

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 15, 1997

REGISTRATION NO. 333-32983

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 3 TO

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.
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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...	575,000 shares	\$12.00	\$6,900,000	\$2,091(3)

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- (1) Includes 75,000 shares of Common Stock that would be purchased upon exercise of an over-allotment option granted to the Underwriters. An additional 2,645,000 shares have previously been registered.
 - (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.
 - (3) A filing fee of \$9,618 has previously been paid.

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.

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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 AUGUST 26, 1997

2,800,000 SHARES

[FARO LOGO]

COMMON STOCK

Of the 2,800,000 shares of Common Stock offered hereby, 2,200,000 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 11 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) The Company and the Selling Shareholders have granted the Underwriters a 30-day option to purchase up to 420,000 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.

The date of this Prospectus is

HANIFEN, IMHOFF INC.

, 1997.

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' over-allotment 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 17 patents in the United States, ten 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) increase sales force and distribution; (iii) further penetrate its installed customer base; (iv) increase international sales; (v) leverage its technology; and (vi) 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.....	2,200,000 shares
Common Stock offered by the Selling Shareholders.....	600,000 shares
Common Stock to be outstanding after the Offering.....	9,200,000 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
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(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
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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

	AS	
	ACTUAL	ADJUSTED (4)
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BALANCE SHEET DATA:		
Working capital.....	\$ 4,976,323	\$26,148,554
Total assets.....	10,558,549	31,064,113
Total debt.....	1,500,436	--
Total shareholders' equity.....	5,349,468	27,355,468

(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 12 to the Consolidated Financial Statements.

(4) Adjusted to give effect to the sale of 2,200,000 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.

Based on its sales, its research and development activities and its experience in the industry, the Company believes there is a worldwide trend toward CAD-based factory-floor metrology, which 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."

UNCERTAINTY OF PATENTS; DEPENDENCE ON PATENTS, LICENSES AND PROPRIETARY RIGHTS

The Company's success will depend in large part on the Company's ability to obtain patent protection with respect to its products and processes, defend patents once obtained, maintain trade secrets and operate without infringing upon the patents and proprietary rights of others and obtain appropriate licenses to patents or proprietary rights held by third parties, both in the United States and in foreign countries.

There can be no assurance that the Company will develop or obtain the rights to products or processes that are patentable, that patents will issue from any of the pending applications or that claims allowed will be sufficient to protect the technology licensed to the Company. In addition, no assurance can be given that any patents issued to or licensed by the Company will not be challenged, invalidated, infringed or circumvented, or that the rights granted thereunder will provide competitive advantages to the Company.

The Company may be required to obtain licenses with respect to certain technology for which it does not have patents or to develop or obtain alternative technology. There can be no assurance that the Company will be able to obtain any such license on acceptable terms or at all. If such licenses are not obtained, the Company could be delayed in or prevented from pursuing the development or commercialization of its products, which would have a material adverse effect on the Company.

Litigation may also be necessary to enforce any patents to which the Company has rights or to determine the scope, validity and enforceability of other parties' proprietary rights, which may affect the Company's products or processes. An adverse outcome in any patent litigation or interference proceeding could subject the Company to significant liabilities to third parties, require disputed rights to be licensed from third parties or require the Company to cease using such technology, any of which could have a material adverse effect on the Company.

The Company also relies on unpatented trade secrets and know-how to maintain its competitive position, which it seeks to protect, in part, by confidentiality agreements with employees, consultants and others. There can be no assurance that these agreements will not be breached or terminated, that the Company will have adequate remedies for any breach, or that the Company's trade secrets will not otherwise become known or be independently discovered by competitors. The Company relies on certain technologies to which it does not have exclusive rights or which may not be patentable or proprietary and thus may be available to competitors.

The Company has 17 patent applications and patents in the United States, ten of which have been filed in foreign countries. 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 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.

The Company is aware of certain risks involving certain patent rights of the Company. Kosaka Laboratory, Ltd. ("Kosaka") has notified the Company that the Company by virtue of its "Leap Frog" technology used in the FAROArm is infringing U.S. Pat. No. 4,430,796 to Kosaka. The Company believes it has identified prior art which it believes supports the Company's use of the technology.

The Company is aware that three companies have been or are infringing the claims on the Company's U.S. Pat. Nos. 5,251,127 and 5,305,203, which are directed to the medical field, an area in which the Company is no longer active. The Company has granted nonexclusive license agreements to two companies which provide for minimum annual royalty payments, one of which obligates the Company to enforce the patents against infringers if the sales of products amount to more than \$5,000,000. The Company is currently in negotiations with two other companies which it believes are infringing the '127 and '203 patents. If a license agreement with either party is not executed, the Company would be obligated to enforce the patents or compromise the existing license agreements.

A German competitor previously sold a CMM similar to the FAROArm that is covered by a German form of limited patent protection and is also covered by one or more claims of a pending German utility patent application which covers the basic CMM technology of the Company. As a result, the German company redesigned its arm to avoid infringement. However, the Company's patent rights in Germany could be challenged in court and could be opposed following publication. Either event could narrow the scope of patent protection in Germany which would have a material adverse effect on the Company.

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, \$3.8 million and \$2.7 million, or 21.6%, 26.1% 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 cyclical nature 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 an aggregate of 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 37.0% of the outstanding Common Stock (34.6% 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 9,200,000 shares of Common Stock. Of these shares, 4,564,630 shares, including the 2,800,000 shares of Common Stock sold in this offering (3,220,000 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 4,635,370 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, offer, or otherwise dispose of or transfer any shares of Common Stock or securities convertible into or exchangeable or exercisable for shares of Common Stock or any rights to purchase any of the foregoing 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."

BROAD DISCRETION REGARDING USE OF PROCEEDS

A substantial portion of the proceeds of this offering have not been allocated to a particular purpose. Accordingly, management will have broad discretion concerning the use of a majority of the proceeds of this offering. See "Use of Proceeds."

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 \$8.09 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 2,200,000 shares of Common Stock offered by the Company, assuming an initial public offering price of \$11.00 per share, are estimated to be approximately \$22.0 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. Although it has no specific plan for the use of the balance of the offering proceeds, the Company will generally use the balance of such proceeds 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. The Company has undertaken this offering to strengthen its capital position by repaying all of its outstanding indebtedness and to provide equity capital for the execution of its strategy.

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. 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 2,200,000 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, 9,200,000 shares issued and outstanding as adjusted(1).....	7,000	8,700
Additional paid-in capital.....	4,827,544	26,831,844
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	27,355,468
Total capitalization.....	\$6,183,237	\$27,355,468

(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 2,200,000 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 \$26.7 million, or \$2.91 per share of Common Stock. This represents an immediate increase in net tangible book value of \$2.23 per share to existing shareholders and an immediate dilution of \$8.09 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.....	2.23	

Pro forma net tangible book value after this offering.....		2.91

Dilution to new investors.....		\$ 8.09
		=====

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 PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing shareholders(1).....	7,000,000	76.1%	\$ 3,832,264	13.7%	\$ 0.55
New investors.....	2,200,000	23.9	24,200,000	86.3	11.00
		-----		-----	
Total.....	9,200,000	100.0%	\$28,032,264	100.0%	3.05
	=====	=====	=====	=====	

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 (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 69.6% 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 2,800,000 shares (or 30.4% 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
BALANCE SHEET DATA:							
Working capital.....	\$ 193,499	\$ (109,760)	\$ (718,564)	\$1,321,517	\$3,832,424	\$4,976,323	\$26,148,554
Total assets.....	3,406,815	3,877,445	4,229,551	5,479,698	7,815,668	10,558,549	31,064,113
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	27,355,468

(footnotes on following page)

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- (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 12 to the Consolidated Financial Statements.
 - (7) Adjusted to give effect to the sale of 2,200,000 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, 26.1% 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	33.7	37.3	36.8	38.9
Income (loss) from operations.....	(5.5)	15.7	18.5	20.7	20.5
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)	12.8	17.2	18.9	20.3
Income tax expense (benefit).....	--	(3.5)	7.6	8.4	8.1
Net income (loss).....	(9.5)%	16.2%	9.6%	10.6%	12.2%

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 a result of the Company's expansion of sales and marketing staff in the United States and Europe (\$430,000) and expanded promotional efforts (\$460,000) offset by a decline in office expenses (\$31,000). 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 (\$133,000), increases in professional and legal expenses (\$89,000) and other general and administrative expenses (\$51,000). 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 personnel costs (\$190,000) relating to the introduction of new electronic circuitry, enhanced mechanical features and 32-bit functionality offset by a reduction in material costs (\$31,000). 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 (\$784,000), the opening of additional sales offices in the United States and Europe in the second half of 1996 (\$354,000) and increased promotional and related selling expenses (\$409,000). 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 primarily a result of additional accounting personnel (\$105,000) and increased cost of supplies and other expenses, including occupancy costs (\$109,000). 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 (\$228,000) and increased research and development materials and other expenses (\$138,000). 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 (\$281,000) and related marketing activities (\$158,000). 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 (\$39,000) and administrative salaries and insurance associated with the Company's growth and increased occupancy costs (\$113,000.) 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 attributable to an accounting change relating to production design costs (\$260,000), which was partially offset by a decrease in personnel costs (\$70,000). 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. Outstanding borrowings under this loan agreement at June 30, 1997 were approximately \$1.5 million. 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 secured \$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). Approximately \$1.5 million of the proceeds of this offering will be used to repay all of the Company's outstanding long term indebtedness.

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 at least through 1998.

The proposed expansion of the Company's sales force is anticipated to increase the Company's selling, general and administrative expenses over the next 18 months. The Company believes that it will have adequate capital to cover these expenses at least through 1998.

The proposed expansion of the Company's headquarters is not anticipated to have a material impact on its capital needs. Because this facility is leased (see "Certain Transactions"), the impact of expansion is limited to increased rent expense and associated costs of tenancy of approximately \$150,000 per year upon completion of the expansion.

FOREIGN EXCHANGE EXPOSURE

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

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 a rate of at least 15.5% 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. Fixed-base CMMs require that the object being measured be brought to the 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 believes it is a pioneer in the development and marketing of portable, software-driven, 3-D measurement systems. Based on current sales of all portable 3-D measurement systems to date, 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.

Increase Sales Force and Distribution. The Company has implemented an integrated team sale process and has developed strategic relationships with third party distributors which the Company believes have increased sales effort efficiency. The Company intends to add additional personnel to its existing sales offices and to open additional sales offices and add distributors to provide geographic coverage in territories with strong manufacturing and industrial bases.

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

A schematic drawing of the Company's Silver Series FAROArm 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 an aggregate of 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 successive 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 \$173,000, \$364,000 and \$730,000 in 1994, 1995 and 1996, respectively, 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 17 patents in the United States, ten 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. See "Risk Factors -- Uncertainty of Patents; Dependence on Patents, Licenses and Proprietary Rights."

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. The Company anticipates that it will obtain the additional personnel required to satisfy the staffing requirements caused by its planned expansion over the next 18 months.

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. The Company's expanded facilities will constitute a fully-functional and technologically current headquarters, administrative and operations center and production facility. The Company anticipates that the expanded facility will be fully utilized within 18 months of its completion.

The Company's planned expansion will require additional space for sales, administrative and production personnel as well as for actual fabrication activities. The Company believes that it will be able to meet these needs as it continues to expand.

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 - - - - -
Coventry, 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 may be granted under 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 August 25, 1997, 21 key employees and one non-employee director held an aggregate of 383,513 options under the 1993 Plan with ten-year terms 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 may be granted under 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 August 25, 1997, 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 August 25, 1997, 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.

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
DIRECTORS AND EXECUTIVE OFFICERS:					
Simon Raab, Ph.D.(3)	3,102,723	44.3%	166,855	2,935,868	31.9%
Gregory A. Fraser, Ph.D.	542,265	7.7	75,995	466,270	5.1
Hubert d'Amours(4)	59,572	*	7,800	51,772	*
Phillip R. Colley(5)	144,611	2.1	14,395	130,216	1.4
Alexandre Raab(6)	463,158	6.6	0	463,158	5.0
Martin M. Koshar(7)	52,732	*	0	52,732	*
Norman H. Schipper, Q.C.(8)	166,549	2.4	21,807	144,742	1.6
Andre Julien(9)	510,139	7.3	66,795	443,344	4.8
All directors and executive officers as a group (8 persons)	5,041,729	71.5	353,647	4,688,102	50.7
OTHER SELLING SHAREHOLDERS:					
William Alcamo	19,944	*	2,611	17,333	*
Alexis Nihon Credit Inc.	43,686	*	5,720	37,966	*
Thomas H. Beck	40,447	*	5,296	35,151	*
Alec Bloom	13,106	*	1,716	11,390	*
Charles Rosner Bronfman Family Trust	87,373	1.3	11,440	75,933	*
Capital CDPQ, Inc.	144,959	2.1	18,980	125,979	1.4
Stephen Cole	2,420	*	317	2,103	*
Consumers Glass Company Ltd. Pension Fund	119,145	1.7	15,600	103,545	1.1
William and Gail Cornwall	20,683	*	2,708	17,975	*
Fiducie de Quebec	26,211	*	3,432	22,779	*
Hawk Hill Investments Limited	165,387	2.4	21,655	143,732	1.6
H.T. Beck Investments	300,851	4.3	39,391	261,460	2.8
Island City Investments Ltd.	19,858	*	2,600	17,258	*
Josyd Inc.	11,915	*	1,560	10,355	*
Les Fiduciaires de la Cite et du District de Montreal	26,211	*	3,432	22,779	*
Levesque Beaubien Geoffrion Inc.	11,915	*	1,560	10,355	*
L'Industrielle-Alliance, Compagnie d'Assurance sur la Vie	48,055	*	6,292	41,763	*
O. Jack Mandel	95,931	1.4	12,561	83,370	*
Remi Marcoux	15,886	*	2,080	13,806	*
Marleau Lemire Inc.	11,915	*	1,560	10,355	*
Mar-Pick Enterprises, Inc.	14,485	*	1,442	13,043	*
Nicanco Holdings Inc.	11,915	*	1,560	10,355	*
Nodel Investments Limited	11,915	*	1,560	10,355	*
Power Corporation of Canada	43,686	*	5,720	37,966	*
Rash Holdings Reg'd	15,886	*	2,080	13,806	*
Redpoll Holdings Ltd.	17,475	*	2,288	15,187	*
Richard Renaud	131,595	1.9	17,230	114,365	1.2

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
Michael Rosenbloom.....	13,106	*	1,716	11,390	*
Ali S. Sajedi(10).....	184,563	2.6	24,166	160,397	1.7%
1236344 Ontario Limited.....	162,431	2.3	21,268	141,163	1.5
Starjay Holdings Inc.....	13,106	*	1,716	11,390	*
T.N.G. Corporation Inc.....	23,035	*	3,016	20,019	*
Stephen vineberg.....	15,886	*	2,080	13,806	*

* 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, Canada L3R 0B8.
- (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, 3,900 shares are being sold by Mr. d'Amours and 3,900 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, 9,110 shares are being sold by Mr. Colley and 5,285 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) Represents 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 private investment companies of which Mr. Julien is an executive officer, director and shareholder and are selling 57,435 shares and 9,360 shares, respectively, in the offering.
- (10) Mr. Sajedi has been the Chief Engineer for the Company since its inception in 1982. See "Management."

