to be maintained in the State of Florida may but need not be identical with the principal office if located in the State of Florida, and the address of the registered office may be changed from time to time by the Board of Directors or by the registered agent. The business office of the registered agent of the Corporation shall be identical to such registered office.

ARTICLE 3
SHAREHOLDERS

Section 3.1 Annual Meeting.

(a) Call by Directors. The annual meeting of shareholders shall be held within four months after the close of each fiscal year of the Corporation on a date and at a time and place designated by the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the election of directors shall not be held on the day fixed as herein provided for any annual meeting of shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of shareholders as soon thereafter as is practicable. The failure to hold the annual meeting of the shareholders within the time stated in these bylaws shall not

affect the terms of office of the officers or directors of the Corporation or the validity of any corporate action.

(b) Business At Annual Meeting. At an annual meeting of the shareholders of the Corporation, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (1) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (2) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (3) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be received at the principal business office of the Corporation no later than the date designated for receipt of shareholders' proposals in a prior public disclosure made by the Corporation. If there has been no such prior public disclosure, then to be timely, a shareholder's notice must be delivered to or mailed and received at the principal business office of the Corporation not less than 60 days nor more than 90 days prior to the annual meeting of shareholders; provided, however, that in the event that less than 70 days' notice of the date of the meeting is given to shareholders by notice or prior public disclosure, notice by the shareholders, to be timely, must be received by the Corporation not later than the close of business on the tenth day following the day on which the Corporation gave notice or made a public disclosure of the date of the annual meeting of the shareholders. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's stock books, of the shareholders proposing such business, (c) the class and number of shares of the Corporation which are beneficially owned by the shareholder, (d) any material interest of the shareholder in such business, and (e) the same information required by clauses (b), (c) and (d) above with respect to any other shareholder that, to the knowledge of the shareholder proposing such business, supports such proposal. Notwithstanding anything in these bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section . The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the annual meeting that a matter of business was not properly brought before the meeting in accordance with the provisions of this Section , and if the Chairman shall so determine, the Chairman shall so declare at the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 3.2 Special Meetings.

(a) Call by Directors or President. Special meetings of shareholders of the Corporation, for any purpose or purposes, may be called by the Board of Directors, the Chairman of the Board (if any) or the President.

(b) Call by Shareholders. The Corporation shall call a special meeting of shareholders in the event that the holders of at least fifty percent (50%) of all of the votes entitled to be cast on any issue proposed to be considered at the proposed special meeting sign, date, and deliver to the Secretary one or more written demands for the meeting

describing one or more purposes for which it is to be held. The Corporation shall give notice of such a special meeting within 60 days after the date that the demand is delivered to the Corporation.

Section 3.3 Place of Meeting. The Board of Directors may designate any place, either within or without the State of Florida, as the place of meeting for any annual or special meeting of shareholders. If no designation is made, the place of meeting shall be the principal office of the Corporation.

Section 3.4 Notice of Meeting.

(a) Content and Delivery. Written notice stating the date, time, and place of any meeting of shareholders and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten days nor more than 60 days before the date of the meeting by or at the direction of the President or the Secretary, or the officer or persons duly calling the meeting, to each shareholder of record entitled to vote at such meeting and to such other persons as required by the Act. Unless the Act requires otherwise, notice of an annual meeting need not include a description of the purpose or purposes for which the meeting is called. If mailed, notice of a meeting of shareholders shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at his or her address as it appears on the stock record books of the Corporation, with postage thereon prepaid.

(b) Notice of Adjourned Meetings. If an annual or special meeting of shareholders is adjourned to a different date, time, or place, the Corporation shall not be required to give notice of the new date, time, or place if the new date, time, or place is announced at the meeting before adjournment; provided, however, that if a new record date for an adjourned meeting is or must be fixed, the Corporation shall give notice of the adjourned meeting to persons who are shareholders as of the new record date who are entitled to notice of the meeting.

(c) No Notice Under Certain Circumstances. Notwithstanding the other provisions of this Section, no notice of a meeting of shareholders need be given to a shareholder if: (1) an annual report and proxy statement for two consecutive annual meetings of shareholders, or (2) all, and at least two, checks in payment of dividends or interest on securities during a 12 month period have been sent by first-class, United States mail, addressed to the shareholder at his or her address as it appears on the share transfer books of the Corporation, and returned undeliverable. The obligation of the Corporation to give notice of a shareholders' meeting to any such shareholder shall be reinstated once the Corporation has received a new address for such shareholder for entry on its share transfer books.

Section 3.5 Waiver of Notice.

(a) Written Waiver. A shareholder may waive any notice required by the Act or these bylaws before or after the date and time stated for the meeting in the notice. The waiver shall be in writing and signed by the shareholder entitled to the notice, and be delivered to the Corporation for inclusion in the minutes or filing with the corporate records. Neither the

business to be transacted at nor the purpose of any regular or special meeting of shareholders need be specified in any written waiver of notice.

(b) Waiver by Attendance. A shareholder's attendance at a meeting, in person or by proxy, waives objection to all of the following: (1) lack of notice or defective notice of the meeting, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting; and (2) consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder objects to considering the matter when it is presented.

Section 3.6 Fixing of Record Date.

(a) General. The Board of Directors may fix in advance a date as the record date for the purpose of determining shareholders entitled to notice of a shareholders' meeting, entitled to vote, or take any other action. In no event may a record date fixed by the Board of Directors be a date preceding the date upon which the resolution fixing the record date is adopted or a date more than 70 days before the date of meeting or action requiring a determination of shareholders.

(b) Special Meeting. The record date for determining shareholders entitled to demand a special meeting shall be the close of business on the date the first shareholder delivers his or her demand to the Corporation.

(c) Shareholder Action by Written Consent. If no prior action is required by the Board of Directors pursuant to the Act, the record date for determining shareholders entitled to take action without a meeting shall be the close of business on the date the first signed written consent with respect to the action in question is delivered to the Corporation, but if prior action is required by the Board of Directors pursuant to the Act, such record date shall be the close of business on the date on which the Board of Directors adopts the resolution taking such prior action unless the Board of Directors otherwise fixes a record date. Any action of the shareholders of the Corporation taken without a meeting shall be effected only upon the written consent of shareholders made in accordance with Section 3.14.

(d) Absence of Board Determination for Shareholders' Meeting. If the Board of Directors does not determine the record date for determining shareholders entitled to notice of and to vote at an annual or special shareholders' meeting, such record date shall be the close of business on the day before the first notice with respect thereto is delivered to shareholders.

(e) Adjourned Meeting. A record date for determining shareholders entitled to notice of or to vote at a shareholders' meeting is effective for any adjournment of the meeting unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

Section 3.7 Shareholders' List for Meetings.

(a) Preparation and Availability. After a record date for a meeting of shareholders has been fixed, the Corporation shall prepare an alphabetical list of the names of all of the shareholders entitled to notice of the meeting. The list shall be arranged by class or series of shares, if any, and show the address of and number of shares held by each shareholder. Such list shall be available for inspection by any shareholder for a period of ten days prior to the meeting or such shorter time as exists between the record date and the meeting date, and continuing through the meeting, at the Corporation's principal office, at a place identified in the meeting notice in the city where the meeting will be held, or at the office of the Corporation's transfer agent or registrar, if any. A shareholder or his or her agent may, on written demand, inspect the list, subject to the requirements of the Act, during regular business hours and at his or her expense, during the period that it is available for inspection pursuant to this Section. A shareholder's written demand to inspect the list shall describe with reasonable particularity the purpose for inspection of the list, and the Corporation may deny the demand to inspect the list if the Secretary determines that the demand was not made in good faith and for a proper purpose or if the list is not directly connected with the purpose stated in the shareholder's demand, all subject to the requirements of Section 607.1602(3) of the Act. Notwithstanding anything herein to the contrary, the Corporation shall make the shareholders' list available at any annual meeting or special meeting of shareholders and any shareholder or his or her agent or attorney may inspect the list at any time during the meeting or any adjournment thereof.

(b) Prima Facie Evidence. The shareholders' list is prima facie evidence of the identity of shareholders entitled to examine the shareholders' list or to vote at a meeting of shareholders.

(c) Failure to Comply. If the requirements of this Section have not been substantially complied with, or if the Corporation refuses to allow a shareholder or his or her agent or attorney to inspect the shareholders' list before or at the meeting, on the demand of any shareholder, in person or by proxy, who failed to get such access, the meeting shall be adjourned until such requirements are complied with.

(d) Validity of Action Not Affected. Refusal or failure to prepare or make available the shareholders' list shall not affect the validity of any action taken at a meeting of shareholders.

Section 3.8 Quorum.

(a) What Constitutes a Quorum. Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. If the Corporation has only one class of stock outstanding, such class shall constitute a separate voting group for purposes of this Section. Except as otherwise provided in the Act, a majority of the votes entitled to be cast on the matter shall constitute a quorum of the voting group for action on that matter.

(b) Presence of Shares. Once a share is represented for any purpose at a meeting, other than for the purpose of objecting to holding the meeting or transacting business at the meeting, it is considered present for purposes of determining whether a quorum exists for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for the adjourned meeting.

(c) Adjournment in Absence of Quorum. Where a quorum is not present, the holders of a majority of the shares represented and who would be entitled to vote at the meeting if a quorum were present may adjourn such meeting from time to time.

Section 3.9 Voting of Shares. Except as provided in the Articles of Incorporation or the Act, each outstanding share, regardless of class, is entitled to one vote on each matter voted on at a meeting of shareholders.

Section 3.10 Vote Required.

(a) Matters Other Than Election of Directors. If a quorum exists, except in the case of the election of directors, action on a matter shall be approved by a majority of the votes cast at such meeting, unless the Act or the Articles of Incorporation require a greater number of affirmative votes.

(b) Election of Directors. Each director shall be elected by a plurality of the votes cast by the shares entitled to vote in the election of directors at a meeting at which a quorum is present. Each shareholder who is entitled to vote at an election of directors has the right to vote the number of shares owned by him or her for as many persons as there are directors to be elected. Shareholders do not have a right to cumulate their votes for directors.

Section 3.11 Conduct of Meeting. The Chairman of the Board of Directors, and if there be none, or in his or her absence, the President, and in his or her absence, a Vice President in the order provided under the Section of these bylaws titled "Vice Presidents," and in their absence, any person chosen by the shareholders present shall call a shareholders' meeting to order and shall act as presiding officer of the meeting, and the Secretary of the Corporation shall act as secretary of all meetings of the shareholders, but, in the absence of the Secretary, the presiding officer may appoint any other person to act as secretary of the meeting. The presiding officer of the meeting shall have broad discretion in determining the order of business at a shareholders' meeting. The presiding officer's authority to conduct the meeting shall include, but in no way be limited to, recognizing shareholders entitled to speak, calling for the necessary reports, stating questions and putting them to a vote, calling for nominations, and announcing the results of voting. The presiding officer also shall take such actions as are necessary and appropriate to preserve order at the meeting. The rules of parliamentary procedure need not be observed in the conduct of shareholders' meetings.

Section 3.12 Inspectors of Election. Inspectors of election may be appointed by the Board of Directors to act at any meeting of shareholders at which any vote is taken. If inspectors of election are not so appointed, the presiding officer of the meeting may, and on the request of any shareholder shall, make such appointment. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the

duties of inspector at such meeting with strict impartiality and according to the best of his or her ability. The inspectors of election shall determine the number of shares outstanding, the voting rights with respect to each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies; receive votes, ballots, consents, and waivers; hear and determine all challenges and questions arising in connection with the vote; count and tabulate all votes, consents, and waivers; determine and announce the result; and do such acts as are proper to conduct the election or vote with fairness to all shareholders. No inspector, whether appointed by the Board of Directors or by the person acting as presiding officer of the meeting, need be a shareholder. The inspectors may appoint and retain other persons or entities to assist the inspectors in the performance of the duties of the inspectors. On request of the person presiding at the meeting, the inspectors shall make a report in writing of any challenge, question or matter determined by them and execute a certificate of any fact found by them.

Section 3.13 Proxies.

(a) Appointment. At all meetings of shareholders, a shareholder may vote his or her shares in person or by proxy. A shareholder may appoint a proxy to vote or otherwise act for the shareholder by signing an appointment form, either personally or by his or her attorney-in-fact. If an appointment form expressly provides, any proxy holder may appoint, in writing, a substitute to act in his or her place. A telegraph, telex, or a cablegram, a facsimile transmission of a signed appointment form, or a photographic, photostatic, or equivalent reproduction of a signed appointment form is a sufficient appointment form.

(b) When Effective. An appointment of a proxy is effective when received by the Secretary or other officer or agent of the Corporation authorized to tabulate votes. An appointment is valid for up to 11 months unless a longer period is expressly provided in the appointment form. An appointment of a proxy is revocable by the shareholder unless the appointment form conspicuously states that it is irrevocable and the appointment is coupled with an interest.

Section 3.14 Action by Shareholders Without Meeting.

(a) Requirements for Written Consent. Any action required or permitted by the Act to be taken at any annual or special meeting of shareholders may be taken without a meeting, without prior notice, and without a vote if one or more written consents describing the action taken shall be signed and dated by the holders of at least sixty-six and two-thirds percent (66 2/3%) of the total number of votes of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class. Such consents must be delivered to the principal office of the Corporation in Florida, the Corporation's principal place of business, the Secretary, or another officer or agent of the Corporation having custody of the books in which proceedings of meetings of shareholders are recorded. No written consent shall be effective to take the corporate action referred to therein unless, within 60 days of the date of the earliest dated consent delivered in the manner required herein, written consents signed by the number of holders required to take action are delivered to the Corporation by delivery as set forth in this Section.

(b) Revocation of Written Consents. Any written consent may be revoked prior to the date that the Corporation receives the required number of consents to authorize the proposed action. No revocation is effective unless in writing and until received by the Corporation at its principal office in Florida or its principal place of business, or received by the Secretary or other officer or agent having custody of the books in which proceedings of meetings of shareholders are recorded.

(c) Same Effect as Vote at Meeting. A consent signed under this Section has the effect of a meeting vote and may be described as such in any document. Whenever action is taken by written consent pursuant to this Section, the written consent of the shareholders consenting thereto or the written reports of inspectors appointed to tabulate such consents shall be filed with the minutes of proceedings of shareholders.

Section 3.15 Acceptance of Instruments Showing Shareholder Action. If the name signed on a vote, consent, waiver, or proxy appointment corresponds to the name of a shareholder, the Corporation, if acting in good faith, may accept the vote, consent, waiver, or proxy appointment and give it effect as the act of a shareholder. If the name signed on a vote, consent, waiver, or proxy appointment does not correspond to the name of a shareholder, the Corporation, if acting in good faith, may accept the vote, consent, waiver, or proxy appointment and give it effect as the act of the shareholder if any of the following apply:

(a) The shareholder is an entity and the name signed purports to be that of an officer or agent of the entity;

(b) The name signed purports to be that of a administrator, executor, guardian, personal representative, or conservator representing the shareholder and, if the Corporation requests, evidence of fiduciary status acceptable to the Corporation is presented with respect to the vote, consent, waiver, or proxy appointment;

(c) The name signed purports to be that of a receiver or trustee in bankruptcy, or assignee for the benefit of creditors of the shareholder and, if the Corporation requests, evidence of this status acceptable to the Corporation is presented with respect to the vote, consent, waiver, or proxy appointment;

(d) The name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the shareholder and, if the Corporation requests, evidence acceptable to the Corporation of the signatory's authority to sign for the shareholder is presented with respect to the vote, consent, waiver, or proxy appointment; or

(e) Two or more persons are the shareholder as cotenants or fiduciaries and the name signed purports to be the name of at least one of the co-owners and the person signing appears to be acting on behalf of all co-owners.

The Corporation may reject a vote, consent, waiver, or proxy appointment if the Secretary or other officer or agent of the Corporation who is authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

ARTICLE 4
BOARD OF DIRECTORS

Section 4.1 General Powers and Number. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation managed under the direction of, the Board of Directors. The Corporation shall have eight directors initially. The number of directors may be increased or decreased from time to time by vote of a majority of the Board of Directors, but shall never be less than three nor more than 15.

Section 4.2 Qualifications. Directors must be natural persons who are 18 years of age or older but need not be residents of the State of Florida or shareholders of the Corporation.

Section 4.3 Term of Office. The directors shall be classified, with respect to the time for which they severally hold office, into three classes, Class I, Class II and Class III, each of which shall be as nearly equal in number as possible. Class I shall be established for a term expiring at the annual meeting of shareholders to be held in 2000 and shall consist initially of three directors. Class II shall be established for a term expiring at the annual meeting of shareholders to be held in 1999 and shall consist initially of three directors. Class III shall be established for a term expiring at the annual meeting of shareholders to be held in 1998 and shall consist initially of two directors. Each director shall hold office until his or her successors are elected and qualified, or until such director's earlier death, resignation or removal as hereinafter provided. At each annual meeting of the shareholders of the Corporation, the successors of the class of directors whose terms expire at that meeting shall be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of their election. Unless otherwise provided in the Articles of Incorporation, when the number of directors of the Corporation is changed, the Board of Directors shall determine the class or classes to which the increased or decreased number of directors shall be apportioned; provided, however, that no decrease in the number of directors shall affect the term of any director then in office.

Section 4.4 Nominations of Directors. Except as otherwise provided pursuant to the provisions of the Articles of Incorporation or Articles of Amendment relating to the rights of the holders of any class or series of Preferred Stock, voting separately by class or series, to elect directors under specified circumstances, nominations of persons for election to the Board of Directors may be made by the Chairman of the Board on behalf of the Board of Directors or by any shareholder of the Corporation entitled to vote for the election of directors at the annual meeting of the shareholders who complies with the notice provisions set forth in this Section . To be timely, a shareholder's notice shall be received at the principal business office of the Corporation no later than the date designated for receipt of shareholders' proposals in a prior public disclosure made by the Corporation. If there has been no such prior public disclosure, then to be timely, a shareholder's nomination must be delivered to or mailed and received at the principal business office of the Corporation not less than 60 days nor more than 90 days prior to the annual meeting of shareholders; provided, however, that in the event that less than 70 days' notice of the date of the meeting is given to the shareholders or prior public disclosure of the date of the meeting is made, notice by the shareholder to be timely must be so received not later than the close of business on the tenth day following the day

on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A shareholder's notice to the Secretary shall set forth (a) as to each person the shareholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of such proposed nominee, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by such person, and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including without limitation such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (b) as to the shareholder giving notice (i) the name and address, as they appear on the Corporation's books, of the shareholder proposing such nomination, and (ii) the class and number of shares of stock of the Corporation which are beneficially owned by the shareholder. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section . The Chairman of the meeting shall, if the facts warrant, determine and declare to the annual meeting that a nomination was not made in accordance with the provisions of this Section , and if the Chairman shall so determine, the Chairman shall so declare at the meeting and the defective nomination shall be disregarded.

Section 4.5 Removal.

(a) Generally. Except as otherwise provided pursuant to the provisions of the Articles of Incorporation or Articles of Amendment relating to the rights of the holders of any class or series of Preferred Stock, voting separately by class or series, to elect directors under specified circumstances, any director or directors may be removed from office at any time, but only for cause (as defined in Section hereof) and only by the affirmative vote, at a special meeting of the shareholders called for such a purpose, of not less than sixty-six and two-thirds percent (66 2/3%) of the total number of votes of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, but only if notice of such proposed removal was contained in the notice of such meeting. At least 30 days prior to such special meeting of shareholders, written notice shall be sent to the director or directors whose removal will be considered at such meeting. Any vacancy on the Board of Directors resulting from such removal or otherwise shall be filled only by vote of a majority of the directors then in office, although less than a quorum, and any director so chosen shall hold office until the next election of the class for which such directors shall have been chosen and until his or her successor shall have been elected and qualified or until any such director's earlier death, resignation or removal.

(b) "Cause" Defined. For the purposes of this Section , "cause" shall mean (i) misconduct as a director of the Corporation or any subsidiary of the Corporation which involves dishonesty with respect to a substantial or material corporate activity or corporate assets, or (ii) conviction of an offense punishable by one or more years of imprisonment (other than minor regulatory infractions and traffic violations which do not materially and adversely affect the Corporation).

Section 4.6 Resignation. A director may resign at any time by delivering written notice to the Board of Directors or its Chairman (if any) or to the Corporation. A director's resignation is effective when the notice is delivered unless the notice specifies a later effective date.

Section 4.7 Vacancies.

(a) Who May Fill Vacancies. Except as provided below, whenever any vacancy occurs on the Board of Directors, including a vacancy resulting from an increase in the number of directors, it may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office until his or her successor is duly elected and qualified, and such successor shall complete such director's remaining term.

(b) Directors Electing by Voting Groups. Whenever the holders of shares of any voting group are entitled to elect a class of one or more directors by the provisions of the Articles of Incorporation, vacancies in such class may be filled by holders of shares of that voting group or by a majority of the directors then in office elected by such voting group or by a sole remaining director so elected. If no director elected by such voting group remains in office, unless the Articles of Incorporation provide otherwise, directors not elected by such voting group may fill vacancies.

(c) Prospective Vacancies. A vacancy that will occur at a specific later date, because of a resignation effective at a later date or otherwise, may be filled before the vacancy occurs, but the new director may not take office until the vacancy occurs.

Section 4.8 Compensation. The Board of Directors, irrespective of any personal interest of any of its members, may establish reasonable compensation of all directors for services to the Corporation as directors, officers, or otherwise, or may delegate such authority to an appropriate committee. The Board of Directors also shall have authority to provide for or delegate authority to an appropriate committee to provide for reasonable pensions, disability or death benefits, and other benefits or payments, to directors, officers, and employees and to their families, dependents, estates, or beneficiaries on account of prior services rendered to the Corporation by such directors, officers, and employees.

Section 4.9 Regular Meetings. A regular meeting of the Board of Directors shall be held without other notice than this bylaw immediately after the annual meeting of shareholders and each adjourned session thereof. The place of such regular meeting shall be the same as the place of the meeting of shareholders which precedes it, or such other suitable place as may be announced at such meeting of shareholders. The Board of Directors may provide, by resolution, the date, time, and place, either within or without the State of Florida, for the holding of additional regular meetings of the Board of Directors without notice other than such resolution.

Section 4.10 Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board (if any), the President or not less than one-third (1/3) of the members of the Board of Directors. The person or persons calling the meeting may fix any

place, either within or without the State of Florida, as the place for holding any special meeting of the Board of Directors, and if no other place is fixed, the place of the meeting shall be the principal office of the Corporation in the State of Florida.

Section 4.11 Notice. Special meetings of the Board of Directors must be preceded by at least two days' notice of the date, time, and place of the meeting. The notice need not describe the purpose of the special meeting.

Section 4.12 Waiver of Notice. Notice of a meeting of the Board of Directors need not be given to any director who signs a waiver of notice either before or after the meeting. Attendance of a director at a meeting shall constitute a waiver of notice of such meeting and waiver of any and all objections to the place of the meeting, the time of the meeting, or the manner in which it has been called or convened, except when a director states, at the beginning of the meeting or promptly upon arrival at the meeting, any objection to the transaction of business because the meeting is not lawfully called or convened.

Section 4.13 Quorum and Voting. A quorum of the Board of Directors consists of a majority of the number of directors prescribed by these bylaws (or if no number is prescribed, the number of directors in office immediately before the meeting begins). If a quorum is present when a vote is taken, the affirmative vote of a majority of directors present is the act of the Board of Directors. A director who is present at a meeting of the Board of Directors or a committee of the Board of Directors when corporate action is taken is deemed to have assented to the action taken unless: (a) he or she objects at the beginning of the meeting (or promptly upon his or her arrival) to holding it or transacting specified business at the meeting; or (b) he or she votes against or abstains from the action taken.

Section 4.14 Conduct of Meetings.

(a) Presiding Officer. The Board of Directors may elect from among its members a Chairman of the Board of Directors, who shall preside at meetings of the Board of Directors. The Chairman, and if there be none, or in his or her absence, the President, and in his or her absence, a Vice President in the order provided under the Section of these bylaws titled "Vice Presidents," and in his or her absence, any director chosen by the directors present, shall call meetings of the Board of Directors to order and shall act as presiding officer of the meeting.

(b) Minutes. The Secretary of the Corporation shall act as secretary of all meetings of the Board of Directors but in the absence of the Secretary, the presiding officer may appoint any other person present to act as secretary of the meeting. Minutes of any regular or special meeting of the Board of Directors shall be prepared and distributed to each director.

(c) Adjournments. A majority of the directors present, whether or not a quorum exists, may adjourn any meeting of the Board of Directors to another time and place. Notice of any such adjourned meeting shall be given to the directors who are not present at the time of the adjournment and, unless the time and place of the adjourned meeting are announced at the time of the adjournment, to the other directors.

(d) Participation by Conference Call or Similar Means. The Board of Directors may permit any or all directors to participate in a regular or a special meeting by, or conduct the meeting through the use of, any means of communication by which all directors participating may simultaneously hear each other during the meeting. A director participating in a meeting by this means is deemed to be present in person at the meeting.

Section 4.15 Committees. The Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from among its members an Executive Committee and one or more other committees, which may include, by way of example and not as a limitation, a Compensation Committee (for the purpose of establishing and implementing an executive compensation policy) and an Audit Committee (for the purpose of examining and considering matters relating to the financial affairs of the Corporation). Each committee shall have two or more members, who serve at the pleasure of the Board of Directors, provided that the Compensation Committee and the Audit Committee shall consist of at least two Independent Directors. For purposes of this section, "Independent Director" shall mean a person other than an officer or employee of the Corporation or any subsidiary of the Corporation or any other individual having a relationship which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. To the extent provided in the resolution of the Board of Directors establishing and constituting such committees, such committees shall have and may exercise all the authority of the Board of Directors, except that no such committee shall have the authority to:

(a) approve or recommend to shareholders actions or proposals required by the Act to be approved by shareholders;

(b) fill vacancies on the Board of Directors or any committee thereof;

(c) adopt, amend, or repeal these bylaws;

(d) authorize or approve the reacquisition of shares unless pursuant to a general formula or method specified by the Board of Directors; or

(e) authorize or approve the issuance or sale or contract for the sale of shares, or determine the designation and relative rights, preferences, and limitations of a voting group except that the Board of Directors may authorize a committee (or a senior executive officer of the Corporation) to do so within limits specifically prescribed by the Board of Directors.

The Board of Directors, by resolution adopted in accordance with this Section, may designate one or more directors as alternate members of any such committee, who may act in the place and stead of any absent member or members at any meeting of such committee. The provisions of these bylaws which govern meetings, notice and waiver of notice, and quorum and voting requirements of the Board of Directors apply to committees and their members as well.

Section 4.16 Action Without Meeting. Any action required or permitted by the Act to be taken at a meeting of the Board of Directors or a committee thereof may be taken without a meeting if the action is taken by all members of the Board or of the committee. The action shall be evidenced by one or more written consents describing the action taken, signed by each director or committee member and retained by the Corporation. Such action shall be effective when the last director or committee member signs the consent, unless the consent specifies a different effective date. A consent signed under this Section has the effect of a vote at a meeting and may be described as such in any document.

ARTICLE 5
OFFICERS

Section 5.1 Number. The principal officers of the Corporation shall be a Chairman, a President, the number of Vice Presidents, if any, as authorized from time to time by the Board of Directors, a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the Board of Directors. The Board of Directors may also authorize any duly appointed officer to appoint one or more officers or assistant officers. The same individual may simultaneously hold more than one office.

Section 5.2 Election and Term of Office. The officers of the Corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as is practicable. Each officer shall hold office until his or her successor shall have been duly elected or until his or her prior death, resignation, or removal.

Section 5.3 Removal. The Board of Directors may remove any officer and, unless restricted by the Board of Directors, an officer may remove andy officer or assistant officer appointed by that officer, at any time, with or without cause and notwithstanding the contract rights, if any, of the officer removed. The appointment of an officer does not of itself create contract rights.

Section 5.4 Resignation. An officer may resign at any time by delivering notice to the Corporation. The resignation shall be effective when the notice is delivered, unless the notice specifies a later effective date and the Corporation accepts the later effective date. If a resignation is made effective at a later date and the Corporation accepts the future effective date, the pending vacancy may be filled before the effective date but the successor may not take office until the effective date.

Section 5.5 Vacancies. A vacancy in any principal office because of death, resignation, removal, disqualification, or otherwise, shall be filled as soon thereafter as practicable by the Board of Directors for the unexpired portion of the term.

Section 5.6 Chairman of the Board. The Chairman of the Board (the "Chairman") shall be a member of the Board of Directors of the Corporation and shall preside over all meetings of the Board of Directors and shareholders of the Corporation. The Chairman shall have

authority, subject to such rules as may be prescribed by the Board of Directors, to appoint such agents and employees of the Corporation as he or she shall deem necessary, to prescribe their powers, duties and compensation, and to delegate authority to them. Such agents and employees shall hold office at the direction of the Chairman. The Chairman shall have authority to sign certificates for shares of the Corporation the issuance of which shall have been authorized by resolution of the Board of Directors, and to execute and acknowledge, on behalf of the Corporation, all deeds, mortgages, bonds, contracts, leases, reports, and all other documents or instruments necessary or proper to be executed in the course of the Corporation's regular business, or which shall be authorized by resolution of the Board of Directors; and, except as otherwise provided by law or the Board of Directors, the Chairman may authorize the President or any Vice President or other officer or agent of the Corporation to execute and acknowledge such documents or instruments in his or her place and stead. In general, he or she shall perform all duties as may be prescribed by the Board of Directors from time to time.

Section 5.7 President. The President shall be the chief executive officer of the Corporation and, subject to the direction of the Board of Directors, shall in general supervise and control all of the business and affairs of the Corporation. If the Chairman of the Board is not present, the President shall preside at all meetings of the Board of Directors and shareholders. The President shall have authority, subject to such rules as may be prescribed by the Board of Directors, to appoint such agents and employees of the Corporation as he or she shall deem necessary, to prescribe their powers, duties and compensation, and to delegate authority to them. Such agents and employees shall hold office at the discretion of the President. The President shall have authority to sign certificates for shares of the Corporation the issuance of which shall have been authorized by resolution of the Board of Directors, and to execute and acknowledge, on behalf of the Corporation, all deeds, mortgages, bonds, contracts, leases, reports, and all other documents or instruments necessary or proper to be executed in the course of the Corporation's regular business, or which shall be authorized by resolution of the Board of Directors; and, except as otherwise provided by law or the Board of Directors, the President may authorize any Vice President or other officer or agent of the Corporation to execute and acknowledge such documents or instruments in his or her place and stead. In general he or she shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

Section 5.8 Vice Presidents. In the absence of the President or in the event of the President's death, inability or refusal to act, or in the event for any reason it shall be impracticable for the President to act personally, the Vice President, if any (or in the event there be more than one Vice President, the Vice Presidents in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their election), shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Any Vice President may sign certificates for shares of the Corporation the issuance of which shall have been authorized by resolution of the Board of Directors; and shall perform such other duties and have such authority as from time to time may be delegated or assigned to him or her by the President or by the Board of Directors. The execution of any instrument of the Corporation by any Vice President shall be conclusive evidence, as to third parties, of his or her authority to act in the stead of the

President. The Corporation may have one or more Executive Vice Presidents and one or more Senior Vice Presidents, who shall be Vice Presidents for purposes hereof.

Section 5.9 Secretary. The Secretary shall: (a) keep, or cause to be kept, minutes of the meetings of the shareholders and of the Board of Directors (and of committees thereof) in one or more books provided for that purpose (including records of actions taken by the shareholders or the Board of Directors (or committees thereof) without a meeting); (b) be custodian of the corporate records and of the seal of the Corporation, if any, and if the Corporation has a seal, see that it is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized; (c) authenticate the records of the Corporation; (d) maintain a record of the shareholders of the Corporation, in a form that permits preparation of a list of the names and addresses of all shareholders, by class or series of shares and showing the number and class or series of shares held by each shareholder; (e) have general charge of the stock transfer books of the Corporation; and (f) in general perform all duties incident to the office of Secretary and have such other duties and exercise such authority as from time to time may be delegated or assigned by the President or by the Board of Directors.

Section 5.10 Treasurer. The Treasurer shall: (a) have charge and custody of and be responsible for all funds and securities of the Corporation; (b) maintain appropriate accounting records; (c) receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies, or other depositaries as shall be selected in accordance with the provisions of these bylaws; and (d) in general perform all of the duties incident to the office of Treasurer and have such other duties and exercise such other authority as from time to time may be delegated or assigned by the President or by the Board of Directors. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his or her duties in such sum and with such surety or sureties as the Board of Directors shall determine.

Section 5.11 Assistant Secretaries and Assistant Treasurers. There shall be such number of Assistant Secretaries and Assistant Treasurers as the Board of Directors may from time to time authorize. The Assistant Treasurers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties and have such authority as shall from time to time be delegated or assigned to them by the Secretary or the Treasurer, respectively, or by the President or the Board of Directors.

Section 5.12 Other Assistants and Acting Officers. The Board of Directors shall have the power to appoint, or to authorize any duly appointed officer of the Corporation to appoint, any person to act as assistant to any officer, or as agent for the Corporation in his or her stead, or to perform the duties of such officer whenever for any reason it is impracticable for such officer to act personally, and such assistant or acting officer or other agent so appointed by the Board of Directors or an authorized officer shall have the power to perform all the duties of the office to which he or she is so appointed to be an assistant, or as to which he or she is so appointed to act, except as such power may be otherwise defined or restricted by the Board of Directors or the appointing officer.

Section 5.13 Salaries. The salaries of the principal officers shall be fixed from time to time by the Board of Directors or by a duly authorized committee thereof, and no officer shall be prevented from receiving such salary by reason of the fact that he or she is also a director of the Corporation.

ARTICLE 6
CONTRACTS, CHECKS AND DEPOSITS; SPECIAL CORPORATE ACTS

Section 6.1 Contracts. The Board of Directors may authorize any officer or officers, or any agent or agents to enter into any contract or execute or deliver any instrument in the name of and on behalf of the Corporation, and such authorization may be general or confined to specific instances. In the absence of other designation, all deeds, mortgages, and instruments of assignment or pledge made by the Corporation shall be executed in the name of the Corporation by the President or one of the Vice Presidents; the Secretary or an Assistant Secretary, when necessary or required, shall attest and affix the corporate seal, if any, thereto; and when so executed no other party to such instrument or any third party shall be required to make any inquiry into the authority of the signing officer or officers.

Section 6.2 Checks, Drafts, etc. All checks, drafts or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by or under the authority of a resolution of the Board of Directors.

Section 6.3 Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositaries as may be selected by or under the authority of a resolution of the Board of Directors.

Section 6.4 Voting of Securities Owned by Corporation. Subject always to the specific directions of the Board of Directors, (a) any shares or other securities issued by any other corporation and owned or controlled by the Corporation may be voted at any meeting of security holders of such other corporation by the President of the Corporation if he or she be present, or in his or her absence by any Vice President of the Corporation who may be present, and (b) whenever, in the judgment of the President, or in his or her absence, of any Vice President, it is desirable for the Corporation to execute a proxy or written consent in respect of any such shares or other securities, such proxy or consent shall be executed in the name of the Corporation by the President or one of the Vice Presidents of the Corporation, without necessity of any authorization by the Board of Directors, affixation of corporate seal, if any, or countersignature or attestation by another officer. Any person or persons designated in the manner above stated as the proxy or proxies of the Corporation shall have full right, power, and authority to vote the shares or other securities issued by such other corporation and owned or controlled by the Corporation the same as such shares or other securities might be voted by the Corporation.

ARTICLE 7
CERTIFICATES FOR SHARES; TRANSFER OF SHARES

Section 7.1 Consideration for Shares. The Board of Directors may authorize shares to be issued for consideration consisting of any tangible or intangible property or benefit to the Corporation, including cash, promissory notes, services performed, promises to perform services evidenced by a written contract, or other securities of the Corporation. Before the Corporation issues shares, the Board of Directors shall determine that the consideration received or to be received for the shares to be issued is adequate. The determination of the Board of Directors is conclusive insofar as the adequacy of consideration for the issuance of shares relates to whether the shares are validly issued, fully paid, and nonassessable. The Corporation may place in escrow shares issued for future services or benefits or a promissory note, or make other arrangements to restrict the transfer of the shares, and may credit distributions in respect of the shares against their purchase price, until the services are performed, the note is paid, or the benefits are received. If the services are not performed, the note is not paid, or the benefits are not received, the Corporation may cancel, in whole or in part, the shares escrowed or restricted and the distributions credited.

Section 7.2 Certificates for Shares. Every holder of shares in the Corporation shall be entitled to have a certificate representing all shares to which he or she is entitled unless the Board of Directors authorizes the issuance of some or all shares without certificates. Any such authorization shall not affect shares already represented by certificates until the certificates are surrendered to the Corporation. If the Board of Directors authorizes the issuance of any shares without certificates, within a reasonable time after the issue or transfer of any such shares, the Corporation shall send the shareholder a written statement of the information required by the Act or the Articles of Incorporation to be set forth on certificates, including any restrictions on transfer. Certificates representing shares of the Corporation shall be in such form, consistent with the Act, as shall be determined by the Board of Directors. Such certificates shall be signed (either manually or in facsimile) by the President or any Vice President or any other persons designated by the Board of Directors and may be sealed with the seal of the Corporation or a facsimile thereof. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. Unless the Board of Directors authorizes shares without certificates, all certificates surrendered to the Corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except as provided in these bylaws with respect to lost, destroyed, or stolen certificates. The validity of a share certificate is not affected if a person who signed the certificate (either manually or in facsimile) no longer holds office when the certificate is issued.