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 held by 47 holders of record 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.

Stock Option Plans. The 1997 Plan and the Non-Employee Plan each provides that in the event of (i) the adoption of a plan or reorganization, merger, share exchange or consolidation of the Company with one or more other entities as a result of which the holders of the outstanding shares of Common Stock would receive less than 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 substantially all of the assets of the Company; or (iv) the acquisition of more than 20% of the outstanding shares of Common Stock by any person within the meaning of Rule 13(d)(3) of the Securities Exchange Act of 1934, as amended, if such acquisition is not preceded by a prior expression of approval by the board of directors, then in each such case the options granted thereunder shall become immediately exercisable in full. Notwithstanding the foregoing, if a successor corporation or other entity as contemplated above agrees to assume the outstanding options or to substitute substantially equivalent options, the options issued thereunder shall not be immediately exercisable but shall remain exercisable in accordance with the terms of the 1997 Plan or the Non-Employee Plan, as applicable, and the applicable stock option agreements.

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.

WARRANTS

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 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, affiliates, partners and shareholders of the Representatives.

REGISTRATION RIGHTS

The Representatives' Warrants provide that the Company will file a shelf registration statement relating to the shares of Common stock issuable pursuant to the Warrants (the "Warrant Shares") no later than one day following the one year anniversary of the effective date of this Registration Statement. Additionally, the Company shall use its best efforts to (i) have the shelf registration statement declared effective as soon as reasonably practicable and (ii) keep the shelf registration statement continuously effective from the date the shelf registration statement is declared effective until the earlier of the expiration date of the Warrants, the date that all the Warrant Shares are eligible for sale pursuant to Rule 144(k) under the Securities Act or any successor or comparable provision without restriction or the date that all of the Warrant Shares have been sold. The Company has agreed to pay the costs and expenses incurred in connection with the shelf registration

statement, other than underwriting discounts and commissions and the fees and expenses of counsel to the Warrantholders.

TRANSFER AGENT AND REGISTRAR

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

SHARES ELIGIBLE FOR FUTURE SALE

Upon the completion of this offering, the Company will have 9,200,000 shares of Common Stock outstanding. Of these shares, 4,564,630 shares, including the 2,800,000 shares of Common Stock sold in this offering (3,220,000 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 4,635,370 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, offer or otherwise dispose of or transfer any shares of Common Stock or securities convertible into or exchangeable or exercisable for shares of Common Stock or any rights to purchase any of the foregoing 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.....	 ----- 2,800,000 =====

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, directly or indirectly, issue, sell, contract to sell, offer or otherwise dispose of or transfer any shares of Common Stock or securities convertible into or exchangeable or exercisable for shares of Common Stock or any rights to purchase any of the foregoing, other than shares offered hereby, without the consent of Raymond James & Associates, Inc. for a period of 180 days following the effectiveness of this Registration Statement. 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."

The Company and 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 420,000 additional shares at the same price per share as the Company and Selling Shareholders receive for the 2,800,000 shares which the Underwriters have agreed to purchase from the Company and 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, affiliates, partners 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.

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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
(September 10, 1997 as to Note 11)

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 CAPITAL	UNEARNED COMPENSATION	CUMULATIVE TRANSLATION ADJUSTMENT	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TOTAL
	SHARES	AMOUNTS					
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 on the shipping date, as the Company considers the earnings process substantially complete as of the shipping date. Revenue from sales of software only is not recognized unless remaining obligations under the sales agreement are insignificant. Revenues related to extended maintenance plans, which include hardware warranties and software upgrades, 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.

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. General and administrative expenses for the years ended 1996 and 1995 remaining in inventory totaled approximately \$68,000 and \$60,000, respectively.

Sales demonstration inventory is comprised of measuring devices utilized by sales representatives to present the Company's products to customers. The products remain in sales demonstration inventory for up to six months and are subsequently sold at prices that produce slightly reduced gross margins.

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

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 \$.20 and \$.17, 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

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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
	=====	=====

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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:

YEAR GRANTED	OPTIONS OUTSTANDING			
	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. SEGMENT INFORMATION

Revenues are segmented according to the country in which the customer is located.

	UNITED STATES	ASIA	EUROPE	CANADA	OTHER FOREIGN	TOTAL
Year ended December 31, 1996.....	\$10,829,543	\$1,606,916	\$1,292,592	\$715,728	\$211,558	\$14,656,337
Year ended December 31, 1995.....	7,727,400	385,361	625,730	850,271	273,480	9,862,242
Year ended December 31, 1994.....	4,059,837	--	--	--	449,000	4,508,837

11. 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,

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

\$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. The Company obtained an independent appraisal as of January 1, 1997 which was used to determine compensation expense associated with the options granted. The fair value per share of common stock outstanding at January 1, 1997 was determined to be \$7.32.

12. 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. The Company obtained an independent appraisal as of May 1, 1997 which was used to determine compensation expense associated with the options granted. The fair value per share of common stock outstanding at May 1, 1997 was determined to be \$8.11.

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 borrowings existed under the line of credit 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.

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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.

2,800,000 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.....	\$ 11,709
NASD filing fee.....	4,364
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.....	34,677

Total.....	\$500,000
	=====

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* 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**	-- 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 dated September 10, 1997
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
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)

** Previously filed.

(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 Amendment to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Orlando, and State of Florida, on this 15th day of September, 1997.

FARO TECHNOLOGIES, INC.

By: /s/ GREGORY A. FRASER

 Gregory A. Fraser
 Executive Vice President, Secretary,
 Treasurer, Chief Financial Officer

SIGNATURE

TITLE

DATE

----- * ----- Simon Raab	Chairman of the Board of Directors, President and Chief Executive Officer	September 15, 1997
----- /s/ GREGORY A. FRASER ----- Gregory A. Fraser	Director, Executive Vice President, Secretary, Treasurer, Chief Financial Officer	September 15, 1997
----- * ----- Ronald F. Kiser	Controller	September 15, 1997
----- * ----- Hubert d'Amours	Director	September 15, 1997
----- * ----- Philip Colley	Director	September 15, 1997
----- * ----- Alexandre Raab	Director	September 15, 1997
----- * ----- Norman H. Schipper	Director	September 15, 1997
----- * ----- Martin Koshar	Director	September , 1997
----- * ----- Andre Julien		
----- * By: /s/ GREGORY A. FRASER ----- Gregory A. Fraser Attorney-in-fact		

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27.2**	-- Financial Data Schedule -- year ended December 31, 1996 (for SEC filing purposes only)

** Previously filed.

3,220,000 Shares

FARO TECHNOLOGIES, INC.

Common Stock

UNDERWRITING AGREEMENT

St. Petersburg, Florida
September __, 1997

RAYMOND JAMES & ASSOCIATES, INC.

HANIFEN, IMHOFF INC.

As Representatives of the Several Underwriters
c/o Raymond James & Associates, Inc.
880 Carillon Parkway
St. Petersburg, Florida 33716

Ladies and Gentlemen:

FARO Technologies, Inc., a Florida corporation (the "Company"), proposes, subject to the terms and conditions stated herein, to issue and sell an aggregate of 2,200,000 authorized and unissued shares (the "Company Firm Shares") of the Company's common stock, par value \$.001 per share, to the several Underwriters named in Schedule I hereto (the "Underwriters"). Certain shareholders of the Company, named in Schedule II hereto (the "Selling Shareholders"), acting severally and not jointly, propose, subject to the terms and conditions stated herein, to issue and sell an aggregate of 600,000 authorized and outstanding shares (the "Shareholder Firm Shares") of the Company's common stock, par value \$.001 per share, to the Underwriters. The Company Firm Shares and the Shareholder Firm Shares are hereafter collectively referred to as the "Firm Shares." In addition, the Company has agreed to sell to the Underwriters, upon the terms and conditions set forth herein, up to an additional 75,000 authorized and unissued shares of the Company's common stock, par value \$.001 per share (the "Company Additional Shares"), solely to cover over-allotments by the Underwriters, if any. The Selling Shareholders, acting severally and not jointly, have agreed to sell to the Underwriters, upon the terms and conditions set forth herein, up to an additional 345,000 authorized and outstanding shares of the Company's common stock, par value \$.001 per share (the "Shareholder Additional Shares"), solely to cover over-allotments by the Underwriters, if any. The Shareholder Additional Shares and the Company Additional Shares are hereinafter collectively referred to as the "Additional Shares." The Firm Shares and the Additional Shares are hereinafter collectively referred to as the "Shares." The Company's common stock, par value \$.001 per share, including the Shares, is hereinafter referred to as the "Common Stock." Raymond James & Associates, Inc. and Hanifen, Imhoff Inc. are acting as the representatives of the several Underwriters and in such capacity are hereinafter referred to as the "Representatives."

Each of the Company and each Selling Shareholder agrees with the several Underwriters as follows:

SECTION 1. REGISTRATION STATEMENT AND PROSPECTUS. The Company has prepared and filed with the Securities and Exchange Commission (the "Commission") in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder (collectively, the "Act"), a registration statement on Form S-1 (File No. 333-32983), including a prospectus subject to completion, relating to the Shares. Such registration statement (including all financial schedules and exhibits), as amended at the time when it became effective and as thereafter amended by any post-effective amendment, together with any registration statement filed by the Company with respect to the foregoing pursuant to Rule 462(b) under the Act, is referred to in this Agreement as the "Registration Statement." The term "Prospectus" as used in this Agreement means (i) the prospectus in the form included in the Registration Statement, or (ii) if the prospectus included in the Registration Statement omits information in reliance upon Rule 430A under the Act and such information is included in a prospectus filed with the Commission pursuant to Rule 424(b) under the Act or as part of a post-effective amendment to the Registration Statement after the Registration Statement becomes effective, the prospectus as first so filed, or (iii) if the prospectus included in the Registration Statement omits information in reliance upon Rule 430A under the Act and such information is included in a term sheet (as described in Rule 434(c) under the Act) filed with the Commission pursuant to Rule 424(b) under the Act, the prospectus included in the Registration Statement and such term sheet, taken together. The prospectus subject to completion in the form included in the Registration Statement at the time of the initial filing of such Registration Statement with the Commission and as such prospectus is amended from time to time until the date upon which the Registration Statement was declared effective by the Commission is referred to in this Agreement as the "Prepricing Prospectus."

SECTION 2. AGREEMENTS TO SELL AND PURCHASE.

The Company hereby agrees to sell the Company Firm Shares, and each Selling Shareholder hereby agrees to sell such number of Shareholder Firm Shares as is set forth opposite such Selling Shareholder's name on Schedule II hereto, to the Underwriters and, upon the basis of the representations, warranties and agreements of the Company and the Selling Shareholders herein contained and subject to all the terms and conditions set forth herein, each Underwriter agrees, severally and not jointly, to purchase from the Company and the Selling Shareholders the aggregate number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto (or such number of Firm Shares as adjusted pursuant to Section 10 hereof), at a purchase price of \$_____ per Share (the "purchase price per Share").

Upon the basis of the representations, warranties and agreements of the Company and the Selling Shareholders herein contained and subject to all the terms and conditions set forth herein, the Underwriters shall have the right for 30 days from the date upon which the Registration Statement is declared effective by the Commission to purchase from the Company, from time to time, and the Company agrees to sell to the Underwriters subject to conditions set forth below, any or all of the Company Additional Shares at the purchase price per Share for the Firm Shares. Upon the basis of the representations, warranties and agreements of the Company and the Selling Shareholders herein contained and subject to all the terms and conditions set forth herein, the Underwriters shall have the right for 30 days from the date upon which the Registration Statement is declared effective by the Commission to purchase from the Selling Shareholders, from time to time, and each Selling Shareholder agrees to sell to the Underwriters subject to conditions set forth below, any or all of the Shareholder Additional Shares as is set forth opposite such Selling Shareholders' name on Schedule II, at the purchase price per Share for the Firm Shares. The Additional Shares shall, if purchased, be purchased solely for the purpose of covering any

over-allotments made in connection with the offering of the Firm Shares. If any Additional Shares are to be purchased, each Underwriter agrees, severally and not jointly, to purchase the number of Additional Shares (subject to such adjustments as you may determine to avoid fractional shares) which bears the same proportion to the total number of Additional Shares to be purchased by the Underwriters as the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto (or such number of Firm Shares as adjusted pursuant to Section 10 hereof) bears to the total number of Firm Shares.