Section 7.3 Transfer of Shares. Prior to due presentment of a certificate for shares for registration of transfer, the Corporation may treat the registered owner of such shares as the person exclusively entitled to vote, to receive notifications, and otherwise to have and exercise all the rights and power of an owner. Where a certificate for shares is presented to the Corporation with a request to register a transfer, the Corporation shall not be liable to the owner or any other person suffering loss as a result of such registration of transfer if (a) there

were on or with the certificate the necessary endorsements, and (b) the Corporation had no duty to inquire into adverse claims or has discharged any such duty. The Corporation may require reasonable assurance that such endorsements are genuine and effective and compliance with such other regulations as may be prescribed by or under the authority of the Board of Directors.

Section 7.4 Restrictions on Transfer. The face or reverse side of each certificate representing shares shall bear a conspicuous notation as required by the Act or the Articles of Incorporation of the restrictions imposed by the Corporation upon the transfer of such shares.

Section 7.5 Lost, Destroyed, or Stolen Certificates. Unless the Board of Directors authorizes shares without certificates, where the owner claims that certificates for shares have been lost, destroyed, or wrongfully taken, a new certificate shall be issued in place thereof if the owner (a) so requests before the Corporation has notice that such shares have been acquired by a bona fide purchaser, (b) files with the Corporation a sufficient indemnity bond if required by the Board of Directors or any principal officer, and (c) satisfies such other reasonable requirements as may be prescribed by or under the authority of the Board of Directors.

Section 7.6 Stock Regulations. The Board of Directors shall have the power and authority to make all such further rules and regulations not inconsistent with law as they may deem expedient concerning the issue, transfer, and registration of shares of the Corporation.

ARTICLE 8
SEAL

Section 8.1 Seal. The Board of Directors may provide for a corporate seal for the Corporation.

ARTICLE 9
BOOKS AND RECORDS

Section 9.1 Books and Records.

(a) The Corporation shall keep as permanent records minutes of all meetings of the shareholders and Board of Directors, a record of all actions taken by the shareholders or Board of Directors without a meeting, and a record of all actions taken by a committee of the Board of Directors in place of the Board of Directors on behalf of the Corporation.

(b) The Corporation shall maintain accurate accounting records.

(c) The Corporation or its agent shall maintain a record of the shareholders in a form that permits preparation of a list of the names and addresses of all shareholders in alphabetical order by class of shares showing the number and series of shares held by each.

(d) The Corporation shall keep a copy of all written communications within the preceding three years to all shareholders generally or to all shareholders of a class or series, including the financial statements required to be furnished by the Act, and a copy of its most recent annual report delivered to the Department of State.

Section 9.2 Shareholders' Inspection Rights. Shareholders are entitled to inspect and copy records of the Corporation as permitted by the Act.

Section 9.3 Distribution of Financial Information. The Corporation shall prepare and disseminate financial statements to shareholders as required by the Act.

Section 9.4 Other Reports. The Corporation shall disseminate such other reports to shareholders as are required by the Act, including reports regarding indemnification in certain circumstances and reports regarding the issuance or authorization for issuance of shares in exchange for promises to render services in the future.

ARTICLE 10
INDEMNIFICATION

Section 10.1 Provision of Indemnification. The Corporation shall, to the fullest extent permitted or required by the Act, including any amendments thereto (but in the case of any such amendment, only to the extent such amendment permits or requires the Corporation to provide broader indemnification rights than prior to such amendment), indemnify its Directors and Executive Officers against any and all Liabilities, and advance any and all reasonable Expenses, incurred thereby in any Proceeding to which any such Director or Executive Officer is a Party or in which such Director or Executive Officer is deposed or called to testify as a witness because he or she is or was a Director or Executive Officer of the Corporation. The rights to indemnification granted hereunder shall not be deemed exclusive of any other rights to indemnification against Liabilities or the advancement of Expenses which a Director or Executive Officer may be entitled under any written agreement, Board of Directors' resolution, vote of shareholders, the Act, or otherwise. The Corporation may, but shall not be required to, supplement the foregoing rights to indemnification against Liabilities and advancement of Expenses by the purchase of insurance on behalf of any one or more of its Directors or Executive Officers whether or not the Corporation would be obligated to indemnify or advance Expenses to such Director or Executive Officer under this Article. For purposes of this Article, the term "Directors" includes former directors of the Corporation and any director who is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, including, without limitation, any employee benefit plan (other than in the capacity as an agent separately retained and compensated for the provision of goods or services to the enterprise, including, without limitation, attorneys-at-law, accountants, and financial consultants). The term "Executive Officers" includes those individuals who are or were at any time "executive officers" of the Corporation as defined in Securities and Exchange Commission Rule 3b-7 promulgated under the Securities Exchange Act of 1934, as amended. All other capitalized terms used in this Article and not otherwise defined herein have the meaning set forth in Section 607.0850, Florida Statutes (1995). The provisions of this Article are intended solely for the benefit of the indemnified parties described herein, their heirs and personal

representatives and shall not create any rights in favor of third parties. No amendment to or repeal of this Article shall diminish the rights of indemnification provided for herein prior to such amendment or repeal.

ARTICLE 11
AMENDMENTS

Section 11.1 Power to Amend. These bylaws may be amended or repealed by either the Board of Directors or the shareholders, unless the Act reserves the power to amend these bylaws generally or any particular bylaw provision, as the case may be, exclusively to the shareholders or unless the shareholders, in amending or repealing these bylaws generally or any particular bylaw provision, provide expressly that the Board of Directors may not amend or repeal these bylaws or such bylaw provision, as the case may be. The affirmative vote of sixty-six and two-thirds percent (66 2/3%) of the total number of votes of the then outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend these bylaws. The shareholders of the Corporation may adopt or amend a bylaw provision which fixes a greater quorum or voting requirement for shareholders (or voting groups of shareholders) than is required by the Act. The adoption or amendment of a bylaw provision that adds, changes or deletes a greater quorum or voting requirement for shareholders must meet the same quorum or voting requirement and be adopted by the same vote and voting groups required to take action under the quorum or voting requirement then in effect or proposed to be adopted, whichever is greater.

Exhibit 10.1

FARO TECHNOLOGIES, INC.

1993 STOCK OPTION PLAN

ARTICLE I

General

1.1 Purpose. This incentive stock option and nonqualified stock option plan (the "Plan") is established to promote the interests of FARO TECHNOLOGIES, INC. (the "Corporation") and its stockholders by enabling the Corporation, through the granting of stock options, to attract and retain personnel for the Corporation and its subsidiaries, and to provide additional incentive to such personnel to increase their stock ownership in the Corporation. It is intended that those options issued pursuant to the provisions of the Plan relating to incentive stock options shall constitute incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, or any statute or regulation of similar import.

1.2 Administration.

(a) The incentive stock option and nonqualified stock option provisions of the Plan shall be administered by the Board of Directors of the Corporation, and the Board of Directors may delegate such administration to a committee appointed by the Board of Directors of the Corporation (the "Committee"). The Committee shall consist of not less than two (2) nor more than five (5) persons, each of whom shall be a member of the Corporation's Board of Directors not eligible to receive any stock option under the Plan. The Board of Directors may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, howsoever caused, shall be filled by the Board of Directors. In the event that the Board of Directors elects not to delegate such administration to the Committee, all references herein to the Committee shall be deemed to refer to the Board of Directors.

(b) The Committee shall select one of its members as chairman, and shall hold meetings at such time and places as it may determine. The acts of a majority of the Committee at which a quorum is present, or acts reduced to or approved in writing by a majority of the members of the Committee, shall be valid acts of the Committee.

(c) Subject to the provisions of the Plan, the Committee shall have full authority, in its discretion: (1) to determine the employees of the Corporation and its subsidiaries to whom stock options shall be granted; (2) to determine the time or times at which stock options shall be granted; (3) to determine whether an eligible employee shall be granted an incentive stock option, a nonqualified stock option or any combination thereof; (4) to determine the option price of the shares subject to each stock option; (5) to determine the time or times when each stock option becomes exercisable and the duration of any stock option period; and (6) to interpret the Plan and the stock options granted hereunder, and to prescribe, amend and

rescind rules and regulations with respect thereto. The interpretation and construction by the Committee of any provision of the Plan over which it has discretionary authority or of any option granted hereunder shall be final and conclusive.

(d) No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any stock option granted hereunder.

1.3 Eligible Employees. A stock option may be granted to any employee of the Corporation or of a subsidiary (who may or may not be an officer or member of the Board of Directors), with the exceptions only of (a) with respect to the incentive stock options granted under the Plan, employees who cannot qualify for the benefits of incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, and (b) with respect to all provisions of the Plan, members of the Committee and and other members of the Board of Directors who are not otherwise employees of the Corporation.

1.4 Stock Subject to the Plan.

(a) The stock subject to the stock options under the Plan shall be shares of common stock of the Corporation, par value $0.001 per share, which shares may be, in whole or in part, either authorized but unissued shares or issued shares held in the treasury. The aggregate number of shares that may be issued upon the exercise of stock options granted under the Plan shall not exceed 500,000 shares of common stock, which limitation shall be subject to adjustment as provided in Article IV of the Plan.

(b) If a stock option is surrendered or for any other reason ceases to be exercisable in whole or in part, the shares of common stock that are subject to such option, but as to which the option has not been exercised, shall again become available for offering under the Plan.

ARTICLE II

Terms and Conditions of Incentive Stock Options

Any incentive stock option ("ISO") granted pursuant to the Plan shall be authorized by the Committee and shall be evidenced by certificates or agreements in such form as the Committee from time to time shall approve, which certificates or agreements shall comply with and be subject to the terms and conditions hereinafter specified.

2.1 Number of Shares. Each ISO shall state the number of shares to which it pertains.

2.2 Option Price. Each ISO shall state the option price, which price shall be determined by the Committee in its discretion. In no event, however, shall such price be less than 100% of the fair market value of the shares of common stock of the Corporation (determined under Article IV of the Plan) on the date of the granting of the ISO; or, in the case of an individual who owns (at the time the option is granted) more than 10% of the total combined voting power of all classes of stock of the Corporation or of a parent or subsidiary corporation (a "10% stockholder"), shall such price be less than 110% of such fair market value.

2.3 Method of Payment. Each ISO shall state the method of payment of the ISO price upon the exercise of the ISO. The method of payment stated in the ISO shall include payment (a) in United States dollars in cash or by check, bank draft or money order payable to the order of the Corporation, or (b) in the discretion OF and in the manner determined by the Committee, by the delivery of shares of common stock of the Corporation already owned by the optionee, or (c) by any other legally permissible means acceptable to the Committee at the time of grant of the ISO, or (d) in the discretion of the Committee, through a combination of (a), (b) and (c) of this paragraph 2.3. If the option price is paid in whole or in part through the delivery of shares of common stock, the decision of the Committee with respect to the fair market value of such shares shall be final and conclusive.

2.4 Term and Exercise of Options. No ISO shall be exercisable either in whole or in part prior to twelve (12) months from the date it is granted. No ISO shall be exercisable after the expiration of ten (10) years from the date it is granted; or, in the case of a 10% stockholder, no ISO shall be exercisable after the expiration of five (5) years from the date it is granted. Not less than one hundred (100) shares may be exercised at any one time unless the number exercised is the total number at the time exercisable under the ISO.

Within the limits described above, the Committee may impose additional requirements on the exercise of ISOs, including, but without limitation, the number of shares covered by the ISO that become eligible to be exercised in any year and the expiration date of the option. Subject to the provisions of the Plan and any other terms and conditions the Committee deems appropriate, the Committee in its discretion also may accelerate the time at which an ISO may be exercised if, under previously established exercise terms, such ISO was not immediately exercisable in full.

2.5 Additional Limitations on Exercise of Options. An optionee may hold and exercise more than one ISO, but only on the terms and subject to the restrictions hereafter set forth. The aggregate fair market value (determined as of the time an ISO is granted) of the common stock of the Corporation with respect to which ISOs are exercisable for the first time by any employee in any calendar year under the Plan and under all other incentive stock option plans of the Corporation and any parent and subsidiary corporations of the Corporation (as those terms are defined in Section 425 of the Internal Revenue Code of 1986, as amended) shall not exceed $100,000.

2.6 Notice of Grant of Option. Upon the granting of any ISO to an employee, the Committee shall promptly cause such employee to be notified of the fact that such ISO has been granted. The date on which the Committee approves the grant of an ISO shall be considered to be the date on which such ISO is granted.

2.7 Death or Other Termination of Employment.

(a) In the event that an optionee (i) shall cease to be employed by the Corporation or a subsidiary because of his discharge for dishonesty, or because he violated any material provision of any employment or other agreement between him and the Corporation or a subsidiary, or (ii) shall voluntarily resign or terminate his employment with the Corporation or a subsidiary under or followed by such circumstances as would constitute a breach of any material provision of any employment or other agreement between him and the Corporation or a subsidiary, or (iii) shall have committed an act of dishonesty not discovered by the Corporation or a subsidiary prior to the cessation, of his employment but that would have resulted in his discharge if discovered prior to such date, or (iv) shall, either before or after cessation of his employment with the Corporation or a subsidiary, without the written consent of his employer or former employer, use (except for the benefit of his employer or former employer) or disclose to any other person any confidential information relating to the continuation or proposed continuation of his employer's or former employer's business or any trade secrets of the Corporation or a subsidiary obtained as a result of or in connection with such employment, or (v) shall, either before or after the cessation of his employment with the Corporation or a subsidiary, without the written consent of his employer or former employer, directly or indirectly, give advice to, or serve as an employee, director, officer, partner or trustee of, or in any similar capacity with, or otherwise directly or indirectly participate in the management, operation, or control of, or have any direct or indirect financial interest in, any corporation, partnership, or other organization that directly or indirectly competes in any respect with the Corporation or its subsidiaries, then forthwith from the happening of any such event, any ISO then held by him shall terminate and become void to the extent that it then remains unexercised. In the event that an optionee shall cease to be employed by the Corporation or a subsidiary for any reason other than his death or one or more of the reasons set forth in the immediately preceding sentence, subject to the conditions that no option shall be exercisable after the expiration of ten (10) years from the date it is granted, or, in the case of a 10% stockholder, five (5) years from the date it is granted, such optionee shall have the right to exercise the ISO at any time within three (3) months after such termination of employment to the extent his right to exercise such ISO had accrued pursuant to this Article II at the date of such termination and had not previously been exercised; such three-month limit shall be increased to one (1) year for any optionee who ceases to be employed by the Corporation or a subsidiary because he is disabled (within the meaning of Section 22 (e) (3) of the Internal Revenue Code of 1986, as amended) or who dies during the three month period, and the ISO may be exercised within such extended time limit by the optionee or, in the case of death, the personal representative of the optionee or by any person or persons who shall have acquired the ISO directly from the optionee by bequest or inheritance. Whether an authorized leave of absence or absence for military or

governmental service shall constitute termination of employment for purposes of the Plan shall be determined by the Committee, whose determination shall be final and conclusive.

(b) In the event that an optionee shall die while in the employ of the Corporation or a parent or subsidiary corporation and shall not have fully exercised any ISO, the ISO may be exercised, subject to the conditions that no ISO shall be exercisable after the expiration of ten (10) years from the date it is granted, or, in the case of a 10% stockholder, five (5) years from the date it is granted, to the extent that the optionee's right to exercise such ISO had accrued pursuant to this Article II at the time of his death and had not previously been exercised, at any time within one (1) year after the optionee's death, by the personal representative of the optionee or by any person or persons who shall have acquired the ISO directly from the optionee by bequest or inheritance, in the case of death.

(c) No ISO shall be transferable by the optionee otherwise than by will or the laws of descent and distribution.

(d) During the lifetime of the optionee, the ISO shall be exercisable only by him and shall not be assignable or transferable and no other person shall acquire any rights therein.

2.8 Rights as a Stockholder. An optionee shall have no rights as a stockholder with respect to any shares covered by his ISO until the date of the issuance of a stock certificate to him for such shares after exercise of the ISO. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such stock certificate is issued, except as provided in Article IV.

2.9 Modification, Extension and Renewal of Options. Subject to the terms and conditions and within the limitations of the Plan, the Committee may modify, extend or renew outstanding ISOs granted under the Plan, or accept the surrender of outstanding ISOs (to the extent not theretofore exercised) and authorize the granting of new options in substitution therefor (to the extent not theretofore exercised. The Committee shall not, however, modify any outstanding ISOs so as to specify a lower option price or accept the surrender of outstanding ISOs and authorize the granting of new options in substitution therefor specifying a lower option price. Notwithstanding the foregoing, however, no modification of an ISO shall, without the consent of the optionee, alter or impair any of the rights or obligations under any ISO theretofore granted under the Plan.

2.10 Listing and Registration of Shares. Each ISO shall be subject to the requirement that if at any time the Committee shall determine, in its discretion, that the listing, registration or Qualification of the shares covered thereby upon any securities exchange or under any state or federal laws, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such ISO or the issuance or purchase of shares thereunder, such ISO may not be exercised unless and until such listing,

registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. Notwithstanding anything in the Plan to the contrary, if the provisions of this paragraph 2.10 become operative, and if, as a result thereof, the exercise of an ISO is delayed, then and in that event, the term of the ISO shall not be affected.

2.11 Other Provisions. The ISO certificates or agreements authorized under the Plan shall contain such other provisions, including, without limitation, restrictions upon the exercise of the ISO, as the Committee shall deem advisable. Any such certificate or agreement shall contain such limitations and restrictions upon the exercise of the ISO as shall be necessary in order that such ISO will be an incentive stock option as defined in Section 422 of the Internal Revenue Code of 1986, as amended, or to conform to any change in the law.

ARTICLE III

Terms and Conditions of Nonqualified Stock Options

Any nonqualified stock option ("NSO") granted pursuant to the Plan shall be authorized by the committee and shall be evidenced by certificates or agreements in such form as the Committee from time to time shall approve, which certificates or agreements shall comply with and be subject to the terms and conditions hereinafter specified.

3.1 Number of Shares. Each NSO shall state the number of shares to which it pertains.

3.2 Option Price. Each NSO shall state the option price, which price shall be determined by the Committee in its discretion.

3.3 Method of Payment. Each NSO shall state the method of payment of the NSO price upon the exercise of the NSO.

3.4 Term, Exercise and Transfer of Options.

(a) No NSO shall be exercisable after the expiration of ten (10) years from the date it is granted. Not less than one hundred (100) shares may be exercised at any one time unless the number exercised is the total number at the time exercisable under the NSO. Within the limits described above, the Committee may impose additional requirements on the exercise of NSOs.

(b) No NSO shall be transferable by the optionee otherwise than by will or the laws of descent and distribution.

(c) During the lifetime of the optionee, the NSO shall be exercisable only by him and shall not be assignable or transferable and no other person shall acquire any rights therein.

3.5 Notice Grant of Option. Upon the granting of any NSO to an employee, the committee shall promptly cause such employee to be notified of the fact that such NSO has been granted. The date on which the Committee approves the grant of an NSO shall be considered to be the date on which such NSO is granted.

3.6 Rights as a Stockholder. An optionee shall have no rights as a stockholder with respect to any shares covered by his NSO until the date of the issuance of a stock certificate to him for such shares after exercise of the NSO. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such stock certificate is issued, except as provided in Article IV.

ARTICLE IV

Miscellaneous

4.1 Stock Adjustments.

(a) In the event of any increase or decrease in the number of issued shares of common stock of the Corporation resulting from a stock split or other division or consolidation of shares or the payment of a stock dividend (but only on the common stock) or any other increase or decrease in the number of such shares effected without any receipt of consideration by the Corporation, then, in any such event, the number of shares of common stock that remain available under the Plan, the number of shares of common stock covered by each outstanding option, and the purchase price per share of common stock covered by each outstanding option shall be proportionately and appropriately adjusted for any such increase or decrease.

(b) Subject to any required action by the stockholders, if any change occurs in the shares of common stock of the Corporation by reason of any recapitalization, reorganization, merger, consolidation, split-up, combination or exchange of shares, or of any similar change affecting the shares of common stock of the Corporation, then, in any such event, the number and type of shares covered by each. outstanding option, and the purchase price per share of common stock covered by each outstanding option, shall be proportionately and appropriately adjusted for any such change. A dissolution or liquidation of the Corporation shall cause each outstanding option to terminate.

(c) In the event of a change in the common stock of the Corporation as presently constituted that is limited to a change of all of its authorized shares with par value into

the same number of shares with a different par value or without par value, the shares resulting from any change shall be deemed to be shares of common stock within the meaning of the Plan.

(d) To the extent that the foregoing adjustments relate to stock or securities of the Corporation, such adjustments shall be made by, and in the discretion of, the Committee, whose determination in that respect shall be final, binding and conclusive; provided, however, that any ISO granted pursuant to this Plan shall not be adjusted in a manner that causes such ISO to fail to continue to qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

(e) Except as hereinabove expressly provided in this paragraph 4.1, an optionee shall have no rights by reason of any division or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in number of shares of stock of any class or by reason of any dissolution, liquidation, merger or consolidation, or spin-off of assets or stock of another corporation; and any issuance by the Corporation of shares of stock of any class, securities convertible into shares of stock of any class or warrants or options for shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of common stock subject to the option.

(f) The grant of any option pursuant to the Plan shall not affect in any way the right or power of the Corporation to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate, or to dissolve, to liquidate, to sell, or to transfer all or any part of its business or assets.

4.2 Fair Market Value of Stock. For purposes of this Plan, the "fair market value of the shares of the common stock of the Corporation" shall mean the closing price, on the date of grant of any ISO (or, if there is no closing price, then the closing bid price), of the Corporation's common stock as reported on the Composite Tape, or if not reported thereon, then such price as reported in the trading reports of the principal securities exchange in the United States on which such stock is listed, or if such stock is not listed on a securities exchange in the United States, the closing price on the over-the-counter market as reported by the National Association of Securities Dealers Automated Quotation System (NASDAQ), or NASDAQ's successor, or if not reported on NASDAQ, the fair market value of such stock as determined by the Committee in good faith and based on all relevant factors.

4.3 Term of the Plan. The ISOs and NSOs may be granted pursuant to the provisions of the Plan from time to time within a period of ten (10) years from the date the Plan is adopted by the Board of Directors of the Corporation, or the date the Plan is approved by the stockholders, whichever is earlier.

4.4 Amendment of the Plan. The Board of Directors of the Corporation may, insofar as permitted by law, from time to time, with respect to any shares at the time not subject to stock options, suspend, discontinue or terminate the Plan or revise or amend it in any respect

whatsoever. However, the Plan may not, without the approval of the stockholders, be amended in any manner that will cause incentive stock options issued under it to fail to meet the requirements of incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended.

4.5 Incentive Stock Option Plan. Except as provided in the Plan, the Plan shall not affect the terms and conditions of any incentive stock options heretofore or hereafter granted to any employee of the Corporation under any incentive stock Option plan of the Corporation or any parent or subsidiary corporation; nor shall the Plan affect any of the rights of any employee to whom such incentive stock option or options have been granted.

4.6 Application of Funds. The proceeds received by the Corporation from the sale of common stock pursuant to stock Options will be used for general corporate purposes.

4.7 No Obligation to Exercise. The granting of any stock option under the Plan shall impose no obligation upon any optionee to exercise such stock option.

4.8 No Implied Rights to Employees. The existence of the Plan, and the granting of options under the Plan, shall in no way give any employee the right to continued employment, give any employee the right to receive any options or any additional options under the Plan, or otherwise provide any employee any rights not specifically set forth in the Plan or in any options granted under the Plan.

4.9 Approval of Stockholders. The Plan shall not take effect until approved by the holders of a majority of the outstanding shares of common stock of the Corporation, which approval must occur within the period beginning twelve (12) months before and ending twelve (12) months after the date the Plan is adopted by the Board of Directors.

Date Plan Approved by Directors:	Date Plan Approved by Stockholders:
January 26, 1993	January 26, 1993

FIRST AMENDMENT TO FARO TECHNOLOGIES, INC. 1993 STOCK OPTION PLAN

Upon recommendation by the Board of Directors of FARO Technologies, Inc. (the "Corporation") and subject to the adoption by the stockholders of the Corporation, the following sets forth and constitutes an amendment to the FARO Technologies, Inc. 1993 Stock Option Plan (the "Plan").

1. Section 1.3 - Eligible Employees. Section 1.3 of the Plan is amended by deleting the current language of Section 1.3 in its entirety and substituting the following therefor, to wit:

> "1.3 Eligible Employees. A stock option may be granted to any employee of the Corporation or of a subsidiary (who may or may not be an officer or member of the Board of Directors), or to any member of the Board of Directors who is not an employee of the Corporation, with the exception only of, with respect to the incentive stock options granted under the Plan, employees or nonemployee directors who cannot qualify for the benefits of incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended."

2. Section 1.4 - Stock Subject to the Plan. The Plan is further amended by increasing the maximum aggregate number of shares that may be issued upon the exercise of stock options granted under the Plan by 500,000 shares, which has the effect of setting the aggregate amount of shares available for issuance pursuant to options granted under the Plan at 1,000,000 shares.

3. All Other Terms Unaffected. Except as otherwise set forth in this Amendment, the terms and provisions of the Plan shall remain in full force and effect and not otherwise affected hereby.

IN WITNESS WHEREOF, the undersigned officer of the Corporation certifies the recommendation by the Board of Directors and the approval by the requisite number of stockholders of the Corporation of this Amendment.

Date Plan Approved by Directors and Recommended to Shareholders

Date Plan Approved by Shareholders

- ---------- ----------

Certified by:

Title:

EXHIBIT 10.2

FARO TECHNOLOGIES, INC.

1997 EMPLOYEE STOCK OPTION PLAN

TABLE OF CONTENTS

FARO TECHNOLOGIES, INC.
1997 EMPLOYEE STOCK OPTION PLAN

1. PURPOSE OF PLAN

The purpose of this Plan is to enable FARO Technologies, Inc. (the "Company") and its Subsidiaries to compete successfully in attracting, motivating and retaining Employees with outstanding abilities by making it possible for them to purchase Shares on terms that will give them a direct and continuing interest in the future success of the businesses of the Company and its Subsidiaries and encourage them to remain in the employ of the Company or one or more of its Subsidiaries. Each Option is intended to be an Incentive Stock Option, except to the extent that (a) any such Option would exceed the limitations set forth in Section hereof and (b) for Options specifically designated at the time of grant as not being Incentive Stock Options.

2. DEFINITIONS

For purposes of the Plan, except where the context clearly indicates otherwise, the following terms shall have the meanings set forth below:

(a) "Board" means the Board of Directors of the Company.

(b) "Code" means the United States Internal Revenue Code of 1986, as amended.

(c) "Committee" means the Committee described in Section hereof.

(d) "Effective Date" means the effective date of any registration statement with respect to the Shares under the Securities Exchange Act of 1934, as amended.

(e) "Employee" means a person who is regularly employed on a salary basis by the Company or any Subsidiary, including an officer or director of the Company or any Subsidiary who is also an employee of the Company or a Subsidiary.

(f) "Fair Market Value" means, with respect to a Share, if the Shares are then listed and traded on a registered national or regional securities exchange, or quoted on The National Association of Securities Dealers' Automated Quotation System (including The Nasdaq Stock Market's National Market), the average closing price of a Share on such exchange or quotation system for the five trading days immediately preceding the date of grant of an Option, or, if Fair Market Value is used herein in connection with any event other than the grant of an Option, then such average closing price for the five trading days immediately preceding the date of such event. If the Shares are not traded on a registered securities exchange or quoted in such a quotation system, the Committee shall determine the Fair Market Value of a Share.

(g) "Incentive Stock Option" means an option granted under this Plan and which is an incentive stock option within the meaning of section 422 of the Code, or the corresponding provision of any subsequently enacted tax statute.

(h) "Option" means an option granted under this Plan, whether or not such option is an Incentive Stock Option.

(i) "Optionee" means any person who has been granted an Option which Option has not expired or been fully exercised or surrendered.

(j) "Plan" means the Company's 1997 Employee Stock Option Plan.

(k) "Rule 16b-3" means Rule 16b-3 promulgated pursuant to Section 16(b) of the Securities Exchange Act of 1934, as amended, or any successor rule.

(l) "Share" means one share of voting common stock, par value $.01 per share, of the Company, and such other stock or securities that may be substituted therefor pursuant to Section hereof.

(m) "Subsidiary" means any "subsidiary corporation" within the meaning of Section 424(f) of the Code.

3. LIMITS ON OPTIONS

(a) The total number of Shares with respect to which Options may be granted under the Plan shall not exceed in the aggregate 500,000 Shares, subject to adjustment as provided in Section hereof. If any Option expires, terminates or is terminated for any reason prior to its exercise in full, the Shares that were subject to the unexercised portion of such Option shall be available for future grants under the Plan.

(b) No Incentive Stock Option shall be granted to any Employee who at the time such option is granted, owns capital stock of the Company possessing more than 10% of the total combined voting power or value of all classes of capital stock of the Company or any Subsidiary, determined in accordance with the provisions of Section 422(b)(6) and 424(d) of the Code, unless the option price at the time such Incentive Stock Option is granted is at least 110 percent (110%) of the Fair Market Value of the Shares subject to the Incentive Stock Option and such Incentive Stock Option is not exercisable by its terms after the expiration of five (5) years from the date of grant.

(c) An Incentive Stock Option shall be granted hereunder only to the extent that the aggregate Fair Market Value (determined at the time the Incentive Stock Option is granted) of the Shares with respect to which such Incentive Stock Option and any other "incentive stock option" (within the meaning of Section 422 of the Code) are exercisable

for the first time by any Optionee during any calendar year (under the Plan and all other plans of the Optionee's employer corporation and its parent and subsidiary corporations within the meaning of Section 422(d) of the Code) does not exceed $100,000. This limitation shall be applied by taking Incentive Stock Options and any such other "incentive stock options" into account in the order in which such Incentive Stock Options and any such other "incentive stock options" were granted.

(d) No Optionee shall, in any calendar year, be granted Options to purchase more than 150,000 Shares. Options granted to the Optionee and cancelled during the same calendar year shall be counted against such maximum number of Shares. In the event that the number of Options which may be granted is adjusted as provided in the Plan, the above limit shall automatically be adjusted in the same ratio.

4. GRANTING OF OPTIONS

The Committee is authorized to grant Options to selected Employees pursuant to the Plan beginning on the Effective Date. Subject to the provisions of the Plan, the Committee shall have exclusive authority to select the Employees to whom Options will be awarded under the Plan, to determine the number of Shares to be included in such Options, and to determine such other terms and conditions of Options, including terms and conditions which may be necessary to qualify Incentive Stock Options as "incentive stock options" under Section 422 of the Code. The date on which the Committee approves the grant of an Option shall be considered the date on which such Option is granted, unless the Committee provides for a specific date of grant which is subsequent to the date of such approval.

5. TERMS OF STOCK OPTIONS

Subject to Section hereof, the terms of Options granted under this Plan shall be as follows:

(a) The exercise price of each Share subject to an Option shall be fixed by the Committee. Notwithstanding the prior sentence, the option exercise price of an Incentive Stock Option shall be fixed by the Committee but shall in no event be less than 100% of the Fair Market Value of the Shares subject to such Option.

(b) Options shall not be assignable or transferable by the Optionee other than by will or by the laws of descent and distribution except that the Optionee may, with the consent of the Committee, transfer without consideration Options that do not constitute Incentive Stock Options to the Optionee's spouse, children or grandchildren (or to one or more trusts for the benefit of any such family members or to one or more partnerships in which any such family members are the only partners).

(c) Each Option shall expire and all rights thereunder shall end at the expiration of such period (which shall not be more than ten (10) years) after the date on which it was granted as shall be fixed by the Committee, subject in all cases to earlier expiration as provided in subsections (d) and (e) of this Section .

(d) During the life of an Optionee, an Option shall be exercisable only by such Optionee (or Optionee's permitted assignee in the case of Options that do not constitute Incentive Stock Options) and only within one (1) month after the termination of the Optionee's employment with the Company or a Subsidiary, other than by reason of the Optionee's death, permanent disability or retirement with the consent of the Company or a Subsidiary as provided in subsection (e) of this Section , but only if and to the extent the Option was exercisable immediately prior to such termination, and subject to the provisions of subsection (c) of this Section . If the Optionee's employment is terminated for cause, or the Optionee terminates his employment with the Company, Options granted at any one time by the Company which have not become exercisable with respect to all such Options (even if a portion of such Options have become exercisable) shall terminate immediately on the date of termination of employment. Cause shall have the meaning set forth in any employment agreement then in effect between the Optionee and the Company or any of its Subsidiaries, or if the Optionee does not have any employment agreement, cause shall mean (i) if the Optionee engages in conduct which has caused, or is reasonably likely to cause, demonstrable and serious injury to the Company, or (ii) if the Optionee is convicted of a felony, as evidenced by a binding and final judgment, order or decree of a court of competent jurisdiction, which substantially impairs the Optionee's ability to perform his or her duties to the Company.

(e) If an Optionee: (i) dies while employed by the Company or a Subsidiary or within the period when an Option could have otherwise been exercised by the Optionee; (ii) terminates employment with the Company or a Subsidiary by reason of the "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code) of such Optionee; or (iii) terminates employment with the Company or a Subsidiary as a result of such Optionee's retirement, provided that the Company or such Subsidiary has consented in writing to such Optionee's retirement, then, in each such case, such Optionee, or the duly authorized representatives of such Optionee (or Optionee's permitted assignee in the case of Options that do not constitute Incentive Stock Options), shall have the right, at any time within three (3) months after the death, disability or retirement of the Optionee, as the case may be, and prior to the termination of the Option pursuant to subsection (c) of this Section , to exercise any Option to the extent such Option was exercisable by the Optionee immediately prior to such Optionee's death, disability or retirement. In the discretion of the Committee, the three-month period referenced in the immediately preceding sentence may be extended for a period of up to one year.

(f) Subject to the foregoing terms and to such additional terms regarding the exercise of an Option as the Committee may fix at the time of grant, an Option may be exercised in whole at one time or in part from time to time.

(g) Options granted pursuant to the Plan shall be evidenced by an agreement in writing setting forth the material terms and conditions of the grant, including, but not limited to, the number of Shares subject to options. Option agreements covering Options need not contain similar provisions; provided, however, that all such option agreements shall comply with the terms of the Plan.

(h) The Committee is authorized to modify, amend or waive any conditions or other restrictions with respect to Options, including conditions regarding the exercise of Options.

6. EFFECT OF CHANGES IN CAPITALIZATION

(a) If the number of outstanding Shares is increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any recapitalization, reclassification, stock split, combination of shares, exchange of shares, stock dividend or other distribution payable in capital stock, or other increase or decrease in such shares effected without receipt of consideration by the Company, a proportionate and appropriate adjustment shall be made by the Committee in (i) the aggregate number of Shares subject to the Plan, (ii) the maximum number of Shares for which Options may be granted to any Employee during any calendar year, and (iii) the number and kind of shares for which Options are outstanding, so that the proportionate interest of the Optionee immediately following such event shall, to the extent practicable, be the same as immediately prior to such event. Any such adjustment in outstanding Options shall not change the aggregate option price payable with respect to Shares subject to the unexercised portion of the Options outstanding but shall include a corresponding proportionate adjustment in the option price per Share.

(b) Subject to Section hereof, if the Company shall be the surviving corporation in any reorganization, merger, share exchange or consolidation of the Company with one or more other corporations or other entities, any Option theretofore granted shall pertain to and apply to the securities to which a holder of the number of Shares subject to such Option would have been entitled immediately following such reorganization, merger, share exchange or consolidation, with a corresponding proportionate adjustment of the option price per Share so that the aggregate option price thereafter shall be the same as the aggregate option price of the Shares remaining subject to the Option immediately prior to such reorganization, merger, share exchange or consolidation.

(c) In the event of: (i) the adoption of a plan of reorganization, merger, share exchange or consolidation of the Company with one or more other corporations or other entities as a result of which the holders of the Shares as a group would receive less than fifty percent (50%) of the voting power of the capital stock or other interests of the surviving or resulting corporation or entity; (ii) the adoption of a plan of liquidation or the approval of the dissolution of the Company; (iii) the approval by the Board of an agreement providing for the sale or transfer (other than as a security for obligations of the Company or any Subsidiary) of substantially all of the assets of the Company; or (iv) the acquisition of more than twenty percent (20%) of the outstanding Shares by any person within the meaning of Rule 13(d)(3) under the Securities Exchange Act of 1934, as amended, if such acquisition is not preceded by a prior expression of approval by the Board, then, in each such case, any Option granted hereunder shall become immediately exercisable in full, subject to any appropriate adjustments in the number of Shares subject to such Option and the option price, regardless of any provision contained in the Plan or any stock option agreement with respect thereto limiting the exercisability of the Option for any length of time. Notwithstanding the foregoing, if a successor corporation or other entity as contemplated in clause (i) or (iii) of the preceding sentence agrees to assume the outstanding Options or to substitute substantially equivalent options, then the outstanding Options issued hereunder shall not be immediately exercisable, but shall remain exercisable in accordance with the terms of the Plan and the applicable stock option agreements.