SECTION 3. TERMS OF PUBLIC OFFERING. The Company has been advised by you that the Underwriters propose to make a public offering of their respective portions of the Shares as soon after the Registration Statement and this Agreement have become effective as in your judgment is advisable and initially to offer the Shares upon the terms set forth in the Prospectus.

SECTION 4. DELIVERY OF THE SHARES AND PAYMENT THEREFOR. Delivery to the Underwriters of the Firm Shares and payment therefor shall be made at the offices of Raymond James & Associates, Inc., 880 Carillon Parkway, St. Petersburg, Florida, at 10:00 a.m., St. Petersburg, Florida time, four business days after the date hereof (the "Closing Date"). The place of closing for the Firm Shares and the Closing Date may be varied by agreement between you and the Company.

Delivery to the Underwriters of and payment for any Additional Shares to be purchased by the Underwriters shall be made at the offices of Raymond James & Associates, Inc., 880 Carillon Parkway, St. Petersburg, Florida, at 10:00 a.m., St. Petersburg, Florida time, on such date or dates (the "Additional Closing Date") (which may be the same as the Closing Date but shall in no event be earlier than the Closing Date nor earlier than three nor later than ten business days after the giving of the notice hereinafter referred to), as shall be specified in a written notice from you on behalf of the Underwriters to the Company, of the Underwriters' determination to purchase a number, specified in such notice, of Additional Shares. Such notice may be given to the Company by you at any time within 30 days after the date upon which the Registration Statement is declared effective by the Commission. The place of closing for the Additional Shares and the Additional Closing Date may be varied by agreement between you and the Company.

Certificates for the Firm Shares and for any Additional Shares to be purchased hereunder shall be registered in such names and such denominations as you shall request prior to 1:00 p.m., St. Petersburg, Florida time, on the second full business day preceding the Closing Date or the Additional Closing Date, as the case may be. Such certificates shall be made available to you in St. Petersburg, Florida for inspection and packaging not later than 9:30 a.m., St. Petersburg, Florida time, on the business day immediately preceding the Closing Date or the Additional Closing Date, as the case may be. The certificates evidencing the Firm Shares and any Additional Shares to be purchased hereunder shall be delivered to you on the Closing Date or the Additional Closing Date, as the case may be, against payment of the purchase price therefor by wire transfer or certified or official bank check or checks payable in same day funds. If the Representatives so elect, delivery of the Shares may be made by credit through full fast transfer to the accounts at the Depository Trust Company designated by the Representatives.

The certificates in negotiable form for the Shareholder Firm Shares and the Shareholder Additional Shares have been placed in custody (for deliver under this Agreement) under the Custody Agreement (as defined below). Each Selling Shareholder agrees that the certificates for the Shares for such Selling Shareholder so held in custody are subject to the interests of the Underwriters hereunder, that the arrangements made by such Selling Shareholder for such custody, including the Power of Attorney (as defined below) is to that extent irrevocable and that the obligations of such Selling Shareholder hereunder shall not be terminated by the act of such Selling Shareholder or by operation of law, whether by the death or incapacity of such Selling Shareholder or the occurrence of any other event, except as specifically provided herein or in the Custody Agreement. If any Selling Shareholder should die or be incapacitated, or if any other such event should occur, before the delivery of the certificates for the Shares to be sold by such Selling Shareholder hereunder, such Shares, except as specifically provided herein or in the Custody Agreement, shall be delivered by the Custodian (as defined below) in accordance with the terms and conditions of this Agreement as if such death, incapacity or other event had not occurred, regardless of whether the Custodian shall have received notice of such death or other event.

SECTION 5. COVENANTS AND AGREEMENTS OF THE COMPANY. The Company covenants and agrees with the several Underwriters as follows:

(a) The Company will use its reasonable best efforts to cause the Registration Statement and any amendment thereto to become effective, if it has not already become effective, and will advise you promptly and, if requested by you, will confirm such advice in writing (i) when the Registration Statement has become effective and when any post-effective amendment to the Registration Statement or any registration statement filed pursuant to Rule 462(b) under the Act relating to the Registration Statement is filed or becomes effective, (ii) if information is omitted from the Registration Statement pursuant to Rule 430A under the Act, when the Prospectus or term sheet (as described in Rule 434(b) under the Act) has been timely filed pursuant to Rule 424(b) under the Act, (iii) of any request by the Commission for amendments or supplements to the Registration Statement, any Pricing Prospectus or the Prospectus or for additional information, (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of the suspension of qualification of the Shares for offering or sale in any jurisdiction or the initiation (or threatened initiation) of a proceeding for such purposes, and (v) within the period of time referred to in Section 5(e) below, of any change in the Company's condition (financial or other), business, prospects, properties, net worth or results of operations, or of any event that comes to the attention of the Company that makes any statement made in the Registration Statement or the Prospectus (as then amended or supplemented) untrue in any material respect or that requires the making of any additions thereto or changes therein in order to make the statements therein not misleading in any material respect, or of the necessity to amend or supplement the Prospectus (as then amended or supplemented) to comply with the Act or any other law. If at any time the Commission shall issue any stop order suspending the effectiveness of the Registration Statement, the Company will make every reasonable effort to obtain the withdrawal of such order at the earliest possible time.

(b) The Company will furnish to you, without charge, three signed copies of the Registration Statement as originally filed with the Commission and of each amendment thereto, including financial statements and all exhibits thereto, and will also furnish to you, without charge, such number of conformed copies of the Registration Statement as originally filed and of each amendment thereto as you may reasonably request.

(c) The Company will not file any amendment to the Registration Statement, file any registration statement pursuant to Rule 462(b) under the Act or make any amendment or supplement to the Prospectus of which you shall not previously have been advised (with a reasonable opportunity to review such amendment, registration statement or supplement) or to which you have reasonably objected after being so advised, or which is not in compliance with the Act. The Company will prepare and file with the Commission any amendments or supplements to the Registration Statement or Prospectus which, in the opinion of counsel of the several Underwriters may be necessary or advisable in connection with the distribution of the Shares by the Underwriters.

(d) The Company has delivered or will deliver to you, without charge, in such quantities as you have requested or may hereafter reasonably request, copies of each form of the Prepricing Prospectus. The Company consents to the use, in accordance with the Act and the securities or "blue sky" laws of the jurisdictions in which the Shares are offered by the several Underwriters and by dealers, prior to the date of the Prospectus, of each Prepricing Prospectus so furnished by the Company.

(e) As soon after the execution and delivery of this Agreement as is practicable (but in no event later than 48 hours from the execution and delivery of this Agreement) and thereafter from time to time for such period as in the reasonable opinion of counsel for the Underwriters a prospectus is required by the Act to be delivered in connection with sales by any Underwriter or a dealer, and for so long a period as you may request for the distribution of the Shares, the Company will deliver to each Underwriter and each dealer, without charge, as many copies of the Prospectus (and of any amendment or supplement thereto) as they may reasonably request. The Company consents to the use of the Prospectus (and of any amendment or supplement thereto) in accordance with the Act and the securities or "blue sky" laws of the jurisdictions in which the Shares are offered by the several Underwriters and by all dealers to whom Shares may be sold, both in connection with the offering and sale of the Shares and for such period of time thereafter as the Prospectus is required by the Act to be delivered in connection with sales by any Underwriter or dealer. If at any time prior to the later of (i) the completion of the distribution of the Shares pursuant to the offering contemplated by the Registration Statement or (ii) the expiration of prospectus delivery requirements with respect to the Shares under Section 4(3) of the Act and Rule 174 thereunder, any event shall occur that in the judgment of the Company or in the opinion of counsel for the Underwriters is required to be set forth in the Prospectus (as then amended or supplemented) or should be set forth therein in order to make the statements therein, in light of the circumstances under which they were made, not misleading, or if it is necessary to supplement or amend the Prospectus to comply with the Act or any other law, the Company will promptly prepare and, subject to Sections 5(a) and 5(c) hereof, file with the Commission an appropriate supplement or amendment thereto, and will furnish to each

Underwriter and to each dealer who has previously requested Prospectuses, without charge, a reasonable number of copies thereof.

(f) The Company will cooperate with you and counsel for the Underwriters in connection with the registration or qualification of the Shares for offering and sale by the several Underwriters and by dealers under the securities or "blue sky" laws of such jurisdictions as you may reasonably designate and will file such consents to service of process or other documents as may be reasonably necessary in order to effect and maintain such registration or qualification for so long as required to complete the distribution of the Shares; provided that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action which would subject it to service of process in suits, other than those arising out of the offering or sale of the Shares, in any jurisdiction where it is not now so subject. In each jurisdiction in which the Shares shall have been qualified as above provided, the Company will make and file such statements and reports in each year as are or may be required by the laws of such jurisdiction. In the event that the qualification of the Shares in any jurisdiction is suspended, the Company shall so advise you promptly in writing.

(g) The Company will make generally available to its security holders a consolidated earnings statement (in form complying with the provisions of Rule 158 under the Act), which need not be audited, covering a 12-month period commencing after the effective date of the Registration Statement and ending not later than 15 months thereafter, as soon as practicable after the end of such period, which consolidated earnings statement shall satisfy the provisions of Section 11(a) of the Act and Rule 158 under the Act, and will advise you in writing when such statement has been so made available.

(h) During the period ending five years from the date hereof, the Company will furnish to you and, upon your request, to each of the other Underwriters, (i) as soon as available, a copy of each report or definitive proxy statement of the Company filed with the Commission under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the National Association of Securities Dealers, Inc. (the "NASD"), the Nasdaq Stock Market or any national securities exchange or mailed to shareholders, and (ii) from time to time such other information concerning the Company as you may reasonably request. Until the termination of the offering of the Shares, the Company will timely file all documents, and any amendments to previously filed documents, required to be filed by it pursuant to Sections 13, 14 or 15(d) of the Exchange Act. The Company will file Form SR as required by the Act.

(i) If this Agreement shall terminate or shall be terminated after execution pursuant to any provision hereof (except Section 11), or if this Agreement shall be terminated by the Underwriters because of any inability, failure or refusal on the part of the Company or any Selling Shareholder to perform any agreement herein or to comply with any of the terms or provisions hereof or to fulfill any of the conditions of this Agreement, the Company agrees to reimburse you and the other Underwriters for all out-of-pocket expenses (including travel expenses and reasonable fees and expenses of counsel for the Underwriters but excluding wages and salaries paid by you) incurred by you in connection herewith, provided, however, that if this

Agreement shall be terminated by the Company for any reason, the Company's obligation to reimburse the Underwriters shall be limited to a maximum amount of \$50,000.

(j) The Company will apply the net proceeds from the sale of the Shares to be sold by it hereunder substantially in accordance with the statements set forth under the caption "Use of Proceeds" in the Prospectus.

(k) If information is omitted from the Registration Statement pursuant to Rule 430A under the Act, the Company will timely file the Prospectus or a term sheet (as described in Rule 434(b) under the Act) pursuant to Rule 424(b) under the Act.

(l) For a period of 180 days after the date of the Prospectus as first filed with the Commission pursuant to Rule 424(b) under the Act, without the prior written consent of Raymond James & Associates, Inc., the Company will not, directly or indirectly, issue, sell, contract to sell, offer or otherwise dispose of or transfer any shares of Common Stock or securities convertible into or exchangeable or exercisable for shares of Common Stock (collectively, "Company Securities") or any rights to purchase Company Securities, except (i) to the Underwriters pursuant to this Agreement, (ii) pursuant to and in accordance with the Company's stock option plans described in the Prospectus, or (iii) pursuant to the exercise or conversion of warrants, stock options, preferred stock or convertible debentures issued and outstanding at the time of effectiveness of the Registration Statement and described in the Registration Statement.

(m) Prior to the Closing Date or the Additional Closing Date, as the case may be, the Company will furnish to you, as promptly as possible, copies of any unaudited interim consolidated financial statements of the Company and its Subsidiaries (as defined below) for any period subsequent to the periods covered by the financial statements appearing in the Prospectus.

(n) The Company will comply with all provisions of any undertakings contained in the Registration Statement.

(o) The Company will not, directly or indirectly, take any action that would constitute or any action designed, or which might reasonably be expected to cause or result in or constitute, under the Act or otherwise, stabilization nor manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares.

(p) The Company will use its reasonable best efforts to qualify or register its Common Stock for sale in non-issuer transactions under (or obtain exemptions from the application of) the "blue sky" laws of each state where necessary to permit market making transactions and secondary trading, and will comply with such "blue sky" laws and will continue such qualifications, registrations and exemptions in effect for a period of five years after the date hereof.

(q) For so long as the Company's Common Stock is listed therewith, the Company will comply with the filing and other requirements of the Nasdaq National Market.

(r) If at any time during the 90-day period after the first date that any of the Shares are released by you for sale to the public, any rumor, publication, or event relating to or affecting the Company shall occur as a result of which in your opinion the market price of the Common Stock (including the Shares) has been or is likely to be materially affected (regardless of whether such rumor, publication, or event necessitates a supplement to or amendment of the Prospectus), the Company will, after written notice from you of advising the Company to the effect set forth above, promptly consult with Raymond James & Associates, Inc. concerning the advisability and substance of, and, if appropriate, disseminate a press release or other public statement reasonably satisfactory to you responding to or commenting on such rumor, publication, or event.

(s) The Company shall not invest or otherwise use the proceeds received by the Company from its sale of the Shares, or otherwise conduct its business, in such a manner as would require the Company or any Subsidiary (as defined below) to register as an investment company under the Investment Company Act of 1940, as amended.

(t) The Company will maintain a transfer agent and, if necessary under the jurisdiction of its incorporation or the rules of the Nasdaq National Market or any national securities exchange on which the Common Stock is then listed, a registrar (which, if permitted by applicable laws and rules, may be the same entity as the transfer agent) for its Common Stock.

(u) The Company hereby agrees that this Agreement shall be deemed, for all purposes, to have been made and entered into in Pinellas County, Florida. The Company agrees that any dispute hereunder shall be litigated solely in the Circuit Court of the State of Florida in Pinellas County, Florida or in the United States District Court for the Middle district of Florida, Tampa Division, and further agrees to submit itself to the personal jurisdiction of such courts.

SECTION 6. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company, Simon Raab and Gregory A. Fraser, jointly and not severally, represent and warrant to each Underwriter and the Company represents and warrants to each Selling Shareholder on the date hereof, and shall be deemed to represent and warrant to each Underwriter and each Selling Shareholder on the Closing Date and the Additional Closing Date, that:

(a) The Registration Statement has been declared effective by the Commission under the Act and no post-effective amendment to the Registration Statement has been filed as of the date of this Agreement. Each Prepricing Prospectus included as part of the Registration Statement as originally filed or as part of any amendment or supplement thereto, or filed pursuant to Rule 424(a) under the Act, complied when so filed in all material respects with the provisions of the Act, except that this representation and warranty does not apply to statements in or omissions from such Prepricing Prospectus (or any amendment or supplement thereto) made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by or on behalf of any Underwriter through you expressly for use therein.

(b) The Prepricing Prospectus included as part of the Registration Statement declared effective by the Commission complies as to form in all material respects with the requirements of

the Act and, to the knowledge of the Company, the Commission has not issued any order preventing or suspending the use of any Prepricing Prospectus. The Registration Statement, in the form in which it became effective and also in such form as it may be when any post-effective amendment thereto shall become effective, and any registration statement filed pursuant to Rule 462(b) under the Act, complies and will comply in all material respects with the provisions of the Act and does not and will not at any such times contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, except that this representation and warranty does not apply to statements in or omissions from the Registration Statement (or any amendment or supplement thereto) made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by or on behalf of any Underwriter through you expressly for use therein. The Prospectus, and any supplement or amendment thereto, when filed with the Commission under Rule 424(b) under the Act, complies and will comply in all material respects with the provisions of the Act and does not and will not at any such times contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that this representation and warranty does not apply to statements in or omissions from the Prospectus (or any amendment or supplement thereto) made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by or on behalf of any Underwriter through you expressly for use therein.

(c) The capitalization of the Company is as set forth in the Prospectus as of the date set forth therein. All the outstanding shares of Common Stock (including without limitation the Shareholder Firm Shares and the Shareholder Additional Shares) and other securities of the Company have been duly authorized and validly issued, are fully paid and nonassessable and are free of any preemptive or similar rights; all offers and sales of the capital stock, warrants, options and debt or other securities of the Company and the Subsidiaries (as defined below) prior to the date hereof (including without limitation the Shareholder Firm Shares and the Shareholder Additional Shares) were made in compliance with the Act and all other applicable state, federal and foreign laws or regulations, or any actions under the Act or any state, federal or foreign laws or regulations in respect of any such offers or sales are effectively barred by effective waivers or statutes of limitation; the Shares to be issued and sold to the Underwriters by the Company hereunder have been duly authorized and, when issued and delivered to the Underwriters against payment therefor in accordance with the terms hereof, will be validly issued, fully paid and nonassessable and free of any preemptive or similar rights; the securities of the Company conform to the description thereof in the Registration Statement and the Prospectus (or any amendment or supplement thereto); the form of certificate for the Shares conforms to the corporate law of the State of Florida; and the delivery of certificates for the Shares to be issued and sold by the Company pursuant to the terms of this Agreement and payment for such Shares will pass good and valid title to such shares, free and clear of any voting trust arrangements, liens, encumbrances, equities, claims or defects in title to the several Underwriters purchasing such Shares in good faith and without notice of any lien, claim or encumbrance.

(d) The Company is a corporation duly organized and validly existing in good standing under the laws of the State of Florida with full corporate power and authority to own,

lease and operate its properties and to conduct its business as presently conducted and as described in the Registration Statement and the Prospectus (or any amendment or supplement thereto), and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure to so register or qualify does not have a material adverse effect on the condition (financial or other), business, properties, net worth or results of operations of the Company.

(e) FARO Worldwide, Inc., a Florida corporation, and FARO France, S.A.S., a French corporation (individually a "Subsidiary" and collectively, the "Subsidiaries"), are each corporations duly organized and validly existing in good standing under the laws of their respective jurisdictions of incorporation or organization with full corporate power and authority to own, lease and operate their respective properties and to conduct their respective businesses as presently conducted and as described in the Registration Statement and the Prospectus (and any amendment or supplement thereto), and are each duly registered and qualified to conduct their respective businesses and are in good standing in each jurisdiction or place where the nature of their respective properties or the conduct of their respective businesses require such registration or qualification, except where the failure to so register or qualify does not have a material adverse effect on the condition (financial or other), business, properties, net worth or results of operations of the Company and the Subsidiaries, taken as a whole. All of the outstanding shares of capital stock of each of the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable, and are owned by the Company directly (except that 50% of the outstanding shares of capital stock of FARO France, S.A.S. are owned directly by FARO Worldwide, Inc., a wholly owned subsidiary of the Company), free and clear of any lien, adverse claim, security interest, equity or other encumbrance. Except for the Subsidiaries, the Company does not own a material interest in or control, directly or indirectly, any other corporation, partnership, joint venture, association, trust or other business organization.

(f) There are no legal or governmental proceedings pending or, to the knowledge of the Company, threatened, against the Company or any Subsidiary, or to which the Company or any Subsidiary, or to which any of their respective properties, is subject, that are required to be described in the Registration Statement or the Prospectus (or any amendment or supplement thereto) but are not described as required. There is no action, suit, inquiry, proceeding, or investigation by or before any court or governmental or other regulatory or administrative agency or commission pending or, to the best knowledge of the Company, threatened against or involving the Company or any Subsidiary (including without limitation any such action, suit, inquiry, proceeding or investigation relating to any product alleged to have been manufactured or sold by the Company or any Subsidiary and alleged to have been unreasonably hazardous, defective, or improperly designed or manufactured), nor, to the knowledge of the Company, is there any basis for any such action, suit, inquiry, proceeding, or investigation. There are no agreements, contracts, indentures, leases or other instruments that are required to be described in the Registration Statement or the Prospectus (or any amendment or supplement thereto) or to be filed as an exhibit to the Registration Statement that are not described or filed as required by the Act. All such contracts to which the Company or any Subsidiary is a party have been duly authorized, executed and delivered by the Company or the respective Subsidiary, constitute valid

and binding agreements of the Company or the respective Subsidiary and are enforceable against the Company or the respective Subsidiary in accordance with the terms thereof.

(g) Neither the Company nor any Subsidiary is (i) in violation of (A) its articles of incorporation or bylaws or other charter documents, or (B) any law, ordinance, administrative or governmental rule or regulation applicable to the Company or any Subsidiary or (C) of any decree of any court or governmental agency or body having jurisdiction over the Company or any Subsidiary, or (ii) in default in any material respect in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any material agreement, indenture, lease or other instrument to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary or any of their respective properties may be bound except, in the case of (i)(B), (i)(C) and (ii) above, where such violation or default would not have a material adverse effect on the Company and the Subsidiaries, taken as a whole.

(h) The execution and delivery of this Agreement, and the performance by the Company of its obligations under this Agreement, have been duly and validly authorized by the Company, and this Agreement has been duly executed and delivered by the Company and constitutes the valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except insofar as the indemnification and contribution provisions hereunder may be limited by applicable law and except as the enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles.

(i) None of the issuance and sale of the Shares, the execution, delivery or performance of this Agreement by the Company nor the consummation by the Company of the transactions contemplated hereby (i) is or may be void or voidable by any person or entity, (ii) requires any consent, approval, authorization or other order of or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency or official (except such as may be required for the registration of the Shares under the Act and the Securities Exchange Act of 1934, as amended (the "Exchange Act") and compliance with the securities or Blue Sky laws of various jurisdictions, all of which will be, or have been, effected in accordance with this Agreement) or conflicts or will conflict with or constitutes or will constitute a breach of, or a default under, the articles of incorporation or bylaws or other charter documents, of the Company or any subsidiary, or (iii) conflicts or will conflict with or constitutes or will constitute a breach of, or a default under, any agreement, indenture, lease or other instrument to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary or any of their respective properties may be bound, or violates any statute, law, regulation or filing or judgment, injunction, order or decree applicable to the Company or any Subsidiary or any of their respective properties, or results in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any Subsidiary pursuant to the terms of any agreement or instrument to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary may be bound or to which the property or assets of the Company or any Subsidiary is subject.

(j) Except as described in the Prospectus, the Company does not have outstanding and at the Closing Date (and the Additional Closing Date, if applicable) will not have outstanding any options to purchase, or any warrants to subscribe for, or any securities or obligations convertible into, or any contracts or commitments to issue or sell, any shares of Common Stock or any such warrants or convertible securities or obligations. Except as has been complied with or waived, no holder of securities of the Company or any other person has rights to the registration of any securities of the Company because of the filing of the Registration Statement.

(k) Deloitte & Touche LLP, the certified public accountants who have certified the consolidated financial statements filed as part of the Registration Statement and the Prospectus (and any amendment or supplement thereto), are independent public accountants as required by the Act. The consolidated financial statements, together with related schedules and notes, forming part of the Registration Statement and the Prospectus (and any amendment or supplement thereto), present fairly the historical consolidated financial position, results of operations and changes in financial position of the Company and the Subsidiaries on the basis stated therein at the respective dates or for the respective periods to which they apply; such statements and related schedules and notes have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved and all adjustments necessary for a fair presentation of the results for such period have been made; and the other financial and statistical information and data set forth in the Registration Statement and Prospectus (and any amendment or supplement thereto) is accurately presented and prepared on a basis consistent with such financial statements and the books and records of the Company. No financial statements or schedules are required to be included in or incorporated by reference into the Registration Statement that have not been so included or incorporated.

(l) Subsequent to the respective dates as of which such information is given in the Registration Statement and the Prospectus (or any amendment or supplement thereto), neither the Company nor any Subsidiary has incurred any liability or obligation, direct or contingent, or entered into any transaction, whether or not in the ordinary course of business, that is material to the Company and the Subsidiaries, taken as a whole, and there has not been (i) any material change in or dividend paid on the capital stock, (ii) any material increase in the short-term debt or long-term debt, of the Company or any Subsidiary, or (iii) any material adverse change, or any development involving or which may reasonably be expected to involve a potential future material adverse change, in the condition (financial or other), business, net worth or results of operations of the Company and the Subsidiaries, taken as a whole.

(m) The Company and the Subsidiaries have good and marketable title to all property (real and personal) described in the Registration Statement and the Prospectus (or any amendment or supplement thereto) as being owned by the Company or such Subsidiary, free and clear of all liens, claims, security interests or other encumbrances except such as are described in the Registration Statement and the Prospectus (or any amendment or supplement thereto) or such as are not materially burdensome and do not interfere in any material respect with the use of the property or the conduct of the business of the Company and the Subsidiaries, taken as a whole, and the property (real and personal) held under lease by the Company or any Subsidiary, as

applicable, is held by them under valid, subsisting and enforceable leases with only such exceptions as in the aggregate are not materially burdensome and do not interfere in any material respect with the conduct of the business of the Company and the Subsidiaries, taken as a whole.

(n) The Company has not distributed and will not distribute prior to the Closing Date (or the Additional Closing Date, if any) any offering material in connection with the offering and sale of the Shares other than the Prepricing Prospectus and the Registration Statement, the Prospectus or other materials permitted by the Act and distributed with the prior written approval of the Underwriters. The Company has not taken, directly or indirectly, any action which constituted or any action designed, or which might reasonably be expected to cause or result in or constitute, under the Act or otherwise, stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares. The Company acknowledges that the Underwriters may engage in passive market making transactions in the Common Stock on The Nasdaq Stock Market in accordance with Regulation M under the Exchange Act.

(o) Neither the Company nor any Subsidiary is an "investment company," an "affiliated person" of, or "promoter" or "principal underwriter" for an investment company within the meaning of the Investment Company Act of 1940, as amended.

(p) The Company and the Subsidiaries have all permits, licenses, franchises, approvals, consents and authorizations of governmental or regulatory authorities or private persons or entities (hereinafter "permit or "permits") as are necessary to own their respective properties and to conduct their respective businesses in the manner described in the Registration Statement and the Prospectus (or any amendment or supplement thereto), subject to such qualifications as may be set forth therein, and as are necessary to allow the use of the Company's products in the industries discussed in the Registration Statement and the Prospectus (or any amendment or supplement thereto) (including, without limitation, in the health care industry and the aircraft manufacturing industry), except where the failure to have obtained any such permit has not had and will not have a material adverse effect upon the condition (financial or other) or the business of the Company and the Subsidiaries, taken as a whole; the Company and the Subsidiaries have fulfilled and performed all of their material obligations with respect to each such permit and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination of any such permit or result in any other material impairment of the rights of the holder of any such permit, subject in each case to such qualification as may be set forth in the Prospectus; and, except as described in the Prospectus, such permits contain no restrictions that are materially burdensome to the Company and the Subsidiaries, taken as a whole.

(q) The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the business in which they are engaged; and the Company has no reason to believe that the Company and the Subsidiaries will not be able to renew their existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue their respective businesses at a comparable cost.

(r) The Company and the Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorizations; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(s) Neither the Company nor any Subsidiary has, directly or indirectly, at any time during the past five years (i) made any unlawful contribution to any candidate for political office, or failed to disclose fully any contribution in violation of law, or (ii) made any payment to any federal, state or foreign governmental official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States or any jurisdiction thereof or applicable foreign jurisdictions.