(d) Adjustments under this Section relating to Shares or securities of the Company shall be made by the Committee, whose determination in that respect shall be final and conclusive. Options subject to grant or previously granted under the Plan at the time of any event described in this Section shall be subject to only such adjustments as shall be necessary to maintain the proportionate interest of the options and preserve, without exceeding, the value of such options. No fractional Shares or units of other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding upward to the nearest whole Share or unit.

(e) The grant of an Option pursuant to the Plan shall not affect or limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate, dissolve or liquidate, or to sell or transfer all or any part of its business or assets.

7. DELIVERY AND PAYMENT FOR SHARES; REPLACEMENT OPTIONS

(a) No Shares shall be delivered upon the exercise of an Option until the option price for the Shares acquired has been paid in full. No Shares shall be issued or transferred under the Plan unless and until all legal requirements applicable to the issuance or transfer of such Shares have been complied with to the satisfaction of the Committee

and adequate provision has been made by the Optionee for satisfying any applicable federal, state or local income or other taxes incurred by reason of the exercise of the Option. Any Shares issued by the Company to an Optionee upon exercise of an Option may be made only in strict compliance with and in accordance with applicable state and federal securities laws.

(b) Payment of the option price for the Shares purchased pursuant to the exercise of an Option and of any applicable withholding taxes shall be made, as determined by the Committee and set forth in the option agreement pertaining to such Option: (i) in cash or by check payable to the order of the Company; (ii) through the tender to the Company of Shares, which Shares shall be valued, for purposes of determining the extent to which the option price has been paid thereby, at their Fair Market Value on the date of exercise; or (iii) by a combination of the methods described in (a) and (b) hereof; provided, however, that the Committee may in its discretion impose and set forth in the option agreement pertaining to an Option such limitations or prohibitions on the use of Shares to exercise Options as it deems appropriate. The Committee also may authorize payment in accordance with a cashless exercise program under which, if so instructed by the Optionee, Shares may be issued directly to the Optionee's broker upon receipt of the option price in cash from the broker.

(c) To the extent that the payment of the exercise price for the Shares purchased pursuant to the exercise of an Option is made with Shares as provided in Section hereof, then, at the discretion of the Committee, the Optionee may be granted a replacement Option under the Plan to purchase a number of Shares equal to the number of Shares tendered as permitted in Section hereof, with an exercise price per Share equal to the Fair Market Value on the date of grant of such replacement Option and with a term extending to the expiration date of the original Option.

8. NO CONTINUATION OF EMPLOYMENT AND DISCLAIMER OF RIGHTS

No provision in the Plan or in any Option granted or option agreement entered into pursuant to the Plan shall be construed to confer upon any individual the right to remain in the employ of the Company or any Subsidiary, or to interfere in any way with the right and authority of the Company or any Subsidiary either to increase or decrease the compensation of any individual at any time, or to terminate any employment or other relationship between any individual and the Company or any Subsidiary. The Plan shall in no way be interpreted to require the Company to transfer any amounts to a third party trustee or otherwise hold any amounts in trust or escrow for payment to any Optionee or beneficiary under the terms of the Plan. An Optionee shall have none of the rights of a shareholder of the Company until all or some of the Shares covered by an Option are fully paid and issued to such Optionee.

9. ADMINISTRATION

(a) The Plan is intended to comply with Rule 16b-3. Subject to the provisions of subsection (b) of this Section , the Plan shall be administered by the Committee which shall interpret the Plan and make all other determinations necessary or advisable for its administration, including such rules and regulations and procedures as it deems appropriate. The Committee shall consist of not fewer than two members of the Board each of whom shall qualify (at the time of appointment to the Committee and during all periods of service on the Committee) in all respects as a "disinterested person" as defined in Rule 16b-3 and as an outside director as defined in Section 162(m) of the Code and regulations thereunder. Subject to the provisions of subsection (b) of this Section , in the event of a disagreement as to the interpretation of the Plan or any amendment hereto or any rule, regulation or procedure hereunder or as to any right or obligation arising from or related to the Plan, the decision of the Committee shall be final and binding upon all persons in interest, including the Company, the Optionee and the Company's shareholders.

(b) Notwithstanding any provision of the Plan to the contrary, if any determination or interpretation to be made by the Committee with regard to any question arising under the Plan or any option agreement entered into hereunder is not required to be made by the Committee under Rule 16b-3, such determination or interpretation may be made by the Board, and shall be final and binding upon all persons in interest, including the Company, the Optionee and the Company's shareholders; provided, however, that the Board shall not make any such determination or interpretation that would result in the Plan's noncompliance with Rule 16b-3.

(c) No member of the Committee or the Board shall be liable for any action taken or decision made, or any failure to take any action, in good faith with respect to the Plan or any Option granted or option agreement entered into hereunder.

10. NO RESERVATION OF SHARES

The Company shall be under no obligation to reserve or to retain in its treasury any particular number of Shares in connection with its obligations hereunder.

11. AMENDMENT OF PLAN

The Board, without further action by the shareholders, may amend this Plan from time to time as it deems desirable and shall make any amendments which may be required so that Options intended to be Incentive Stock Options shall at all times continue to be Incentive Stock Options for purpose of the Code; provided, however, that no amendment shall be made without shareholder approval if such approval would be required to comply with Rule 16b-3 or the Code.

12. TERMINATION OF PLAN

This Plan shall terminate ten (10) years from the Effective Date. The Board may, in its discretion, suspend or terminate the Plan at any time prior to such date, but such termination or suspension shall not adversely affect any right or obligation with respect to any outstanding Option.

13. EFFECTIVE DATE

The Plan shall become effective on the Effective Date and Options hereunder may be granted at any time on or after that date. If the shareholders of the Company fail to approve the Plan within one year after the Effective Date, any Incentive Stock Option granted hereunder shall be null, void and of no effect.

EXHIBIT 10.3

FARO TECHNOLOGIES, INC.

1997 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

TABLE OF CONTENTS

FARO TECHNOLOGIES, INC.
1997 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

1. PURPOSE OF PLAN

The purpose of this Plan is to enable FARO Technologies, Inc. (the "Company") and its Subsidiaries to compete successfully in attracting, motivating and retaining Non-Employee Directors with outstanding abilities by making it possible for them to purchase Shares on terms that will give them a direct and continuing interest in the future success of the businesses of the Company and its Subsidiaries and encourage them to remain as directors of the Company or one or more of its Subsidiaries.

2. DEFINITIONS

For purposes of the Plan, except where the context clearly indicates otherwise, the following terms shall have the meanings set forth below:

(a) "Board" means the Board of Directors of the Company.

(b) "Code" means the United States Internal Revenue Code of 1986, as amended.

(c) "Effective Date" means the effective date of any registration statement with respect to the Shares under the Securities Exchange Act of 1934, as amended.

(d) "Fair Market Value" means, with respect to a Share, if the Shares are then listed and traded on a registered national or regional securities exchange, or quoted on The National Association of Securities Dealers' Automated Quotation System (including The Nasdaq Stock Market's National Market), the average closing price of a Share on such exchange or quotation system for the five trading days immediately preceding the date of grant of an Option, or, if Fair Market Value is used herein in connection with any event other than the grant of an Option, then such average closing price for the ten trading days immediately preceding the date of such event. If the Shares are not traded on a registered securities exchange or quoted in such a quotation system, the Board shall determine the Fair Market Value of a Share.

(e) "Non-Employee Director" shall mean any member of the Company's Board of Directors who is not an employee of the Company or any Subsidiary.

(f) "Option" means an option granted under this Plan, which Option shall not be an incentive stock option within the meaning of Section 422 of the Code, or the corresponding provision of any subsequently enacted tax statute.

(g) "Optionee" means any person who has been granted an Option which Option has not expired or been fully exercised or surrendered.

(h) "Plan" means the Company's 1997 Non-Employee Director Stock Option Plan.

(i) "Rule 16b-3" means Rule 16b-3 promulgated pursuant to Section 16(b) of the Securities Exchange Act of 1934, as amended, or any successor rule.

(j) "Share" means one share of voting common stock, par value $.01 per share, of the Company, and such other stock or securities that may be substituted therefor pursuant to Section hereof.

(k) "Subsidiary" means any "subsidiary corporation" within the meaning of Section 424(f) of the Code.

3. LIMITS ON OPTIONS

The total number of Shares with respect to which Options may be granted under the Plan shall not exceed in the aggregate 250,000 Shares, subject to adjustment as provided in Section 5 hereof. If any Option expires, terminates or is terminated for any reason prior to its exercise in full, the Shares that were subject to the unexercised portion of such Option shall be available for future grants under the Plan.

4. GRANTING AND TERMS OF OPTIONS

(a) Each Non-Employee Director shall on the Effective Date automatically be granted an Option to purchase 3,000 Shares. Thereafter, on the date on which a Non-Employee Director, other than a Non-Employee Director who is serving as such on the Effective Date, is first elected or appointed as a Non-Employee Director during the existence of the Plan, such Non-Employee Director shall automatically be granted an Option to purchase 3,000 Shares.

(b) Each Non-Employee Director (if he or she continues to serve in such capacity) shall, on the day following the annual meeting of shareholders in each year during the time the Plan is in effect, automatically be granted an Option to purchase 3,000 Shares; provided, however, that a person who is first elected as a Non-Employee Director on the date of an annual meeting of shareholders and who receives on that date an option pursuant to Section hereof shall not be eligible to begin to receive grants pursuant to this Section until the day following the next succeeding annual meeting of shareholders.

(c) Notwithstanding the provisions of Section and hereof, Options shall be automatically granted to Non-Employee Directors under the Plan only for so long as the Plan remains in effect and a sufficient number of Shares are available hereunder for the granting of such Options.

(d) The exercise price of each Share subject to an Option shall be equal to 100% of the Fair Market Value of the Shares on the date of grant of such Option.

(e) Options shall not be assignable or transferable by the Optionee other than by will or by the laws of descent and distribution except that the Optionee may, with the consent of the Board of Directors, transfer without consideration Options to the Optionee's spouse, children or grandchildren (or to one or more trusts for the benefit of any such family members or to one or more partnerships in which any such family members are the only partners).

(f) Each Option shall expire and all rights thereunder shall end at the expiration of ten (10) years after the date on which it was granted, subject in all cases to earlier expiration as provided in subsections (g) and (h) of this Section .

(g) During the life of an Optionee, an Option shall be exercisable only by such Optionee and only within one (1) month after the date on which the Optionee ceases to be a Non-Employee Director, other than by reason of the Optionee's death or resignation from the Board with the consent of the Company as provided in subsection (h) of this Section , but only if and to the extent the Option was exercisable immediately prior to such date, and subject to the provisions of the subsections (f) and (i) of this Section . If the Optionee is removed as a Director for cause (as defined in the Company's Articles of Incorporation, as amended from time to time), all Options of the Optionee shall terminate immediately on the date of removal.

(h) If an Optionee: (i) dies while a Non-Employee Director or within the period when an Option could have otherwise been exercised by the Optionee; or (ii) ceases to be a Non- Employee Director as a result of such Optionee's resignation from the Board, provided that the Company has consented in writing to such Optionee's resignation, then, in each such case, such Optionee, or the duly authorized representatives of such Optionee, shall have the right, at any time within one (1) year after the death or after such resignation of the Optionee, as the case may be, and prior to the termination of the Option pursuant to subsections (f) and (i) of this Section , to exercise any Option to the extent such Option was exercisable by the Optionee immediately prior to such Optionee's death or resignation.

(i) The Optionee may exercise the Option (subject to the limitations on exercise set forth in subsection (f) of this Section), in whole or in part, as follows: (i) the Option may not be exercised to any extent prior to one (1) year following the date of grant; and (ii) the Option may be exercised to the extent of 331/3% of the Shares subject to such Option after one year following the date of grant and may be exercised to the extent of an additional 331/3% of the Shares subject to such Option after each of the second and third years following the date of grant; provided, however, that in the event a Director serves his entire initial term as a Director, all Options granted prior to such time shall become immediately exercisable.

(j) An Option may be exercised in whole at one time or in part from time to time, subject to subsection (i) of this Section .

(k) Options granted pursuant to the Plan shall be evidenced by an agreement in writing setting forth the material terms and conditions of the grant, including, but not limited to, the number of Shares subject to Options.

(l) Options granted under the Plan on terms other than those by sections 4(a) through 4(k) above may only be granted upon specific approval of each grant by the Board of Directors of the Company.

5. EFFECT OF CHANGES IN CAPITALIZATION

(a) If the number of outstanding Shares is increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any recapitalization, reclassification, stock split, combination of shares, exchange of shares, stock dividend or other distribution payable in capital stock, or other increase or decrease in such shares effected without receipt of consideration by the Company, a proportionate and appropriate adjustment shall be made by the Board of Directors in (i) the number and type of Shares subject to the Plan and which thereafter may be made the subject of Options under the Plan pursuant to Section 3 hereof (but without any adjustment in the number of Shares that are the subject of Options to be granted under the Plan pursuant to Section 4.(a) and 4.(b) hereof) and (ii) the number and kind of shares for which Options are outstanding, so that the proportionate interest of the Optionee immediately following such event shall, to the extent practicable, be the same as immediately prior to such event. Any such adjustment in outstanding Options shall not change the aggregate option price payable with respect to Shares subject to the unexercised portion of the Options outstanding but shall include a corresponding proportionate adjustment in the option price per Share. Any change in capitalization of the Company under this section shall not change the number of Shares that will be the subject of Options to be granted under Sections 4.(a) and 4.(b) hereof subsequent to the change in capitalization.

(b) Subject to Section hereof, if the Company shall be the surviving corporation in any reorganization, merger, share exchange or consolidation of the Company with one or more other corporations or other entities, any Option theretofore granted shall pertain to and apply to the securities to which a holder of the number of Shares subject to such Option would have been entitled immediately following such reorganization, merger, share exchange or consolidation, with a corresponding proportionate adjustment of the option price per Share so that the aggregate option price thereafter shall be the same as the aggregate option price of the Shares remaining subject to the Option immediately prior to such reorganization, merger, share exchange or consolidation.

(c) In the event of: (i) the adoption of a plan of reorganization, merger, share exchange or consolidation of the Company with one or more other corporations or other entities as a result of which the holders of the Shares as a group would receive less than fifty percent (50%) of the voting power of the capital stock or other interests of the surviving or resulting corporation or entity; (ii) the adoption of a plan of liquidation or the approval of the dissolution of the Company; (iii) the approval by the Board of an agreement providing for the sale or transfer

of the assets of the Company; or (iv) the acquisition of more than twenty percent (20%) of the outstanding shares by any person within the meaning of Rule 13(d)(3) under the Securities Exchange Act of 1934 if such acquisition is not preceded by a prior expression of approval by the Board, then, in each such case, any Option granted hereunder shall become immediately exercisable in full, subject to any appropriate adjustments in the number of Shares subject to such Option and the option price, regardless of any provision contained in the Plan with respect thereto limiting the exercisability of the Option for any length of time. Notwithstanding the foregoing, if a successor corporation or other entity as contemplated in clause (i) or (iii) of the preceding sentence agrees to assume the outstanding Options or to substitute substantially equivalent options, then the outstanding Options issued hereunder shall not be immediately exercisable, but shall remain exercisable in accordance with the terms of the Plan and the applicable stock option agreements.

(d) Adjustments under this Section relating to Shares or securities of the Company shall be made by the Board, whose determination in that respect shall be final and conclusive. Options subject to grant or previously granted under the Plan at the time of any event described in this Section shall be subject to only such adjustments as shall be necessary to maintain the proportionate interest of the Options and preserve, without exceeding, the value of such Options. No fractional Shares or units of other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding upward to the nearest whole Share or unit.

(e) The grant of an Option pursuant to the Plan shall not affect or limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate, dissolve or liquidate, or to sell or transfer all or any part of its business or assets.

6. DELIVERY AND PAYMENT FOR SHARES

(a) No Shares shall be delivered upon the exercise of an Option until the option price for the Shares acquired has been paid in full. No shares shall be issued or transferred under the Plan unless and until all legal requirements applicable to the issuance or transfer of such Shares have been complied with to the satisfaction of the Board. Any Shares issued by the Company to an Optionee upon exercise of an Option may be made only in strict compliance with and in accordance with applicable state and federal securities laws.

(b) Payment of the option price for the Shares purchased pursuant to the exercise of an Option shall be made: (i) in cash or by check payable to the order of the Company; (ii) through the tender to the Company of Shares, which Shares shall be valued, for purposes of determining the extent to which the option price has been paid thereby, at their Fair Market Value on the date of exercise; or (iii) by a combination of the methods described in (i) and (ii) hereof. Payment also may be made in accordance with a cashless exercise program under which, if so instructed by the

Optionee, Shares may be issued directly to the Optionee's broker upon receipt of the option price in cash from the broker.

7. NO CONTINUATION AS A DIRECTOR AND DISCLAIMER OF RIGHTS

No provision in the Plan or in any Option granted or option agreement entered into pursuant to the Plan shall be construed to confer upon any individual the right to remain a director of the Company or any Subsidiary. The Plan shall in no way be interpreted to require the Company to transfer any amounts to a third party trustee or otherwise hold any amounts in trust or escrow for payment to any Optionee or beneficiary under the terms of the Plan. An Optionee shall have none of the rights of a shareholder of the Company until all or some of the Shares covered by an Option are fully paid and issued to such Optionee.

8. ADMINISTRATION

The Plan is intended to meet the requirements of Rule 16b-3(c)(2)(ii) adopted under the Securities Exchange Act of 1934, as amended, and accordingly is intended to be self-governing. To this end, the Plan requires no discretionary action by any administrative body with regard to any transaction under the Plan. To the extent, if any, that any questions of interpretation arise, these shall be resolved by the Board.

9. NO RESERVATION OF SHARES

The Company shall be under no obligation to reserve or to retain in its treasury any particular number of Shares in connection with its obligations hereunder.

10. AMENDMENT OF PLAN

The Board, without further action by the shareholders, may amend this Plan from time to time as it deems desirable; provided, that (i) no such amendment shall be made without shareholder approval if such approval would be required to comply with Rule 16b-3 and (ii) the provisions of Sections and shall not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules and regulations promulgated thereunder.

11. TERMINATION OF PLAN

This Plan shall terminate ten (10) years from the Effective Date. The Board may, in its discretion, suspend or terminate the Plan at any time prior to such date, but such termination or suspension shall not adversely affect any right or obligation with respect to any outstanding Option.

12. EFFECTIVE DATE

The Plan shall become effective on the Effective Date and Options hereunder may be granted at any time on or after that date, subject to approval of the Plan by the Company's shareholders within one year after the Effective Date by a majority of the votes cast at a duly held meeting of the shareholders of the Company at which a quorum representing a majority of all outstanding stock is present, either in person or by proxy, and in a manner that satisfies the requirements of Rule 16b-3. Upon approval of the Plan by the shareholders of the Company as set forth above, all Options granted under the Plan on or after the Effective Date shall be fully effective as if the shareholders of the Company had approved the Plan on the Effective Date.

EXHIBIT 10.4

FARO TECHNOLOGIES, INC.
1997 NON-EMPLOYEE DIRECTORS' FEE PLAN

1. ESTABLISHMENT. FARO Technologies, Inc. (the "Company") hereby establishes a plan for the members of its Board of Directors who are not employees of (i) the Company, or (ii) any of its subsidiaries ("Non-Employee Directors"), as described herein, which shall be known as the FARO TECHNOLOGIES, INC. 1997 NON-EMPLOYEE DIRECTORS' FEE PLAN (the "Plan").

2. PURPOSE. The purpose of the Plan is to advance the Company's growth and success, and to advance its interests by attracting and retaining well-qualified Non-Employee Directors upon whose judgment the Company is largely dependent for the successful conduct of its operations and by providing such individuals with incentives to put forth maximum efforts for the long-term success of the Company's business.

3. EFFECTIVE DATE OF THE PLAN. The effective date of the Plan (the "Effective Date") is the later of (i) the date of its approval by the shareholders of the Company, or (ii) the effective date of any registration statement with respect to the common stock of the Company ("Common Stock") under the Securities Exchange Act of 1934, as amended.

4. STOCK SUBJECT TO THE PLAN. Subject to adjustment in accordance with the provisions of paragraph, the total number of shares of Common Stock available for awards during the term of this Plan shall be 250,000 shares. Shares of Common Stock to be delivered under the Plan shall be made available from presently authorized but unissued Common Stock or authorized and issued shares of Common Stock reacquired and held as treasury shares, or a combination thereof. In no event shall the Company be required to issue fractional shares of Common Stock under the Plan. Whenever under the terms of the Plan a fractional share of Common Stock would otherwise be required to be issued, there shall be issued in lieu thereof one full share of Common Stock.

5. ADMINISTRATION.

(a) The Plan shall be administered by a committee (the "Committee") appointed from time to time by the Board of Directors consisting of not less than two members of the Board of Directors who do not qualify as Non-Employee Directors.

(b) Subject to the express provisions of the Plan, the Committee shall have authority to interpret the Plan, to the extent provided by law.

(c) Neither the Committee nor any member thereof shall be liable for any act, omission, interpretation, construction or determination made in connection with the Plan in good faith.

6. ELECTION TO RECEIVE ANNUAL RETAINER FEES IN SHARES.

(a) Share Election. Subject to paragraph , each Non-Employee Director may elect (a "Share Election") to receive all or any portion of any annual retainer fee, committee fees, or meeting fees earned in each calendar year for services on the Board of Directors (collectively, the "Retainer Fees"), in the form of Common Stock. A Share Election, or a modification or revocation of a Share Election by a subsequent Share Election, shall be effective with respect to Retainer Fees earned commencing on the first day of the calendar month following the date that the election is delivered. A Share Election (including a modification or revocation of a Share Election by a subsequent Share Election) must be in writing and delivered to the Secretary of the Company as specified in the preceding sentence, except that (A) a Share Election with respect to Retainer Fees to be earned in 1997 may be made at any time until the date 30 days after the Effective date of the Plan and (B) any Non-Employee Director who commences his or her directorship subsequent to January 1 of a calendar year (a "New Director") may make a Share Election during the 30-day period immediately following the commencement of his or her directorship. A Share Election, once made, shall remain in effect, and be irrevocable, unless modified or revoked by a subsequent Share Election in accordance with the provisions hereof.

(b) Transfer of Shares. Shares of Common Stock issuable to a Non-Employee Director with respect to a Share Election shall be transferred to such Non- Employee Director effective as of the last business day of each fiscal quarter in which the Retainer Fees are earned. The total number of shares of Common Stock to be so transferred shall be determined by dividing one-quarter of the annual Retainer Fees by the Fair Market Value of a share of Common Stock. For purposes of this Plan, "Fair Market Value" means if the Common Stock is then listed and traded on a registered national or regional securities exchange, or quoted on The National Association of Securities Dealers' Automated Quotation System (including The Nasdaq Stock Market's National Market), the average closing price of a share on such exchange or quotation system for the five trading days immediately preceding the last business day of the applicable quarter (or such other relevant date as may be specifically set forth herein). If the Common Stock is not traded on a registered securities exchange or quoted on such a quotation system, the Committee shall determine the Fair Market Value of a share. The Retainer Fees payable for a quarter shall be proportionately adjusted for a Non-Employee Director who does not serve as a director for the entire quarter.

7. DEFERRAL ELECTION.

(a) Deferral Election. Each Non-Employee Director may elect (a "Deferral Election") to defer receiving all or any portion of the shares of Common Stock that would otherwise be transferred pursuant to paragraph , or any of his or her Retainer Fees that would otherwise be payable in cash. A Deferral Election must be in

writing and delivered to the Secretary of the Company prior to the calendar year in which the Retainer Fees to which the Deferral Election relates are earned, except that (A) a Deferral Election with respect to 1997 may be made at any time until the date 30 days after the Effective Date of the Plan and (B) any New Director may make a Deferral Election during the 30-day period immediately following the commencement of his or her directorship. A Deferral Election once made shall be irrevocable for the calendar year with respect to which it is made and shall remain in effect, and be irrevocable, for future calendar years unless modified or revoked by a subsequent Deferral Election in accordance with the provisions hereof.

(b) Accounts. A Non-Employee Director who makes a Deferral Election with respect to a Share Election shall have the number of deferred shares of Common Stock (including fractions of a share) credited to a "Share Account" for the Non-Employee Director in the form of "Share Units." A Non-Employee Director who makes a Deferral Election with respect to Retainer Fees that are not subject to a Share Election shall have the amount of deferred Retainer Fees credited to a "Cash Account" for the Non-Employee Director. Collectively, the amounts deferred in a Non-Employee Director's Share Account and Cash Account shall hereafter be referred to as the "Deferred Amounts."

(c) Cash Dividends and Share Accounts. Whenever cash dividends are paid by the Company on outstanding Common Stock, on the payment date therefor there shall be credited to the Non-Employee Director's Share Account a number of additional Share Units equal to (i) the aggregate dividend that would be payable on outstanding shares of Common Stock equal to the number of Share Units credited to such Share Account on the record date for the dividend, divided by (ii) the Fair Market Value of a share of Common Stock as of the last business day immediately preceding the date of payment of the dividend.

(d) Cash Accounts. At the election of a Non-Employee Director, a Director's Cash Account shall be (i) credited with interest at an annual rate equal to the sum of the daily interest earned at a rate equal to the yield from time to time on U.S. Treasury obligations maturing in seven years as reported in The Wall Street Journal (Eastern Edition) and compounded monthly, or such other rate specified by the Committee, or (ii) credited or debited with the annual investment returns relating to such investment vehicle or vehicles as may be made available by the Committee from time to time, if any, and selected by the Non-Employee Director, or such combination of (i) and (ii) as the Non-Employee Director designates by written notice to the Secretary of the Company.

(e) Distributions. Subject to subsection , a Non-Employee Director's Deferred Amounts shall become payable as soon as practicable following the earliest of (i) the date irrevocably selected by the Non-Employee Director in his or her Deferral

Election, (ii) the Non-Employee Director's death or (iii) the Non-Employee Director's total and permanent disability, as determined by the Committee.

(f) Form of Payments. All payments from a Share Account shall be made in shares of Common Stock by converting Share Units into Common Stock on a one-for-one basis. All payments from a Cash Account shall be made in cash.

(g) Manner of Payments. Subject to subsection , in his or her Deferral Election, each Non-Employee Director shall elect to receive payment of his or her Deferred Amounts either in a lump sum or in two to fifteen substantially equal annual installments. In the event of a Non-Employee Director's death, payment of the remaining portion of the Director's Deferred Amounts will be made to the director's beneficiary in a lump sum as soon as practicable following the director's death.

(h) Hardship Distribution. Notwithstanding any Deferral Election, in the event of severe financial hardship to a Non-Employee Director resulting from a sudden and unexpected illness, accident or disability of the Non-Employee Director or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Non-Employee Director, all as determined by the Committee, a Non-Employee Director may withdraw a portion of the Share Units in his or her Share Account and/or cash in his or her Cash Account by providing written notice to the Secretary of the Company. Withdrawals of amounts shall only be permitted to the extent reasonably necessary to meet the emergency need due to the severe financial hardship.

(i) Designation of Beneficiary. Each Non-Employee Director or former Non- Employee Director entitled to payment of Deferred Amounts hereunder from time to time may designate any beneficiary or beneficiaries (who may be designated concurrently, contingently, or successively) to whom any such Deferred Amounts are to be paid in case of the Non-Employee Director's death before receipt of any or all of such Deferred Amounts. Any designation will revoke all prior designations by the Non-Employee Director or former Non-Employee Director, shall be in a form prescribed by the Company and will be effective only when filed by the Non-Employee Director or former Non-Employee Director, during his or her lifetime, in writing with the Secretary of the Company. References in this Plan to a director's "beneficiary" at any date shall include such persons designated as concurrent beneficiaries on the director's beneficiary designation form then in effect. In the absence of any such designation, any balance remaining in a Non-Employee Director's or former Non-Employee Director's Share Account and/or Cash Account at the time of the director's death shall be paid to such director's estate in a lump sum.

(j) No Account Transfers. A Non-Employee Director may not transfer or convert a Share Account to a Cash Account or vice versa.

(k) Changes With Respect to Distributions. With the consent of the Company, a Non-Employee Director may (i) postpone the date on which Deferred Amounts are to become payable pursuant to subsection , or (ii) change the manner in which the Deferred Amounts are to be paid pursuant to subsection , provided in each case that any such change is made prior to the calendar year in which such payments are to commence.

(l) No Assets. No stock, cash or other property will be deliverable to a Non- Employee Director in respect of the Non-Employee Director's Deferred Amounts until the date or dates identified pursuant to this Section , and all Deferred Amounts shall be reflected in one or more unfunded accounts established for the Non-Employee Director by the Company. Payment of the Company's obligation will be from general funds, and no special assets (stock, cash or otherwise) have been or will be set aside as security for this obligation.

(m) No Transfers. A Non-Employee Director's rights to payments under this Section are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or garnishment by a Non-Employee Director's creditors or the creditors of his or her beneficiaries, whether by operation of law or otherwise, and any attempted sale, transfer, assignment, pledge, or encumbrance with respect to such payment shall be null and void, and shall be without legal effect and shall not be recognized by the Company.

(n) Unsecured Creditor. The right of a Non-Employee Director to receive payments under this Section is that of a general, unsecured creditor of the Company, and the obligation of the Company to make payments constitutes a mere promise by the Company to pay such benefits in the future. Further, the arrangements contemplated by this Section are intended to be unfunded for tax purposes and for purposes of Title I of ERISA.

8. ADJUSTMENT PROVISIONS. If the number of outstanding shares of Common Stock is increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any merger, consolidation, recapitalization, reclassification, stock split, combination of shares, exchange of shares, stock dividend or other distribution payable in capital stock, or other increase or decrease in such shares effected without receipt of consideration by the Company, a proportionate and appropriate adjustment shall be made by the Company in the number and kind of shares reserved for issuance under the Plan and in the number of Share Units credited to each Non-Employee Director's Share Account as is necessary to preserve, without exceeding, the value reflected by the Non-Employee Director's Share Account.

9. TERMINATION AND AMENDMENT OF PLAN. The Plan shall terminate ten (10) years from the date that it is adopted by the Board of Directors, unless sooner terminated as hereinafter provided. The Board of Directors may at any time terminate the Plan. The Board of Directors may amend the Plan as it shall deem advisable including (without limiting the

generality of the foregoing) any amendments deemed by the Board of Directors to be necessary or advisable to assure conformity of the Plan with any requirements of state and federal laws or regulations now or hereafter in effect; provided, however, that (a) the Board of Directors may not, without further approval by the shareholders of the Company, make any modifications which, under Rule 16b-3, require such approval and (b) no amendment shall affect adversely any of the rights of any Non- Employee Director, without such Non-Employee Director's consent, under any election theretofore in effect under the Plan.

10. RIGHTS AS A SHAREHOLDER. A Non-Employee Director shall have no rights as a shareholder with respect to Common Stock granted under this Plan until the date of issuance of the stock certificate to him. Except as provided in paragraph , no adjustment will be made for dividends or other rights for which the record date is prior to the date such Common Stock is issued. The shares of Common Stock granted to each Non-Employee Director are not transferable by the recipient for a period of six months after the Grant Date (or, for a director elected between Grant Dates, the date of the director's election), except in the event of the death or disability of the recipient. All certificates evidencing shares granted to a Non-Employee Director shall bear an appropriate legend evidencing such transfer restrictions.

11. GOVERNING LAW. The Plan, all awards hereunder, and all determinations made and actions taken pursuant to the Plan shall be governed by the internal laws of the state in which the Company is incorporated, to the extent not otherwise governed by the Internal Revenue Code or the laws of the United States.

12. UNFUNDED PLAN. This Plan shall be unfunded. No person shall have any rights greater than those of a general creditor of the Company.

13. WITHHOLDING. The Company shall have the right to deduct from all amounts deferred pursuant to a Deferral Election and/or payments made under the Plan any federal, state, or local income taxes or FICA required to be withheld with respect to such compensation. Each Non-Employee Director shall be entitled to irrevocably elect, at least six months prior to the date shares of Common Stock would otherwise be delivered hereunder, to have the Company withhold shares of Common Stock having an aggregate Fair Market Value as of such date equal to the amount required to be withheld.

14. CHANGE OF CONTROL. Anything in this Plan to the contrary notwithstanding, upon the occurrence of a Change of Control: (a) all Share Units credited to any Non-Employee Director's Share Account shall be converted into Common Stock and together with all Deferred Amounts credited to a Cash Account shall be transferred as soon as practicable in a lump sum to each Non-Employee Director; and (b) any Retainer Fees earned in respect of the fiscal quarter in which the Change of Control occurs shall be paid in cash as soon as practicable. For purposes of the Plan, a "Change of Control" means: (i) the adoption of a plan of reorganization, merger, share exchange or consolidation of the Company with one or more other corporations or other entities as a result of which the holders of Common Stock as a group would receive less than fifty percent (50%) of the

voting power of the capital stock or other interests of the surviving or resulting corporation or entity; (ii) the adoption of a plan of liquidation or the approval of the dissolution of the Company; (iii) the approval by the Board of Directors of an agreement providing for the sale or transfer of the assets of the Company; or (iv) the acquisition of more than twenty percent (20%) of the outstanding shares by any person within the meaning of Rule 13(d)(3) under the Securities Exchange Act of 1934 if such acquisition is not preceded by a prior expression of approval by the Board.

EXHIBIT 10.5

TERM WCMA(R) LOAN AND SECURITY AGREEMENT

TERM WCMA LOAN AND SECURITY AGREEMENT ("Loan Agreement') dated as of September 24, 1996, between FARO TECHNOLOGIES, INC., a corporation organized and existing under the laws of the State of Florida having its principal office at 125 Technology Park, Lake Mary, FL 32746 ("Customer"), and MERRILL LYNCH BUSINESS FINANCIAL SERVICES INC., a corporation organized and existing under the laws of the State of Delaware having its principal office at 33 West Monroe Street, Chicago, IL 60603 ("MLBFS").

In accordance with that certain WORKING CAPITAL MANAGEMENTS(R) ACCOUNT AGREEMENT NO. 74007J98 ("WCMA Agreement') between Customer and MLBFS' affiliate, MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED ("MLPF&S"), Customer has subscribed to the WCMA Program described in the WCMA Agreement. The WCMA Agreement is by this reference incorporated as a part hereof. In conjunction therewith, Customer has requested that MLBFS make the Term WCMA Loan hereinafter described (the "Loan"); and, subject to the terms and conditions herein set forth, MLBFS has agreed to make the Loan to Customer.

The Loan combines the equivalent of three successive one-year term loans, each equal to that portion of the Loan that will be fully amortized in the ensuing year, with a line of credit under the WCMA Program ("WCMA Line of Credit') equal to that portion of the Loan that will not be amortized in the ensuing year. Subject to the terms hereof, each year after the initial funding there will be an additional funding on account of the term portion of the Loan, with the proceeds deposited into Customers WCMA Account concurrently with a corresponding reduction in the maximum WCMA Line of Credit.

This structure provides Customer with substantially the same initial funding and loan amortization as a conventional term loan. However, unlike most conventional term loans, it permits both a prepayment in whole or in part at any time without penalty, and, subject to the terms and conditions herein set forth, a reborrowing on a revolving basis of any such amounts prepaid on account of the WCMA Line of Credit portion of the Loan. The structure of the Loan therefore enables Customer at its option to use any free cash balances that it may have from time to time to reduce interest expense on the line of credit portion of the Loan without impairing its working capital.

Accordingly, and in consideration of the premises and of the mutual covenants of the parties hereto, Customer and MLBFS hereby agree as follows:

ARTICLE 1. DEFINITIONS

1.1 SPECIFIC TERMS. In addition to terms defined elsewhere in this Loan Agreement, when used herein the following terms shall have the following meanings:

(a) "Account Debtor' shall mean any party who is or may become obligated with respect to an Account or Chattel Paper.

(b) "Additional Agreements" shall mean all agreements, instruments, documents and opinions other than this Loan Agreement, whether with or from Customer or any other party, which are contemplated hereby or otherwise reasonably required by MLBFS in connection herewith, or which evidence the creation, guaranty or collateralization of any of the Obligations or the granting or perfection of liens or security interests upon the Collateral or any other collateral for the Obligations, and shall include, without limitation, the Term WCMA Note.

(c) "Business Day" shall mean any day other than a Saturday, Sunday, federal holiday or other day on which the New York Stock Exchange is regularly closed.

(d) "Closing Date" shall mean the date upon which all conditions precedent to MLBFS' obligation to make the Loan shall have been met to the satisfaction of MLBFS.

(e) "Collateral' shall mean all Accounts, Chattel Paper, Contract Rights, Inventory, Equipment, Fixtures, General Intangibles, Deposit Accounts, Documents and Instruments of Customer, howsoever arising, whether now owned or existing or hereafter acquired or arising, and wherever located; together with all books and records (including computer records) directly related thereto, all proceeds thereof (including, without limitation, proceeds in the form of Accounts and insurance proceeds), and the additional collateral described in Section 4.6 (b) hereof.