(t) Except as set forth in the Registration Statement and the Prospectus, to the knowledge of the Company neither the Company nor any Subsidiary has violated any environmental, safety or similar law applicable to their respective businesses, nor any federal or state law relating to discrimination in the hiring, promotion or pay of employees nor any applicable federal or state wages and hours laws, nor any provisions of the Employee Retirement Income Security Act or the rules and regulations promulgated thereunder, which in each case might result in any material adverse change in the business, prospects, financial condition or results of operation of the Company and the Subsidiaries, taken as a whole. To the best of the Company's knowledge, no labor disturbance by the employees of the Company or any of the Subsidiaries exists or is imminent; and the Company is not aware of any existing or imminent labor disturbances by the employees of any of its principal suppliers, subassemblers, value added resellers, subcontractors, original equipment manufacturers, dealers or distributors that might be expected to result in any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and the Subsidiaries, taken as a whole. No collective bargaining agreement exists with any of the Company's or any Subsidiary's employees and, to the Company's knowledge, no such agreement is imminent. To the knowledge of the Company, neither the employment by the Company or any Subsidiary of their key personnel nor the activities of such individuals at the Company or any Subsidiary conflicts with, constitutes a breach of, or otherwise violates any employment, noncompetition, nondisclosure or similar agreement or covenant by which such individuals may be bound.

(u) The Company and the Subsidiaries own and have full right, title and interest in and to, or have the right to use, each material trade name, trademark, service mark, patent, copyright, license, and other rights and all know-how (including trade secrets and other unpatented and/or proprietary or confidential information, systems, or procedures) (collectively, "Intellectual Property Rights") under which the Company and the Subsidiaries conduct all or any portion of their respective businesses, which Intellectual Property Rights are adequate to conduct such businesses as conducted or as proposed to be conducted or as described in the Registration Statement and the Prospectus (or any amendment or supplement thereto); except as otherwise

disclosed in the Registration Statement and the Prospectus (or any amendment or supplement thereto), neither the Company nor any Subsidiary has created any lien or encumbrance on, or granted any right or license with respect to, its respective Intellectual Property Rights; there is no claim pending against the Company or any Subsidiary with respect to any of their respective Intellectual Property Rights; neither the Company nor any Subsidiary has received notice that, nor is the Company aware that, any Intellectual Property Right which they use or have used in the conduct of their respective businesses infringed or infringes upon or conflicted or conflicts with the rights of any third party, which infringement or conflict could have a material adverse effect upon the condition (financial or other) of the Company and the Subsidiaries, taken as a whole; and the Company is not aware of any facts which, with the passage of time or otherwise, would cause the Company or any Subsidiary to infringe upon or otherwise violate the Intellectual Property Rights of any third party.

(v) All federal, state, local and foreign tax returns required to be filed by or on behalf of the Company and any Subsidiary with respect to all periods ended prior to the date of this Agreement have been filed (or are the subject of valid extension) with the appropriate federal, state, local and foreign authorities (except where such failure to file would not have a material adverse effect on the Company and the Subsidiaries, taken as a whole) and all such tax returns, as filed, are accurate in all material respects. All federal, state, local and foreign taxes (including estimated tax payments) required to be shown on all such tax returns or claimed to be due from or with respect to the respective businesses of the Company and the Subsidiaries have been paid or reflected as a liability on the consolidated financial statements of the Company for appropriate periods (except for any such tax the failure of which to pay would not have a material adverse effect on the Company and the Subsidiaries, taken as a whole). All deficiencies asserted as a result of any federal, state, local or foreign tax audits have been paid or finally settled and no issue has been raised in any such audit which, by application of the same or similar principles, reasonably could be expected to result in a proposed deficiency for any other period not so audited. No state of facts exist or has existed which would constitute grounds for the assessment of any material tax liability with respect to the periods that have not been audited by appropriate federal, state local or foreign authorities. There are no outstanding agreements or waivers extending the statutory period of limitation applicable to any federal, state, local or foreign tax return for any period.

(w) The Company and its Subsidiaries have obtained all required permits, licenses, and other authorizations, if any, which are required under federal, state, local and foreign statutes, ordinances and other laws relating to pollution or protection of the environment, including laws relating to emissions, discharges, releases, or threatened releases of pollutants, contaminants, chemicals, or industrial, hazardous, or toxic materials or wastes into the environment (including, without limitation, ambient air, surface water, ground water, land surface, or subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, chemicals, or industrial, hazardous, or toxic materials or wastes, or any regulation rule, code, plan, order, decree, judgment, injunction, notice, or demand letter issued, entered, promulgated, or approved thereunder ("Environmental Laws") the failure of which to obtain would have a material adverse effect on the Company and its Subsidiaries, taken as a whole. The Company and its Subsidiaries

are in material compliance with all terms and conditions of all required permits, licenses and authorizations, and are also in material compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules, and timetables contained in the Environmental Laws. There is no pending or, to the best knowledge of the Company, threatened, civil or criminal litigation, notice of violation, or administrative proceeding relating in any way to the Environmental Laws (including notices, demand letters, or claims under the Resource Conservation and Recovery Act of 1976, as amended ("RCRA"), the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), and similar foreign, state, or local laws) involving the Company or any Subsidiary. There have not been and there are not any past, present, or foreseeable future events, conditions, circumstances, activities, practices, incidents, actions, or plans which may interfere with or prevent continued compliance, or which may give rise to any common law or legal liability, or otherwise form the basis of any claim, action, demand, suit, proceeding, hearing, study, or investigation, based on or related to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling, or the emission, discharge, release, or threatened release into the environment, of any pollutant, contaminant, chemical, or industrial, hazardous, or toxic material or waste, including, without limitation, any liability arising, or any claim, action, demand, suit, proceeding, hearing, study, or investigation which may be brought, under RCRA, CERCLA, or similar foreign, state or local laws, in each case which individually or in the aggregate would have a material adverse effect on the Company and its Subsidiaries, taken as a whole.

(x) The Company and the Subsidiaries are in compliance with all provisions of Section 1 of Laws of Florida, Chapter 92-198, An Act Relating to Disclosure of doing Business with Cuba; if the Company or any Subsidiary commences engaging in business with the government of Cuba or with any person or affiliate located in Cuba after the date the Registration Statement becomes or has become effective with the Commission or with the Florida Department of Banking and Finance (the "Department"), whichever date is later, or if the information reported or incorporated by reference in the Prospectus, if any, concerning the business of the Company or any Subsidiary with Cuba or with any person or affiliate located in Cuba changes in any material way, the Company will provide the Department notice of such business or change, as appropriate in a form acceptable to the Department.

SECTION 6A. REPRESENTATIONS AND WARRANTIES OF THE SELLING SHAREHOLDERS. Each Selling Shareholder, severally and not jointly, represents and warrants to each Underwriter and the Company on the date hereof, and shall be deemed to represent and warrant to each Underwriter and the Company on the Closing Date and the Additional Closing Date, that:

(a) Such Selling Shareholder has full right, power and authority to sell, assign, transfer and deliver the Shares to be sold by such Selling Shareholder hereunder; and upon delivery of such Shares hereunder and payment of the purchase price as herein contemplated, each of the Underwriters purchasing such Shares in good faith and without notice of any lien, claim or encumbrance will obtain good and valid title to the Shares purchased by it from such Selling Shareholder, free and clear of any pledge, lien, security interest, encumbrance, claim or

equitable interest, including any liability for estate or inheritance taxes, or any liability to or claims of any creditor, devisee, legatee or beneficiary of such Selling Shareholder.

(b) Such Selling Shareholder has duly authorized (if applicable), executed and delivered, in the form heretofore furnished to the Representatives, a Power of Attorney (the "Power of Attorney") appointing Simon Raab and Gregory A. Fraser as attorneys-in-fact (collectively, the "Attorneys" and individually, an "Attorney") and a Letter of Transmittal and Custody Agreement (the "Custody Agreement") with Firststar Trust Company, as custodian (the "Custodian"); each of the Power of Attorney and the Custody Agreement constitutes a valid and binding agreement of such Selling Shareholder, enforceable against such Selling Shareholder in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; and each of such Selling Shareholder's Attorneys, acting alone, is authorized to execute and deliver this Agreement and the certificate referred to in Section 9(i) hereof on behalf of such Selling Shareholder, to determine the purchase price to be paid by the several Underwriters to such Selling Shareholder as provided in Section 2 hereof, to authorize the delivery of the Shares to be sold by the Selling Shareholders under this Agreement and to duly endorse (in blank or otherwise) the certificate or certificates representing such Shares or a stock power or powers with respect thereto, to accept payment therefor, and otherwise to act on behalf of such Selling Shareholder in connection with this Agreement. Certificates in negotiable form for all Shares to be sold by such Selling Shareholder under this Agreement, together with a stock power or powers duly endorsed in blank by such Selling Shareholder, have been placed in custody with the Custodian for the purpose of effecting delivery hereunder.

(c) All authorizations, approvals, consents and orders necessary for the execution and delivery by such Selling Shareholder of the Power of Attorney and the Custody Agreement, the execution and delivery by or on behalf of such Selling Shareholder of this Agreement and the sale and delivery of the Shares to be sold by the Selling Shareholders under this Agreement (other than such authorizations, approvals or consents as may be necessary under state or other securities or Blue Sky laws) have been obtained and are in full force and effect; such Selling Shareholder, if other than a natural person, has been duly organized and is validly existing and in good standing under the laws of the jurisdiction of its organization as the type of entity that it purports to be; and such Selling Shareholder has full right, power, and authority to enter into and perform its obligations under this Agreement and such Power of Attorney and Custody Agreement, and to sell, assign, transfer and deliver the Shares to be sold by such Selling Shareholder under this Agreement.

(d) Such Selling shareholder will not offer, sell or otherwise dispose of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for, or any rights to purchase or acquire, Common Stock, during the period from the date of this Agreement to the date 180 days following the effective date of the Registration Statement, inclusive, without the prior written consent of Raymond James & Associates, Inc.

(e) Certificates in negotiable form for all Shares to be sold by such Selling shareholder under this Agreement, together with a stock power or powers duly endorsed in blank by such Selling Shareholder, have been placed in custody with the Custodian for the purpose of effecting delivery hereunder.

(f) This Agreement has been duly authorized by such Selling Shareholder that is not a natural person and has been duly executed and delivered by or on behalf of such Selling Shareholder and constitutes the valid and binding agreement of such Selling Shareholder, enforceable against such Selling Shareholder in accordance with its terms, except insofar as the indemnification and contribution provisions hereunder may be limited by applicable law and except as the enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles;; and the performance of this Agreement and the consummation of the transactions herein contemplated will not result in a breach of or default under any material bond, debenture, note or other evidence of indebtedness, or any material contract, indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which such Selling Shareholder is a party or by which such Selling Shareholder or any Selling Shareholder Shares hereunder may be bound or, to the best of such Selling Shareholder's knowledge, result in any violation of any law, order, rule, regulation, writ, injunction or decree of any court or governmental agency or body or, if such Selling Shareholder is other than a natural person, result in any violation of any provisions of the charter, bylaws or other organizational documents of such Selling Shareholder.

(g) Such Selling Shareholder has not taken and will not take, directly or indirectly, any action designed to, or which might reasonably be expected to, cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(h) Such Selling Shareholder has not distributed and will not distribute any prospectus or other offering material in connection with the offering and sale of the Shares.

(i) All information furnished by or on behalf of such Selling Shareholder relating to such Selling Shareholder and the Shares to be sold by such Selling Shareholders under this Agreement that is contained in the representations and warranties of such Selling Shareholder in such Selling Shareholder's Power of Attorney or set forth in the Registration Statement is, and on the Closing Date will be, true, correct and complete, and does not, and on the Closing Date will not, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such statements not misleading and any such statement that are set forth in the Prospectus is, and on the Closing Date will be, true, correct and complete, and does not, and on the Closing Date will note, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such statements therein, in light of the circumstances under which they were made, not misleading.

(j) Such Selling Shareholder will review the Prospectus and will comply with all agreements and satisfy all conditions on its part to be complied with or satisfied pursuant to this Agreement on or prior to the Closing Date and will advise one of its Attorneys prior to the

Closing Date if any statement to be made on behalf of such Selling Shareholder in the certificate contemplated by Section 9(i) would be inaccurate if made as of the Closing Date.

(k) Such Selling Shareholder does not have, or has waived prior to the date hereof, any preemptive right, co-sale right or right of first refusal or other similar right to purchase any of the Shares that are to be sold by the Company or any of the other Selling Shareholders to the Underwriters pursuant to this Agreement; and such Selling Shareholder does not own any capital stock of the Company or warrants, options or similar rights to acquire, and does not have any right or arrangement to acquire, any capital stock, rights, warrants, options or other securities from the Company, other than those described in the Registration Statement and the Prospectus.

(l) Such Selling Shareholder is not aware (without having conducted any investigation or inquiry) that any of the representations and warranties of the Company set forth in Section 6 above is untrue or inaccurate.

SECTION 7. EXPENSES. The Company hereby agrees with the several Underwriters that the Company will pay or cause to be paid the costs and expenses associated with the following: (i) the preparation, printing or reproduction, and filing with the Commission of the Registration Statement (including financial statements and exhibits thereto), each Prepricing Prospectus, the Prospectus, each registration statement filed pursuant to Rule 462(b) under the Act, and each amendment or supplement to any of them; (ii) the printing (or reproduction) and delivery (including postage, air freight charges and charges for counting and packaging) of such copies of the Registration Statement, each Prepricing Prospectus, the Prospectus, each registration statement filed pursuant to Rule 462(b) under the Act, and all amendments or supplements to any of them, as may be reasonably requested for use in connection with the offering and sale of the Shares; (iii) the preparation, printing, authentication, issuance and delivery of certificates for the Shares, including any stamp taxes in connection with the offering of the Shares; (iv) the printing (or reproduction) and delivery of this Agreement, the preliminary and supplemental Blue Sky Memoranda and all other agreements or documents printed (or reproduced) and delivered in connection with the offering of the Shares; (v) the listing of the Shares on the Nasdaq National Market; (vi) the registration or qualification of the Shares for offer and sale under the securities or Blue Sky laws of the several states as provided in Section 5(f) hereof (including the reasonable fees and expenses of counsel for the Underwriters relating to the preparation, printing or reproduction, and delivery of the preliminary and supplemental Blue Sky Memoranda and such registration and qualification) which fees will not exceed, in the aggregate, \$5,000; (vii) the filing fees in connection with any filings required to be made with the NASD in connection with the offering; (viii) the transportation and other expenses incurred by or on behalf of representatives of the Company in connection with the presentations to prospective purchasers of the Shares; (ix) the fees and expenses of the Company's accountants and the fees and expenses of counsel (including local and special counsel) for the Company; (x) the preparation, printing and distribution of bound volumes of the relevant transaction documents for the Representatives and their counsel; and (xi) the performance by the Company of its other obligations under this Agreement. If the transactions contemplated hereby are not consummated by reason of any failure, refusal or inability on the part of the Company or any Selling Shareholder to perform any agreement on its part to be performed hereunder or to fulfill any condition of the Underwriters'

obligations hereunder, the Company will reimburse the several Underwriters for all reasonable out-of-pocket expenses (including fees and disbursements of counsel for the several Underwriters) incurred by the Underwriters in investigating, preparing to market or marketing the Shares.

SECTION 8. INDEMNIFICATION AND CONTRIBUTION. Each of the Company, Simon Raab and Gregory A. Fraser agrees to indemnify and hold harmless you and each other Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) arising out of or based upon any breach of any representation, warranty, agreement or covenant of the Company contained herein or any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any amendment or supplement thereto, or in any Registration Statement filed pursuant to Rule 462(b) under the Act, or arising out of or based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any Prepricing Prospectus, the Prospectus, or any amendment or supplement thereto, or arising out of or based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading or arising out of or based upon any untrue statement or alleged untrue statement of any material fact contained in any audio or visual materials used in connection with the marketing of the Shares, including, without limitation, slides, videos, films and tape recordings, except insofar as such losses, claims, damages, liabilities or expenses arise out of or are based upon an untrue statement or omission or alleged untrue statement or omission which has been made therein or omitted therefrom in reliance upon and in conformity with the information relating to an Underwriter furnished in writing to the Company by or on behalf of any Underwriter through you expressly for use in connection therewith or arise out of materials prepared solely by the Underwriters without the knowledge of the Company or any of its representatives based upon material information obtained from sources other than, directly or indirectly, the Company or its representatives, provided, further, that the indemnity agreement contained in this subsection with respect to any Prepricing Prospectus and the Prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any such loss, claim, damage, liability or action purchased any of the Shares which are the subject thereof if a copy of the Prospectus (as amended or supplemented, if the Company shall have furnished any amendment or supplement thereto to such Underwriter which shall correct the untrue statement or alleged untrue statement or omission or alleged omission which is the basis of the loss, claim, damage, liability or action for which indemnification is sought) was not delivered or given to such person at or prior to the written confirmation of the sale to such person. This indemnification shall be in addition to any liability that the Company may otherwise have.

Each Selling Shareholder other than Simon Raab and Gregory A. Fraser, severally and not jointly, agrees to indemnify and hold harmless you and each other Underwriter and each person, if any, who controls any underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages, liabilities

and expenses (including reasonable costs of investigation) arising out of or based upon any breach of any representation, warranty, agreement or covenant of such Selling Shareholder contained herein or any untrue statement or alleged untrue statement of a material fact contained in any Prepricing Prospectus, the Registration Statement, the Prospectus, any amendment or supplement thereto, or in any Registration Statement filed pursuant to Rule 462(b) under the Act, or arising out of or based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only with respect to information relating to such Selling Shareholder furnished in writing by or on behalf of such Selling Shareholder through you expressly for use in the Registration Statement, the Prospectus or any Prepricing Prospectus, any amendment or supplement thereto, or any Registration Statement filed pursuant to Rule 462(b) under the Act. This indemnification shall be in addition to any liability that the Selling Shareholders or any Selling Shareholder may otherwise have.

If any action or claim shall be brought against any Underwriter or any person controlling any Underwriter in respect of which indemnity may be sought against the Company, Simon Raab, Gregory A. Fraser or any other Selling Shareholder, such Underwriter or such controlling person shall promptly notify in writing the party(s) against whom indemnification is being sought (the "indemnifying party" or "indemnifying parties"), but the omission so to notify the indemnifying party(s) shall not relieve such indemnifying party(s) from any liability which it may have to such Underwriter or such controlling person. In case any such action shall be brought against any Underwriter or controlling person and it shall notify the indemnifying party(s) of the commencement thereof, the indemnifying party(s) shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party(s) similarly notified, to assume the defense thereof, with counsel satisfactory to such Underwriter or controlling person (who shall not, except with the consent of the Underwriter or controlling person, be counsel to the indemnifying party(s)), and, after notice from the indemnifying party(s) to such Underwriter or controlling person of its election so to assume the defense thereof, the indemnifying party(s) shall not be liable to such Underwriter or controlling person under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such Underwriter or controlling person, in connection with the defense thereof other than reasonable costs of investigation. Such Underwriter or any such controlling person shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Underwriter or such controlling person unless (i) the indemnifying party(s) has (have) agreed in writing to pay such fees and expenses, (ii) the indemnifying party(s) has (have) failed to assume the defense and employ counsel reasonably acceptable to the Underwriter or such controlling person, or (iii) the named parties to any such action (including any impleaded parties) include both such Underwriter or such controlling person and the indemnifying party(s), and such Underwriter or such controlling person shall have been advised by its counsel that representation of such indemnified party and any indemnifying party(s) by the same counsel would be inappropriate under applicable standards of professional conduct (whether or not such representation by the same counsel has been proposed) due to actual or potential differing interests between them (in which case the indemnifying party(s) shall not have the right to assume the defense of such action on behalf of such Underwriter or such controlling person).

The indemnifying party(s) shall not be liable for any settlement of any such action effected without its (their) written consent, but if settled with such written consent, or if there be a final judgment for the plaintiff in any such action, the indemnifying party(s) agrees to indemnify and hold harmless any Underwriter and any such controlling person from and against any loss, claim, damage, liability or expense by reason of such settlement or judgment, but in the case of a judgment only to the extent stated in the immediately preceding paragraph.

Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement, and any person who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and each Selling Shareholder, to the same extent as the foregoing indemnity from the Company, Simon Raab, Gregory A. Fraser or any other Selling Shareholder to each Underwriter, but only with respect to information relating to such Underwriter furnished in writing by or on behalf of such underwriter through you expressly for use in the Registration Statement, the Prospectus or any Prepricing Prospectus, any amendment or supplement thereto, or any Registration Statement filed pursuant to Rule 462(b) under the Act. If any action or claim shall be brought or asserted against the Company, any of its directors, any such officers, or any such controlling person or any Selling Shareholder based on the Registration Statement, the Prospectus or any Prepricing Prospectus, any amendment or supplement thereto, or any Registration Statement filed pursuant to Rule 462(b) under the Act, and in respect of which indemnity may be sought against any Underwriter pursuant to this paragraph, such Underwriter shall have the rights and duties given to the Company, Simon Raab, Gregory A. Fraser or any other Selling Shareholder by the preceding paragraph (except that if the Company, Simon Raab, Gregory A. Fraser or any other Selling Shareholder shall have assumed the defense thereof such Underwriter shall not be required to do so, but may employ separate counsel therein and participate in the defense thereof, but the fees and expenses of such counsel shall be at such Underwriter's expense), and the Company, its directors, any such officers, and any such controlling persons and the Selling Shareholders shall have the rights and duties given to the Underwriters by the immediately preceding paragraph. This indemnification shall be in addition to any liability the Underwriters or any Underwriter may otherwise have.

If the indemnification provided for in this Section 8 is unavailable to an indemnified party under the first, second or fourth paragraph hereof in respect of any losses, claims, damages, liabilities or expenses referred to therein, then an indemnifying party(s), in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, Simon Raab, Gregory A. Fraser or any other Selling Shareholder, as applicable, on the one hand and the Underwriters on the other hand from the offering of the Shares or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, Simon Raab, Gregory A. Fraser or any other Selling Shareholder, as applicable, on the one hand and the Underwriters on the other in connection with the statements or omissions that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company, Simon Raab, Gregory A. Fraser

or any other Selling Shareholder, as applicable, on the one hand and the Underwriters on the other hand shall be deemed to be in the same proportion as the total net proceeds from the offering of the Shares (before deducting expenses) received by the Company, Simon Raab, Gregory A. Fraser or any other Selling Shareholder, as applicable, bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus; provided that, in the event that the Underwriters shall have purchased any Additional Shares hereunder, any determination of the relative benefits received by the Company, Simon Raab, Gregory A. Fraser or any other Selling Shareholder, as applicable, or the Underwriters from the offering of the Shares shall include the net proceeds (before deducting expenses) received by the Company, Simon Raab, Gregory A. Fraser or any other Selling Shareholder, as applicable, and the underwriting discounts and commissions received by the Underwriters, from the sale of such Additional Shares, in each case computed on the basis of the respective amounts set forth in the notes to the table on the cover page of the Prospectus. The relative fault of the Company, Simon Raab, Gregory A. Fraser or any other Selling Shareholder, as applicable on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company, Simon Raab, Gregory A. Fraser or any other Selling Shareholder, as applicable, on the one hand or by the Underwriters on the other hand and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

In any event, neither the Company, Simon Raab, Gregory A. Fraser nor any other Selling Shareholder will, without the prior written consent of the Representatives, settle or compromise or consent to the entry of any judgment in any proceeding or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not the Representatives or any person who controls the Representatives within the meaning of Section 15 of the Act or Section 20 of the Exchange Act is a party to such claim, action, suit or proceeding) unless such settlement, compromise or consent (i) includes an unconditional release of all Underwriters and such controlling persons from all liability arising out of such claim, action, suit or proceeding and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any Underwriter or controlling person.

The Company, Simon Raab, Gregory A. Fraser, the other Selling Shareholders and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 8 was determined by a pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in the fifth paragraph of this Section 8. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities and expenses referred to in the fifth paragraph of this Section 8 shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price of the Shares underwritten by it and distributed to the public exceeds the amount of any damages which such Underwriter has otherwise been required

to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Section 8 are several in proportion to the respective numbers of Firm Shares set forth opposite their names in Schedule I hereto (or such numbers of Firm Shares increased as set forth in Section 10 hereof) and not joint.

Notwithstanding the foregoing, the liability of each Selling Shareholder, other than Simon Raab and Gregory A. Fraser, under the representations and warranties contained in Section 6A hereof and under the indemnity agreements contained in the provisions of this Section 8 shall be limited to an amount equal to the initial public offering price of the Shares sold by such Selling Shareholder to the Underwriters minus the amount of the underwriting discount paid thereon to the Underwriters by such Selling Shareholder. The Company and such Selling Shareholders may agree, as among themselves and without limiting the rights of the Underwriters under this Agreement, as to the respective amounts of such liability for which they each shall be responsible.

In any proceeding relating to the Registration Statement, any Preliminary Prospectus, the Prospectus, any supplement or amendment thereto, or any registration statement filed pursuant to Section 462(b) of the Act, each party against whom contribution may be sought under this Section 8 hereby consents to the jurisdiction of any court having jurisdiction over any other contributing party, agrees that process issuing from such court may be served upon him or it by any other contributing party and consents to the service of such process and agrees that any other contributing party may join him or it as an additional defendant in any such proceeding in which such other contributing party is a party.

Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 8 shall be paid by the indemnifying party(s) to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred. The indemnity and contribution agreements contained in this Section 8 and the representations and warranties of the Company and the Selling Shareholders set forth in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter, the Company, its directors or officers or any person controlling the Company, or any Selling Shareholder, (ii) acceptance of any Shares and payment therefor hereunder, and (iii) any termination of this Agreement. A successor to any Underwriter or any person controlling any Underwriter, to the Company, its directors or officers, or any person controlling the Company, or any Selling Shareholder, shall be entitled to the benefits of the indemnity, contribution and reimbursement agreements contained in this Section 8.

SECTION 9. CONDITIONS OF UNDERWRITER'S OBLIGATIONS. The several obligations of the Underwriters to purchase the Firm Shares hereunder are subject to the following conditions:

(a) The Registration Statement shall have become effective not later than 5:00 p.m., New York City time, on the date hereof, or at such later date and time as shall be consented to in writing by you, and all filings required by Rules 424(b) and 430A under the Act shall have been timely made; and any request of the Commission for additional information (to be included in the Registration Statement or otherwise) shall have been disclosed to the Representatives and complied with to their reasonable satisfaction.

(b) Subsequent to the effective date of the Registration Statement there shall not have occurred any change, or any development involving, or which might reasonably be expected to involve, a potential future material adverse change, in the condition (financial or other), business, properties, net worth or results of operations of the Company and the Subsidiaries, taken as a whole, not contemplated by the Prospectus (or any supplement thereto), that in your reasonable opinion, as Representatives of the several Underwriters, would materially and adversely affect the market for the Shares.

(c) You shall have received on the Closing Date (and the Additional Closing Date, if any) an opinion of Foley & Lardner, counsel for the Company, dated the Closing Date (and the Additional Closing Date, if any), satisfactory to you and your counsel, to the effect that:

(i) The Company is a corporation duly incorporated under the laws of the State of Florida, and validly existing in good standing, with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus (and any amendment or supplement thereto), and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure to so register or qualify does not have a material adverse effect on the condition (financial or other), business, properties, net worth or results of operation of the Company and the Subsidiaries, taken as a whole.