(f) "Commitment Expiration Date" shall mean October 24, 1996.

(g) "Commitment Fee" shall mean a fee of $20,000.00 due to MLBFS in connection with this Loan Agreement.

(h) "General Funding Conditions" shall mean each of the following conditions to any loan or advance by MLBFS hereunder: (i) no Event of Default, or event which with the giving of notice, passage of time, or both, would constitute an Event of Default, shall have occurred and be continuing or would result from the making of such loan or advance hereunder by MLBFS; (ii) there shall not have occurred any material adverse change in the business or financial condition of Customer; (iii) all representations and warranties of Customer herein or in any Additional Agreements shall then be true and correct in all material respects; (iv) MLBFS shall have received this Loan Agreement and all Additional Agreements, duly executed and filed or recorded where applicable, all of which shall be in form and substance reasonably satisfactory to MLBFS; (v) the Commitment Fee shall have been paid in full; (vi) MLBFS shall have received evidence reasonably satisfactory to it as to the ownership of the Collateral and the perfection and priority of MLBFS' liens and security interests thereon, as well as the ownership of and the perfection and priority of MLBFS' liens and security interests on any other collateral for the Obligations furnished pursuant to any of the Additional Agreements; (vii) MLBFS shall have received evidence reasonably satisfactory to it of the insurance required hereby or by any of the Additional Agreements; and (viii) any additional conditions specified in the "Term WCMA Approval" letter executed by MLBFS with respect to the transactions contemplated hereby shall have been met to the reasonable satisfaction of MLBFS.

(i) "Interest Rate" shall mean a variable per annum rate equal to the sum of (i) 2.70%, and (ii) the 30-Day Commercial Paper Rate. The '30-Day Commercial Paper Rate' shall mean, as of the date of any determination, the interest rate from time to time published in the "Money Rates" section of The Wall Street Journal for 30-day high-grade unsecured notes sold through dealers by major corporations. The Interest Rate will change as of the date of publication in The Wall Street Journal of a 30-Day Commercial Paper Rate that is different from that published on the preceding Business Day. In the event that The Wall Street Journal shall, for any reason, fail or cease to publish the 30-Day Commercial Paper Rate, MLBFS will choose a reasonably comparable index or source to use as the basis for the Interest Rate.

(j) "Loan Amount" shall mean an amount equal to the lesser of (i) 100% of the aggregate cost to Customer of satisfying or fulfilling the Loan Purpose, (ii) the aggregate amount which Customer shall request be advanced by MLBFS on account of the Loan Purpose, or (iii) $2,000,000.00.

(k) "Loan Purpose" shall mean the purpose for which the proceeds of the Loan will be used;to wit: to refinance debt of Xenon Research, Inc. and provide general working capital.

(l) "Location of Tangible Collateral" shall mean the address of Customer set forth at the beginning of this Loan Agreement, together with any other address or addresses set forth on an exhibit hereto as being a Location of Tangible Collateral.

(m) "Maximum WCMA Line of Credit" shall mean the maximum aggregate line of credit which MLBFS will extend to Customer subject to the terms and conditions hereof, as the same shall be reduced from time to time in accordance with the terms hereof.

(n) "Obligations" shall mean all liabilities, indebtedness and other obligations of Customer to MLBFS, howsoever created, arising or evidenced, whether now existing or hereafter arising, whether direct or indirect, absolute or contingent, due or to become due, primary or secondary or joint or several, and, without limiting the foregoing, shall include interest accruing after the filing of any petition in bankruptcy, and all present and future liabilities, indebtedness and obligations of Customer under this Loan Agreement and the Term WCMA Note.

(o) "Permitted Liens' shall mean with respect to the Collateral: (i) liens for current taxes not delinquent, other non-consensual liens arising in the ordinary course of business for sums not due, and, if MLBFS' rights to and interest in the Collateral are not materially and adversely affected thereby, any such liens for taxes or other non-consensual liens arising in the ordinary course of business being contested in good faith by appropriate proceedings; (ii) liens in favor of MLBFS; (iii) liens which will be discharged with the proceeds of the initial WCMA Loan; (iv) existing liens upon and leases of Equipment and Fixtures, if any, together with any future purchase money liens upon and leases of Equipment and Fixtures; (v) liens in favor of Xenon Research, Inc. ("Xenon") which secure debt of Customer incurred after the closing date, but only if prior to obtaining any such lien Xenon acknowledges in writing to MLBFS that (A) Xenon's lien is subordinate to the security interest of MLBFS hereunder, and (B) MLBFS does

not owe Xenon any duty whatsoever in connection with said lien or Customer, including, without limitation, any duty of notice or marshalling of assets; and (vi) any other liens expressly permitted in writing by MLBFS.

(p) "Term WCMA Note" shall mean and refer to the Term WCMA Note executed by Customer and dated as of the date hereof which incorporates both a WCMA Note evidencing amounts owing on account of the WCMA Line of Credit portion of the Loan, and a Term Note evidencing amounts owing on account of the term portion of the Loan.

(q) "WCMA Account" shall mean and refer to the Working Capital Management Account of Customer with MLPF&S identified as WCMA Account No. 740-07J98.

(r) "WCMA Loan" shall mean each advance made by MLBFS pursuant to the WCMA Line of Credit.

(s) "WCMA Loan Balance" shall mean an amount equal to the aggregate unpaid principal balance of all WCMA Loans.

1.2 OTHER TERMS. Except as otherwise defined herein: (i) all terms used in this Loan Agreement which are defined in the Uniform Commercial Code of Illinois ("UCC") shall have the meanings set forth in the UCC, and (ii) capitalized terms used herein which are defined in the WCMA Agreement shall have the meaning set forth in the WCMA Agreement.

ARTICLE II. THE LOAN

2.1 COMMITMENT. Subject to the terms and conditions hereof, MLBFS hereby agrees to make the Loan to Customer, and Customer hereby agrees to borrow the Loan from MLBFS. Unless otherwise hereafter agreed by MLBFS, the entire proceeds of the Loan will be disbursed either directly to the applicable third party or parties on account of the Loan Purpose or to reimburse Customer for amounts directly expended by it; all as directed by Customer in a Closing Certificate to be executed and delivered to MLBFS prior to the date of funding.

2.2 OPERATION OF LOAN.

(A) TERM WCMA NOTE. The Loan will be evidenced by and shall be repayable in accordance with the terms of the Term WCMA Note and this Loan Agreement. The Term WCMA Note combines two promissory notes, one evidencing the term portion of the Loan (the *Term Note") and the other evidencing the WCMA Line of Credit portion of the Loan (the 'WCMA Note"). The balance owing by Customer on account of the Loan at any time shall be an amount equal to the sum of the then outstanding balances under the WCMA Note and the Term Note included in the Term WCMA Note. The Term WCMA Note is hereby incorporated as a part hereof.

(B) TERM NOTE PRINCIPAL. The principal balance owing under the Tenn Note at any time shall be an amount equal to the difference between (i) the Loan Amount less the aggregate principal paid by Customer on account of the Term Note; and (ii) the WCMA Line of Credit. So long as there shall be any moneys owing by Customer to MLBFS hereunder or there shall be a WCMA Line of Credit, no reduction in the unpaid principal balance of the Term Note to zero shall be deemed a payment of the Term Note in full or an extinguishment of any of the obligations of Customer thereunder or hereunder.

(C) TERM NOTE FUNDING. Subject to the terms hereof, the Term Note will be funded by MLBFS in three annual installments, each equal to one-third of the Loan Amount. The first one-third installment funded by MLBFS will be funded on the Closing Date and applied on account of the Loan Purpose, as aforesaid. Subsequent installments will be funded on a date chosen by MLBFS in its sole discretion which will be on or within two weeks before or after each subsequent anniversary of the last day of the calendar month in which the Closing Date occurs (each, a "Subsequent Funding Date"). Each Term Note funding after the first shall be deposited into Customer's WCMA Account.

(D) ACTIVATION OF WCMA LINE. On the Closing Date, MLBFS will activate and make available as an integral part of the Loan a WCMA Line of Credit equal to two-thirds of the Loan Amount, all of which will be immediately disbursed on account of the Loan Purpose as part of the Loan in accordance with the directions of Customer set forth in the Closing Certificate, as aforesaid.

(E) SUBSEQUENT FUNDINGS. On the first Subsequent Funding Date, concurrently with MLBFS' funding of the second installment of the debt evidenced by the Term Note into the WCMA Account, the WCMA Line of Credit will be reduced to an amount equal to one-third of the Loan Amount.

(F) WCMA MATURITY DATE. On the second Subsequent Funding Date (the "WCMA Maturity Date), the WCMA Line of Credit will be terminated and the WCMA Account, at the option of Customer, will either be converted to a WCMA Cash Account (subject to any requirements of MLPF&S) or terminated.

2.3 CONDITIONS OF MLBFS' OBLIGATION. The Closing Date and MLBFS' obligation to make the Loan on the Closing Date are subject to the prior fulfillment of each of the following conditions: (a) MLBFS shall have received a written request from Customer that the Loan be funded in accordance with the terms hereof, together with a written direction from Customer as to the method of payment and payee(s) of the proceeds of the Loan, which request and direction shall have been received by MLBFS not less than two Business Days prior to any requested funding date; (b) MLBFS shall have received a copy of invoices, bills of sale, payoff letters or other applicable evidence reasonably satisfactory to it that the proceeds of the Loan will satisfy or fulfill the Loan Purpose; (c) the Commitment Expiration Date shall not then have occurred; and (d) each of the General Funding Conditions shall have been met or satisfied to the reasonable satisfaction of MLBFS.

2.4 CONDITIONS OF SUBSEQUENT FUNDINGS. The obligation of MLBFS to fund installments of the term portion of the Loan on any Subsequent Funding Date shall be subject to each of the conditions specified in Section 2.3 hereof being met at such date, and the further condition that all payments due under the Term Note on or prior to any Subsequent Funding Date shall have been paid in full; provided, however, that notwithstanding the failure of any such conditions to have been met, MLBFS may in its sole discretion fund such installment and/or any other installments, and no such funding shall constitute a waiver by MLBFS of any of its rights hereunder or under any of the Additional Agreements. Without limiting the foregoing, it is understood that no funding by MLBFS of any sum hereunder while an Event of Default shall have occurred and is continuing shall under any circumstances be deemed a waiver BY MLBFS of such Event of Default, or a waiver of any of MLBFS' rights hereunder.

2.5 COMMITMENT FEE. In consideration of the agreement by MLBFS to extend the Loan to Customer in accordance with and subject to the terms hereof, Customer has paid or shall, on or before the Closing Date pay, the Commitment Fee to MLBFS. Customer acknowledges and agrees that the Commitment Fee has been fully earned by MLBFS, and that it will not under any circumstances be refundable.

2.6 ACKNOWLEDGMENTS OF CUSTOMER. Customer acknowledges, covenants and agrees that:

(A) PAYMENT OF WCMA INTEREST; ADDITIONAL DEPOSITS. Under the terms of this Loan Agreement, interest accrued on amounts outstanding on the Term WCMA Line of Credit each month will, subject to the terms hereof, ordinarily be paid from the proceeds of a borrowing of an additional sum under the Term WCMA Line of Credit. Because all or substantially all of the Term WCMA Line of Credit will ordinarily be drawn on the Closing Date, CUSTOMER AGREES THAT IT WILL, WITHOUT DEMAND, INVOICING OR THE REQUEST OF MLBFS, FROM TIME TO TIME MAKE SUFFICIENT DEPOSITS INTO THE WCMA ACCOUNT IN ORDER TO ASSURE THAT THE MAXIMUM WCMA LINE OF CREDIT IS NOT EXCEEDED. Installments of principal and interest under the Term Note shall be paid directly to MLBFS in accordance with the terms of the Term Note.

(B) ADDITIONAL INTEREST CHARGES. SUBJECT TO THE TERMS HEREOF, ON EACH SUBSEQUENT FUNDING DATE MLBFS WILL DEPOSIT THE AMOUNT FUNDED INTO THE WCMA ACCOUNT. DUE TO POSSIBLE DELAYS IN POSTING AS WELL AS CERTAIN DELAYS IN RECOGNITION OF DEPOSITS INHERENT IN THE WCMA PROGRAM, CUSTOMER WILL NOT RECEIVE CREDIT FOR THE AMOUNT DEPOSITED FOR UP TO SEVERAL DAYS THEREAFTER, RESULTING IN AN INTEREST CHARGE FOR THAT PERIOD OF TIME ACCRUING AND CHARGED IN THE WCMA ACCOUNT. ON THE OTHER HAND, BECAUSE MLBFS BORROWS ALL OR SUBSTANTIALLY ALL OF THE FUNDS THAT IT LENDS ON THE DATE OF FUNDING, IT MUST CHARGE INTEREST ON THE AMOUNT FUNDED ON EACH SUBSEQUENT FUNDING DATE FROM THE DATE OF ITS DEPOSIT INTO THE WCMA ACCOUNT, WHETHER OR NOT SUCH DEPOSIT IS IMMEDIATELY RECOGNIZED. THE TIMING DIFFERENCES BETWEEN THE DATE OF DEPOSIT AND DATE OF RECOGNITION OF THE DEPOSIT IN THE WCMA ACCOUNT WILL

THEREFORE RESULT IN EXTRA INTEREST CHARGES TO CUSTOMER, WHICH CUSTOMER ACKNOWLEDGES ARE AN ADDITIONAL COST OF THE LOAN AND HEREBY UNCONDITIONALLY AGREES TO PAY.

ARTICLE III. THE WCMA LINE OF CREDIT

3.1 WCMA NOTE.

All amounts owing under the WCMA Line of Credit shall be deemed owing under and evidenced by the WCMA Note included in the Term WCMA Note.

3.2 WCMA LOANS.

(A) LOAN COMMITMENT AND REQUESTS. Subject to the terms and conditions hereof: (i) on the Closing Date, MLBFS will make a WCMA Loan to Customer in an amount equal to the Maximum WCMA Line of Credit, the entire proceeds of which will be disbursed on account of the Loan Purpose, as aforesaid; and (ii) during the period from and after the Closing Date to the WCMA Maturity Date: (x) Customer may repay said WCMA Loan and any other WCMA Loans in whole or in part at any time without premium or penalty, and request a re-borrowing of amounts repaid on a revolving basis, and (y) MLBFS will make such additional WCMA Loans as Customer may from time to time request in accordance with the terms hereof. Customer may request WCMA Loans by use of WCMA Checks, FTS, Visa(R) charges, wire transfers, or such other means of access to the WCMA Line of Credit as may be permitted by MLBFS from time to time; it being understood that so long as the WCMA Line of Credit shall be in effect, any charge or debit to the WCMA Account which but for the WCMA Line of Credit would under the terms of the WCMA Agreement result in an overdraft, shall be deemed a request by Customer for a WCMA Loan.

(B) CONDITIONS OF WCMA LOANS. Notwithstanding the foregoing, MLBFS shall not be obligated to make any WCMA Loan, and may without notice refuse to honor any such request by Customer, if at the time of receipt by MLBFS of Customers request: (i) the making of such WCMA Loan would cause the Maximum WCMA Line of Credit to be exceeded; or (ii) the Maturity Date shall have occurred, or the WCMA Line of Credit shall have otherwise been terminated in accordance with the terms hereof; or (iii) an event shall have occurred and is continuing which shall have caused any of the General Funding Conditions to not then be met or satisfied to the reasonable satisfaction of MLBFS. The making by MLBFS of any WCMA Loan at a time when any one or more of said conditions shall not have been met shall not in any event be construed as a waiver of said condition or conditions or of any Event of Default, and shall not prevent MLBFS at any time thereafter while any condition shall not have been met from refusing to honor any request by Customer for a WCMA Loan.

(C) FORCE MAJEURE. MLBFS shall not be responsible, and shall have no liability to Customer or any other party, for any delay or failure of MLBFS to honor any request of Customer for a WCMA Loan or any other act or omission of MLBFS, MLPF&S or any of their

affiliates due to or resulting from any system failure, error or delay in posting or other clerical error, loss of power, fire, Act of God or other cause beyond the reasonable control of MLBFS, MLPF&S or any of their affiliates unless directly arising out of the willful wrongful act or active gross negligence of MLBFS. In no event shall MLBFS be liable to Customer or any other party for any incidental or consequential damages arising from any act or omission by MLBFS, MLPF&S or any of their affiliates in connection with the WCMA Line of Credit or this Loan Agreement.

(D) INTEREST. The WCMA Loan Balance shall bear interest at the Interest Rate. Interest shall be computed for the actual number of days elapsed on the basis of a year consisting of 360 days. Notwithstanding any other provision in this Loan Agreement or any Additional Agreements to the contrary, in no event shall the Interest Rate exceed the highest rate permissible under any applicable law. In the event that any court having jurisdiction determines that MLBFS has received excess interest hereunder, MLBFS will promptly refund such excess interest to Customer, without charge or penalty. Except as otherwise provided herein, accrued and unpaid interest on the WCMA Loan Balance shall be payable monthly on the last Business Day of each calendar month, commencing with the last Business Day of the calendar month in which the Closing Date shall occur. Customer hereby irrevocably authorizes and directs MLPF&S to pay MLBFS such accrued interest from any available free credit balances in the WCMA Account, and if such available free credit balances are insufficient to satisfy any interest payment due, to liquidate any investments in the Money Accounts (other than any investments constituting any Minimum Money Accounts Balance under the WCMA Directed Reserve program) in an amount up to the balance of such accrued interest, and pay to MLBFS the available proceeds on account thereof. If available free credit balances in the WCMA Account and available proceeds of the Money Accounts are insufficient to pay the entire balance of accrued interest, and Customer otherwise fails to make such payment when due, MLBFS may, in its sole discretion, make a WCMA Loan in an amount equal to the balance of such accrued interest and pay the proceeds of such WCMA Loan to itself on account of such interest. The amount of any such WCMA Loan will be added to the WCMA Loan Balance. If MLBFS declines to extend a WCMA Loan to Customer under these circumstances, Customer hereby authorizes and directs MLPF&S to make all such interest payments to MLBFS from any Minimum Money Accounts Balance. If there is no Minimum Money Accounts Balance, or it is insufficient to pay all such interest, MLBFS will invoice Customer for payment of the balance of the accrued interest, and Customer shall pay such interest as directed by MLBFS within 5 Business Days of receipt of such invoice.

(E) PAYMENTS. All payments required or permitted to be made pursuant to this Loan Agreement shall be made in lawful money of the United States. Unless otherwise directed by MLBFS, payments on account of the WCMA Loan Balance may be made by the delivery of checks (other than WCMA Checks), or by means of FTS or wire transfer of funds (other than funds from the WCMA Line of Credit) to MLPF&S for credit to Customers WCMA Account. Notwithstanding anything in the WCMA Agreement to the contrary, Customer hereby irrevocably authorizes and directs MLPF&S to apply available free credit balances in the WCMA Account to the repayment of the WCMA Loan Balance prior to application for any other

purpose. Payments to MLBFS from funds in the WCMA Account shall be deemed to be made by Customer upon the same basis and schedule as funds are made available for investment in the Money Accounts in accordance with the terms of the WCMA Agreement. The acceptance by or on behalf of MLBFS of a check or other payment for a lesser amount than shall be due from Customer, regardless of any endorsement or statement thereon or transmitted therewith, shall not be deemed an accord and satisfaction or anything other than a payment on account, and MLBFS or anyone acting on behalf of MLBFS may accept such check or other payment without prejudice to the rights of MLBFS to recover the balance actually due or to pursue any other remedy under this Loan Agreement or applicable law for such balance. All checks accepted by or on behalf of MLBFS in connection with the Loan and WCMA Line of Credit are subject to final collection.

(F) EXCEEDING THE MAXIMUM WCMA LINE OF CREDIT. In the event that the WCMA Loan Balance shall at any time exceed the Maximum WCMA Line of Credit, Customer shall within 1 Business Day of the first to occur of (i) any request or demand of MLBFS, or (ii) receipt by Customer of a statement from MLPF&S showing a WCMA Loan Balance in excess of the WCMA Line of Credit, deposit sufficient funds into the WCMA Account to reduce the WCMA Loan Balance below the Maximum WCMA Line of Credit.

(G) STATEMENTS. MLPF&S will include in each monthly statement it issues under the WCMA Program information with respect to WCMA Loans and the WCMA Loan Balance. Any questions that Customer may have with respect to such information should be directed to MLBFS; and any questions with respect to any other matter in such statements or about or affecting the WCMA Program should be directed to MLPF&S.

ARTICLE IV. GENERAL PROVISIONS

4.1 REPRESENTATIONS AND WARRANTIES.

Customer represents and warrants to MLBFS that:

(A) ORGANIZATION AND EXISTENCE. Customer is a corporation, duly organized and validly existing in good standing under the laws of the State of Florida and is qualified to do business and in good standing in each other state where the nature of its business or the property owned by it make such qualification necessary.

(B) EXECUTION, DELIVERY AND PERFORMANCE. The execution, delivery and performance by Customer of this Loan Agreement and such of the Additional Agreements to which it is a party: (i) have been duly authorized by all requisite action, (ii) do not and will not violate or conflict with any law or other governmental requirement, or any of the agreements, instruments or documents which formed or govern Customer, and (iii) do not and will not breach or violate any of the provisions of, and will not result in a default by Customer under, any other agreement, instrument or document to which it is a party or by which it or its properties are bound.

(C) NOTICES AND APPROVALS. Except as may have been given or obtained, no notice to or consent or approval of any governmental body or authority or other third party whatsoever (including, without limitation, any other creditor) is required in connection with the execution, delivery or performance by Customer of such of this Loan Agreement, the Term WCMA Note and the other Additional Agreements to which it is a party.

(D) ENFORCEABILITY. This Loan Agreement, the Term WCMA Note and such of the other Additional Agreements to which it is a party are the legal, valid and binding obligations of Customer, enforceable against it in accordance with their respective terms, except as enforceability may be limited by bankruptcy and other similar laws affecting the rights of creditors generally or by general principles of equity.

(E) COLLATERAL. Subject to Permitted Liens: (i) Customer has good and marketable title to the Collateral, (ii) none of the Collateral is subject to any lien, encumbrance or security interest, and (Iii) upon the filing of all Uniform Commercial Code financing statements executed by Customer with respect to the Collateral in the appropriate jurisdiction(s) and/or the completion of any other action required by applicable law to perfect its liens and security interests, MLBFS will have valid and perfected first liens and security interests upon all of the Collateral.

(F) FINANCIAL STATEMENTS. Except as expressly set forth in Customers financial statements, all financial statements of Customer furnished to MLBFS have been prepared in conformity with generally accepted accounting principles, consistently applied, are true and correct, and fairly present the financial condition of it as at such dates and the results of its operations for the periods then ended; and since the most recent date covered by such financial statements, there has been no material adverse change in any such financial condition or operation.

(G) LITIGATION. No litigation, arbitration, administrative or governmental proceedings are pending or, to the knowledge of Customer, threatened against Customer, which would, if adversely determined, materially and adversely affect the liens and security interests of MLBFS hereunder or under any of the Additional Agreements, the financial condition of Customer or the continued operations of Customer.

(H) TAX RETURNS. All federal, state and local tax returns, reports and statements required to be filed by Customer have been filed with the appropriate governmental agencies and all taxes due and payable by Customer have been timely paid (except to the extent that any such failure to file or pay will not materially and adversely affect either the liens and security interests of MLBFS hereunder or under any of the Additional Agreements, the financial condition of Customer, or the continued operations of Customer).

(I) COLLATERAL LOCATION. All of the tangible Collateral is located at a Location of Tangible Collateral.

Each of the foregoing representations and warranties are continuing and shall be deemed remade by Customer on the Closing Date, on each Subsequent Funding Date and concurrently with each request for a WCMA Loan.

4.2 FINANCIAL AND OTHER INFORMATION.

Customer shall furnish or cause to be furnished to MLBFS during the term of this Loan Agreement all of the following:

(A) ANNUAL FINANCIAL STATEMENTS. Within 120 days after the close of each fiscal year of Customer, Customer shall furnish or cause to be furnished to MLBFS a copy of the annual audited financial statements of Customer consisting of at least a balance sheet as at the close of such fiscal year and related statements of income, retained earnings and cash flows, certified by its current independent certified public accountants or other independent certified public accountants reasonably acceptable to MLBFS.

(B) INTERIM FINANCIAL STATEMENTS. Within 45 days after the close of each fiscal quarter of Customer, Customer shall furnish or cause to be furnished to MLBFS: (i) a statement of profit and loss for the fiscal quarter then ended, and (ii) a balance sheet as at the close of such fiscal quarter; all in reasonable detail and certified by its chief financial officer.

(C) AGING OF ACCOUNTS. Within 45 days after the close of each fiscal quarter of Customer, Customer shall furnish or cause to be furnished to MLBFS an aging of its Accounts and any Chattel Paper, certified by its chief financial officer.

(D) OTHER INFORMATION. Customer shall furnish or cause to be furnished to MLBFS such other information as MLBFS may from time to time reasonably request relating to Customer or the Collateral.

4.3 OTHER COVENANTS. Customer further covenants and agrees during the term of this Loan Agreement that:

(A) FINANCIAL RECORDS; INSPECTION. Customer will: (i) maintain at its principal place of business complete and accurate books and records, and maintain all of its financial records in a manner consistent with the financial statements heretofore furnished to MLBFS, or prepared on such other basis as may be approved in writing by MLBFS; and (H) permit MLBFS or its duly authorized representatives, upon reasonable notice and at reasonable times, to inspect its properties (both real or personal), operations, books and records.

(B) TAXES. Customer will pay when due all taxes, assessments and other governmental charges, howsoever designated, and all other liabilities and obligations, except to the extent that any such failure to pay will not materially and adversely affect either the liens and security interests of MLBFS hereunder or under any of the Additional Agreements, the financial condition of Customer or the continued operations of Customer.

(C) COMPLIANCE WITH LAWS AND AGREEMENTS. Customer will not violate any law, regulation or other governmental requirement, any judgment or order of any court or governmental agency or authority, or any agreement, instrument or document to which it is a party or by which it is bound, if any such violation will materially and adversely affect either the liens and security interests of MLBFS hereunder or under any of the Additional Agreements, or the financial condition or the continued operations of Customer.

(D) USE OF LOAN PROCEEDS; SECURITIES TRANSACTIONS. The proceeds of the Loan (including the initial WCMA Loan) shall be used by Customer solely for the Loan Purpose, or, with the prior written consent of MLBFS, for other lawful business purposes of Customer not prohibited hereby. The proceeds of each WCMA Loan other than the initial WCMA Loan shall be used by Customer solely for working capital in the ordinary course of Customer's business, or, with the prior written consent of MLBFS, for other lawful business purposes of Customer not prohibited hereby. CUSTOMER AGREES THAT UNDER NO CIRCUMSTANCES WILL THE LOAN OR FUNDS BORROWED FROM MLBFS THROUGH THE WCMA LINE OF CREDIT BE USED: (I) FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OF ANY PERSON WHATSOEVER, (II) TO PURCHASE, CARRY OR TRADE IN SECURITIES, INCLUDING SHARES OF THE MONEY ACCOUNTS, OR (III) TO REPAY DEBT INCURRED TO PURCHASE, CARRY OR TRADE IN SECURITIES; NOR WILL ANY SUCH FUNDS BE REMITTED, DIRECTLY OR INDIRECTLY, TO MLPF&S OR ANY OTHER BROKER OR DEALER IN SECURITIES, BY WCMA CHECK, CHECK, FTS, WIRE TRANSFER, OR OTHERWISE.

(E) CONTINUITY. Except upon the prior written consent of MLBFS, which consent will not be unreasonably withheld: (i) Customer will not be a party to any merger or consolidation with, or purchase or otherwise acquire all or substantially all of the assets or stock of, or any material partnership or joint venture interest in, any person or entity, or sell, transfer or lease all or any substantial part of its assets if any such action causes a material change in its control or principal business, or a material adverse change in its financial condition or operations; (ii) Customer will preserve its existence and good standing in the jurisdictions of establishment and operation, and will not operate in any material business other than a business substantially the same as its business as of the date of application by Customer for credit from MLBFS; and (iii) Customer will not cause or permit any material change in its controlling ownership, controlling senior management or, except upon not less than 30 days prior written notice to MLBFS, its name or principal place of business. Without limiting the foregoing, Xenon Research, Inc. shall remain the largest shareholder of Customer.

(F) TANGIBLE NET WORTH. The "tangible net worth" of Customer, consisting of Customers net worth as shown on Customers regular financial statements prepared in a manner consistent with the terms hereof, but excluding an amount equal to: (i) any assets which are ordinarily classified as "intangible" in accordance with generally accepted accounting principles, and (ii) any amounts now or hereafter directly or indirectly owing to Customer by officers, shareholders or affiliates of Customer, shall at all times exceed $2,750,000.00.

(G) MINIMUM WORKING CAPITAL. Customers net working capital (i.e. the excess of its current assets over its current liabilities), as shown on Customer's regular books and records, shall at all time exceed $1,500,000.00.

(H) GUARANTIES. Except upon the prior written consent of MLBFS, Customer shall not cause or permit Simon Raab or Gregory Fraser to directly or indirectly guaranty the obligations of Customer (other than obligations owing to MLBFS).

(I) LOANS TO AFFILIATED PERSONS AND ENTITIES. Except upon the prior written consent of MLBFS, Customer shall not directly or indirectly lend any moneys to, or guaranty the debt of, any affiliated person or entity.

4.4 COLLATERAL.

(A) PLEDGE OF COLLATERAL. To secure payment and performance of the Obligations, Customer hereby pledges, assigns, transfers and sets over to MLBFS, and grants to MLBFS first liens and security interests in and upon all of the Collateral, subject only to Permitted Liens.

(B) LIENS. Except upon the prior written consent of MLBFS, Customer shall not create or permit to exist any lien, encumbrance or security interest upon or with respect to any Collateral now owned or hereafter acquired other than Permitted Liens.

(C) PERFORMANCE OF OBLIGATIONS. Customer shall perform all of its obligations owing on account of or with respect to the Collateral; it being understood that nothing herein, and no action or inaction by MLBFS, under this Loan Agreement or otherwise, shall be deemed an assumption by MLBFS of any of Customers said obligations.

(D) SALES AND COLLECTIONS. So long as no Event of Default shall have occurred and is continuing, Customer may in the ordinary course of its business: (1) sell any Inventory normally held by Customer for sale, (ii) use or consume any materials and supplies normally held by Customer for use or consumption, and (iii) collect all of its Accounts. Customer shall take such action with respect to protection of its Inventory and the other Collateral and the collection of its Accounts as MLBFS may from time to time reasonably request.

(E) ACCOUNT SCHEDULES. Upon the request of MLBFS, made now or at any reasonable time or times hereafter, Customer shall deliver to MLBFS, in addition to the other information required hereunder, a schedule identifying, for each Account and all Chattel Paper subject to MLBFS' security interests hereunder, each Account Debtor by name and address and amount, invoice or contract number and date of each invoice or contract. Customer shall furnish to MLBFS such additional information with respect to the Collateral, and amounts received by Customer as proceeds of any of the Collateral, as MLBFS may from time to time reasonably request.

(F) ALTERATIONS AND MAINTENANCE. Except upon the prior written consent of MLBFS, Customer shall not make or permit any material alterations to any tangible Collateral which might materially reduce or impair its market value or utility. Customer shall at all times keep the tangible Collateral in good condition and repair and shall pay or cause to be paid all obligations arising from the repair and maintenance of such Collateral, as well as all obligations with respect to each Location of Tangible Collateral, except for any such obligations being contested by Customer in good faith by appropriate proceedings.

(G) LOCATION. Except for movements required in the ordinary course of Customers business, Customer shall give MLBFS 30 days' prior written notice of the placing at or movement of any tangible Collateral to any location other than a Location of Tangible Collateral. In no event shall Customer cause or permit any material tangible Collateral to be removed from the United States without the express prior written consent of MLBFS.

(H) INSURANCE. Customer shall insure all of the tangible Collateral under a policy or policies of physical damage insurance providing that losses will be payable to MLBFS as its interests may appear pursuant to a Lender's Loss Payable Endorsement and containing such other provisions as may be reasonably required by MLBFS. Customer shall further provide and maintain a policy or policies of comprehensive public liability insurance naming MLBFS as an additional party insured. Customer shall maintain such other insurance as may be required by law or is customarily maintained by companies in a similar business or otherwise reasonably required by MLBFS. All such insurance shall provide that MLBFS will receive not less than 10 days prior written notice of any cancellation, and shall otherwise be in form and amount and with an insurer or insurers reasonably acceptable to MLBFS. Customer shall furnish MLBFS with a copy or certificate of each such policy or policies and, prior to any expiration or cancellation, each renewal or replacement thereof.

(I) EVENT OF LOSS. Customer shall at its expense promptly repair all repairable damage to any tangible Collateral. In the event that any tangible Collateral is damaged beyond repair, lost, totally destroyed or confiscated (an "Event of Loss") and such Collateral had a value prior to such Event of Loss of $25,000.00 or more, then, on or before the first to occur of (i) 90 days after the occurrence of such Event of Loss, or (H) 10 Business Days after the date on which either Customer or MLBFS shall receive any proceeds of insurance on account of such Event of Loss, or any underwriter of insurance on such Collateral shall advise either Customer or MLBFS that it disclaims liability in respect of such Event of Loss, Customer shall, at Customer's option, either replace the Collateral subject to such Event of Loss with comparable Collateral free of all liens other than Permitted Liens (in which event Customer shall be entitled to utilize the proceeds of insurance on account of such Event of Loss for such purpose, and may retain any excess proceeds of such insurance), or prepay the Loan by an amount equal to the actual cash value of such Collateral as determined by either the insurance company's payment (plus any applicable deductible) or, in absence of insurance company payment, as reasonably determined by MLBFS. Notwithstanding the foregoing, if at the time of occurrence of such Event of Loss or any time thereafter prior to replacement or prepayment, as aforesaid, an Event of Default shall occur hereunder, then MLBFS may at its sole option, exercisable at any time

while such Event of Default shall be continuing, require Customer to either replace such Collateral or prepay the Loan, as aforesaid. Any prepayment of the Loan pursuant to this Section shall be applied first to installments on account of the then "Term Note Balance" (as defined in the Term WCMA Note) in inverse order of maturity; with any prepayment in excess of the then Term Note Balance applied on account of the WCMA Note concurrently with: (i) a like permanent reduction in the WCMA Line of Credit, and (H) a like reduction in the obligation of MLBFS to fund future installments on account of the Term Note in inverse order of funding. No amount prepaid pursuant to this Section may be re-borrowed by Customer.

(J) NOTICE OF CERTAIN EVENTS. Customer shall give MLBFS immediate notice of any attachment, lien, judicial process, encumbrance or claim affecting or involving $25,000.00 or more of the Collateral.

(K) INDEMNIFICATION. Customer shall indemnify, defend and save MLBFS harmless from and against any and all claims, liabilities, losses, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) of any nature whatsoever which may be asserted against or incurred by MLBFS arising out of or in any manner occasioned by (i) the ownership, collection, possession, use or operation of any Collateral, or (H) any failure by Customer to perform any of its obligations hereunder; excluding, however, from said indemnity any such claims, liabilities, etc. arising directly out of the willful wrongful act or active gross negligence of MLBFS. This indemnity shall survive the expiration or termination of this Loan Agreement as to all matters arising or accruing prior to such expiration or termination.

4.5 EVENTS OF DEFAULT.

The occurrence of any of the following events shall constitute an "Event of Default" under this Loan Agreement:

(A) FAILURE TO PAY. Customer shall fail to pay to MLBFS or deposit into the WCMA Account when due any amount owing or required to be deposited by Customer under this Loan Agreement or the Term WCMA Note, or shall fail to pay when due any other Obligations, and any such failure shall continue for more than 5 Business Days after written notice thereof shall have been given by MLBFS to Customer.

(B) FAILURE TO PERFORM. Customer shall default in the performance or observance of any covenant or agreement on its part to be performed or observed under this Loan Agreement, the Term WCMA Note or any of the other Additional Agreements (not constituting an Event of Default under any other clause of this Section), and such default shall continue unremedied for 10 Business Days after written notice thereof shall have been given by MLBFS to Customer.

(C) BREACH OF WARRANTY. Any representation or warranty made by Customer contained in this Loan Agreement, the Term WCMA Note or any of the other Additional Agreements shall at any time prove to have been incorrect in any material respect when made.

(D) DEFAULT UNDER OTHER AGREEMENT. A default or Event of Default by Customer shall occur under the terms of any other agreement, instrument or document with or intended for the benefit of MLBFS, MLPF&S or any of their affiliates, and any required notice shall have been given and required passage of time shall have elapsed.

(E) BANKRUPTCY, ETC. A proceeding under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt or receivership law or statute shall be filed by Customer, or any such proceeding shall be filed against Customer and shall not be dismissed or withdrawn within 60 days after filing, or Customer shall make an assignment for the benefit of creditors, or Customer shall become insolvent or generally fail to pay, or admit in writing its inability to pay, its debts as they become due.

(F) MATERIAL IMPAIRMENT. Any event shall occur which shall reasonably cause MLBFS to in good faith believe that the prospect of payment or performance by Customer has been materially impaired.