(ii) Each Subsidiary is a corporation duly incorporated and validly existing in good standing under the laws of the jurisdiction of its organization, with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus (and any amendment or supplement thereto), and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure to so register or qualify does not have a material adverse effect on the condition (financial or other), business, properties, net worth or results of operation of the Company and the Subsidiaries, taken as a whole. All issued and outstanding shares of capital stock of each Subsidiary have been validly issued and are fully paid and nonassessable and, to such counsel's knowledge, free and clear of all liens, encumbrances, equities and claims. To such counsel's knowledge, the Company does not own or control, directly or indirectly, any corporation, association or other entity other than FARO Worldwide, Inc., a Florida corporation, and FARO France, S.A. S., a French corporation;

(iii) The authorized capital stock and other securities of the Company conform in all material respects as to matters of Florida or federal law to the description thereof contained in the Prospectus under the caption "Description of Capital Stock."

(iv) All shares of capital stock or other securities of the Company outstanding prior to the issuance of the Shares to be issued and sold by the Company hereunder have been duly authorized and validly issued, are fully paid and nonassessable and have not been issued in violation of any co-sale right, registration right, right of first refusal, preemptive right, or other similar right that has been described in the Registration Statement, the Prepricing Prospectus or the Prospectus.

(v) To such counsel's knowledge, (A) all offers and sales of the Company's capital stock or other securities prior to the date hereof were made in compliance with the registration provisions of the Act and the registration provisions of all other applicable state and federal laws or regulations or any actions under the Act, or any state or federal laws or regulations, or pursuant to applicable exemptions therefrom or (B) any actions thereunder are effectively barred by effective waivers or statutes of limitation or similar laws.

(vi) The Shares to be issued and sold to the Underwriters by the Company, and the Shares to be sold by the Selling Shareholders, hereunder have been duly authorized and, when issued and delivered to the Underwriters against payment therefor in accordance with the terms hereof, will be validly issued, fully paid and nonassessable and, to such counsel's knowledge, free and clear of all liens, encumbrances, equities and claims and will not have been issued in violation of any co-sale right, registration right, right of first refusal, preemptive right, or other similar right that has been described in the Registration Statement, the Prepricing Prospectus or the Prospectus.

(vii) The form of certificates for the Shares conforms to the requirements of the applicable corporate laws of the State of Florida.

(viii) The Registration Statement has become effective under the Act and, to the knowledge of such counsel after reasonable inquiry, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose are pending before or threatened by the Commission.

(ix) The Company has all requisite corporate power and authority to enter into this Agreement and to issue, sell and deliver the Shares to be sold by it to the Underwriters as provided herein, and this Agreement has been duly authorized, executed and delivered by the Company and is a valid, legal and binding agreement of the Company enforceable against the Company in accordance with its terms, except as enforceability thereof may be limited by (A) the application of bankruptcy, reorganization, insolvency and other laws affecting creditors' rights generally, and (B) equitable principles being applied at the discretion of a court before which any

proceeding may be brought; and the Company has adequate authorization and has taken all action necessary to authorize the indemnification provisions contained in Section 8 herein, provided, however that such counsel may specifically refrain from opining as to the validity of the indemnification provisions hereof insofar as they are or may be held to be violative of public policy (under either state or federal law) against such types of provisions in the context of the offer, offer for sale, or sale of securities.

(x) Neither the Company nor any Subsidiary is in violation of its respective articles of incorporation or bylaws or other charter documents, and to the knowledge of such counsel after reasonable inquiry, neither the Company nor any Subsidiary is in default in the performance of any material obligation, agreement or condition contained in any bond, indenture, note or other evidence of indebtedness or in any other agreement material to the Company and the Subsidiaries, taken as a whole.

(xi) Neither the offer, sale or delivery of the Shares, the execution, delivery or performance of this Agreement, compliance by the Company with all provisions hereof nor consummation by the Company of the transactions contemplated hereby conflicts or will conflict with or constitutes or will constitute a breach of, or a default under, articles of incorporation or bylaws or other charter documents, of the Company or any Subsidiary, or any agreement, indenture, lease or other instrument to which the Company or any Subsidiary, or any of their respective properties, is bound, that is or was required to be filed by the Company with the Commission, or is known to such counsel after reasonable inquiry, or will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any Subsidiary, nor will any such action result in any violation of any existing law, regulation, ruling (assuming compliance with all applicable federal and state securities and "blue sky" laws), judgment, injunction, order or decree known to such counsel after reasonable inquiry, applicable to the Company or any Subsidiary, or any of their respective properties.

(xii) No consent, approval, authorization or other order of, or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency or official is required on the part of the Company (except such as have been obtained under the Act or such as may be required under state securities or "blue sky" laws governing the purchase and distribution of the Shares and the clearance of the underwriting arrangements with the National Association of Securities Dealers, Inc.) for the valid issuance and sale of the Shares to the Underwriters under this Agreement.

(xiii) The Registration Statement and the Prospectus and any supplements or amendments thereto (except for the financial statements and the notes thereto and the schedules and other financial and statistical data included or incorporated by reference therein, as to which such counsel need not express any opinion) comply as to form in all material respects with the requirements of the Act.

(xiv) To the knowledge of such counsel after reasonable inquiry, (A) there are no legal or governmental proceedings pending or threatened against the Company or any

Subsidiary, or to which the Company or any Subsidiary, or any of their respective properties, are subject, that are required to be described in the Registration Statement or Prospectus (or any amendment or supplement thereto) or any document incorporated by reference therein that are not described as required therein, and (B) there are no agreements, contracts, indentures, leases or other instruments, that are required to be described in the Registration Statement or the Prospectus (or any amendment or supplement thereto) or any document incorporated by reference therein or to be filed as an exhibit to the Registration Statement or incorporated by reference therein that are not described or filed as required, as the case may be.

(xv) To the knowledge of such counsel after reasonable inquiry, neither the Company nor any Subsidiary is in violation of any law, ordinance, administrative or governmental rule or regulation applicable to the Company or any Subsidiary or of any decree of any court or governmental agency or body having jurisdiction over the Company or any Subsidiary except where such violation does not and will not have a material adverse effect on the condition (financial or other), business, properties, net worth or results of operation of the Company and the Subsidiaries, taken as a whole.

(xvi) To the knowledge of such counsel after reasonable inquiry, (A) the Company and the Subsidiaries have such permits, licenses, franchises, approvals, consents and authorizations of governmental or regulatory authorities ("permits"), as are necessary to own their respective properties and to conduct their respective businesses in the manner described in the Registration Statement and the Prospectus (or any amendment or supplement thereto), subject to such qualifications as may be set forth therein; (B) the Company and the Subsidiaries have fulfilled and performed all of their respective material obligations with respect to such permits and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or result in any other material impairment of the rights of the holder of any such permit, subject in each case to such qualification as may be set forth in the Registration Statement and the Prospectus (or any amendment or supplement thereto); and (C) except as described in the Registration Statement and the Prospectus (or any amendment or supplement thereto), such permits contain no restrictions that are materially burdensome to the Company and the Subsidiaries, taken as a whole.

(xvii) Such counsel has reviewed all agreements, contracts, indentures, leases or other documents or instruments referred to in the Registration Statement and the Prospectus (or any amendment or supplement thereto) (other than routine contracts entered into by the Company or any Subsidiary for the purchase of materials or the sale of products, entered into in the normal course of business) and such agreements, contracts, indentures, leases or other documents or instruments are fairly summarized or disclosed therein, and filed as exhibits thereto or incorporated by reference therein as required.

(xviii) The statements under the captions "Risk Factors -- Control by Principal Shareholders; Anti-Takeover Considerations," "-- Shares Eligible for Future Sale," "Description of Capital Stock" and "Shares Eligible for Future Sale" in the Registration

Statement and the Prospectus, insofar as such statements constitute a summary of documents referred to therein or matters of Florida or federal law, are accurate summaries and fairly and correctly summarize and present in all material respects the information called for with respect to such documents and matters. Such counsel has no reason to believe that the descriptions in the Registration Statement and the Prospectus (or any amendment or supplement thereto) of statutes, regulations or legal or governmental proceedings are other than accurate or fail to present fairly the information required to be shown.

(xix) Neither the Company nor any Subsidiary is, nor will any of them become, as a result of the consummation of the transactions contemplated hereby and the application of the net proceeds therefrom as set forth in the Registration Statement and the Prospectus (or any amendment or supplement thereto) under the caption "Use of Proceeds," an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended.

(xx) To the knowledge of such counsel after reasonable inquiry, neither the Company nor any Subsidiary has received written notice from any third party alleging that their employment of any individual or the activities of any individual at the Company or any Subsidiary conflicts with, constitutes a breach of, or otherwise violates any employment, noncompetition, nondisclosure or similar agreement or covenant by which such individual may be bound, and such counsel has no reason to believe that the employment by the Company or any Subsidiary of any individual or the activities of any individual at the Company or any Subsidiary conflicts with, constitutes a breach of, or otherwise violates any employment, noncompetition, nondisclosure or similar agreement or covenant by which such individual may be bound.

In rendering such opinion, counsel may rely upon an opinion or opinions, each dated the Closing Date (and the Additional Closing Date, if applicable), of other counsel as to the laws of a jurisdiction other than the State of Florida, provided that (1) each such local counsel is acceptable to you, (2) each such opinion so relied upon is addressed to counsel and you, (3) such reliance is expressly authorized by each opinion so relied upon and a copy of each such opinion is delivered to you and is in form and substance satisfactory to you, and (4) counsel shall state in their opinion that they believe that they and you are justified in relying thereon. In rendering such opinion, local counsel may rely, to the extent they deem such reliance proper, as to matters of fact upon certificates of officers of the Company and of government officials. Copies of all such certificates shall be furnished to you and your counsel on the Closing Date (and the Additional Closing Date, if applicable).

In rendering such opinion, in each case where such opinion is qualified by "the knowledge of such counsel after reasonable inquiry," such counsel may rely as to matters of fact upon certificates of executive and other officers and employees of the Company as you and such counsel shall deem are appropriate and such other procedures as you and such counsel shall mutually agree; provided, however, in each such case, such counsel shall state that it has no

knowledge contrary to the information contained in such certificates or developed by such procedures and knows of no reason why you should not reasonably rely upon the information contained in such certificates or developed by such procedures.

In addition to the opinion set forth above, such counsel shall state that during the course of the preparation of the Registration Statement and the Prospectus, and any amendments or supplements thereto, nothing has come to the attention of such counsel which has caused it to believe and such counsel does not believe that the Registration Statement, as of the time it became effective under the Act, the Prospectus or any amendment or supplement thereto, on the date it was filed pursuant to Rule 424(b), as of the respective dates when such documents were filed with the Commission, and the Registration Statement, or any amendment or supplement thereto, as of the Closing Date (except for the financial statements and notes and schedules thereto and other financial and statistical information contained therein or omitted therefrom as to which no opinion need be expressed), contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading and the Prospectus, or any amendment or supplement thereto, as of the Closing Date (except for the financial statements and notes and schedules thereto and other financial and statistical information contained therein or omitted therefrom as to which no opinion need be expressed, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. With respect to such statement, counsel shall state that although such counsel did not undertake to determine independently the accuracy, completeness and fairness of the statements contained in the Registration Statement or in the Prospectus and takes no responsibility therefor (except to the extent specifically set forth herein), such counsel did participate in discussions and meetings with officers and other representatives of the Company and discussions with the auditor for the Company in connection with the preparation of the Registration Statement and the Prospectus, and it is on the basis of the foregoing (relying as to certain factual matters on the information provided to such counsel and not on an independent investigation) that such counsel is making such statement.

(d) You shall have received on the Closing Date (and the Additional Closing Date, if any), an opinion of counsel for the Selling Shareholders, dated the Closing Date (and the Additional Closing Date, if any), satisfactory to you and your counsel, to the effect that:

(i) Each Selling Shareholder that is not a natural person has full right, power and authority to enter into and to perform its obligations under the Power of Attorney and Custody Agreement to be executed and delivered by it in connection with the transactions contemplated herein; the Power of Attorney and Custody Agreement of each Selling Shareholder that is not a natural person has been duly authorized by such Selling Shareholder has been duly executed and delivered by or on behalf of such Selling Shareholder; and the Power of Attorney and Custody Agreement of each Selling Shareholder constitutes the valid and binding agreement of such Selling Shareholder, enforceable in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles;

(ii) Each of the Selling Shareholders has full right, power and authority to enter into and to perform its obligations under this Agreement and to sell, transfer, assign and deliver the Shares to be sold by such Selling Shareholder hereunder;

(iii) This Agreement has been duly authorized by each Selling Shareholder that is not a natural person and has been duly executed and delivered by or on behalf of each Selling Shareholder and, assuming due authorization, execution and delivery by you, is a valid and binding agreement of such Selling Shareholder, enforceable in accordance with its terms, except insofar as the indemnification and contribution provisions hereunder may be limited by applicable law and except as the enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles;

(iv) Upon the delivery of and payment for the Shares as contemplated in this Agreement, each of the Underwriters will receive valid marketable title to the Shares purchased by it from such selling Shareholder, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest. In rendering such opinion, such counsel may assume that the Underwriters are without notice of any defect in the title of any of such Selling Shareholders to the Shares being purchased from such Selling Shareholders;

In rendering such opinion, counsel may rely upon an opinion or opinions, each dated the Closing Date (and the Additional Closing Date, if applicable), of other counsel as to the laws of a jurisdiction other than the State of Florida, provided that (1) each such local counsel is acceptable to you, (2) each such opinion so relied upon is addressed to counsel and you, (3) such reliance is expressly authorized by each opinion so relied upon and a copy of each such opinion is delivered to you and is in form and substance satisfactory to you, and (4) counsel shall state in their opinion that they believe that they and you are justified in relying thereon. In rendering such opinion, local counsel may rely, to the extent they deem such reliance proper, as to matters of fact upon certificates of officers of the Company and of government officials. Copies of all such certificates shall be furnished to you and your counsel on the Closing Date (and the Additional Closing Date, if applicable).