(G) ACCELERATION OF DEBT TO OTHER CREDITORS. Any event shall occur which results in the acceleration of the maturity of any indebtedness of $100,000.00 or more of Customer to another creditor under any indenture, agreement, undertaking, or otherwise.

(H) SEIZURE OR ABUSE OF COLLATERAL. The Collateral, or any material part thereof, shall be or become subject to any material abuse or misuse, or any levy, attachment, seizure or confiscation which is not released within 10 Business Days.

4.6 REMEDIES.

(A) REMEDIES UPON DEFAULT. Upon the occurrence and during the continuance of any Event of Default, MLBFS may at its sole option do any one or more or all of the following, at such time and in such order as MLBFS may in its sole discretion choose:

(I) TERMINATION. MLBFS may without notice terminate its obligation to make the Loan (if the Loan has not then been funded), or fund any further amount on account of the Term WCMA Note, or make or continue to make the WCMA Line of Credit available to Customer, or otherwise extend any credit to or for the benefit of Customer; and upon any such termination MLBFS shall be relieved of all such obligations.

(II) ACCELERATION. MLBFS may declare the principal of and interest on the Term Note and WCMA Note included in the Term WCMA Note, and all other Obligations to be forthwith due and payable, whereupon all such amounts shall be immediately due and payable, without presentment, demand for payment, protest and notice of protest, notice of dishonor, notice of acceleration, notice of intent to accelerate or other notice or formality of any kind, all of which are hereby expressly waived.

(III) EXERCISE RIGHTS OF SECURED PARTY. MLBFS may exercise any or all of the remedies of a secured party under applicable law, including, but not limited to, the UCC, and any or all of its other rights and remedies under this Loan Agreement and the Additional Agreements.

(IV) POSSESSION. MLBFS may require Customer to make the Collateral and the records pertaining to the Collateral available to MLBFS at a place designated by MLBFS which is reasonably convenient, or may take possession of the Collateral and the records pertaining to the Collateral without the use of any judicial process and without any prior notice to Customer.

(V) SALE. MLBFS may sell any or all of the Collateral at public or private sale upon such terms and conditions as MLBFS may reasonably deem proper. MLBFS may purchase any Collateral at any such public sale. The net proceeds of any such public or private sale and all other amounts actually collected or received by MLBFS pursuant hereto, after deducting all costs and expenses incurred at any time in the collection of the Obligations and in the protection, collection and sale of the Collateral, will be applied to the payment of the Obligations, with any remaining proceeds paid to Customer or whoever else may be entitled thereto, and with Customer remaining liable for any amount remaining unpaid after such application.

(VI) DELIVERY OF CASH, CHECKS, ETC. MLBFS may require Customer to forthwith upon receipt, transmit and deliver to MLBFS in the form received, all cash, checks, drafts and other instruments for the payment of money (property endorsed, where required, so that such items may be collected by MLBFS) which may be received by Customer at any time in full or partial payment of any Collateral, and require that Customer not commingle any such items which may be so received by Customer with any other of its funds or property but instead hold them separate and apart and in trust for MLBFS until delivery is made to MLBFS.

(VII) NOTIFICATION OF ACCOUNT DEBTORS. MLBFS may notify any Account Debtor that its Account or Chattel Paper has been assigned to MLBFS and direct such Account Debtor to make payment directly to MLBFS of all amounts due or becoming due with respect to such Account or Chattel Paper; and MLBFS may enforce payment and collect, by legal proceedings or otherwise, such Account or Chattel Paper.

(VIII) CONTROL OF COLLATERAL. MLBFS may otherwise take control in any lawful manner of any cash or noncash items of payment or proceeds of Collateral and of any rejected, returned, stopped in transit or repossessed goods included in the Collateral and endorse Customers name on any item of payment on or proceeds of the Collateral.

(B) SET-OFF. MLBFS shall have the further right upon the occurrence and during the continuance of an Event of Default to set-off, appropriate and apply toward payment of any of the Obligations, in such order of application as MLBFS may from time to time and at any time elect, any cash, credit, deposits, accounts, securities and any other property of Customer which is in transit to or in the possession, custody or control of MLBFS, MLPF&S or any agent, bailee, or affiliate of MLBFS or MLPF&S, including, without limitation, the WCMA Account and any Money Accounts, and all cash and securities therein or controlled thereby, and all

proceeds thereof. Customer hereby collaterally assigns and grants to MLBFS a security interest in all such property as additional Collateral.

(C) REMEDIES ARE SEVERABLE AND CUMULATIVE. All rights and remedies of MLBFS herein are severable and cumulative and in addition to all other rights and remedies available in the Term WCMA Note, the other Additional Agreements, at law or in equity, and any one or more of such rights and remedies may be exercised simultaneously or successively.

(D) NOTICES. To the fullest extent permitted by applicable law, Customer hereby irrevocably waives and releases MLBFS of and from any and all liabilities and penalties for failure of MLBFS to comply with any statutory or other requirement imposed upon MLBFS relating to notices of sale, holding of sale or reporting of any sale, and Customer waives all rights of redemption or reinstatement from any such sale. Any notices required under applicable law shall be reasonably and properly given to Customer if given by any of the methods provided herein at least 5 Business Days prior to taking action. MLBFS shall have the right to postpone or adjourn any sale or other disposition of Collateral at any time without giving notice of any such postponed or adjourned date. In the event MLBFS seeks to take possession of any or all of the Collateral by court process, Customer further irrevocably waives to the fullest extent permitted by law any bonds and any surety or security relating thereto required by any statute, court rule or otherwise as an incident to such possession, and any demand for possession prior to the commencement of any suit or action.

(E) NO ARBITRATION. Without affecting the rights of MLPF&S under the WCMA Agreement, it is understood that neither MLBFS nor Customer shall have the right to non-judicial arbitration of any dispute hereunder without the written consent of the other party.

4.7 MISCELLANEOUS.

(A) NON-WAIVER. No failure or delay on the part of MLBFS in exercising any right, power or remedy pursuant to this Loan Agreement, the Term WCMA Note or any of the other Additional Agreements shall operate as a waiver thereof, and no single or partial exercise of any such right, power or remedy shall preclude any other or further exercise thereof, or the exercise of any other right, power or remedy. Neither any waiver of any provision of this Loan Agreement, the Term WCMA Note or any of the other Additional Agreements, nor any consent to any departure by Customer therefrom, shall be effective unless the same shall be in writing and signed by MLBFS. Any waiver of any provision of this Loan Agreement, the Term WCMA Note or any of the other Additional Agreements and any consent to any departure by Customer from the terms thereof shall be effective only in the specific instance and for the specific purpose for which given. Except as otherwise expressly provided herein, no notice to or demand on Customer shall in any case entitle Customer to any other or further notice or demand in similar or other circumstances.

(B) DISCLOSURE. Customer hereby irrevocably authorize MLBFS and each of its affiliates, including without limitation MLPF&S, to at any time (whether or not an Event of Default shall

have occurred) obtain from and disclose to each other any and all financial and other information about Customer.

(C) COMMUNICATIONS. All notices and other communications required or permitted hereunder or in connection with any of the Additional Agreements shall be in writing, and shall be either delivered personally, mailed by postage prepaid certified mail or sent by express overnight courier or by facsimile. Such notices and communications shall be deemed to be given on the date of personal delivery, facsimile transmission or actual delivery of certified mail, or one Business Day after delivery to an express overnight courier. Unless otherwise specified in a notice sent or delivered in accordance with the terms hereof, notices and other communications in writing shall be given to the parties hereto at their respective addresses set forth at the beginning of this Loan Agreement, or, in the case of facsimile transmission, to the parties at their respective regular facsimile telephone number.

(D) COSTS, EXPENSES AND TAXES. Customer shall upon demand pay or reimburse MLBFS for: Q) all Uniform Commercial Code and other filing and search fees and expenses incurred by MLBFS in connection with the verification, perfection or preservation of MLBFS' rights hereunder or in the Collateral or any other collateral for the Obligations; (ii) any and all stamp, transfer and other taxes and fees payable or determined to be payable in connection with the execution, delivery and/or recording of this Loan Agreement or any of the Additional Agreements; and (iii) all reasonable fees and out-of-pocket expenses (including, but not limited to, reasonable fees and expenses of outside counsel) incurred by MLBFS in connection with the enforcement of this Loan Agreement or any of the Additional Agreements and the protection of MLBFS' rights hereunder or thereunder, excluding, however, salaries and expenses of MLBFS' employees. The obligations of Customer under this paragraph shall survive the expiration or termination of this Loan Agreement and the discharge of the other Obligations.

(E) RIGHT TO PERFORM OBLIGATIONS. If Customer shall fail to do any act or thing which it has covenanted to do under this Loan Agreement or any representation or warranty on the part of Customer contained in this Loan Agreement shall be breached, MLBFS may, in its sole discretion, after 5 Business Days written notice is sent to Customer (or such lesser notice, including no notice, as is reasonable under the circumstances), do the same or cause it to be done or remedy any such breach, and may expend its funds for such purpose. Any and all reasonable amounts so expended by MLBFS shall be repayable to MLBFS by Customer upon demand, with interest at the Interest Rate during the period from and including the date funds are so expended by MLBFS to the date of repayment, and all such amounts shall be additional Obligations. The payment or performance by MLBFS of any of Customer's obligations hereunder shall not relieve Customer of said obligations or of the consequences of having failed to pay or perform the same, and shall not waive or be deemed a cure of any Event of Default.

(F) LATE CHARGE. Any payment required to be made by Customer pursuant to this Loan Agreement or any of the Additional Agreements not paid within 10 days of the applicable due date shall be subject to a late charge in an amount equal to the lesser of: (i) 5% of the overdue amount, or (ii) the maximum amount permitted by applicable law. Such late charge shall be

payable on demand, or, without demand, may in the sole discretion of MLBFS be paid by a WCMA Loan and added to the WCMA Loan Balance in the same manner as provided herein for accrued interest with respect to the WCMA Line of Credit.

(G) FURTHER ASSURANCES. Customer agrees to do such further acts and things and to execute and deliver to MLBFS such additional agreements, instruments and documents as MLBFS may reasonably require or deem advisable to effectuate the purposes of this Loan Agreement, the Term WCMA Note or any the other Additional Agreements, or to establish, perfect and maintain MLBFS' security interests and liens upon the Collateral, including, but not limited to: (i) executing financing statements or amendments thereto when and as reasonably requested by MLBFS; and (II) if in the reasonable judgment of MLBFS it is required by local law, causing the owners and/or mortgagees of the real property on which any Collateral may be located to execute and deliver to MLBFS waivers or subordinations reasonably satisfactory to MLBFS with respect to any rights in such Collateral.

(H) BINDING EFFECT. This Loan Agreement, the Term WCMA Note and the other Additional Agreements shall be binding upon, and shall inure to the benefit of MLBFS, Customer and their respective successors and assigns. Customer shall not assign any of its rights or delegate any of its obligations under this Loan Agreement, the Term WCMA Note or any of the other Additional Agreements without the prior written consent of MLBFS. Unless otherwise expressly agreed to in a writing signed by MLBFS, no such consent shall in any event relieve Customer of any of its obligations under this Loan Agreement, the Term WCMA Note or any of the other Additional Agreements.

(I) HEADINGS. Captions and section and paragraph headings in this Loan Agreement are inserted only as a matter of convenience, and shall not affect the interpretation hereof.

(J) GOVERNING LAW. This Loan Agreement, the Term WCMA Note and, unless otherwise expressly provided therein, each of the other Additional Agreements, shall be governed in all respects by the laws of the State of Illinois.

(K) SEVERABILITY OF PROVISIONS. Whenever possible, each provision of this Loan Agreement, the Term WCMA Note and the other Additional Agreements shall be interpreted in such manner as to be effective and valid under applicable law. Any provision of this Loan Agreement, the Term WCMA Note or any of the other Additional Agreements which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Loan Agreement, the Term WCMA Note and the other Additional Agreements or affecting the validity or enforceability of such provision in any other jurisdiction.

(L) TERM. This Loan Agreement shall become effective on the date accepted by MLBFS at its offices in Chicago, Illinois, and, subject to the terms hereof, shall continue in effect so long thereafter as either MLBFS shall be obligated to make the Loan, or, after the Closing Date, there shall be any moneys outstanding under the Term Note or WCMA Note included in the

Term WCMA Note or under this Loan Agreement, or there shall be any other Obligations outstanding.

(M) INTEGRATION. THIS LOAN AGREEMENT, TOGETHER WITH THE TERM WCMA NOTE AND THE OTHER ADDITIONAL AGREEMENTS, CONSTITUTES THE ENTIRE UNDERSTANDING AND REPRESENTS THE FULL AND FINAL AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF, AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR WRITTEN AGREEMENTS OR PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS OF THE PARTIES. WITHOUT LIMITING THE FOREGOING, CUSTOMER ACKNOWLEDGES THAT: (I) NO PROMISE OR COMMITMENT HAS BEEN MADE TO IT BY MLBFS, MLPF&S OR ANY OF THEIR RESPECTIVE EMPLOYEES, AGENTS OR REPRESENTATIVES TO MAKE THE LOAN ON ANY TERMS OTHER THAN AS EXPRESSLY SET FORTH HEREIN AND IN THE TERM WCMA NOTE, OR TO MAKE ANY OTHER LOAN OR OTHERWISE EXTEND ANY OTHER CREDIT TO CUSTOMER OR ANY OTHER PARTY; AND (II) EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, THIS LOAN AGREEMENT SUPERSEDES AND REPLACES ANY AND ALL PROPOSALS, LETTERS OF INTENT AND APPROVAL AND COMMITMENT LETTERS FROM MLBFS TO CUSTOMER, NONE OF WHICH SHALL BE CONSIDERED AN ADDITIONAL AGREEMENT. NO AMENDMENT OR MODIFICATION OF THIS AGREEMENT OR ANY OF THE ADDITIONAL AGREEMENTS TO WHICH CUSTOMER IS A PARTY SHALL BE EFFECTIVE UNLESS IN A WRITING SIGNED BY BOTH MLBFS AND CUSTOMER.

(N) JURISDICTION; WAIVER. CUSTOMER ACKNOWLEDGES THAT THIS LOAN AGREEMENT IS BEING ACCEPTED BY MLBFS IN PARTIAL CONSIDERATION OF MLBFS' RIGHT AND OPTION, IN ITS SOLE DISCRETION, TO ENFORCE THIS LOAN AGREEMENT, THE TERM WCMA NOTE AND THE OTHER ADDITIONAL AGREEMENTS IN EITHER THE STATE OF ILLINOIS OR IN ANY OTHER JURISDICTION WHERE CUSTOMER OR ANY COLLATERAL FOR THE OBLIGATIONS MAY BE LOCATED. CUSTOMER CONSENTS TO JURISDICTION IN THE STATE OF ILLINOIS AND VENUE IN ANY STATE OR FEDERAL COURT IN THE COUNTY OF COOK FOR SUCH PURPOSES, AND CUSTOMER WAIVES ANY AND ALL RIGHTS TO CONTEST SAID JURISDICTION AND VENUE. CUSTOMER FURTHER WAIVES ANY RIGHTS TO COMMENCE ANY ACTION AGAINST MLBFS IN ANY JURISDICTION EXCEPT IN THE COUNTY OF COOK AND STATE OF ILLINOIS. MLBFS AND CUSTOMER HEREBY EACH EXPRESSLY WAIVE ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES AGAINST THE OTHER PARTY WITH RESPECT TO ANY MATTER RELATING TO, ARISING OUT OF OR IN ANY WAY CONNECTED WITH THE LOAN, THIS LOAN AGREEMENT, THE TERM WCMA NOTE, ANY OTHER ADDITIONAL AGREEMENTS AND/OR ANY OF THE TRANSACTIONS WHICH ARE THE SUBJECT MATTER OF THIS LOAN AGREEMENT.

IN WITNESS WHEREOF, this Loan Agreement has been executed as of the day and year first above written.

FARO TECHNOLOGIES, INC.

By: /s/ SIMON RAAB

Signature (1)	Signature (2)
Simon Raab	
Printed Name	Printed Name
President	
Title	Title

STATE OF Arizona

COUNTY OF Pima

On the 3rd day of October, 1996, before me personally came Simon Raab known to me to be the individual who executed the foregoing instrument, and who, being sworn by me, did depose and say that the individual is an officer of the Customer herein, and that the individual executed the foregoing instrument for the Customer herein, and that the individual had the authority to sign the same, and acknowledged that the individual executed the same as the act and deed of said Customer.

Cynthia L. Santa Maria
Notary Public

(NOTARIAL SEAL)

Accepted at Chicago, Illinois:
MERRILL LYNCH BUSINESS FINANCIAL SERVICES, INC.

By:

EXHIBIT 10.6

WCMA(R) NOTE, LOAN AND SECURITY AGREEMENT

WCMA NOTE, LOAN AND SECURITY AGREEMENT ("Loan Agreement") dated as of April 23, 1997, between FARO TECHNOLOGIES, INC., a corporation organized and existing under the laws of the State of Florida having its principal office at 125 Technology Park, Lake Mary, FL 32746 ("Customer"), and MERRILL LYNCH BUSINESS FINANCIAL SERVICES INC., a corporation organized and existing under the laws of the State of Delaware having its principal office at 33 West Monroe Street, Chicago, IL 60603 ("MLBFS").

In accordance with that certain WORKING CAPITAL MANAGEMENTS(R) ACCOUNT AGREEMENT NO. 74007K27 ("WCMA Agreement") between Customer and MLBFS' affiliate, MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED ("MLPF&S"), Customer has subscribed to the WCMA Program described in the WCMA Agreement. The WCMA Agreement is by this reference incorporated as a part hereof. In conjunction therewith and as part of the WCMA Program, Customer has requested that MLBFS provide, and subject to the terms and conditions herein set forth MLBFS has agreed to provide, a commercial line of credit for Customer (the "WCMA Line of Credit").

Accordingly, and in consideration of the premises and of the mutual covenants of the parties hereto, Customer and MLBFS hereby agree as follows:

1. DEFINITIONS

(a) SPECIFIC TERMS. In addition to terms defined elsewhere in this Loan Agreement, when used herein the following terms shall have the following meanings:

(i) "Account Debtor" shall mean any party who is or may become obligated with respect to an Account or Chattel Paper.

(ii) "Activation Date" shall mean the date upon which MLBFS shall cause the WCMA Line of Credit to be fully activated under MLPF&S' computer system as part OF the WCMA Program.

(iii) "Additional Agreements" shall mean all agreements, instruments, documents and opinions other than this Loan Agreement, whether with or from Customer or any other party, which are contemplated hereby or otherwise reasonably required by MLBFS in connection herewith, or which evidence the creation, guaranty or collateralization of any of the Obligations or the granting or perfection of liens or security interests upon the Collateral or any other collateral for the Obligations.

(iv) "Bankruptcy Event" shall mean any of the following: (A) a proceeding under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt or receiver-ship law or statute shall be filed or consented to by Customer; or (B) any such proceeding shall be filed against Customer and shall not be dismissed or withdrawn within sixty (60) days after filing; or (C) Customer shall make a general assignment for the benefit of creditors; or (D) Customer shall

become insolvent or generally fail to pay or admit in writing its inability to pay its debts as they become due; or (E) Customer shall be adjudicated a bankrupt or insolvent.

(v) "Business Day" shall mean any day other than a Saturday, Sunday, federal holiday or other day on which the New York Stock Exchange is regularly closed.

(vi) "Collateral" shall mean all Accounts, Chattel Paper, Contract Rights, Inventory, Equipment, Fixtures, General Intangibles, Deposit Accounts, Documents and Instruments of Customer, howsoever arising, whether now owned or existing or hereafter acquired or arising, and wherever located; together with all parts thereof (including spare parts), all accessories and accessions thereto, all books and records (including computer records) directly related thereto, all proceeds thereof (including, without limitation, proceeds in the form of Accounts and insurance proceeds), and the additional collateral described in Section 9 (b) hereof.

(vii) "Commitment Expiration Date" shall mean May 23, 1997.

(viii) "General Funding Conditions" shall mean each of the following conditions to any WCMA Loan by MLBFS hereunder: (A) no Event of Default, or event which with the giving of notice, passage of time, or both, would constitute an Event of Default, shall have occurred and be continuing or would result from the making of any WCMA Loan hereunder by MLBFS; (B) there shall not have occurred and be continuing any material adverse change in the business or financial condition of Customer; (C) all representations and warranties of Customer herein or in any Additional Agreements shall then be true and correct in all material respects; (D) MLBFS shall have received this Loan Agreement and all of the Additional Agreements, duly executed and filed or recorded where applicable, all of which shall be in form and substance reasonably satisfactory to MLBFS; (E) MLBFS shall have received evidence reasonably satisfactory to it as to the ownership of the Collateral and the perfection and priority of MLBFS' liens and security interests thereon, as well as the ownership of and the perfection and priority of MLBFS' liens and security interests on any other collateral for the Obligations furnished pursuant to any of the Additional Agreements; (F) MLBFS shall have received evidence reasonably satisfactory to it of the insurance required hereby or by any of the Additional Agreements; and (G) any additional conditions specified in the "WCMA Line of Credit Approval" letter executed by MLBFS with respect to the transactions contemplated hereby shall have been met to the reasonable satisfaction of MLBFS.

(ix) "Interest Rate" shall mean a variable per annum rate of interest equal to the sum of 2.65% and the 30-Day Commercial Paper Rate. The "30-Day Commercial Paper Rate" shall mean, as of the date of any determination, the interest rate from time to time published in the "Money Rates" section of The Wall Street Journal for 30-day high-grade unsecured notes sold through dealers by major corporations. The Interest Rate will change as of the date of publication in The Wall Street Journal of a 30-Day Commercial Paper Rate that is different from that published on the preceding Business Day. In the event that The Wall Street Journal shall, for any reason, fail or cease to publish the 30-Day Commercial Paper Rate, MLBFS will choose a reasonably comparable index or source to use as the basis for the Interest Rate.

(x) "Line Fee" shall mean a fee of $10,000.00 payable to MLBFS in connection with the WCMA Line of Credit for the period from the Activation Date to the Maturity Date.

(xi) "Location of Tangible Collateral" shall mean the address of Customer set forth at the beginning of this Loan Agreement, together with any other address or addresses set forth on an exhibit hereto as being a Location of Tangible Collateral.

(xii) "Maturity Date" shall mean March 31, 1998, or such later date as may be consented to in writing by MLBFS.

(xiii) "Maximum WCMA Line of Credit" shall mean $1,000,000.00.

(xiv) "Obligations" shall mean all liabilities, indebtedness and other obligations of Customer to MLBFS, howsoever created, arising or evidenced, whether now existing or hereafter arising, whether direct or indirect, absolute or contingent, due or to become due, primary or secondary or joint or several, and, without limiting the foregoing, shall include interest accruing after the filing of any petition in bankruptcy, and all present and future liabilities, indebtedness and obligations of Customer under this Loan Agreement and under that certain Term WCMA Loan and Security Agreement No. 9609660201.

(xv) "Permitted Liens" shall mean shall mean with respect to the Collateral: (A) liens for current taxes not delinquent, other non-consensual liens arising in the ordinary course of business for sums not due, and, if MLBFS' rights to and interest in the Collateral are not materially and adversely affected thereby, any such liens for taxes or other non-consensual liens arising in the ordinary course of business being contested in good faith by appropriate proceedings; (B) liens in favor of MLBFS; (C) liens which will be discharged with the proceeds of the initial WCMA Loan; (D) existing liens upon Equipment and Fixtures; and (E) any other liens expressly permitted in writing by MLBFS.

(xvi) "WCMA Account" shall mean and refer to the Working Capital Management Account of Customer with MLPF&S identified as Account No. 740-07K27.

(xvii) "WCMA Loan" shall mean each advance made by MLBFS pursuant to this Loan Agreement.

(b) OTHER TERMS. Except as otherwise defined herein: (i) all terms used in this Loan Agreement which are defined in the Uniform Commercial Code of Illinois ("UCC") shall have the meanings set forth in the UCC, and (ii) capitalized terms used herein which are defined in the WCMA Agreement shall have the meanings set forth in the WCMA Agreement.

2. WCMA PROMISSORY NOTE

FOR VALUE RECEIVED, Customer hereby promises to pay to the order of MLBFS, at the times and in the manner set forth in this Loan Agreement, or in such other manner and at such

place as MLBFS may hereafter designate in writing, the following: (a) on the Maturity Date, the aggregate unpaid principal amount of all WCMA Loans (the "WCMA Loan Balance"); (b) interest at the Interest Rate on the outstanding WCMA Loan Balance, from and including the date on which the initial WCMA Loan is made until the date of payment of all WCMA Loans in full; and (c) on demand, all other sums payable pursuant to this Loan Agreement, including, but not limited to, the Line Fee and any late charges. Except as otherwise expressly set forth herein, Customer hereby waives presentment, demand for payment, protest and notice of protest, notice of dishonor, notice of acceleration, notice of intent to accelerate and all other notices and formalities in connection with this WCMA Promissory Note and this Loan Agreement.

3. WCMA LOANS

(a) ACTIVATION DATE. Provided that: (i) the Commitment Expiration Date shall not then have occurred, and (ii) Customer shall have subscribed to the WCMA Program and its subscription to the WCMA Program shall then be in effect, the Activation Date shall occur on or promptly after the date, following the acceptance of this Loan Agreement by MLBFS at its office in Chicago, Illinois, upon which each of the General Funding Conditions shall have been met or satisfied to the reasonable satisfaction of MLBFS. No activation by MLBFS of the WCMA Line of Credit for a nominal amount shall be deemed evidence of the satisfaction of any of the conditions herein set forth, or a waiver of any of the terms or conditions hereof. Customer hereby authorizes MLBFS to pay out of and charge to Customer's WCMA Account on the Activation Date any and all amounts necessary to fully pay off any bank or other financial institution having a lien upon any of the Collateral other than a Permitted Lien.

(b) WCMA LOANS. Subject to the terms and conditions hereof, during the period from and after the Activation Date to the Maturity Date: (i) MLBFS will make WCMA Loans to Customer in such amounts as Customer may from time to time request in accordance with the terms hereof, up to an aggregate outstanding amount not to exceed the Maximum WCMA Line of Credit, and (ii) Customer may repay any WCMA Loans in whole or in part at any time without premium or penalty, and request a re-borrowing of amounts repaid on a revolving basis. Customer may request WCMA Loans by use of WCMA Checks, FTS, Visa(R) charges, wire transfers, or such other means of access to the WCMA Line of Credit as may be permitted by MLBFS from time to time; it being understood that so long as the WCMA Line of Credit shall be in effect, any charge or debit to the WCMA Account which but for the WCMA Line of Credit would under the terms of the WCMA Agreement result in an overdraft, shall be deemed a request by Customer for a WCMA Loan.

(c) CONDITIONS OF WCMA LOANS. Notwithstanding the foregoing, MLBFS shall not be obligated to make any WCMA Loan, and may without notice refuse to honor any such request by Customer, if at the time of receipt by MLBFS of Customer's request: (i) the making of such WCMA Loan would cause the Maximum WCMA Line of Credit to be exceeded; or (ii) the Maturity Date shall have occurred, or the WCMA Line of Credit shall have otherwise been terminated in accordance with the terms hereof; or (iii) Customer's subscription to the WCMA Program shall have been terminated; or (iv) an event shall have occurred and is continuing

which shall have caused any of the General Funding Conditions to not then be met or satisfied to the reasonable satisfaction of MLBFS. The making by MLBFS of any WCMA Loan at a time when any one or more of said conditions shall not have been met shall not in any event be construed as a waiver of said condition or conditions or of any Event of Default, and shall not prevent MLBFS at any time thereafter while any condition shall not have been met from refusing to honor any request by Customer for a WCMA Loan.

(d) FORCE MAJEURE. MLBFS shall not be responsible, and shall have no liability to Customer or any other party, for any delay or failure of MLBFS to honor any request of Customer for a WCMA Loan or any other act or omission of MLBFS, MLPF&S or any of their affiliates due to or resulting from any system failure, error or delay in posting or other clerical error, loss of power, fire, Act of God or other cause beyond the reasonable control of MLBFS, MLPF&S or any of their affiliates unless directly arising out of the willful wrongful act or active gross negligence of MLBFS. In no event shall MLBFS be liable to Customer or any other party for any incidental or consequential damages arising from any act or omission by MLBFS, MLPF&S or any of their affiliates in connection with the WCMA Line of Credit or this Loan Agreement.

(e) INTEREST. The WCMA Loan Balance shall bear interest at the Interest Rate. Interest shall be computed for the actual number of days elapsed on the basis of a year consisting of 360 days. Notwithstanding any provision to the contrary in this Agreement or any of the Additional Agreements, no provision of this Agreement or any of the Additional Agreements shall require the payment or permit the collection of any amount in excess of the maximum amount of interest permitted to be charged by law ("Excess Interest"). If any Excess Interest is provided for, or is adjudicated as being provided for, in this Agreement or any of the Additional Agreements, then: (a) Customer shall not be obligated to pay any Excess Interest; and (b) any Excess Interest that MLBFS may have received hereunder or under any of the Additional Agreements shall, at the option of MLBFS, be: (i) applied as a credit against the then unpaid balance of the WCMA Line of Credit, (ii) refunded to the payer thereof, or (iii) any combination of the foregoing. Except as otherwise provided herein, accrued and unpaid interest on the WCMA Loan Balance shall be payable monthly on the last Business Day of each calendar month, commencing with the last Business Day of the calendar month in which the Activation Date shall occur. Customer hereby irrevocably authorizes and directs MLPF&S to pay MLBFS such accrued interest from any available free credit balances in the WCMA Account, and if such available free credit balances are insufficient to satisfy any interest payment due, to liquidate any investments in the Money Accounts (other than any investments constituting any Minimum Money Accounts Balance under the WCMA Directed Reserve program) in an amount up to the balance of such accrued interest, and pay to MLBFS the available proceeds on account thereof. If available free credit balances in the WCMA Account and available proceeds of the Money Accounts are insufficient to pay the entire balance of accrued interest, and Customer otherwise fails to make such payment when due, MLBFS may, in its sole discretion, make a WCMA Loan in an amount equal to the balance of such accrued interest and pay the proceeds of such WCMA Loan to itself on account of such interest. The amount of any such WCMA Loan will be added to the WCMA Loan Balance. If MLBFS declines to extend a WCMA Loan to Customer under these

circumstances, Customer hereby authorizes and directs MLPF&S to make all such interest payments to MLBFS from any Minimum Money Accounts Balance. If there is no Minimum Money Accounts Balance, or it is insufficient to pay all such interest, MLBFS will invoice Customer for payment of the balance of the accrued interest, and Customer shall pay such interest as directed by MLBFS within 5 Business Days of receipt of such invoice.

(f) PAYMENTS. All payments required or permitted to be made pursuant to this Loan Agreement shall be made in lawful money of the United States. Unless otherwise directed by MLBFS, payments on account of the WCMA Loan Balance may be made by the delivery of checks (other than WCMA Checks), or by means of FTS or wire transfer of funds (other than funds from the WCMA Line of Credit) to MLPF&S for credit to Customer's WCMA Account. Notwithstanding anything in the WCMA Agreement to the contrary, Customer hereby irrevocably authorizes and directs MLPF&S to apply available free credit balances in the WCMA Account to the repayment of the WCMA Loan Balance prior to application for any other purpose. Payments to MLBFS from funds in the WCMA Account shall be deemed to be made by Customer upon the same basis and schedule as funds are made available for investment in the Money Accounts in accordance with the terms of the WCMA Agreement. All funds received by MLBFS from MLPF&S pursuant to the aforesaid authorization shall be applied by MLBFS to repayment of the WCMA Loan Balance. The acceptance by or on behalf of MLBFS of a check or other payment for a lesser amount than shall be due from Customer, regardless of any endorsement or statement thereon or transmitted therewith, shall not be deemed an accord and satisfaction or anything other than a payment on account, and MLBFS or anyone acting on behalf of MLBFS may accept such check or other payment without prejudice to the rights of MLBFS to recover the balance actually due or to pursue any other remedy under this Loan Agreement or applicable law for such balance. All checks accepted by or on behalf of MLBFS in connection with the WCMA Line of Credit are subject to final collection.

(g) EXCEEDING THE MAXIMUM WCMA LINE OF CREDIT. In the event that the WCMA Loan Balance shall at any time exceed the Maximum WCMA Line of Credit, Customer shall within 1 Business Day of the first to occur of (i) any request or demand of MLBFS, or (ii) receipt by Customer of a statement from MLPF&S showing a WCMA Loan Balance in excess of the Maximum WCMA Line of Credit, deposit sufficient funds into the WCMA Account to reduce the WCMA Loan Balance below the Maximum WCMA Line of Credit.

(h) LINE FEE; EXTENSIONS. (i) In consideration of the extension of the WCMA Line of Credit by MLBFS to Customer during the period from the Activation Date to the Maturity Date, Customer has paid or shall pay the Line Fee to MLBFS. If such fee has not heretofore been paid by Customer, Customer hereby authorizes MLBFS, at its option, to either cause said fee to be paid with a WCMA Loan which is added to the WCMA Loan Balance, or invoice Customer for said fee (in which event Customer shall pay said fee within 5 Business Days after receipt of such invoice). No delay in the Activation Date, howsoever caused, shall entitle Customer to any rebate or reduction in the Line Fee or extension of the Maturity Date.

(ii) In the event MLBFS and Customer, in their respective sole discretion, agree to renew the WCMA Line of Credit beyond the current Maturity Date, Customer agrees to pay a renewal Line Fee or Line Fees (if the Maturity Date is extended for more than one 12-month period), in the amount per 12-month period or other applicable period then set forth in the writing signed by MLBFS which extends the Maturity Date; it being understood that any request by Customer for a WCMA Loan or failure of Customer to pay any WCMA Loan Balance outstanding on the immediately prior Maturity Date, after the receipt by Customer of a writing signed by MLBFS extending the Maturity Date, shall be deemed a consent by Customer to both the renewal Line Fees and the new Maturity Date. If no renewal Line Fees are set forth in the writing signed by MLBFS extending the Maturity Date, the renewal Line Fee for each 12-month period shall be deemed to be the same as the immediately preceding periodic Line Fee. Each such renewal Line Fee may, at the option of MLBFS, either be paid with a WCMA Loan which is added to the WCMA Loan Balance or invoiced to Customer, as aforesaid, on or at any time after the first Business Day of the first month of the 12-month period for which such fee is due.

(i) STATEMENTS. MLPF&S will include in each monthly statement it issues under the WCMA Program information with respect to WCMA Loans and the WCMA Loan Balance. Any questions that Customer may have with respect to such information should be directed to MLBFS; and any questions with respect to any other matter in such statements or about or affecting the WCMA Program should be directed to MLPF&S.

(j) USE OF LOAN PROCEEDS; SECURITIES TRANSACTIONS. The proceeds of each WCMA Loan shall be used by Customer solely for working capital in the ordinary course of its business, or, with the prior written consent of MLBFS, for other lawful business purposes of Customer not prohibited hereby. CUSTOMER AGREES THAT UNDER NO CIRCUMSTANCES WILL FUNDS BORROWED FROM MLBFS THROUGH THE WCMA LINE OF CREDIT BE USED: (I) FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OF ANY PERSON WHATSOEVER, OR (II) TO PURCHASE, CARRY OR TRADE IN SECURITIES, OR REPAY DEBT INCURRED TO PURCHASE, CARRY OR TRADE IN SECURITIES, WHETHER IN OR IN CONNECTION WITH THE WCMA ACCOUNT, ANOTHER ACCOUNT OF CUSTOMER WITH MLPF&S OR AN ACCOUNT OF CUSTOMER AT ANY OTHER BROKER OR DEALER IN SECURITIES.

4. REPRESENTATIONS AND WARRANTIES

Customer represents and warrants to MLBFS that:

(a) ORGANIZATION AND EXISTENCE. Customer is a corporation, duly organized and validly existing in good standing under the laws of the State of Florida and is qualified to do business and in good standing in each other state where the nature of its business or the property owned by it make such qualification necessary.

(b) EXECUTION, DELIVERY AND PERFORMANCE. The execution, delivery and performance by Customer of this Loan Agreement and such of the Additional Agreements to which it is a party: (i) have been duly authorized by all requisite action, (ii) do not and will not violate or conflict with any law or other governmental requirement, or any of the agreements, instruments or

documents which formed or govern Customer, and (iii) do not and will not breach or violate any of the provisions of, and will not result in a default by Customer under, any other agreement, instrument or document to which it is a party or by which it or its properties are bound.

(c) NOTICES AND APPROVALS. Except as may have been given or obtained, no notice to or consent or approval of any governmental body or authority or other third party whatsoever (including, without limitation, any other creditor) is required in connection with the execution, delivery or performance by Customer of such of this Loan Agreement and the Additional Agreements to which it is a party.

(d) ENFORCEABILITY. This Loan Agreement and such of the Additional Agreements to which Customer is a party are the legal, valid and binding obligations of Customer, enforceable against it in accordance with their respective terms, except as enforceability may be limited by bankruptcy and other similar laws affecting the rights of creditors generally or by general principles of equity.

(e) COLLATERAL. Subject to any Permitted Liens: (i) Customer has good and marketable title to the Collateral, (ii) none of the Collateral is subject to any lien, encumbrance or security interest, and (iii) upon the filing of all Uniform Commercial Code financing statements executed by Customer with respect to the Collateral in the appropriate jurisdiction(s) and/or the completion of any other action required by applicable law to perfect its liens and security interests, MLBFS will have valid and perfected first liens and security interests upon all of the Collateral.

(f) FINANCIAL STATEMENTS. Except as expressly set forth in Customer's financial statements, all financial statements of Customer furnished to MLBFS have been prepared in conformity with generally accepted accounting principles, consistently applied, are true and correct, and fairly present the financial condition of it as at such dates and the results of its operations for the periods then ended; and since the most recent date covered by such financial statements, there has been no material adverse change in any such financial condition or operation.

(g) LITIGATION. No litigation, arbitration, administrative or governmental proceedings are pending or, to the knowledge of Customer, threatened against Customer, which would, if adversely determined, materially and adversely affect the liens and security interests of MLBFS hereunder or under any of the Additional Agreements, the financial condition of Customer or the continued operations of Customer.

(h) TAX RETURNS. All federal, state and local tax returns, reports and statements required to be filed BY Customer have been filed with the appropriate governmental agencies and all taxes due and payable BY Customer have been timely paid (except to the extent that any such failure to file or pay will not materially and adversely affect either the liens and security interests of MLBFS hereunder or under any of the Additional Agreements, the financial condition of Customer, or the continued operations of Customer).

(i) COLLATERAL LOCATION. All of the tangible Collateral is located at a Location of Tangible Collateral.

Each of the foregoing representations and warranties: (i) has been and will be relied upon as an inducement to MLBFS to provide the WCMA Line of Credit, and (ii) is continuing and shall be deemed remade by Customer concurrently with each request for a WCMA Loan.

5. FINANCIAL AND OTHER INFORMATION

Customer shall furnish or cause to be furnished to MLBFS during the term of this Loan Agreement all of the following:

(a) ANNUAL FINANCIAL STATEMENTS. Within 120 days after the close of each fiscal year of Customer, Customer shall furnish or cause to be furnished to MLBFS a copy of the annual audited financial statements of Customer, consisting of at least a balance sheet as at the close of such fiscal year and related statements of income, retained earnings and cash flows, certified by its current independent certified public accountants or other independent certified public accountants reasonably acceptable to MLBFS.

(b) INTERIM FINANCIAL STATEMENTS. Within 45 days after the close of each fiscal quarter of Customer, Customer shall furnish or cause to be furnished to MLBFS: (i) a statement of profit and loss for the fiscal quarter then ended, and (ii) a balance sheet as at the close of such fiscal quarter; all in reasonable detail and certified by its chief financial officer.

(c) AGING OF ACCOUNTS. Within 45 days after the close of each fiscal quarter of Customer, Customer shall furnish or cause to be furnished to MLBFS, an aging of its Accounts and any Chattel Paper, certified by its chief financial officer.

OTHER INFORMATION. Customer shall furnish or cause to be furnished to MLBFS such other information as MLBFS may from time to time reasonably request relating to Customer or the Collateral.

6. OTHER COVENANTS

Customer further agrees during the term of this Loan Agreement that:

(a) FINANCIAL RECORDS; INSPECTION. Customer will: (i) maintain at its principal place of business complete and accurate books and records, and maintain all of its financial records in a manner consistent with the financial statements heretofore furnished to MLBFS, or prepared on such other basis as may be approved in writing by MLBFS; and (ii) permit MLBFS or its duly authorized representatives, upon reasonable notice and at reasonable times, to inspect its properties (both real and personal), operations, books and records.

(b) TAXES. Customer will pay when due all taxes, assessments and other governmental charges, howsoever designated, and all other liabilities and obligations, except to the extent that any such failure to pay will not materially and adversely affect either the liens and security interests of MLBFS hereunder or under any of the Additional Agreements, the financial condition of Customer or the continued operations of Customer.

(c) COMPLIANCE WITH LAWS AND AGREEMENTS. Customer will not violate any law, regulation or other governmental requirement, any judgment or order of any court or governmental agency or authority, or any agreement, instrument or document to which it is a party or by which it is bound, if any such violation will materially and adversely affect either the liens and security interests of MLBFS hereunder or under any of the Additional Agreements, or the financial condition or the continued operations of Customer.

(d) NOTIFICATION BY CUSTOMER. Customer shall provide MLBFS with prompt written notification of: (i) any Event of Default, or event which with the giving of notice, passage of time, or both, would constitute an Event of Default; (ii) any materially adverse change in the business, financial condition or operations of Customer, and (iii) any information which indicates that any financial statements of Customer fail in any material respect to present fairly the financial condition and results of operations purported to be presented in such statements. Each notification by Customer pursuant hereto shall specify the event or information causing such notification, and, to the extent applicable, shall specify the steps being taken to rectify or remedy such event or information.

PARAGRAPH 7A TO WCMA NOTE, LOAN, AND SECURITY AGREEMENT

(e) CONTINUITY. Except upon the prior written consent of MLBFS, which consent will not be unreasonably withheld: (i) Customer will not be a party to any merger or consolidation with, or purchase or otherwise acquire all or substantially all of the assets or stock of, or any material partnership or joint venture interest in, any person or entity, or sell, transfer or lease all or any substantial part of its assets if any such action causes a material change in the ownership or control of Customer or such Business Guarantor or their respective financial condition or operations; (ii) Customer will preserve Customer's existence and good standing in the jurisdictions of establishment and operation, and will not operate in any material businesses substantially different from Customer's businesses in effect as of the date of application by Customer for credit with MLBFS; and (iii) Customer will not cause or permit any material change in the controlling ownership, controlling senior management or, excerpt upon not less than 30 days prior written notice to MLBFS, the name or principal place of business. Notwithstanding the foregoing, Customer contemplates an initial public offering of stock to be made within the next 12 months (hereafter, the "IPO") and one of the purposes of this line of credit is to fund costs which will be incurred in connection with the IPO. The IPO shall not constitute a prohibited change in ownership of Customer herein, regardless of whether or not there is a material change in the ownership or control of Customer or any Business Guarantor as a result thereof.

(f) TANGIBLE NET WORTH. The "tangible net worth" of Customer, consisting of Customer's net worth as shown on Customers regular financial statements prepared in a manner consistent with the terms hereof, but excluding an amount equal to: (i) any assets which are ordinarily classified as "intangible" in accordance with generally accepted accounting principles, and (H) any amounts now or hereafter directly or indirectly owing to Customer by officers, shareholders or affiliates of Customer, shall at all times exceed $3,750,000.00.

(g) MINIMUM WORKING CAPITAL. Customer's net working capital (i.e. the excess of its current assets over its current liabilities), as shown on Customers regular books and records, shall at all time exceed $1,500,000.00.

(h) GUARANTIES. Except upon the prior written consent of MLBFS, Customer shall not cause or permit Simon Raab or Gregory Fraser to directly or indirectly guaranty the obligations of Customer (other than obligations owing to MLBFS).

(i) LOANS TO AFFILIATED PERSONS AND ENTITIES. The total amount of all loans and advances directly or indirectly made by Customer to any affiliated persons or entities shall not exceed $250,000.00.

7. COLLATERAL

(a) PLEDGE OF COLLATERAL. To secure payment and performance of the Obligations, Customer hereby pledges, assigns, transfers and sets over to MLBFS, and grants to MLBFS first liens and security interests in and upon all of the Collateral, subject only to Permitted Liens.

(b) LIENS. Except upon the prior written consent of MLBFS, Customer shall not create or permit to exist any lien, encumbrance or security interest upon or with respect to any Collateral now owned or hereafter acquired other than Permitted Liens.

(c) PERFORMANCE OF OBLIGATIONS. Customer shall perform all of its obligations owing on account of or with respect to the Collateral; it being understood that nothing herein, and no action or inaction by MLBFS, under this Loan Agreement or otherwise, shall be deemed an assumption by MLBFS of any of Customers said obligations.

(d) SALES AND COLLECTIONS. So long as no Event of Default shall have occurred and is continuing, Customer may in the ordinary course of its business: (i) sell any Inventory normally held by Customer for sale, (ii) use or consume any materials and supplies normally held by Customer for use or consumption, and (iii) collect all of its Accounts. Customer shall take such action with respect to protection of its Inventory and the other Collateral and the collection of its Accounts as MLBFS may from time to time reasonably request.

(e) ACCOUNT SCHEDULES. Upon the request of MLBFS, made now or at any reasonable time or times hereafter, Customer shall deliver to MLBFS, in addition to the other information required hereunder, a schedule identifying, for each Account and all Chattel Paper subject to MLBFS' security interests hereunder, each Account Debtor by name and address and amount, invoice or contract number and date of each invoice or contract. Customer shall furnish to MLBFS such additional information with respect to the Collateral, and amounts received by Customer as proceeds of any of the Collateral, as MLBFS may from time to time reasonably request.

(f) ALTERATIONS AND MAINTENANCE. Except upon the prior written consent of MLBFS, Customer shall not make or permit any material alterations to any tangible Collateral which might materially reduce or impair its market value or utility. Customer shall at all times keep the tangible Collateral in good condition and repair and shall pay or cause to be paid all obligations arising from the repair and maintenance of such Collateral, as well as all obligations with respect to each Location of Tangible Collateral, except for any such obligations being contested by Customer in good faith by appropriate proceedings.

(g) LOCATION. Except for movements required in the ordinary course of Customers business, Customer shall give MLBFS 30 days' prior written notice of the placing at or movement of any tangible Collateral to any location other than a Location of Tangible Collateral. In no event shall Customer cause or permit any material tangible Collateral to be removed from the United States without the express prior written consent of MLBFS.

(h) INSURANCE. Customer shall insure all of the tangible Collateral under a policy or policies of physical damage insurance providing that losses will be payable to MLBFS as its interests may appear pursuant to a Lenders Loss Payable Endorsement and containing such other provisions as may be reasonably required by MLBFS. Customer shall further provide and maintain a policy or policies of comprehensive public liability insurance naming MLBFS as an additional party insured. Customer shall maintain such other insurance as may be required by law or is customarily maintained by companies in a similar business or otherwise reasonably required by MLBFS. All such insurance shall provide that MLBFS will receive not less than 10 days prior written notice of any cancellation, and shall otherwise be in form and amount and with an insurer or insurers reasonably acceptable to MLBFS. Customer shall furnish MLBFS with a copy or certificate of each such policy or policies and, prior to any expiration or cancellation, each renewal or replacement thereof.

(i) EVENT OF LOSS. Customer shall at its expense promptly repair all repairable damage to any tangible Collateral. In the event that any tangible Collateral is damaged beyond repair, lost, totally destroyed or confiscated (an "Event of Loss") and such Collateral had a value prior to such Event of Loss of $25,000.00 or more, then, on or before the first to occur of (i) 90 days after the occurrence of such Event of Loss, or (ii) 10 Business Days after the date on which either Customer or MLBFS shall receive any proceeds of insurance on account of such Event of Loss, or any underwriter of insurance on such Collateral shall advise either Customer or MLBFS that it disclaims liability in respect of such Event of Loss,

Customer shall, at Customer's option, either replace the Collateral subject to such Event of Loss with comparable Collateral free of all liens other than Permitted Liens (in which event Customer shall be entitled to utilize the proceeds of insurance on account of such Event of Loss for such purpose, and may retain any excess proceeds of such insurance), or consent to a reduction in the Maximum WCMA Line of Credit in an amount equal to the actual cash value of such Collateral as determined by either the applicable insurance company's payment (plus any applicable deductible) or, in absence of insurance company payment, as reasonably determined by MLBFS. Notwithstanding the foregoing, if at the time of occurrence of such Event of Loss or any time thereafter prior to replacement or line reduction, as aforesaid, an Event of Default shall occur hereunder, then MLBFS may at its sole option, exercisable at any time while such Event of Default shall be continuing, require Customer to either replace such Collateral or, on its own volition and without the consent of Customer, reduce the Maximum WCMA Line of Credit, as aforesaid.

(j) NOTICE OF CERTAIN EVENTS. Customer shall give MLBFS immediate notice of any attachment, lien, judicial process, encumbrance or claim affecting or involving $25,000.00 or more of the Collateral.

(k) INDEMNIFICATION. Customer shall indemnify, defend and save MLBFS harmless from and against any and all claims, liabilities, losses, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) of any nature whatsoever which may be asserted against or incurred by MLBFS arising out of or in any manner occasioned by (i) the ownership, collection, possession, use or operation of any Collateral, or (ii) any failure by Customer to perform any of its obligations hereunder; excluding, however, from said indemnity any such claims, liabilities, etc. arising directly out of the willful wrongful act or active gross negligence of MLBFS. This indemnity shall survive the expiration or termination of this Loan Agreement as to all matters arising or accruing prior to such expiration or termination.

8. EVENTS OF DEFAULT

The occurrence of any of the following events shall constitute an "Event of Default" under this Loan Agreement:

(a) FAILURE TO PAY. Customer shall fail to pay to MLBFS or deposit into the WCMA Account when due any amount owing or required to be paid or deposited by Customer under this Loan Agreement, or shall fail to pay when due any other Obligations, and any such failure shall continue for more than five (5) Business Days after written notice thereof shall have been given by MLBFS to Customer.

(b) FAILURE TO PERFORM. Customer shall default in the performance or observance of any covenant or agreement on its part to be performed or observed under this Loan Agreement or any of the Additional Agreements (not constituting an Event of Default under any other

clause of this Section), and such default shall continue unremedied for ten (10) Business Days after written notice thereof shall have been given by MLBFS to Customer.

(c) BREACH OF WARRANTY. Any representation or warranty made by Customer contained in this Loan Agreement or any of the Additional Agreements shall at any time prove to have been incorrect in any material respect when made.

(d) DEFAULT UNDER OTHER AGREEMENT. A default or Event of Default by Customer or any other party providing collateral for the Obligations shall occur under the terms of any other agreement, instrument or document with or intended for the benefit of MLBFS, MLPF&S or any of their affiliates, and any required notice shall have been given and required passage of time shall have elapsed.

(e) BANKRUPTCY EVENT. Any Bankruptcy Event shall occur.

(f) MATERIAL IMPAIRMENT. Any event shall occur which shall reasonably cause MLBFS to in good faith believe that the prospect of full payment or performance by Customer of its liabilities or obligations under this Loan Agreement or any of the Additional Agreements to which Customer is a party has been materially impaired.

(g) ACCELERATION OF DEBT TO OTHER CREDITORS. Any event shall occur which results in the acceleration of the maturity of any indebtedness of $100,000.00 or more of Customer to another creditor under any indenture, agreement, undertaking, or otherwise.

(h) SEIZURE OR ABUSE OF COLLATERAL. The Collateral, or any material part thereof, shall be or become subject to any material abuse or misuse, or any levy, attachment, seizure or confiscation which is not released within ten (10) Business Days.

9. REMEDIES

(a) REMEDIES UPON DEFAULT. Upon the occurrence and during the continuance of any Event of Default, MLBFS may at its sole option do any one or more or all of the following, at such time and in such order as MLBFS may in its sole discretion choose:

(i) TERMINATION. MLBFS may without notice terminate the WCMA Line of Credit and all obligations to provide the WCMA Line of Credit or otherwise extend any credit to or for the benefit of Customer (it being understood, however, that upon the occurrence of any Bankruptcy Event the WCMA Line of Credit and all such obligations shall automatically terminate without any action on the part of MLBFS); and upon any such termination MLBFS shall be relieved of all such obligations.

(ii) ACCELERATION. MLBFS may declare the principal of and interest on the WCMA Loan Balance, and all other Obligations to be forthwith due and payable, whereupon all such

amounts shall be immediately due and payable, without presentment, demand for payment, protest and notice of protest, notice of dishonor, notice of acceleration, notice of intent to accelerate or other notice or formality of any kind, all of which are hereby expressly waived; provided, however, that upon the occurrence of any Bankruptcy Event all such principal, interest and other Obligations shall automatically become due and payable without any action on the part of MLBFS.

(iii) EXERCISE RIGHTS OF SECURED PARTY. MLBFS may exercise any or all of the remedies of a secured party under applicable law, including, but not limited to, the UCC, and any or all of its other rights and remedies under this Loan Agreement and the Additional Agreements.

(iv) POSSESSION. MLBFS may require Customer to make the Collateral and the records pertaining to the Collateral available to MLBFS at a place designated by MLBFS, which is reasonably convenient to Customer, or may take possession of the Collateral and the records pertaining to the Collateral without the use of any judicial process and without any prior notice to Customer.

(v) SALE. MLBFS may sell any or all of the Collateral at public or private sale upon such terms and conditions as MLBFS may reasonably deem proper. MLBFS may purchase any Collateral at any such public sale. The net proceeds of any such public or private sale and all other amounts actually collected or received by MLBFS pursuant hereto, after deducting all costs and expenses incurred at any time in the collection of the Obligations and in the protection, collection and sale of the Collateral, will be applied to the payment of the Obligations, with any remaining proceeds paid to Customer or whoever else may be entitled thereto, and with Customer remaining liable for any amount remaining unpaid after such application.

(vi) DELIVERY OF CASH, CHECKS, ETC. MLBFS may require Customer to forthwith upon receipt, transmit and deliver to MLBFS in the form received, all cash, checks, drafts and other instruments for the payment of money (property endorsed, where required, so that such items may be collected by MLBFS) which may be received by Customer at any time in full or partial payment of any Collateral, and require that Customer not commingle any such items which may be so received by Customer with any other of its funds or property but instead hold them separate and apart and in trust for MLBFS until delivery is made to MLBFS.

(vii) NOTIFICATION OF ACCOUNT DEBTORS. MLBFS may notify any Account Debtor that its Account or Chattel Paper has been assigned to MLBFS and direct such Account Debtor to make payment directly to MLBFS of all amounts due or becoming due with respect to such Account or Chattel Paper; and MLBFS may enforce payment and collect, by legal proceedings or otherwise, such Account or Chattel Paper.

(viii) CONTROL OF COLLATERAL. MLBFS may otherwise take control in any lawful manner of any cash or noncash items of payment or proceeds of Collateral and of any rejected, returned, stopped in transit or repossessed goods included in the Collateral and endorse Customer's name on any item of payment on or proceeds of the Collateral.

(b) SET-OFF. MLBFS shall have the further right upon the occurrence and during the continuance of an Event of Default to set-off, appropriate and apply toward payment of any of the Obligations, in such order of application as MLBFS may from time to time and at any time elect, any cash, credit, deposits, accounts, securities and any other property of Customer which is in transit to or in the possession, custody or control of MLBFS, MLPF&S or any agent, bailee, or affiliate of MLBFS or MLPF&S, including, without limitation, the WCMA Account and any Money Accounts, and all cash, securities and other financial assets therein or controlled thereby, and all proceeds thereof. Customer hereby collaterally assigns and grants to MLBFS a continuing security interest in all such property as additional Collateral.

(c) POWER OF ATTORNEY. Effective upon the occurrence and during the continuance of an Event of Default, Customer hereby irrevocably appoints MLBFS as its attorney-in-fact, with full power of substitution, in its place and stead and in its name or in the name of MLBFS, to from time to time in MLBFS' sole discretion take any action and to execute any instrument which MLBFS may deem necessary or advisable to accomplish the purposes of this Loan Agreement, including, but not limited to, to receive, endorse and collect all checks, drafts and other instruments for the payment of money made payable to Customer included in the Collateral.

(d) REMEDIES ARE SEVERABLE AND CUMULATIVE. All rights and remedies of MLBFS herein are severable and cumulative and in addition to all other rights and remedies available in the Additional Agreements, at law or in equity, and any one or more of such rights and remedies may be exercised simultaneously or successively.

(e) NOTICES. To the fullest extent permitted by applicable law, Customer hereby irrevocably waives and releases MLBFS of and from any and all liabilities and penalties for failure of MLBFS to comply with any statutory or other requirement imposed upon MLBFS relating to notices of sale, holding of sale or reporting of any sale, and Customer waives all rights of redemption or reinstatement from any such sale. Any notices required under applicable law shall be reasonably and properly given to Customer if given by any of the methods provided herein at least 5 Business Days prior to taking action. MLBFS shall have the right to postpone or adjourn any sale or other disposition of Collateral at any time without giving notice of any such postponed or adjourned date. In the event MLBFS seeks to take possession of any or all of the Collateral by court process, Customer further irrevocably waives to the fullest extent permitted by law any bonds and any surety or security relating thereto required by any statute, court rule or otherwise as an incident to such possession, and any demand for possession prior to the commencement of any suit or action.

10. MISCELLANEOUS

(a) NON-WAIVER. No failure or delay on the part of MLBFS in exercising any right, power or remedy pursuant to this Loan Agreement or any of the Additional Agreements shall operate as a waiver thereof, and no single or partial exercise of any such right, power or remedy shall preclude any other or further exercise thereof, or the exercise of any other right, power or remedy. Neither any waiver of any provision of this Loan Agreement or any of the Additional Agreements, nor any consent to any departure by Customer therefrom, shall be effective unless the same shall be in writing and signed by MLBFS. Any waiver of any provision of this Loan Agreement or any of the Additional Agreements and any consent to any departure by Customer from the terms of this Loan Agreement or any of the Additional Agreements shall be effective only in the specific instance and for the specific purpose for which given. Except as otherwise expressly provided herein, no notice to or demand on Customer shall in any case entitle Customer to any other or further notice or demand in similar or other circumstances.

(b) DISCLOSURE. Customer hereby irrevocably authorizes MLBFS and each of its affiliates, including without limitation MLPF&S, to at any time (whether or not an Event of Default shall have occurred) obtain from and disclose to each other any and all financial and other information about Customer. In connection with said authorization, the parties recognize that in order to provide a WCMA Line of Credit certain information about Customer is required to be made available on a computer network accessible by certain affiliates of MLBFS, including MLPF&S.

(c) COMMUNICATIONS. All notices and other communications required or permitted hereunder shall be in writing, and shall be either delivered personally, mailed by postage prepaid certified mail or sent by express overnight courier or by facsimile. Such notices and communications shall be deemed to be given on the date of personal delivery, facsimile transmission or actual delivery of certified mail, or one Business Day after delivery to an express overnight courier. Unless otherwise specified in a notice sent or delivered in accordance with the terms hereof, notices and other communications in writing shall be given to the parties hereto at their respective addresses set forth at the beginning of this Loan Agreement, or, in the case of facsimile transmission, to the parties at their respective regular facsimile telephone number.

(d) COSTS, EXPENSES AND TAXES. Customer shall upon demand pay or reimburse MLBFS for: (i) all Uniform Commercial Code filing and search fees and expenses incurred by MLBFS in connection with the verification, perfection or preservation of MLBFS' rights hereunder or in the Collateral or any other collateral for the Obligations; (ii) any and all stamp, transfer and other taxes and fees payable or determined to be payable in connection with the execution, delivery and/or recording of this Loan Agreement or any of the Additional Agreements; and (iii) all reasonable fees and out-of-pocket expenses (including, but not limited to, reasonable fees and expenses of outside counsel) incurred by MLBFS in connection with the collection of any sum payable hereunder or under any of the Additional

Agreements not paid when due, the enforcement of this Loan Agreement or any of the Additional Agreements and the protection of MLBFS' rights hereunder or thereunder, excluding, however, salaries and normal overhead attributable to MLBFS' employees. The obligations of Customer under this paragraph shall survive the expiration or termination of this Loan Agreement and the discharge of the other Obligations.

(e) RIGHT TO PERFORM OBLIGATIONS. If Customer shall fail to do any act or thing which it has covenanted to do under this Loan Agreement or any representation or warranty on the part of Customer contained in this Loan Agreement shall be breached, MLBFS may, in its sole discretion, after 5 days written notice is sent to Customer (or such lesser notice, including no notice, as is reasonable under the circumstances), do the same or cause it to be done or remedy any such breach, and may expend its funds for such purpose. Any and all reasonable amounts so expended by MLBFS shall be repayable to MLBFS by Customer upon demand, with interest at the Interest Rate during the period from and including the date funds are so expended by MLBFS to the date of repayment, and all such amounts shall be additional Obligations. The payment or performance by MLBFS of any of Customer's obligations hereunder shall not relieve Customer of said obligations or of the consequences of having failed to pay or perform the same, and shall not waive or be deemed a cure of any Event of Default.

(f) LATE CHARGE. Any payment required to be made by Customer pursuant to this Loan Agreement not paid within ten (10) days of the applicable due date shall be subject to a late charge in an amount equal to the lesser of: (i) 5% of the overdue amount, or (ii) the maximum amount permitted by applicable law. Such late charge shall be payable on demand, or, without demand, may in the sole discretion of MLBFS be paid by a WCMA Loan and added to the WCMA Loan Balance in the same manner as provided herein for accrued interest.

(g) FURTHER ASSURANCES. Customer agrees to do such further acts and things and to execute and deliver to MLBFS such additional agreements, instruments and documents as MLBFS may reasonably require or deem advisable to effectuate the purposes of this Loan Agreement or any of the Additional Agreements, or to establish, perfect and maintain MLBFS' security interests and liens upon the Collateral, including, but not limited to: (i) executing financing statements or amendments thereto when and as reasonably requested by MLBFS; and (ii) if in the reasonable judgment of MLBFS it is required by local law, causing the owners and/or mortgagees of the real property on which any Collateral may be located to execute and deliver to MLBFS waivers or subordinations reasonably satisfactory to MLBFS with respect to any rights in such Collateral.

(h) BINDING EFFECT. This Loan Agreement and the Additional Agreements shall be binding upon, and shall inure to the benefit of MLBFS, Customer and their respective successors and assigns. Customer shall not assign any of its rights or delegate any of its obligations under this Loan Agreement or any of the Additional Agreements without the prior written consent of MLBFS. Unless otherwise expressly agreed to in a writing signed by

MLBFS, no such consent shall in any event relieve Customer of any of its obligations under this Loan Agreement or the Additional Agreements.

(i) HEADINGS. Captions and section and paragraph headings in this Loan Agreement are inserted only as a matter of convenience, and shall not affect the interpretation hereof.

(j) GOVERNING LAW. This Loan Agreement, and, unless otherwise expressly provided therein, each of the Additional Agreements, shall be governed in all respects by the laws of the State of Illinois.

(k) SEVERABILITY OF PROVISIONS. Whenever possible, each provision of this Loan Agreement and the Additional Agreements shall be interpreted in such manner as to be effective and valid under applicable law. Any provision of this Loan Agreement or any of the Additional Agreements which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Loan Agreement and the Additional Agreements or affecting the validity or enforceability of such provision in any other jurisdiction.

(l) TERM. This Loan Agreement shall become effective on the date accepted by MLBFS at its office in Chicago, Illinois, and, subject to the terms hereof, shall continue in effect so long thereafter as the WCMA Line of Credit shall be in effect or there shall be any Obligations outstanding.

(m) COUNTERPARTS. This Loan Agreement may be executed in one or more counterparts which. when taken together, constitute one and the same agreement.

(n) JURISDICTION; WAIVER. CUSTOMER ACKNOWLEDGES THAT THIS LOAN AGREEMENT IS BEING ACCEPTED BY MLBFS IN PARTIAL CONSIDERATION OF MLBFS' RIGHT AND OPTION, IN ITS SOLE DISCRETION, TO ENFORCE THIS LOAN AGREEMENT AND THE ADDITIONAL AGREEMENTS IN EITHER THE STATE OF ILLINOIS OR IN ANY OTHER JURISDICTION WHERE CUSTOMER OR ANY COLLATERAL FOR THE OBLIGATIONS MAY BE LOCATED. CUSTOMER CONSENTS TO JURISDICTION IN THE STATE OF ILLINOIS AND VENUE IN ANY STATE OR FEDERAL COURT IN THE COUNTY OF COOK FOR SUCH PURPOSES, AND CUSTOMER WAIVES ANY AND ALL RIGHTS TO CONTEST SAID JURISDICTION AND VENUE. CUSTOMER FURTHER WAIVES ANY RIGHTS TO COMMENCE ANY ACTION AGAINST MLBFS IN ANY JURISDICTION EXCEPT IN THE COUNTY OF COOK AND STATE OF ILLINOIS. MLBFS AND CUSTOMER HEREBY EACH EXPRESSLY WAIVE ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES AGAINST THE OTHER PARTY WITH RESPECT TO ANY MATTER RELATING TO, ARISING OUT OF OR IN ANY WAY CONNECTED WITH THE WCMA LINE OF CREDIT, THIS LOAN AGREEMENT, ANY ADDITIONAL AGREEMENTS

AND/OR ANY OF THE TRANSACTIONS WHICH ARE THE SUBJECT MATTER OF THIS LOAN AGREEMENT.

(O) INTEGRATION. THIS LOAN AGREEMENT, TOGETHER WITH THE ADDITIONAL AGREEMENTS, CONSTITUTES THE ENTIRE UNDERSTANDING AND REPRESENTS THE FULL AND FINAL AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF, AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR WRITTEN AGREEMENTS OR PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS OF THE PARTIES. WITHOUT LIMITING THE FOREGOING, CUSTOMER ACKNOWLEDGES THAT: (I) NO PROMISE OR COMMITMENT HAS BEEN MADE TO IT BY MLBFS, MLPF&S OR ANY OF THEIR RESPECTIVE EMPLOYEES, AGENTS OR REPRESENTATIVES TO EXTEND THE AVAILABILITY OF THE WCMA LINE OF CREDIT OR THE DUE DATE OF THE WCMA LOAN BALANCE BEYOND THE CURRENT MATURITY DATE, OR TO INCREASE THE MAXIMUM WCMA LINE OF CREDIT, OR OTHERWISE EXTEND ANY OTHER CREDIT TO CUSTOMER OR ANY OTHER PARTY; (II) NO PURPORTED EXTENSION OF THE MATURITY DATE, INCREASE IN THE MAXIMUM WCMA LINE OF CREDIT OR OTHER EXTENSION OR AGREEMENT TO EXTEND CREDIT SHALL BE VALID OR BINDING UNLESS EXPRESSLY SET FORTH IN A WRITTEN INSTRUMENT SIGNED BY MLBFS; AND (III) EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, THIS LOAN AGREEMENT SUPERSEDES AND REPLACES ANY AND ALL PROPOSALS, LETTERS OF INTENT AND APPROVAL AND COMMITMENT LETTERS FROM MLBFS TO CUSTOMER, NONE OF WHICH SHALL BE CONSIDERED AN ADDITIONAL AGREEMENT. NO AMENDMENT OR MODIFICATION OF THIS AGREEMENT OR ANY OF THE ADDITIONAL AGREEMENTS TO WHICH CUSTOMER IS A PARTY SHALL BE EFFECTIVE UNLESS IN A WRITING SIGNED BY BOTH MLBFS AND CUSTOMER.

IN WITNESS WHEREOF, this Loan Agreement has been executed as of the day and year first above written.

FARO TECHNOLOGIES, INC.

By: /s/ SIMON RAAB

Signature (1)	Signature (2)
Simon Raab	
Printed Name	Printed Name
President	
Title	Title

STATE OF Maryland)
) ss.
COUNTY OF Montgomery)

On the 15th day of May, 1997, before me personally came Simon Raab known to me to be the individual who executed the foregoing instrument, and who, being sworn by me, did depose and say that the individual is an officer of the Customer herein, and that the individual executed the foregoing instrument for the Customer herein, and that the individual had the authority to sign the same, and acknowledged that the individual executed the same as the act and deed of said Customer.

Jeanette C. Frande

Notary Public

(NOTARIAL SEAL)

Accepted at Chicago, Illinois:
MERRILL LYNCH BUSINESS FINANCIAL
SERVICES INC.

By:

Exhibit 10.7

BUSINESS LEASE

THIS BUSINESS LEASE, made as of March 1, 1991,

Between SIRDAN RESEARCH LIMITED, INC., a Canadian corporation (hereinafter called the "Lessor"), and FARO MEDICAL TECHNOLOGIES (U.S.), INC., a Delaware corporation (hereinafter called the "Lessee"),

WITNESSETH

1. Premises and Use. Lessor hereby leases to Lessee and the Lessee does hereby hire and take as tenant under said Lessor the land and improvements located in Seminole County, Florida described as follows:

> Lot 15, Technology Park at Lake Mary, Plat Book 37, Pages 61 and 62 of the Public Records of Seminole County, Florida, with a street address of 125 Technology Park, Lake Mary, Florida 32746 (the "Premises"), consisting of land and a building having approximately 16,800 square feet of air-conditioned space,

to be used and occupied by the Lessee for a medical equipment research and development facility, with offices, equipment assembly and warehouse space related thereto, and for no other purposes without Lessor's prior written consent.

This lease supersedes and replaces all prior leases and other agreements between the Lessor and Lessee with respect to the use of the Premises.

2. Term. The initial term of this lease shall be five (5) years, commencing on March 1, 1991 and terminating on the last day of February, 1996. "Lease year" as used herein shall mean the period from March 1 to the last day of February during the initial or any additional term of this lease. The "initial lease year" or "base lease year" as used in this Lease means the period from March 1, 1991 to February 29, 1992.

3. Renewal Options. Provided Lessee is not in default under the terms of this Lease beyond any curative period, Lessee has the option to renew this Lease for three (3) successive periods of five (5) years each on the same terms and conditions contained herein, except for the respective increases in the Base Rental and other expenses described in Paragraph 4 and 6 below. In order to exercise any renewal option, the Lessee must furnish the Lessor with prior written notice of its intent to exercise the renewal option, which notice shall be delivered at least one hundred-eighty (180) days prior to the end of the initial term hereof or any additional term. Upon the termination of this Lease, any and all remaining and unexercised options to extend the term of this Lease shall also cease and be terminated.

4. Rent. During the initial term of this Lease, Lessee hereby covenants and agrees to pay Lessor as Base Rent for the Premises the sum of $138,600.00 per Lease year payable in equal monthly installments of $11,550.00, plus applicable sales or use tax, which Base Rent shall be due in advance on the first of each month, without demand, at the offices of Lessor in the city of Lake Mary, Florida, or at such other place and to such other person as Lessor may from time to time designate in writing. Base Rent is adjustable as set forth hereafter and in Paragraph 6 of this Lease.

In the event of a renewal of this Lease pursuant to Paragraph 3 above, the base yearly rent shall be adjusted by any change in the index known as the "United States Bureau of Labor Statistics, Consumer Price Index for all Urban Consumers (all items), United States City Average (1982 equals 100)" (hereinafter referred to as the "Index"). The Base Rent adjustment for changes in the Index shall be accomplished by multiply the Base Rent last prevailing under this Lease by a fraction, the numerator of which shall be the Index for the second month preceding the last month of the then current Lease Year. The denominator of the fraction shall be the Index for the last month prior to the last rental adjustment. There shall be no adjustment in rent if the foregoing calculation results in a lower rental payment, it being the intent that rent will adjust upward, but not downward.

After making the foregoing calculation, if Base Rent is to be adjusted, the adjusted rental amount shall become due with the first payment of Base Rent due on the first month of the new term, and shall apply for the remainder of that term.

If the Consumer Price Index, as now constituted, compiled and published, shall cease to be compiled and published during the term hereof, and all extensions thereof, then the parties shall utilize a comparable index.

All rent, additional rent and other sums due to be paid under this Lease are in United States Dollars. All sums due to be paid by the Lessee to Lessor under this Lease are deemed to be "rent", whether or not such sums are called "rent" in this Lease.

5. Additional property included in lease. This lease also includes the rental of the furniture systems and telephone systems in the Premises which have been installed by the Lessor. Lessee agrees to pay to Lessor, as additional rent for the use of such personal property, the sum of $2,200 per month, plus applicable sales or use tax, which shall be due in advance on the first of each month, without demand, at the place of payment of Base Rent. Except as set forth hereafter, this amount shall not be subject to adjustment, but shall remain constant through the Initial Term and all additional terms of this Lease.

Notwithstanding the foregoing, in the event that Lessor upgrades or enlarges the furniture system, or the telephone system, the rental for this personal property shall be adjusted upward at the rate of $22.00 per $1,000.00 value of the upgrade or enlargement. Rental adjustments according to this formula will begin at the point that Lessor has expended $100,000.00 on the total cost of such systems. The rent adjustment will begin effective as of the next rental payment due after the Lessor has completed the upgrade or enlargement.

6. Modified Gross Lease; Base Rent Adjustment. This Lease is a "modified gross lease", i.e., base annual rent includes ad valorem taxes and the casualty and other insurance premiums on the Premises for the Initial Lease Year, and expenses for operation of the Premises (calculated at $1.40 per square foot) . The Base Rent f or the Premises will be adjusted annually for increases in the cost of ad valorem taxes, casualty and other insurance premiums, and expenses for operation of the Premises as follows:

(a) For purposes of establishing the base rates f or taxes and insurance premiums, the parties will use the 1991 ad valorem tax bill (to be issued in November, 1991) and the 1991 premium invoices for insurance premiums. On March 1, 1992 and March 1 of each lease year thereafter, annual Base Rent will be increased by the amount of the increase in ad valorem taxes and insurance premiums from the prior lease year.

(b) On March 1, 1992 and March 1 of each lease year thereafter, annual Base Rent will also be increased by the amount of the increase in the cost of expenses for operation of the Premises above the initial expense stop of $1.40 per square foot.

7. Utilities. The Lessee agrees that it will pay all charges for utility service to the Premises, including electricity, gas (if any) , water, sanitary sewer, and telephone service.

8. Maintenance and Repairs.

(a) Lessor shall be responsible for the following maintenance and repairs of the Premises:

(i) Lessor shall make all structural repairs to any part of the buildings located on the Premises, including the roofs, floorst building walls, underground electric and plumbing (including from the boundary line of the Premises to the buildings thereon) and HVAC systems.

(ii) Lessor shall be responsible for the repair and replacement of furniture and telephone systems described in Paragraph 5 above, subject to rental increases as set forth therein.

(iii) Lessor shall be responsible for painting the interior and exterior of all improvements to keep

the Premises in a "first class" condition, replacement of carpeting and other floor coverings and replacement of defective mechanical, plumbing and HVAC equipment.

(iv) Lessor's obligations for maintenance and repairs shall not extend to any condition which has been created by the negligence or intentional act of Lessee or Lessee's employees, agents, customers or invitees.

Lessee agrees to give Lessor written notice of all repairs which it believes Lessor is required to make to the Premises in accordance with the Lease from time to time. Such repairs shall be reasonably required in the opinion of Lessor and Lessee. If they are unable to agree as to the necessity of any such repairs, they shall jointly select an independent contractor who shall render its opinion regarding such repair, which opinion shall be binding on both parties. Lessor reserves the right to hire and supervise any and all contractors who are making any repairs which are to be paid for by Lessor.

(b) Lessee shall be responsible for the following maintenance and repairs of the Premises:

(i) Lessee shall provide for janitorial service, landscape, parking lot and driveway maintenance, and maintenance of any fences and signs.

(ii) Lessee shall provide for routine maintenance and upkeep of all interior improvements, including but not limited to lighting facilities and windows, doors, and plate glass.

(iii) Lessee shall be responsible for the costs associated with repair of any condition created by the negligence or intentional act of Lessee or Lessee's employees, agents, customers or invitees.

(iv) All other expenses for ownership, operation and use of the Premises not otherwise allocatedto the Lessor in this Lease shall be the responsibility of Lessee.

If Lessee fails to perform its maintenance and repair obligations under this Lease, Lessor may at its option (but shall not be. required to) enter upon the premises prior written to Lessee (except in the case of an emergency, in which no notice shall be required) perform such obligations on Lessee's behalf and put the same in good order, condition and repair, and the costs thereof, together with interest at the maximum rate then allowed by law, shall be due and payable as additional rent to Lessor together with Lessee's next rental installment.

9. Insurance. Lessor shall obtain property insurance to insure the Premises against loss by f ire and other casualty. Lessee shall obtain its own insurance to insure its personal property against loss by fire or other casualty.

Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of combined single limit, bodily injury and property damage insurance insuring Lessor and Lessee against any liability arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be a combined single limit policy in an amount not less than One Million Dollars ($1,000,000.00) per occurrence. Lessee shall deliver to Lessor copies of policies of such insurance or certificates evidencing the existence and amounts of such insurance with loss payable clauses as required by this Lease. No such policy shall be cancelable or subject to reduction of coverage or other modification except after thirty (30) days' prior written notice to Lessor. Lessee shall not do or permit to be done anything which would invalidate the insurance policies referred to in this Paragraph 9.

To the extent that the proceeds of insurance compensate the Lessee and Lessor for their respective losses, Lessee and Lessor hereby release and relieve the other and waive their right of recovery against the other for loss or damage arising out of or incident to the perils insured against under this Paragraph, which perils occur in, on or about the Premises whether or not due to the negligence of Lessor or Lessee or their agents, employees, contractors and/or invitees. Lessor and Lessee shall, upon obtaining the policies of

insurance required hereunder, give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease. Lessor and Lessee shall use their best efforts to obtain such subrogation provisions in their policies.

10. Casualty; Condemnation. In the event the Premises shall be destroyed or damaged by fire or other casualty during any term of this Lease, whereby the same shall be rendered untenantable, then the Lessor shall have the right to render said Premises tenantable by repairs within ninety (90) days from the date of the damage or destruction. During the period of repair and reconstruction, rent will be equatable abated based upon the square footage of space remaining untenantable. If the Premises are not rendered tenantable within said time, or if a major portion of the Premises has be ' en destroyed so that it can not be rendered tenantable within said time, either party shall have the right to cancel this Lease, in which event rent shall be paid to the date of cancellation.

If the whole or any portion of the Premises is condemned for any public use or purpose by any legally constituted authority with the result that the same are no longer reasonably suitable for Lessee's continued use thereof for the purposes set forth in Paragraph 1 hereof, then Lessee shall have the option of canceling this Lease, and rent shall be accounted f or between Lessor and Lessee as of the date of taking. In the event that any such condemnation does not render the Premises unsuitable for Lessee's continued use, this Lease shall not be affected thereby, except that rent shall be abated for the loss of rentable space taken by condemnation in the proportion that the space taken bears to 16,800 square feet. In the event of any condemnation, Lessor shall be entitled to all compensation to be paid by the condemning authority, except that Lessee may pursue any claim Lessee may have against the condemning authority for business interruption, loss of profits, or moving expenses.

11. Indemnification. Lessee shall indemnify and hold Lessor harmless from and against any and all claims arising from Lessee's use of the Premises and from the conduct of Lessee's business or from any activity, work or things done, permitted, or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold Lessor harmless form and against any and all claims arising from the breach or default in the performance of any obligations on Lessee's part to be performed under the terms of this Lease or arising from any negligence of the Lessee or any of Lessee's agents, contractors or employees and from and against all costs, attorney fees, expenses and liabilities incurred in the defense of any such claim, action or proceeding brought thereon. In case any action or proceeding is brought against Lessor by reason of any such claim, Lessee, upon notice from Lessor, shall defend the same at Lessee's expense by counsel satisfactory to Lessor. Lessee as a material part of the consideration to Lessor, hereby assumes all risk of damage to property or injury to persons in, upon or about the Premises arising from any cause. Lessee hereby waives all claims in respect therefor against Lessor, except for those arising out of the negligence or intentional acts of the Lessor.

Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss or income therefrom or for damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers or any other person in or about the Premises nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results form fire, steam, electricity, gas, water, rain or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures or from any other cause, unless such damage or injury was the result of the Lessor's default under this Lease.

12. Assignment, Sub-Lettinq and Alterations. The Lessee shall not assign this Lease nor sub-let the Premises or any part thereof without the Lessor's prior written consent. Lessee shall not change the use of

the Premises or any part thereof, nor permit the same or any part thereof, to be used for any other purpose other than as set forth in Paragraph 1 above without the Lessor's prior written consent. The Lessee shall not make any alterations or additions to the Premises, without the Lessor's prior written consent. All additions, fixtures, or improvements which may be made by Lessee, except movable office furniture owned by the Lessee, shall become the property of the Lessor and remain upon the Premises as a part thereof, and be surrendered with the Premises at the termination of this Lease.

13. Personal Property. All personal property placed on or moved into the Premises shall be at the risk of the Lessee or owner thereof, and Lessor shall not be liable for any damage to said personal property, or to the Lessee arising from the fire, casualty or any other cause. Lessor's obligation to provide certain insurance coverage set forth in this Lease does not apply to Lessee's personal property. Lessee agrees that it is responsible for its own insurance coverage of its personal property.

14. Compliance With Laws. Lessee, in its use of the Premises, shall promptly execute and comply with all statutes, ordinances, rules, orders, regulations and requirements of the Federal, State and local Governments applicable to the Premises; and shall also promptly comply with and execute all rules, orders and regulations of the Southeastern Underwriters Association for the prevention of fires.

15. Rules and Regulations. Lessee agrees to observe any rules and regulations adopted from time to time by the Lessor, the owner of Technology Park, or Technology Park at Lake Mary Owner's Association, Inc. for use of the Premises and any failure on the part of the Lessee to comply with said rules and regulations shall be a default hereunder.

16. Attorneys' Fees. In connection with any litigation, other proceeding or any other effort, (including bankruptcy or creditors' reorganization proceedings, probate and estate administrative proceedings, and including appeals from the ruling of lower forums), to enforce or interpret this Lease, the prevailing party shall recover its attorneys' fees, legal assistants' fees and costs and expenses of litigation in addition to any other relief.

17. Landlord's Lien. The Lessee hereby pledges and assigns to the Lessor all the furniture, fixtures, goods and chattels of the Lessee, which shall or may be brought or put on the Premises as security for the payment of all rent herein reserved, and the Lessee agrees that the said lien may be enforced by distress foreclosure or otherwise at the election of the Lessor, and does hereby agree to pay attorney's fees, together with all costs and charges therefore incurred or paid by the Lessor.

18. Right of Entry. The Lessor, or any of its agents, shall have the right to enter the Premises during all reasonable hours, to examine the same to make such repairs, additions or alterations as may be deemed necessary for the safety, comfort, or preservation thereof, or to exhibit said Premises, and to put on or keep upon the door or windows thereof a notice "FOR RENT" at any time within thirty (30) days before the expiration of this Lease. The right of entry shall likewise exist for the purpose of removing placards, signs, fixtures, alterations, or additions, which do not conform to this Lease, or the terms and regulations pertaining to the Premises. Lessor will keep a key to the Premises and Lessee shall not change the locks on the Premises without the Lessor's prior written approval.

19. As-Is Condition. Lessee hereby acknowledges that all of Lessors obligations to finish the construction of the Premises have been completed and accepts the Premises in the condition they are in at the beginning of this Lease and agrees to maintain said Premises in the same condition, order and repair as they are at the commencement of said term, excepting only reasonable wear and tear arising from the use thereof under this Lease and except for any maintenance obligations of the Lessor hereunder.

20. Successors and Assigns. This Lease shall bind the Lessor and its assigns or successors, and the heirs, successors and assigns, as the case may be, of the Lessee. Lessor may assign this lease to any purchaser of the Premises, and upon such assignment shall be relieved of all obligations hereunder.

21. Time of the essence. Time is of the essence of this Lease and all terms and conditions contained herein.

22. Notices. Written notice delivered to the Premises hereunder shall constitute sufficient notice to the Lessee and written notice mailed or delivered to the office of the Lessor where rent is paid shall constitute sufficient notice to the Lessor. Notices shall be given (a) by personal delivery, or (b) by certified U.S. mail, return receipt requested, or (c) by a nationally recognized courier service, such as Federal Express or UPS, or (d) by telecopy transmission.

23. Construction Liens. Any charges against the Lessee by the Lessor for services or for work done on the Premises by order of the Lessee or otherwise accruing under this Lease shall be considered as rent due and shall be included in any lien for rent due and unpaid. The interest of the Lessor in the Premise shall not be subject to liens for improvements made to the Premises by the Lessee or at Lessee's direction.

24. Signs. Any signs identifying the Lessee or for other advertising purposes shall be first submitted to the Lessor for approval before installation of same.

25. Quite Enjoyment, Title Exceptions. Upon payment of the rent herein reserved and upon the performance of all the terms of this Lease, Lessee shall have peaceable and quiet enjoyment and possession of the Premises without ejection, hindrance, or molestation by Lessor or any person or persons lawfully claiming under the Lessor.

This lease is subject and subordinate to the Mortgage and Security Agreement in favor of Barnett Bank of Central Florida, N.A. recorded in O.R. Book 2208, Page 1742, Public Records of Seminole County, Florida, The Technology Park at Lake Mary Declaration of Covenants and Restrictions recorded at O.R. Book 1986, page 1410, Public Records of Seminole County, Florida, Easements and other restrictions contained on the Plat of Technology Park, and Utility/Access Easement recorded in O.R. Book 1385, Page 845, Public Records of Seminole County, Florida.

Upon the request of the Lessee, the Lessor will attempt to obtain from Barnett Bank a non-disturbance and attornment agreement in which the bank will agree not to disturb the possession of the Lessee in the event of a foreclosure of the bank's mortgage. In the event of any transfer of the Premises to any mortgage lender on the Premises, the Lessee agrees to attorn to such transferee and will recognize the transferee as the lessor under this Lease, provided that such transferee agrees not to disturb the possession of the Lessee.

26. Default. The following events shall be a default of the Lessee hereunder:

(a) failure to pay any Base Rent or additional rent due under this Lease within ten (10) days after it is due, without notice of default;

(b) failure to perform any other covenant, term or provision of this Lease for more than fifteen (15) days after written notice of such default shall have been delivered to Lessee;

(c) if Lessee shall become bankrupt or insolvent or file any debtor proceedings; or if any

proceeding is commenced by or against Lessee in any court under a bankruptcy act or for the appointment of a trustee or receiver for all or a part of Lessee's property; or if Lessee shall make an assignment for the benefit of creditors or petitions, or enters into an arrangement for reorganization of its debts;

(d) if Lessee shall allow this Lease to be taken under a Writ of Execution, or shall abandon or vacate the Premises (abandonment shall be presumed if the Lessee is absent from the Premises for more than thirty (30) days while also being in default for failure to pay rent hereunder).

27. Remedies. Upon the event of default, Lessor shall have the following remedies:

(a) terminate Lessee's right to possession under this Lease and reenter and take possession of the Premises and relet or attempt to relet the Premises on behalf of Lessee, at such rent and under such terms and conditions as Landlord may, in the exercise of Landlord's sole discretion, deem best under the circumstances for the purpose of reducing Lessee's liability; and Lessor shall not be deemed to have thereby accepted a surrender of the Premises, and Lessee shall remain liable for all rents and additional rents due under this Lease and for all damages suffered by Lessor because of Lessee's breach of any of the covenants of this Lease. At any time during such repossession or reletting, Landlord may by delivering written notice to Lessee, elect to exercise its options under the following subparagraphs to accept a surrender of the Premises, terminate and cancel this Lease, and retake possession and occupancy of the Premises on behalf of Lessor. Nothing contained in this subparagraph shall be construed as imposing any enforceable duty upon Lessor to relet the Premises or otherwise mitigate or minimize Lessor's damages by virtue of Lessee's default.

(b) Declare this Lease to be terminated, and reenter upon and take possession of the Premises without notice to Lessee, whereupon the term hereby granted and all right, title and interest of Lessee in the Premises shall terminate. Such termination shall be without prejudice to Lessor's right to collect from Lessee any rent or additional rent which has accrued prior to such termination, together with all damages suffered by Lessor because of Lessee's breach of any covenant contained in this Lease.

(c) Declare the entire remaining unpaid rent for the initial term or renewal term then in effect to be immediately due and payable, and, at Lessor's option, take immediate action to recover and collect the same by any available procedure.

(d) Pursue any and all remedies permitted by the laws of the State of Florida.

(e) Lessee hereby expressly waives any and all notices or demands of delivery of possession required by law or otherwise.

28. Waiver. The rights of the Lessor under this Lease shall be cumulative, and failure on the part of the Lessor to exercise promptly any rights given hereunder shall not operate to forfeit any of the said rights.

29. Radon Gas Notification In accordance with the requirement of Florida Statute Section 404.056 the following notice is hereby given: Radon is a naturally occurring radioactive gas that, when it is accumulated in a building in sufficient quantities, may present health risks to persons who are exposed to it over time. Levels of radon that exceed federal and state guidelines have been found in buildings in Florida. Additional information regarding radon and radon testing may be obtained from your County Public Health Center.

30. Surrender Upon Termination. Upon the termination of this Lease, whether by its terms or otherwise, the Lessee shall surrender the Premises to the Lessor in broom clean condition. In the event of

any holding over without the consent of the Lessor or other refusal of the Lessee to return possession of the Premises to the Lessor, rent shall continue to be payable to the Lessor, however rent shall be two times the amount stated herein.

In Witness Whereof, the parties have executed this instrument for the purposes herein expressed, the day and year above written.

Signed, Sealed and Delivered
in the presence of:
(Two are required to each party)

/s/
- ----------
- ----------
/s/
- ----------
As to Lessor

SIRDAN RESEARCH LIMITED, INC.

By: /s/ Simon Raab

Simon Raab, President

"LESSOR"

FARO MEDICAL TECHNOLOGIES
(U.S.) INC.

/s/
- ----------
- ----------
/s/
- ----------
As to Lessee

By: /s/ Gregory A. Fraser

Gregory A. Fraser, President

ASSIGNMENT OF LEASE
(Faro Medical Technologies (US) Inc.)

THIS ASSIGNMENT OF LEASE is between SIRDAN RESEARCH LIMITED, INC., a Canadian corporation as Assignor and XENON RESEARCH, INC., a Florida corporation as Assignee. It witnesses the following:

Assignor is the Landlord under that certain Lease dated March 1, 1991 between Assignor and FARO MEDICAL TECHNOLOGIES (US), INC., a Delaware corporation as Tenant (the "Lease") pursuant to which Assignor leased to Tenant the real property described as:

Lot 15, Technology Park at Lake Mary, Plat Book 37, Pages 61 and 62, Public Records of Seminole County, Florida

Assignor this date has sold all of its right, title and interest in the Lease to Assignee.

NOW THEREFORE, Assignor, for and in consideration of TEN AND NO/100 ($10.00) DOLLARS and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby grant, bargain, sell, assign, transfer and deliver to the Assignee all of its right, title and interest in and to the Lease, including all right, title and interest in all security deposits made by the Tenant under the Lease.

TO HAVE AND TO HOLD the same unto the Assignee forever.

By execution of this Assignment, Assignee hereby accepts the foregoing assignment and transfer and agrees to faithfully perform all covenants, stipulations, agreements and obligation under the Lease accruing on or after the date of this Assignment.

IN WITNESS WHEREOF, Assignor and Assignee have signed and sealed these presents the day and year first written above.

Signed, sealed and delivered
in the presence of:

SIRDAN RESEARCH LIMITED,
INC., a Canadian corporation

By: /s/ Simon Raab

Its President

- ----------
As to Assignor

Dated: October 25, 1991

XENON RESEARCH INC., a Florida
corporation

By: /s/ Simon Raab

Its President

- ----------
As to Assignor

Dated: October 25, 1991

EXHIBIT 10.8

OEM PURCHASE AGREEMENT

This Agreement is entered into as of June _____ 1996 between FARO Technologies, Inc., a corporation duly organized and existing under the laws of the State of Florida and having its principal office of business at 125 Technology Park, Lake Mary, Florida 32746, U.S.A. (hereinafter called "Seller") and Mitutoyo Corporation, a corporation duly organized and existing under the laws of Japan and having its principal office of business at 20-1, Sakado 1-chome, Takatsu-ku, Kawasaki, Kanagawa 213, Japan (hereinafter called "Purchaser").

The parties hereto agree as follows:

Article 1. Products

1.1 "Products" shall mean all 3 dimensional measuring machines "FaroArm" and accessories specified in the Annex 1 (5 pages in total and attached hereto), manufactured and/or sold by Seller and subject to addition thereto or deletion therefrom either of which shall be made by agreement in writing of both parties hereto.

1.2 Model change of Products, release of new models of Products or discontinued production of Products shall be subject to the prior approval in writing of Purchaser. In case of intending such model change, release or discontinuance, Seller shall give Purchaser notices thereof in writing so as to enable Purchaser to plan and prepare its marketing properly, which notices are to be given adequate period of time at the latest six(6) months prior to such model changes, release or discontinuance.

Article 2. Sales

2.1 Seller shall manufacture and sell Products to Purchaser and Purchaser may resell Products directly,or, as the case may be, through its distribution channels including its subsidiaries or affiliates to end-users

of Products (hereinafter called End-Users) in the countries and areas as listed below (hereinafter called "Territory"):

* Japan, Korea, Republic of China, Taiwan, Hong Kong, Phillippines, Singapore, Thailand, Malaysia, Indonesia, India, Pakistan, Vietnam, the United Arab Emirates, Saudi Arabia, Israel, Turkey, Australia, New Zealand.

2.2 Purchaser shall resell Products in Territory as a part of integrated ystem of Products and Purchaser's softwares. Such softwares shall be itated in 2.3 below subject to addition thereto or deletion therefrom either of which shall be made by agreement in writing of both parties hereto.

2.3 Purchaser's softwares, which are developed, manufactured, sold, distributed or otherwise handled by Purchaser, shall be inclusive of the softwares developed or manufactured by Purchaser's subsidiaries and shall be as follows:

* For the applications of digitizing and precision measurement, TRACEPAK Series, TRACECUT Series, GEOPAK Series, SCANPAK Series and/or other Purchaser's softwares similar or relating thereto and any "version-up" thereof.

2.4 Purchaser may procure the Renishaw Touch Trigger Probes applicable to Products through its own channels. Purchaser may procure parts and/or accessories, which are manufactured by manufacturers other than Seller and applicable to Products, through its own channel with a prior approval of Seller.

2.5 For the purpose of 2.4 above, Seller shall give Purchaser technical information useful for the application of such parts and/or accessories upon request of Seller.

Article 3. Non-Exclusivity

Seller hereby grants to Purchaser and Purchaser accepts the non-exclusive right to purchase Products from Seller for the purpose of resale within Territory during the effective period of and subject to the provisions of this Agreement.

Article 4. Licenses

4.1 Seller hereby grants Purchaser a fion-exclusive license to practice methods covered by Seller's patent applications/patents described in the Annex 2 (7 pages in total and attached hereto)(hereinafter called "Patent Applitations/Patents") which license is limited solely to the purpose hereof. Purchaser may not alter, reverse engineer, disassemble or decompile Products.

4.2 Under such license Purchaser shall be entitled to grant sublicenses to the effect that:

(1) Purchaser, as an authorized reseller of Products, grants its End- Users non-exclusive and permanent sublicenses to practice methods covered by any of Patent Applications/Patents.

(2) End-Users may not alter, reverse engineer, disassemble or decompile Products.

(3) Patent Applications/Patents shall belong to Seller.

4.3 Seller hereby grants Purchaser a non-exclusive license for the permanent sublicenses to its End-Users, installation and support of "CALIPER 3D Software" in Territory with regard to the resale of Products.

4.4 The sublicenses granted to Purchaser's End-User's as referred to in 4.2 and 4.3 above shall not be affected by expiration or termination of this Agreement.

4.5 Neither expiration nor termination of this Agreement shall affect the rights of Purchaser as referred to in 4.1 through 4.3 above regarding the Products or outstanding orders in Article 20 hereof.

Article 5. Term

Except as otherwise provided in this Agreement, the initial term of this Agreement shall be three(3) years on and from the date of signatures by the parties hereto and thereafter this Agreement shall be automatically renewed on a year to year basis unless terminated at the end of the initial term or renewed term(s) of this Agreement by either party upon at least six(6) months prior written notice.

Article 6. Individual Contract

6.1 Each individual contract under this Agreement shall be subject to this Agreement. If there is any inconsistency between the contents of such individual contract and those of this Agreement, the latter shall be finally applied.

6.2 Any individual Contract shall be concluded and carried out by Purchaser's purchase order or other contract form, which shall set forth the description, item numbers, specifications, prices, delivery time, and other necessary terms and conditions for shipment stated on such purchase order.

6.3 Notwithstanding expiration or termination of this Agreement, any individual contract concluded prior to the effective date of such expiration, or termination shall be completely performed by the parties hereto, unless otherwise agreed upon.

Article 7. Prices

7.1 Seller grants to Purchaser twenty-five(25)% discount from its price lists issued and valid for its end-users in U.S.A. on all the products mentioned on the price lists. Prices are to be calculated on FOB U.S. Orlando Airport basis. Purchaser shall be notified of the change of prices by Seller in writing

six(6) months prior to the effective date of such change. Orders placed with Seller by Purchaser before such notification shall be delivered at the prices which are more preferable to Purchaser.

7.2 Availability of such twenty-five(25)% discount as referred to in 7.1 will not apply, unless Purchaser orders at least twenty-five(25) machines "FaroArm" as referred to in 1.1 within the first twelve(12) months period commencing from the date of signatures by the parties hereto. If Purchaser has not ordered twenty-five(25) machines "FaroArm" within such period, the rate of discount shall be twenty(20)% and such new rate shall be applied on a retroactive basis to all previous orders, and prices of all previous orders shall be recalculated according to such new rate, and after such application, any shortfall in payments due to Seller based on such recalculated prices shall be due and payable immediately upon receipt of invoice from Seller.

Article 8. Payment

Unless otherwise agreed upon in writing between the parties hereto, Purchaser shall pay to Seller within sixty (60) days after actual Air Waybill Date. Such payment is to be made by telegraphic transfer to the account number of Seller's, designated bank.

Article 9. Shipment

Unless otherwise agreed upon in writing, Seller shall effect shipment by air transportation selected according to Purchaser's instructions stated on its orders. The delivery terms for all shipments shall be on FOB U.S. Orlando Airport basis as the meaning defined in "Incoterms 1990" of the International Chamber of Commerce.

Article 10. Packing & Marking

Packing and marking shall be at Seller's option, provided, however, that in case of air-shipment such packing shall be airworthy in weight and strength, etc.

Article 11. Inspection

11.1 Inspection and testing of Products before shipment shall be conducted by Seller in accordance with i) the inspection standard or pass/fall criteria to be agreed upon between the parties hereto and ii) the Annex 1 attached hereto. The Seller's standard inspection and testing reports shall be prepared as shown in the samples provided in Annex 3. attached hereto and copies of such inspection and testing results shall accompany Products at each shipment. Originals of such inspection and testing results shall be mailed by Seller to Purchaser.

11.2 If Seller fails to attach the copy and/or present such inspection and testing results stated in 11.1 above without any reasonable reason nor any notice in advance to Purchaser, Purchaser shall be entitled to reject such Products and return the same to Seller in Purchaser's discretion. In such case Seller shall beat all the costs, expenses or charges related to or arising from such rejection.

Article 12. Specifications and Technical Documents

12.1 Products to be supplied by Seller to Purchaser under this Agreement shall be in accordance with the specifications agreed upon between the parties hereto and set forth in the Annex I attached hereto. However, in case any revision or supplement is necessary for such specifications, the parties hereto shall decide such revision or supplement by mutual negotiation on the basis of the specifications commonly applied to the products similar to Products.

12.2 Technical documents delivered by Seller hereunder shall not be reproducible for Purchaser without Seller's prior written consent. Technical documents so delivered and in Purchaser's possession shall be stored strictly in confidence by Purchaser.

Article 13. Warranty

13.1 Seller warrants that Products shall be free from faults and defects in workmanship or material affecting the fitness of Products for its usual purpose under normal condition of use, service and maintenance and that Products shall have the specified qualities according to the Products specifications based on inspection standard.

13.2 Seller warrants that Products including the Software as referred to in 4.3 hereof shall operate and perform according to specifications and in connection with the usual purpose for which Products are designed.

13.3 The period of warranties (hereinafter called "Warranty Period") set out in 13.1 and 13.2 (hereinafter collectively called "Warranties") above shall be twelve(12) months from the actual Air Waybill Date of Products.

13.4 Subject to the limitations hereof, Warranties shall apply to any defects found by Purchaser in the operation of Products and reported to Seller within Warranty Period. In case of Seller's breach of any of Warranties, Purchaser may return all the defective Products to Seller at Purchaser's expense for shipping, and Seller will inspect such defective Products. Without any charge, Seller shall in a reasonable time repair such defective Products or replace the same with Products free from defects and Seller shall pay shipping charges back to Purchaser.

13.5 Seller shall ship such replacement Products to Purchaser, effecting insurance on Products for Purchaser. In such case the covering insurance shall be air-transport insurance with All Risks, unless otherwise stated.

13.6 Seller shall bear all the costs, expenses and charges related to or arising from such defects, including, but not limited to, the costs of transportation, insurance for the invoice amount plus ten(10) percent, duties, fees and taxes.

13.7 Warranties do not apply to any defects in any component of Products if:

(1) Products have been improperly stored, installed, operated or maintained, or

(2) Purchaser has permitted modifications, additions, adjustments and/or repair, any of which has not been approved and permitted by Seller.

i) to any memory device structures or content, or any other part of Products, or

ii) which might affect Products.

13.8 Nothing contained herein shall be construed as obligating Seller to make service, parts or repairs for Products available under the terms and conditions for Warranties after the expiration of Warranty Period. Such service, parts or repairs for Products made by Seller upon Purchaser's request after the expiration of Warranty Period shall be chargeable to Purchaser under the fee schedule agreed upon between the parties hereto.

13.9 PURCHASER ACKNOWLEDGES THAT IT HAS PURCHASED PRODUCTS BASED UPON ITS OWN KNOWLEDGE OF THE USES TO WHICH PRODUCTS WILL BE PUT. SELLER SPECIFICALLY DISCLAIMS ANY WARRANTY OR LIABILITY RELATED TO THE FITNESS

OF PRODUCTS FOR ANY PARTICULAR PURPOSE OR ARISING FROM THE INABILITY OF THE PURCHASER TO USE PRODUCTS FOR ANY PARTICULAR PURPOSE.

13.10 If any claim for products liability regarding Products is made against Seller by a third party, Purchaser shall indemnify and hold Seller harmless against such claim except that Purchaser reasonably establishes that any losses and damages sustained by Purchaser in connection with such claim are resulted from Seller's liability. In case such claim is made against either party, either party shall immediately notify the other party thereof in writing, and the parties hereto shall cooperate in taking appropriate countermeasure.

13.11 THIS WARRANTY IS IN LIEU OF ALL OTHER EXPRESSED OR IMPLIED WARRANTIES (INCLUDING WITHOUT LIMITATION ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE). IN NO EVENT SHALL SELLER BE LIABLE FOR ANY SPECIAL, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING BUT NOT LIMITED TO, LOST PROFITS OR OTHER DAMAGES FROM LOSS OF PRODUCTION) CAUSED BY DEFECTIVE MATERIAL, OR BY UNSATISFACTORY PERFORMANCE OF THE PRODUCT OR BY ANY OTHER BREACH OF CONTRACT BY SELLER.

Article 14. Claims

After the arrival of Products to the destination, Purchaser may check the Products in its own manner. In the event that any shortage, different content, visible defect or any other difference from the order is found by Purchaser, Purchaser may notify Seller in writing of any claim within sixty(60) days from the arrival date of Products at the port of destination, except that Purchaser shall notify Seller in writing of any claim related to latent defects in accordance with 13.4 hereof.

Article 15. Material and Education

15.1 Seller undertakes to provide Purchaser with all the materials and information necessary for sale of Products, including, but not limited to, the latest version of a users' manual, sales brochures and literatures, as available from time to time, connected with the Products, or amendments thereto as they occur from time to time.

15.2 Purchaser will have full support from Seller in the initial and ongoing education in the manner and burden of costs agreed upon between the parties hereto.

15.3 Seller shall provide Purchaser free of charge such technical and sales information including advisory service as may be necessary for full understanding of Products and for the proper distribution, installation, servicing or maintenance of Products. As the case may be, Purchaser may, at its own expenses, send its personnel to the place designated by Seller for the above purpose after giving reasonable notice of such visits.

Article 16. Industrial Property Right

Seller is responsible for any alleged infringement with regard to patent, utility model, trademark, design or copyright relating to Products in Territory. In the event of any dispute with regard to such intellectual and industrial property rights, Purchaser may terminate this Agreement in Purchaser's discretion. Seller is responsible for and shall defend, reimburse, indemnify and hold Purchaser harmless from any liability, claim, expense, loss and/or damage sustained thereby.

Article 17. Trademarks, etc.

17.1 Seller shall mark or shall allow Purchaser to mark Products with the trademarks and/or trade name of Purchaser in accordance with the manner agreed upon between the parties hereto.

17.2 Seller shall have no right with respect to the trademarks and trade name of Purchaser, provided, however, that Seller may use the trademarks and trade name of Purchaser only for Products delivered to Purchaser pursuant to this Agreement.

Article 18. Confidentiality

18.1 Either party shall keep in strict confidence and not to disclose information marked with "confidential information" relating to this Agreement, including, but not limited to, the conclusion and contents of this Agreement, furnished by the other party.

18.2 The provision of 18.1 above shall not apply to the following:

(1) information which is or subsequently may be in public domain through no fault of the receiving party; or

(2) information which the receiving party can show as a matter of record was previously known to it at the time of its receipt; or

(3) information which subsequently may be obtained lawfully from a third party having the right to disclose it without any obligation of confidentiality; or

(4) information which is approved in writing by the furnishing party for release of the receiving party; or

(5) information which the receiving party can show as a matter of record was independently developed by the receiving party.

18.3 The provisions of 18.1 and 18.2 above shall survive expiration or termination of this Agreement.

Article 19. Termination

19.1 In case there is any breach of the terms under this Agreement by either party during the effective period of this Agreement, the other party shall give notice in writing to such party to correct such breach. Unless such breach is corrected within thirty (30) days after such notice is received by the breaching party, the other party shall have the right to terminate this Agreement by written notice thereafter and the losses and damages sustained thereby shall be indemnified by the breaching party.

19.2 Further, in the event of bankruptcy, insolvency, dissolution, consolidation or receivership proceedings affecting the operation of business for any reason by either party, the other party shall have the right to terminate this Agreement with a written notice to such party.

Article 20. Stocks and/or Outstanding Orders

In the event of expiration or termination of this Agreement for Purchaser's own reason, not attributable to Seller, Purchaser shall be liable for keeping all the stocks of purchased Products and Products in transit, and yet accepting all the shipments for then outstanding order of Purchaser to be shipped by Seller. All the stocks of such Products, Products in transit and such outstanding orders are at Purchaser's disposal in case of expiration or termination of this Agreement for Seller's reason.

Article 21. Steps after Expiration/Termination

On the expiration or termination of this Agreement, Purchaser reserves the right to purchase, for a period of ten (10) years from the date of expiration or termination of this Agreement, parts and components of Products from Seller for Purchaser's direct or indirect (in case of such services through Purchaser's distribution channels) after-sale service for its End-Users.

Article 22. Notice

22.1 All necessary notices or requests by either party to the other party in performing this Agreement shall be addressed to the first above written address or the address designated by the other party. Such notices or requests shall be deemed to take effect on and from such receipt.

22.2 Any party shall notify the other party in writing of any change of address to which all notices or requests shall be sent.

Article 23. Arbitration and Applicable Law

23.1 All disputes, controversies or differences which may arise between the parties, out of or in relation to or in connection with this Agreement, or the breach thereof, shall be finally settled by arbitration pursuant to the Japan-American Trade Arbitration Agreement, of September 16, 1952, by which each party hereto is bound.

23.2 This Agreement shall be governed by and interpreted in accordance with the laws of the State of Florida, U.S.A.

Article 24. Assignment

Neither party shall assign, transfer or otherwise dispose of this Agreement in whole or part to any person, firm or corporation without the prior written consent of the other party, in such party's sole discretion.

Article 25. Waiver

Any failure of either party to enforce, at any time or for any period of time, any of the provisions of this Agreement shall not be construed as a waiver of such provisions or of the right of such party thereafter to enforce each such provision.

Article 26. Force Majeure

Neither party hereto shall be liable in any manner for failure or delay upon fulfillment of all or part of this Agreement, directly or indirectly, owing to causes or circumstances beyond the control of such party, including, but not limited to, Acts of God, governmental orders or restriction, war, sanctions, blockade, revolution, riot, strikes, epidemics, or fire.

Article 27. Trade Terms

All trade terms under this Agreement and each individual contract shall be interpreted in accordance with the provisions of 'Incoterms 1990" of the International Chamber of Commerce.

Article 28. Entire Agreement

This Agreement constitutes the final and entire agreement between ihe parties hereto with respect to any subject matter herein and shall supersede all previous representations, understandings and agreements between the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate in Florida, U.S.A. by their duly authorized officers or representatives as of the date first above written.

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

Phone: 407-333-9911

Telefax: 407-333-4181

By: /s/ Gregory A. Fraser

Name & Title: Gregory A. Fraser, Vice President

Mitutoyo Corporation
20-1, Sakado 1-chome, Takatsu-ku,
Kawasaki, Kanagawa 213, Japan

Phone: (044) 813 - 8230

Telefax: (044) 813 - 8231

By: /s/ Norio Takatsuji

Name & Title: Norio Takatsuji, President

EXHIBIT 10.9

NONEXCLUSIVE UNIQUE APPLICATION RESELLER AGREEMENT

This Nonexclusive Unique Application Reseller Agreement (the "Agreement") is entered into in California, by and between Autodesk, Inc., a Delaware corporation with principal offices at 111 McInnis Parkway San Rafael, California 94903 ("Autodesk"), and Faro Technologies, a Delaware corporation with principal offices at 125 Technology Park Drive, Lake Mary, Florida 32746 ("UAR"). The Effective Date shall be the last date on which an authorized representative of the parties signed below.

THE PARTIES AGREE AS FOLLOWS:

1. DEFINITIONS.

1.1 "Software" shall mean the Autodesk software set forth on Exhibit A and any subsequent release delivered to UAR by Autodesk as mutually agreed upon by the parties in writing.

1.2 "Documentation" shall mean the reference manual customarily supplied to Customers by Autodesk with the Autodesk retail version of the Software.

1.3 "Customer" shall mean any third party licensee of the UAR Product who obtains such UAR Product solely in order to fulfill its own personal or business needs and not for further distribution or resale.

1.4 "UAR Product" shall mean the Software bundled in combination with and accompanied by UAR's software as described in Exhibit A.

1.5 "Territory" shall mean those countries set forth in Exhibit B.

1.6 "Sales Channels" shall be those channels set forth in Exhibit B.

1.7 "Market" shall mean the market set forth in Exhibit B.

1.8 All references in this Agreement to the "Sale" of or "selling" or "purchase" of Software shall mean the sale of a license to use such Software or Software Copies.

2. APPOINTMENT AND RESPONSIBILITIES OF UAR.

2.1 Appointment. Subject to the terms and conditions of this Agreement, Autodesk appoints UAR as a Unique Application Reseller and grants to UAR a non-exclusive license to distribute, through UAR's Sales Channels, promote, market and sublicense the Software bundled with the UAR's software as a UAR Product within the Territory and Market as defined above. In the event that UAR breaches the limitations of this appointment, UAR shall rebate to Autodesk, as liquidated damages and not as a penalty, an amount (with respect to each such sale) equal to the difference between the then-current Autodesk U.S. suggested retail price as indicated on the applicable published Autodesk price list and the per copy fee.

Autodesk reserves the unrestricted right to distribute, promote, market and sublicense the Software and Documentation (as provided to UAR or as distributed by Autodesk in the Autodesk retail version of the Software) in the Territory, including but not limited to through OEMs, VARs, and other third party resellers (including other unique application resellers), as well as directly to Customers.

2.2 Bundling. UAR shall not distribute any Autodesk Software or Documentation to any party separately or unbundled from the UAR Product, or price quote or invoice the Autodesk Software as a separate item. UAR acknowledges that any transfer of the Software or Documentation acquired pursuant to this Agreement as a stand-alone product is expressly prohibited.

2.3 Promotion of UAR Products. UAR, shall, at its own expense, actively promote the distribution of the UAR Product within the Territory and shall assume all costs and obligations, including any commissions, involved with sales and marketing of the UAR Product.

2.4 Marketing. UAR shall, at its own expense:

i) reference the Software as a component of the UAR Product in UAR!s brochures and feature the Software as a component of the UAR Product in any applicable trade show that it attends;

ii) provide adequate contact with existing customers, including notifying customers of bugs or errors in the Software and corrections or fixes for such bugs or errors as suggested by Autodesk to UAR;

iii) assist Autodesk in assessing Customer requirements for the Software as a component of the UAR Product, including modifications and improvements thereto, in terms of quality, design, functional capability, and other features; and

iv) promptly notify Autodesk of bugs or errors in the Software discovered by UAR or reported to UAR by Customers.

2.5 End User Licensing. The UAR Product shall be sublicensed to Customers under the terms of UAR's Customer License. The term "Customer License" shall mean UAR's standard license agreement which contains terms substantially similar to the minimum terms and conditions described in Exhibit C pursuant to which Customers are granted a license to use the Software.

2.6 Registration. UAR shall be responsible for Customer registration of the UAR Product. UAR shall maintain an accurate accounting of the Autodesk serial numbers incorporated into the UAR Product and shall provide registration reports to Autodesk as set forth in Paragraph 4.6 (Sales and Inventory Reports).

2.7 Conflict of Interest. UAR shall not promote the products of other companies if it will create a conflict of interest in handling Autodesk's confidential or proprietary information.

3. PROHIBITIONS.

3.1 Modification. Autodesk shall be responsible for all reproduction of copies of the Software and Documentation. UAR shall not disable features of the Software, modify, enhance or make derivative works of the Software or Documentation or sublicense such rights. UAR may, however, link its software to the Software and revise the user interface of the Software. UAR agrees not to reverse engineer, disassemble, or decompile the Software in whole or in part. UAR acknowledges that Autodesk desires to protect the integrity of the Software as a commercial technology. UAR agrees that the licenses granted herein are subject to UAR bundling the Software in its entirety, as delivered by Autodesk to UAR and UAR specifically agrees not to bundle a lesser subset of any Software files with the UAR Product without Autodesks prior written consent.

3.2 Mail Order Sales Prohibited. UAR shall not distribute the UAR Product by Mail Order or to any Sales Channel that UAR has reason to believe may distribute the UAR Product by Mail Order. "Mail Order" shall be defined as invitation, through advertising or otherwise, for orders by mail or telephone, where Customer service, product demonstrations and installation services are not offered by UAR to the Customer.

3.3 Software Purchases. Software for use in the UAR Product may only be purchased

under the terms of this Agreement. UAR may not purchase Software for the UAR Product under any other agreements with Autodesk.

4. TERMS OF DELIVERY OF SOFTWARE AND DOCUMENTATION

4.1 Delivery. Autodesk shall deliver to UAR copies of the Software media (5 1/4, 3 1/2 floppy disk, CD-ROM or tape) and copies of the necessary documentation, as ordered by UAR from time to time.

4.2 Orders, Acceptance and Shipping. All orders for copies of Software and Documentation shipped to UAR by Autodesk shall be in writing (including by facsimile), and shall be subject to the terms and conditions of this Agreement. Any purchase order which purports to supersede or otherwise modify this Agreement shall be of no force or effect. Each copy of Software and Documentation shall be deemed accepted by UAR upon receipt. All Software and Documentation delivered by Autodesk shall be F.O.B. Autodesk's manufacturing plant. All shipping charges, special packing expenses, if any, and insurance, will be borne by UAR. If at any time UAR is not in conformance with its obligations under the terms of this Agreement, Autodesk reserves the right to cease delivering Software and Documentation to UAR until such time as UAR is in compliance with such obligations.

4.3 Payment. The price to UAR for each copy of the Software and related Documentation shall be the then-current Price List price for the Autodesk version of the Software less the discount set forth in Exhibit D. UAR's discount is dependent upon UAR's quarterly purchases (revenues) to Autodesk. Such discount shall be adjusted quarterly based on UAR's previous quarter revenues. Autodesk shall submit an invoice to UAR upon each shipment. Upon approval of UAR!s credit standing by Autodesk, payment terms shall be thirty (30) days from the date of the invoice. Pending such approval, payment shall be due immediately upon delivery. Any invoiced amount not received within thirty (30) days of the date of invoice shall be subject to a service charge of one and one-half percent (1.5%) per month (or, if less, the maximum allowable by applicable law). UAR shall pay all sales, property, excise, duties, and other federal and local taxes (other than those based on Autodesk's net income).

4.4 Initial Purchase. Upon execution of this Agreement, UAR shall purchase the quantity of Software Copies set forth in Exhibit D. Such initial purchase shall determine UAR's discount for the first and second quarters of this Agreement.

4.5 Sales and Inventory Reports and Audit Rights. UAR shall provide Autodesk with a quarterly point-of-sale report for each of the Sales Channels set forth in Exhibit B, showing, at a minimum, date shipped, quantity of UAR Product sold and used internally, the Autodesk serial numbers and the corresponding UAR serial numbers, the Customers' names and addresses, quantities sold to such Customers (if any), as well as the quarter-end inventory position on hand for the UAR Product. This report must be forwarded within fifteen (15) days of the close of each quarter. Within the first five (5) days of every quarter, UAR shall provide Autodesk with a ninety (90) day rolling forecast showing prospective orders for each Sales Channel and intended date when such orders shall be submitted to Autodesk. UAR shall maintain complete and accurate records of the information required by this section. Autodesk shall be entitled, at any time during the term of this Agreement, to audit the books and records of UAR for purposes of compliance with the terms of this Agreement and verifying such sales and inventory reports. Any such audit shall be conducted by Autodesk or its representatives during normal business hours, and UAR shall cooperate fully with Autodesk or its representatives in any such audit. In the event such inspection or audit discloses any underpayment, UAR shall promptly pay Autodesk such amount, together with interest accrued daily at a rate per annum equal to the highest allowable rate under California law on the unpaid balance until paid in full.

5. CUSTOMER SERVICE.

5.1 Customer Support. UAR, (through UAR's Sales Channel), shall be directly responsible

for providing Customer support for the UAR Product and the Software as a component of the UAR Product. UAR shall contract with its sales channel to provide installation and support services solely through sales, installation and support personnel employed directly by UAR or its Sales Channel. UAR shall maintain on staff full time support personnel sufficiently knowledgeable with respect to the Software such that UAR shall be capable of fully supporting the Software as a component of the UAR Product. At no time during the term of this Agreement, shall UAR represent to any Customer that Autodesk is available to directly answer questions about the Software as a component of the UAR Product.

5.2 Autodesk Support to UAR. Autodesk shall, during normal business hours, provide to UAR telephone assistance and response to written requests received by telecopy concerning Software errors and possible work arounds for the Software. Such support is specifically designed to assist UAR as a reseller of the Software and UAR is not to make such UAR support accessible to its Customers at any time.

5.3 Error Notifications. UAR shall promptly notify Autodesk of bugs or errors in the Software or Documentation. Autodesk shall not be obligated to correct any such errors discovered by UAR or reported to UAR by Customers.

5.4 Autodesk Developer Support. UAR shall register with Autodesk Developer Marketing to participate in the Autodesk Developer Network Program at the then current fees.

6. UPGRADES BY UAR.

In the event Autodesk creates bug fixes or New Releases ("Upgrades") of the Software, Autodesk will notify UAR in writing (including through CompuServe) and UAR will advise Autodesk as to whether UAR wishes to receive such Upgrade. Once any such Upgrade is made available to UAR, if UAR decides to integrate the Upgrade into the UAR Product, UAR shall be responsible for providing such Upgrade as a component of the revised UAR Product to its Customers. UAR will ensure that the copy of the Software as a component of the UAR Product is destroyed either by UAR or by Customer at the time the Upgrade is installed. Any such Upgrade shall be subject to the terms of this Agreement. Unless other arrangements are made with Autodesk in writing, such Upgrade will not be delivered to Customers as stand-alone product but rather will be integrated into the new version of the UAR Product and delivered as an upgrade to the UAR Product already in the possession of UAR's installed base of Customers.

7. WARRANTIES.

7.1 Standard Limited Warranty. Autodesk will provide no warranty or continuing support for the Software to Customers or the Sales Channel and UAR agrees that UAR shall be solely responsible for providing warranty and continuing support to UAR's Customers and Sales Channel. Autodesk warrants to UAR, for a period of ninety (90) days from delivery by Autodesk to UAR, that the copies of the Software delivered to UAR (as a standalone product) will perform substantially in accordance with the Documentation. UAR SHALL NOT MAKE OR PASS ON TO ANY PARTY ANY WARRANTY OR REPRESENTATION CONCERNING THE SOFTWARE AND DOCUMENTATION ON BEHALF OF AUTODESK.

7.2 No Other Warranty. EXCEPT FOR THE LIMITED WARRANTY TO UAR DESCRIBED IN SUBPARAGRAPH 7.1 ("STANDARD LIMITED WARRANTY"), AUTODESK GRANTS NO OTHER WARRANTIES, EXPRESS OR IMPLIED, BY STATUTE OR OTHERWISE REGARDING SOFTWARE AND DOCUMENTATION. AUTODESK DOES NOT WARRANT THE PERFORMANCE OF THE SOFTWARE WHEN USED IN CONJUNCTION WITH THE UAR PRODUCT. FURTHERMORE, AUTODESK EXPRESSLY EXCLUDES ANY IMPLIED WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, MERCHANTABILITY OR NON-INFRINGEMENT.

8. CONTACT PERSONS.

The contact persons for the parties shall be:

Autodesk: Larry Rios
15303 Dallas Parkway
Suite 1410
Dallas, TX 75248
Tel: (214) 701-1069 Fax: (214) 701-1080

UAR: Faro Technologies
125 Technology Park Drive
Lake Mary, FL 32746
Tel: (407) 333-9911
Fax: (407) 333-4181

9. OWNERSHIP OF PROPRIETARY RIGHTS.

UAR acknowledges that the Software and Documentation are proprietary to Autodesk and that Autodesk retains exclusive ownership of the Software and Documentation and all proprietary rights associated with the Software and Documentation. UAR shall take all reasonable measures to protect Autodesk's proprietary rights in the Software and Documentation. Except as provided herein, UAR is not granted any other rights or license to patents, copyrights, trade secrets or trademarks with respect to the Software and Documentation. UAR shall promptly notify Autodesk in writing upon its discovery of any unauthorized use or infringement of the Software and Documentation or Autodesk's patent, copyright, trade secret, trademark or other intellectual property rights. UAR shall not (and shall require that its Customers do not) remove, alter, or cover any copyright notices or other proprietary rights notices placed on or in any copy of the Software or Documentation by Autodesk. UAR shall not sell to any Customer if UAR has notified Autodesk that such Customer may be involved in potential unauthorized use of Software or Documentation or other infringement of Autodesk's proprietary rights.

10. CONFIDENTIALITY.

10.1 Confidentiality Required. Through its relationship with Autodesk UAR shall have access to certain information and materials concerning Autodesk's business, plans, Customers, technology, and products that are confidential and of substantial value to Autodesk, which value would be impaired if such information were disclosed to third parties ("Confidential Information"). UAR shall not disclose any such Confidential Information to any third party and shall take every reasonable precaution to protect such information. UAR shall not publish any technical description of Software and Documentation beyond the description published by Autodesk. In the event of termination of this Agreement, there shall be no use or disclosure by UAR of any confidential information of Autodesk.

10.2 Exceptions to Confidentiality. UAR's confidentiality obligations do not extend to Confidential Information which (i) becomes publicly available without the fault of UAR; (ii) is rightfully obtained by UAR from a third party with the right to transfer such information; or (iii) is independently developed by UAR and without reference to Autodesk's Confidential Information. UAR shall have the burden of proving the existence of any condition in this Paragraph.

11. TRADEMARKS.

During the term of this Agreement, UAR shall have a non-exclusive, non-transferable right to indicate to the public that it is an authorized UAR of Autodesk's Software and Documentation as a component of the UAR Product and to advertise such Software and Documentation as a component of the UAR Product within the Territory under the Autodesk trademarks and slogans adopted by Autodesk from time to time ("Trademarks").

UAR shall include the Autodesk Trademarks in any literature, promotion or advertising concerning the UAR Product. UAR shall not affix any Autodesk Trademark to products other than the UAR Product. UAR shall not contest, oppose or challenge Autodesk's ownership of the Trademarks. All representations of Autodesk Trademarks that UAR intends to use shall be exact copies of those used by Autodesk, or shall first be submitted to the appropriate Autodesk personnel for approval of design, color, and other details and such approval shall not be unreasonably withheld. If any of the Autodesk Trademarks are to be used in conjunction with another trademark on or in relation to the UAR Product, then the Autodesk Trademarks shall be presented equally legibly, equally prominently, but nevertheless separated from the other so that each appears to be a trademark in its own right, distinct from the other mark. Effective upon the termination of this Agreement, UAR shall cease to use all Autodesk Trademarks.

12. PROPRIETARY RIGHTS INDEMNITY.

Autodesk shall defend, at its expense, any action brought against UAR which alleges that the Software or Documentation infringes a United States copyright or patent, provided that UAR promptly notifies Autodesk in writing of any claim, gives Autodesk sole control of the defense and settlement thereof, and provides all reasonable assistance in connection therewith. If the Software and Documentation is finally adjudged to so infringe, Autodesk shall, at its option, (a) procure for UAR the right to continue using the Software and Documentation as a component of the UAR Product; (b) modify or replace the Software and Documentation so there is no infringement; or (c) accept return of the copies of the Documentation in UAR's inventory and refund the purchase price. Autodesk shall have no liability regarding any claim arising out of the use of the Software and Documentation in combination with other products, including the UAR Product, if the infringement would not occur but for such combination. THE FOREGOING STATES UAR'S SOLE AND EXCLUSIVE REMEDY WITH RESPECT TO CLAIMS OF INFRINGEMENT OF THIRD PARTY PROPRIETARY RIGHTS OF ANY KIND.

UAR shall defend, at its expense, any action brought against Autodesk for any claim which alleges the UAR Product infringes a United States copyright or patent. Autodesk shall provide all reasonable assistance in connection with any claim therewith.

13. TERM AND TERMINATION.

13.1 Term. The term of the Agreement shall commence upon the Effective Date and unless terminated earlier in accordance with the terms of this Agreement, shall continue for one (1) year.

13.2 Termination for Cause. Autodesk may terminate this Agreement upon thirty (30) days written notice of a material breach.

13.3 Termination for Convenience. This Agreement may be terminated without administrative or judicial resolution by either party for any reason or no reason, by giving the other party written notice ninety (90) days in advance.

13.4 Termination for Insolvency. Either party may terminate this Agreement immediately, upon written notice, (i) upon the institution by or against the other of insolvency, receivership or bankruptcy proceedings or any other proceedings for the settlement of the other's debts, (ii) upon the other's making an assignment for the benefit of creditors or (iii) upon the other's dissolution or ceasing to conduct business in the normal course.

13.5 Fulfillment of Orders Upon Notice of Termination. Upon delivery of notice of termination pursuant to this Paragraph 13 ("Term and Termination"), Autodesk shall not be obligated to fulfill any unfulfilled orders or any orders received by Autodesk subsequent to the date of delivery of notice of termination. In Autodesk's sole discretion Autodesk may continue to fulfill orders if UAR (i) submits prepayments for any such

order and (ii) pays all credit balances then outstanding prior to any shipment of Software or Documentation by Autodesk.

13.6 Return of Materials. All Autodesk Confidential Information, data, photographs, samples, literature, and sales aids of every kind shall remain the property of Autodesk. Within thirty (30) days after the termination of this Agreement, UAR shall return all such items as Autodesk may direct, at Autodesk's shipping expense.

13.7 Survival of Certain Terms. The provisions of Paragraph 4.3 ("Payment"), Paragraph 5.1 ("Customer Support"), Paragraph 7 ("Warranties"), Paragraph 9 ("Ownership of Proprietary Rights"), Paragraph 10 ("Confidentiality"), Paragraph 11 ("Trademarks"), Paragraph 12 ("Proprietary Rights Indemnity"), Paragraph 13 ("Term and Termination"), Paragraph 14 ("Consequential Damages Waiver") and Paragraph 15 ("Limitation of Liability") shall survive the termination of this Agreement for any reason. All other rights and obligations of the parties shall cease upon termination of this Agreement.

14. CONSEQUENTIAL DAMAGES WAIVER.

THE PARTIES AGREE THAT IN NO EVENT WILL AUTODESK BE LIABLE TO UAR OR ANY OTHER PARTY, UNDER ANY THEORY OF LIABILITY, WHETHER IN AN ACTION BASED ON A CONTRACT, TORT (INCLUDING NEGLIGENCE) OR ANY OTHER LEGAL THEORY, HOWEVER ARISING, FOR ANY COSTS OF PROCUREMENT OF SUBSTITUTE GOODS OR SERVICES BY UAR OR FOR ANY LOSS OF USE, INTERRUPTION OF BUSINESS, OR INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES OF ANY KIND, WHETHER OR NOT AUTODESK HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE. THIS LIMITATION SHALL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY.

15. LIMITATION OF LIABILITY.

AUTODESK'S AGGREGATE LIABILITY UNDER THE TERMS OF THIS AGREEMENT SHALL BE LIMITED TO THE TOTAL PAYMENTS MADE BY UAR TO AUTODESK FOR THE SOFTWARE AND DOCUMENTATION SHIPPED BY AUTODESK TO UAR FOR INCLUSION IN THE UAR PRODUCT IN THE MOST RECENT FULL CALENDAR YEAR PRECEDING IMPOSITION OF SUCH LIABILITY. THIS LIMITATION SHALL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY.

16. GENERAL PROVISIONS.

16.1 Compliance With Laws.

a) Foreign Corrupt Practices Act. In conformity with the United States Foreign Corrupt Practices Act and with Autodesk's established corporate policies regarding foreign business practices, UAR and its employees and agents shall not directly or indirectly make an offer, payment, promise to pay, or authorize payment, or offer a gift, promise to give, or authorize the giving of anything of value for the purpose of influencing an act or decision of an official of any government within the Territory or the United States Government (including a decision not to act) or inducing such a person to use his influence to affect any such governmental act or decision in order to assist Autodesk in obtaining, retaining or directing any such business.

b) Export Administration Act. In conformity with the United States Export Administration Act and regulations promulgated thereunder, UAR and its employees and agents shall not disclose, export or reexport, directly or indirectly, any Product or technical data (or direct products thereof) provided under this Agreement to destinations in Country Groups S and Z as modified from time to time by the U.S. Department of Commerce, or to destinations that are otherwise controlled or embargoed under U.S. law. The countries and

destinations listed as of the date hereof include the following:

Country Group S:	Libya
County Group Z:	North Korea, Cuba
Other:	Iran, Iraq Serbia, Montenengro

c) UAR shall comply with any and all laws, regulations, or legal requirements of the territory that apply to execution and performance of this Agreement.

16.2 Assignment. UAR shall not assign this Agreement, in whole or in part, without the prior written approval of Autodesk. To obtain prior written approval to assign this Agreement in the case of a change of ownership, UAR must submit information regarding the proposed assignee, as specified by Autodesk, at least thirty (30) days prior to the proposed date of assignment. Autodesk will review the information and accept or reject the proposed assignment, in writing, in Autodesk's sole discretion. For the purposes of this paragraph, a change in the persons or entities who control 50% or more of the equity securities or voting interest of UAR shall be considered an assignment of this Agreement. Notwithstanding the foregoing, Autodesk's rights and obligations under this Agreement, in whole or in part, may be assigned by Autodesk and Autodesk may sell, pledge or otherwise transfer its right to receive payments under this Agreement.

16.3 Injunctive Relief. It is expressly agreed that a material breach of this Agreement by UAR shall cause irreparable harm and a remedy at law would be inadequate. In addition to any and all remedies available at law, Autodesk shall be entitled to an injunction or other equitable remedies in all legal proceedings in the event of any threatened or actual violation of any or all of the provisions of this Agreement.

16.4 Governing Law and Jurisdiction. This Agreement shall be governed by and construed under the laws of the State of California. The federal (Northern District of California) and state (Marin County) courts within the State of California shall have jurisdiction to adjudicate any dispute arising out of this Agreement.

16.5 Legal Expenses. The prevailing party in any legal action brought by one party against the other arising out of this Agreement shall be entitled, in addition to any other rights and remedies it may have, to reimbursement for its expenses, including court costs, expert witness fees and reasonable attorney's fees.

16.6 Independent Contractors. The relationship of Autodesk and UAR established by this Agreement is that of independent contractors, and nothing contained in this Agreement shall be construed to create an agency relationship between the parties or to allow UAR to create or assume any obligation on behalf of Autodesk for any purpose whatsoever.

16.7 Severability. In the event that any provision of this Agreement shall be unenforceable or invalid under any applicable law or be so held by applicable court decision, such unenforceability or invalidity shall not render this Agreement unenforceable or invalid as a whole.

16.8 Waiver. The failure of either party to require performance by the other party of any provision hereof shall not affect the full right to require such performance at any time thereafter; nor shall the waiver by either party of a breach of any provision hereof be taken or held to be a waiver of the provision itself

16.9 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

16.10 Entire Agreement. This Agreement sets forth the entire agreement and understanding

of the parties relating to the subject matter herein. This Agreement merges and supersedes all prior or contemporaneous agreements, discussions and understandings between the parties, oral or written, regarding such subject matter. No modification to, or amendment of, this Agreement, shall be effective unless in writing and signed by the party to be bound.

"Autodesk"	"UAR"
AUTODESK, INC.	FARO TECHNOLOGIES
By:/s/ Glen Vondrick	By:/s/ Gregory A. Fraser
Glen Vondrick	Gregory A. Fraser
Printed Name	Printed Name
Director of OEM Sales	Vice President
Title	Title
9/9/96	8/30/96
Date	Date

EXHIBIT 10.10

PATENT AND CONFIDENTIALITY AGREEMENT

Full Name of Employee:
- ----------

- ----------

THIS PATENT AND CONFIDENTIALITY AGREEMENT is between the undersigned employee (the "Employee") and FARO TECHNOLOGIES, INC., a Florida corporation (the "Employer") and is effective as of the date set forth underneath the Employee's signature. It witnesses as follows:

In consideration of Employee's employment or continued employment by FARO TECHNOLOGIES INC. and its respective subsidiaries, affiliate companies, or partnerships of which the company is a part, or any of them (hereafter, collectively referred to as the "Employer") and the compensation to be paid to Employee for such employment from time to time, Employee hereby agrees as follows:

1. Assignment of work product; disclosure; confidentiality

(a) Without further consideration, Employee gives, transfers and assigns to the Employer or to any agent, nominee or assignee, as requested by the Employer, any and all of his fights to inventions, improvements, discoveries and ideas made or conceived by Employee, either solely or jointly with others, relating directly or indirectly to the Employer's business or any extension thereof during the term of Employee's employment.

(b) Employee agrees to fully disclose exclusively to the Employer all ideas, products, formulas, methods, plans, developments, improvements, or patentable inventions, of any kind, known, made or discovered in whole or in pail by Employee alone or with others during die period of his employment by the Employer. Employee also agrees to fully disclose exclusively to the Employer all ideas, products, formulas, methods, plans, developments, improvements or patentable inventions which relate directly or indirectly to die business of the Employer and which are known, made or discovered in whole or in part by Employer alone or with others at any time during the period of employment by the Employer. All disclosures are to be made promptly after conception or discovery of the idea, product, formula, method, plan, development, improvement or invention,

(c) Nothing in this Agreement shall be construed as requiring any communication to the Employer of an idea, product, formula, method, plan, development, improvement or invention if protected by tiny other lawful prohibition against such communication. Any idea, product, formula, method, plan, development, improvement or invention which Employee is obligated to disclose to the Employer under this Agreement shall be the property of the Employer, regardless of whether it is actually disclosed by Employee to Employer

(d) Employee agrees to provide any and all necessary assistance to the Employer in making any patent applications or other applications for obtaining exclusive rights, and will do all other things (including but not limited to testifying in any proceedings or suit, and executing

any and all applications, assignments, or other documents or instruments) that may be reasonably necessary to vest in the Employer or the Employees assigns all of the rights and interest in, and to apply for, obtain and protect any patent or letters patent, trademark or trade name, or copyrights in the United States and Canada and any foreign country, as well as any state or other subdivision thereof for or relating to, die ideas, products, formulas, methods, plans, developments, improvements or inventions. Employee agrees, at the Employees expense, to tender all such assistance as the Employer may require in any proceeding before a patent office or in any litigation involving die aforesaid inventions,improvements, ideas or discoveries, whether during the period of employment with the Employer or after the termination thereof.

(e) There are no ideas, products, formulas, methods, plans, developments, improvements or patentable inventions which Employee desires to exclude from the operation of this Agreement, except those, if any, designated by a patent number, application serial number or brief description where no application has been filed, on the list attached hereto and signed by Employee and Employer.

(f) Employee agrees and acknowledges that Employee previously may have acquired, or that during the course of his employment with the Employer, he will or may be exposed to, or that he may assimilate or have access to certain trade secrets and information of the Employer including but not limited to products, formulas, concepts, inventions, methods, processes, costs, operations, product uses, customers and purchasers (including confidential information of any of the Employer's customers and information with respect to potential customers and customer leads) which have not been publicly disclosed or are not matters of common knowledge in the fields of work of the Employer. Employee agrees that both during and after the period of employment and performance of services for the Employer, Employee will not, without prior written consent from the Employer, in any fashion, form or manner, either intentionally or negligently, or directly or indirectly, divulge, disclose or communicate any such confidential information to any third person, partnership, joint venture, company, corporation or other organization or use such confidential information other than in the ordinary course of the performance of services for the Employer, nor shall Employee so divulge, disclose or communicate any other information of any kind, nature or description concerning any matters affecting or relating to die business of the Employer, including without limitation any other information concerning the business of the Employer, its manner of operation, or its assets, products, formulas, plans, processes, concepts or other data of any kind, nature or description, without regard to whether any or all of the foregoing matters would be deemed confidential, material or important.

(g) The Employee allows certain of its employees to have access to the following online services: Microsoft Exchange, all FARO servers, and the Internet. Use of the services by the Employee is strictly limited to legitimate business purposes of the Employer, and under no circumstances shall the Employee use these services for personal reasons or any other purpose not related to the business of the Employer. Furthermore, the Employee is advised that under certain circumstances transmission of data or messages on the Internet or through Internet e-mail is not secure and that the transmission of company trade secrets or any other proprietary information of the Employer on the Internet or through Internet e-mail is strictly prohibited, unless the Employer has established appropriate safeguards against the interception or

misdelivery of such information including, but not limited to the establishment of firewalls, encryption methods, or other technology that will prevent the unintended interception of data transmission by third parties on die Internet or any other on-line service.

(h) The foregoing obligations of confidentiality shall cease to apply to such parts of the confidential information which Employee has the prior written permission of all owners thereof to disclose or to use or if the information becomes general public knowledge through no fault of Employee.

(i) Upon termination of employment by the Employer for whatever reason, Employee agrees to deliver to the Employer all books, records, products, formulas, manuals, letters, notes, memoranda, notebooks, sketches, drawings, plans, equipment, computer tapes and diskettes, and all other documents or materials of a confidential nature or otherwise relating to the Employer's business, and also all copies of any of the foregoing, which are in Employee's or his agents' or affiliates' possession or control, and Employee specifically agrees that he shall not retain any copies or reproductions of such information.

2. Noncompetition and Nonsolicitation. If a "Non-Competition and Non-Solicitation Agreement" is attached hereto, die Employee agrees to the terms thereof

Such Addendum is 11 is not D attached

3. Remedies: The failure of the Employee to strictly comply with the terms of this Agreement shall be cause for immediate dismissal from employment and in addition, the Employer shall have the following remedies:

(a) Employee hereby agrees to indemnify the Employer in respect of any and all claims, losses, costs, liabilities and expenses (including reasonable attorneys' and legal assistants' fees) directly or indirectly resulting from or arising out of any breach or claimed breach of this Agreement.

(b) Employee agrees that damages at law will be an insufficient remedy to the Employer if Employee violates the terms of this Agreement and that the Employer will suffer irreparable damage as a result of such violation. Accordingly, it is agreed that the Employer shall be entitled, upon application to a court of competent jurisdiction, to obtain in injunctive relief to enforce the provisions of this Agreement, which injunctive relief shall be in addition to any other lights or remedies available to the Employer. In any action or proceeding by the Employer to obtain a temporary restraining order and preliminary injunction, the Employee hereby agrees to waive the necessity of the Employees posting an injunction bond in order to obtain the temporary restraining order and/or preliminary injunction. If the Employee's action for a temporary restraining order and/or motion for preliminary injunction is granted in whole or in part and the Employer is ultimately unsuccessful in obtaining a permanent injunction to enforce the covenant, the Employee hereby waives any and all rights he may have against the Employer for any injuries or damages, including consequential damages, sustained by the Employee and arising directly or indirectly from the issuance of the temporary restraining order and/or preliminary injunction.

(c) If the Employer engages the services of an attorney or any other third party or in any way initiates legal action to enforce its rights under this Agreement, Employee agrees to pay to the Employer all costs and expenses incurred by the Employer relating to the enforcement of this Agreement (including reasonable attorneys' and legal assistants' fees before, at and after trial and in appellate, bankruptcy and probate proceedings).

4. MISCELLANEOUS. When used herein, one gender means any gender. The term "I", "me" or "mine" means the Employee. The term "Company" or "Corporation" means Employer. Any use of the singular shall include plural and vice versa. Use of the word "shall" means such action is mandatory. The title of this Agreement and the paragraph headings are used for the purpose of convenience only and shall not be used to interpret or explain any portion of the text hereof

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year indicated below.

Witnesses:

- ----------

- ----------

Employee Signature:

Print Name:

Date:

FARO Technologies, Inc,

By:

Print Name:

Its:

Date:

NONCOMPETITION AND NONSOLICITATION ADDENDUM

Employee hereby further agrees to the following:

Noncompetition and Nonsolicitation. The Employee acknowledges that the Employer, through its employment of DIE Employee, is providing the Employee with special, unique, and extraordinary training, education and experience, confidential information, and business and professional contacts. The Employee further acknowledges that such training, confidential information, and contacts are solely the result of his employment by the Employer, and that they constitute legitimate business interests of the Employer. In consideration of the foregoing and of the benefits generally provided to the Employee by the

Employer pursuant to the terms of this Agreement and otherwise, the Employee agrees to abide and be bound by the restrictions and prohibitions of this Addendum, which restrictions are intended by the parties to extend to any and all activities of the Employee, whether as an independent contractor, partner or joint venturer, or as an officer, director, stockholder, agent, employee or salesman for any person, firm, partnership, corporation or other entity, or otherwise. The Employee acknowledges that the restrictions and prohibitions of this Addendum are reasonably necessary to protect the legitimate business interests of the Employer.

(a) During the term of the Employee's employment, whether pursuant to this Agreement airy automatic or other renewal hereof, or otherwise, and for a period of twenty-four (24) months after the expiration or termination of this Agreement or termination of his employment with the Employer, regardless of the reason for such termination, the Employee shall not, directly or indirectly, within a one hundred (100) mile radius of the Employer's current office locations or such other locations as may constitute offices of the Employer at the time of termination of the Employee's employment hereunder (the "Restricted Territory"), enter into, engage in, be employed by, or consult with any business, regardless of form (i.e., partnership, joint venture, profession association or other type of corporation, limited liability company, sole proprietorship or otherwise), in competition with the Employer's business.

(b) During the term of the Employee's employment, whether pursuant to this Agreement airy automatic or other renewal hereof, or otherwise, and for a period of twenty-four (24) months after the expiration or termination of this Agreement, or the termination of his employment with the Employer, regardless of the reason for such termination, the Employee shall not, directly or indirectly, solicit or otherwise communicate with any person or business, regardless of form (i.e., partnership, joint venture, profession association or other type of corporation, limited liability company, sole proprietorship or otherwise) who are, were or have been customers of the Employer with the purpose of causing such person or business to terminate their business relationship with die Employer, or to do business with, purchase from, or become customers of the Employee. hi addition, the Employee agrees that during such period he shall not, directly or indirectly, solicit or otherwise communicate with any employees with the purpose of causing such employees to terminate their employment with the Employer, and the Employee agrees that during such period lie shall not, directly or indirectly, engage, employ, or otherwise hire any persons who are, were or have been employees of the Employer during the term of this Agreement and any renewal hereof

(c) The period of time during which the Employee is prohibited from engaging in certain business practices pursuant to paragraphs 2(a) or (b) shall be extended by the length of time dining which die Employee is in breach of such covenants.

(d) It is understood by and between die parties hereto that the restrictive covenants set forth in paragraphs (a) through (c) hereof are essential elements of the employment arrangement between Employee and Employer, and that but for such covenants, the Employer would not have

agreed to hire the Employee. Such covenants by the Employee shall be construed as agreements independent of any other provision in this Agreement and of the employment arrangement between Employee and Employer and shall survive and continue in effect after the termination or expiration of this Agreement. The existence of any claim or cause of action of die Employee against the Employer shall not constitute a defense to the enforcement by the Employer of such covenants.

(e) It is agreed by the Employer and the Employee that if any portion of the covenants set forth in this Addendum are held to be invalid, unreasonable, arbitrary, or against public policy, then such portion of such covenants shall be considered divisible both as to time and geographical area. The Employer and the Employee agree that, if any court of competent Jurisdiction determines the specified time period or the specified geographical area applicable to this Addendum to be invalid, unreasonable, arbitrary or against public policy, a lesser time period or geographical area which is determined to be reasonable, non-arbitrary and not against public policy may be enforced against the Employee. The Employer and the Employee agree that THE foregoing covenants are appropriate and reasonable when considered in light of the nature and extent of the business conducted by the Employer.

IN WITNESS WHEREOF, the parties hereto have executed this Addendum the dates indicated below.

Witnesses:

- ----------

- ----------

Employee Signature:

Print Name:

Date:

EXHIBIT 21.1

SUBSIDIARIES OF FARO TECHNOLOGIES, INC.

1. FARO Worldwide, Inc., a Florida corporation

2. FARO France, S.A.S., a French corporation

EXHIBIT 23.2

INDEPENDENT AUDITORS' CONSENT

To the Board of Directors and Shareholders of
FARO Technologies, Inc.
Jacksonville, Florida

We consent to the use in this Registration Statement relating to 2,645,000 shares of Common Stock of FARO Technologies, Inc. on Form S-1 of our report dated February 24, 1997 (July 30, 1997 as to Note 10), appearing in the Prospectus, which is a part of this Registration Statement, and to the references to us under the headings "Selected Consolidated Financial Data" and "Experts" in such Prospectus.

Deloitte & Touche LLP
Jacksonville, Florida
August 5, 1997

6-MOS	
JUN-30-1997	
JAN-01-1997	
JUN-30-1997	
	117,537
	0
	4,861,896
	9,534
	3,778,618
	8,967,622
	1,434,574
	669,966
	10,558,549
	3,991,299
	0
	0
	0
	7,000
	5,342,468
	10,558,549
	10,318,535
	10,318,535
	4,188,280
	8,206,069
	0
	0
	65,853
	2,092,680
	837,072
	1,255,608
	0
	0
	0
	1,255,608
	0.17
	0

YEAR	
	DEC-31-1996
	JAN-31-1996
	DEC-31-1996
	263,342
	0
	3,002,215
	9,534
	3,298,744
	6,698,138
	1,169,629
	568,279
	7,815,668
	2,865,714
	0
	0
	0
	7,000
	3,766,699
	7,815,668
	14,656,337
	14,656,337
	6,486,268
	11,946,259
	0
	0
	212,669
	2,522,554
	1,115,892
	1,406,662
	0
	0
	0
	1,406,662
	0.19
	0