In rendering such opinion, in each case where such opinion is qualified by "the knowledge of such counsel after reasonable inquiry," such counsel may rely as to matters of fact upon certificates of executive and other officers and employees of the Company as you and such counsel shall deem are appropriate and such other procedures as you and such counsel shall mutually agree; provided, however, in each such case, such counsel shall state that it has no knowledge contrary to the information contained in such certificates or developed by such procedures and knows of no reason why you should not reasonably rely upon the information contained in such certificates or developed by such procedures.

In addition to the opinion set forth above, such counsel shall state that during the course of the preparation of the Registration Statement and the Prospectus, and any amendments or

supplements thereto, nothing has come to the attention of such counsel which has caused it to believe and such counsel does not believe that the Registration Statement, as of the time it became effective under the Act, the Prospectus or any amendment or supplement thereto, on the date it was filed pursuant to Rule 424(b), as of the respective dates when such documents were filed with the Commission, the Registration Statement, or any amendment or supplement thereto, as of the Closing Date (except for the financial statements and notes and schedules thereto and other financial and statistical information contained therein or omitted therefrom as to which no opinion need be expressed), contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading and the Prospectus, or any amendment or supplement thereto, as of the Closing Date (except for the financial statements and notes and schedules thereto and other financial and statistical information contained therein or omitted therefrom as to which no opinion need be expressed, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. With respect to such statement, counsel shall state that although such counsel did not undertake to determine independently the accuracy, completeness and fairness of the statements contained in the Registration Statement or in the Prospectus and takes no responsibility therefor (except to the extent specifically set forth herein), such counsel did participate in discussions and meetings with officers and other representatives of the Company and discussions with the auditor for the Company in connection with the preparation of the Registration Statement and the Prospectus, and it is on the basis of the foregoing (relying as to certain factual matters on the information provided to such counsel and not on an independent investigation) that such counsel is making such statement.

(e) On each Closing Date there shall have been furnished to you the opinion (addressed to the Underwriters) of _____, patent counsel to the Company, dated such Closing Date (or the Additional Closing Date, if any) and in form and substance satisfactory to counsel for the Underwriters to the effect that such counsel is familiar with that portion of the technology used by the Company and any Subsidiary in its business concerning which such counsel has been consulted and has read the Registration Statement and the Prospectus (or any amendment or supplement thereto), including in particular the portions of the Registration Statement and the Prospectus referring to patents, trade secrets, trademarks, service marks or other proprietary information or materials, including such information or material licensed by the Company or any Subsidiary (the "Technology Portion"), to the effect that:

(i) to the best of such counsel's knowledge, all information submitted to the Patent and Trademark Office in connection with the prosecution of patent applications on behalf of the Company or any Subsidiary has been accurate, and neither such counsel, nor to the best of such counsel's knowledge, the Company, any Subsidiary or any other person, have made any misrepresentation or concealed any material information from the Patent and Trademark Office in connection with the prosecution of such applications;

(ii) such counsel has no knowledge of any fact which would preclude the Company and the Subsidiaries from having clear title to the respective patents and patent applications of the Company and the Subsidiaries referred in the Technology Portion. To

the best of such counsel's knowledge, neither the Company nor any Subsidiary lacks or will be unable to obtain any rights or licenses to use any patent or know-how necessary to conduct the respective businesses now conducted or proposed to be conducted by the Company and the Subsidiaries as described in the Registration Statement and the Prospectus (any amendment or supplement thereto). To the best of such counsel's knowledge, none of the patents owned by the Company or any Subsidiary is unenforceable or invalid. To the best of such counsel's knowledge, neither the Company nor any Subsidiary has received any notice of infringement or of conflict with rights or claims of others with respect to any patents, trademarks, service marks, trade names, copyrights or know-how that could result in a material adverse effect upon the Company and the Subsidiaries, taken as a whole. Such counsel is not aware of any patents of others which are infringed by specific products or processes referred to in the Registration Statement and the Prospectus (or any amendment or supplement thereto) in such manner as to materially and adversely affect the Company and the Subsidiaries, taken as a whole;

(iii) to the best of such counsel's knowledge, there are no legal, administrative or other governmental proceedings pending relating to patent rights, trade secrets, trademarks, service marks or other proprietary information or materials of the Company or any Subsidiary, and to the best of such counsel's knowledge no such proceedings are threatened or contemplated by governmental authorities or others, other than as described in the Registration Statement and the Prospectus (or any amendment or supplement thereto);

(iv) such counsel does not know of any material contracts or other material documents relating to the Company's proprietary information, other than those filed as exhibits to the Registration Statement;

(v) the statements under the captions "Risk Factors -- Dependence on Proprietary Technology" and "Business -- Intellectual Property" in the Prospectus, insofar as such statements constitute a summary of documents referred to therein or matters of law, are accurate summaries and fairly and correctly present, in all material respects, the information called for with respect to such documents and matters; provided, however, that such counsel may rely on representations of the Company with respect to the factual matters contained in such statements, and provided that such counsel shall state that nothing has come to the attention of such counsel which leads them to believe that such representations are not true and correct in all materials respects; and

(vi) such counsel has no reason to believe and does not believe that the Registration Statement or the Prospectus (or any amendment or supplement thereto) (A) contains any untrue statement of a material fact with respect to patents, trade secrets, trademarks, service marks or other proprietary information owned or used by the Company or any Subsidiary, or (B) omits to state any material fact relating to patents, trade secrets, trademarks, service marks or other proprietary information owned or used by the Company or any Subsidiary which omission would make the statements made misleading.

(f) You shall have received on the Closing Date (and the Additional Closing Date, if any) an opinion of King & Spalding, counsel for the Underwriters, dated the Closing Date (and the Additional Closing Date, if any), with respect to the issuance and sale of the Firm Shares, the Registration Statement and other related matters as you may reasonably request, and the Company and its counsel shall have furnished to your counsel such documents as they may reasonably request for the purpose of enabling them to pass upon such matters.

(g) You shall have received letters addressed to you and dated the date hereof and the Closing Date (and the Additional Closing Date, if any) from Deloitte & Touche LLP, independent certified public accountants, substantially in the forms heretofore approved by you.

(h) (i) No stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been taken or, to the knowledge of the Company, shall be contemplated by the Commission at or prior to the Closing Date; (ii) there shall not have been any change in the capital stock or other securities of the Company nor any material increase in the short-term or long-term debt of the Company (other than in the ordinary course of business) from that set forth or contemplated in the Registration Statement or the Prospectus (or any amendment or supplement thereto); (iii) there shall not have been since the respective dates as of which information is given in the Registration Statement and the Prospectus (or any amendment or supplement thereto), except as may otherwise be stated in the Registration Statement and Prospectus (or any amendment or supplement thereto), any material adverse change (present or potential future) in the condition (financial or other), business properties, net worth or results of operations of the Company and the Subsidiaries shall not have any liabilities or obligations, direct or contingent (whether or not in the ordinary course of business) that are material to the Company and the Subsidiaries, taken as a whole, other than those reflected in the Registration Statement or the Prospectus (or any amendment or supplement thereto); and (iv) all of the representations and warranties of the Company contained in this Agreement shall be true and correct in all material respects on and as of the date hereof and on and as of the Closing Date as if made on and as of the Closing Date, and you shall have received a certificate, dated the Closing Date and signed by the chief executive officer and the chief financial officer of the Company (or such other officers as are acceptable to you) to the effect set forth in this Section 9(g) and in Section 9(h) hereof.

(i) The Company shall not have failed in any material respect at or prior to the Closing Date to have performed or complied with any of its agreements herein contained and required to be performed or complied with by it hereunder at or prior to the Closing Date.

(j) You shall be satisfied that, and you shall have received a certificate dated the Closing Date, from the Attorneys for each Selling Shareholder to the effect that, as of the Closing Date, they have not been informed that: (i) the representations and warranties made by such Selling Shareholder herein are not true or correct in any material respect on the Closing Date; or (ii) such Selling Shareholder has not complied with any obligation or satisfied any condition which is required to be performed or satisfied on his or its part at or prior to the Closing Date.

(k) The Company and the Selling Shareholders shall have furnished or caused to have been furnished to you such further certificates and documents as you shall be reasonably requested.

(l) At or prior to the Closing Date, you shall have received the written commitment of each of the Company's directors, executive officers and shareholders set forth on Schedule III hereto, not to offer, sell or otherwise dispose of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for, or any rights to purchase or acquire, Common Stock, during the period from the time of effectiveness of the Registration Statement to the date 180 days following the effective date of the Registration Statement, inclusive, without the prior written consent of Raymond James & Associates, Inc., which commitments shall be in full force and effect as of the Closing Date (and the Additional Closing Date, if any).

(m) The Shares shall be listed on the Nasdaq National Market, subject to notice of issuance.

All such opinions, certificates, letters and other documents will be in compliance with the provisions hereof only if they are reasonably satisfactory in form and substance to you and your counsel.

The several obligations of the Underwriters to purchase Additional Shares hereunder are subject to the satisfaction on and as of the Additional Closing Date of the conditions set forth in this Section 9, except that, if the Additional Closing Date is other than the Closing Date, the certificates, opinions and letters referred to in paragraphs (c) through (j) shall be dated the Additional Closing Date and the opinions and letters referred to in paragraphs (c) through (f) shall be revised to reflect the sale of Additional Shares.

SECTION 10. EFFECTIVE DATE OF AGREEMENT. This Agreement shall become effective upon the later of (a) the execution and delivery hereof by the parties hereto, or (b) release of notification of the effectiveness of the Registration Statement by the Commission.

If any one or more of the Underwriters shall fail or refuse to purchase Firm Shares which it or they have agreed to purchase hereunder, and the aggregate number of Firm Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than one-tenth of the aggregate number of Firm Shares, each non-defaulting Underwriter shall be obligated, severally, in the proportion which the number of Firm Shares set forth opposite its name in Schedule I hereto bears to the aggregate number of Firm Shares set forth opposite the names of all non-defaulting Underwriters or in such other proportion as you may specify in the Agreement Among Underwriters, to purchase the Firm Shares which such defaulting Underwriter or Underwriters agreed, but failed or refused to purchase. If any Underwriter or Underwriters shall fail or refuse to purchase Firm Shares and the aggregate number of Firm Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Firm Shares and arrangements satisfactory to you and the Company for the purchase of such Firm Shares are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Underwriter or the Company or any Selling

Shareholder. In any such case that does not result in termination of this Agreement, either you or the Company shall have the right to postpone the Closing Date, but in no event for longer than seven (7) days, in order that the required changes, if any, in the Registration Statement and the Prospectus or any other documents or arrangements may be effected. Any action taken under this paragraph shall not relieve any defaulting Underwriter from liability in respect of any such default of any such Underwriter under this Agreement.

SECTION 11. TERMINATION OF AGREEMENT. This Agreement shall be subject to termination in your absolute discretion, without liability on the part of any Underwriter to the Company, by notice to the Company, if prior to the Closing Date or the Additional Closing Date (if different from the Closing Date and then only as to the Additional Shares), as the case may be, (i) trading in securities generally on the New York Stock Exchange, American Stock Exchange or The Nasdaq Stock Market shall have been suspended or materially limited, (ii) trading of any securities of the Company, including the Shares, on the New York Stock Exchange, American Stock Exchange or The Nasdaq Stock Market shall have been suspended or materially limited, whether as the result of a stop order by the Commission or otherwise, (iii) a general moratorium on commercial banking activities in New York or Florida shall have been declared by either federal or state authorities, (iv) there shall have occurred any outbreak or escalation of hostilities or other international or domestic calamity, crisis or change in political, financial or economic conditions or other material event the effect of which on the financial markets of the United States is such as to make it, in your judgment, impracticable or inadvisable to market the Shares or to enforce contracts for the sale of the Shares, or (v) the Company or any Subsidiary shall have, in the sole judgment of the Representatives, sustained any loss or interference, material to the Company and the Subsidiaries, taken as a whole, with their respective businesses or properties from fire, flood, hurricane, accident, or other calamity, whether or not covered by insurance, or from any labor disputes or any legal or governmental proceeding, or there shall have been any material adverse change (including, without limitation, a material change in management or control of the Company) in the condition (financial or otherwise), business prospects, net worth, or results of operations of the Company and the Subsidiaries, taken as a whole, except in each case as described in, or contemplated by, the Prospectus (excluding any amendment or supplement thereto). Notice of such cancellation shall be promptly given to the Company and its counsel by telegraph, teletype or telephone and shall be subsequently confirmed by letter.

All representations, warranties, covenants and agreements of the Company and the Selling Shareholders herein or in certificates delivered pursuant hereto, and the indemnity and contribution agreements contained in Section 8 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any controlling person, or by or on behalf of the Company or any Selling Shareholder, or any of their officers, directors or controlling persons, and shall survive the delivery of the Shares to the several Underwriter hereunder or termination of this Agreement.

SECTION 12. INFORMATION FURNISHED BY THE UNDERWRITERS. The statements set forth under the caption "Underwriting" in any Prepricing Prospectus and in the Prospectus, constitute

all the information furnished by or on behalf of the Underwriters through you or on your behalf as such information is referred to in Sections 6(a), 6(b) and 8 hereof.

SECTION 13. NOTICES; SUCCESSORS AND ASSIGNS. Except as otherwise provided herein, notice given pursuant to any of the provisions of this Agreement shall be in writing and shall be delivered (i) if to the Company, at the office of the Company at 125 Technology Park, Lake Mary, Florida 32746, Attention: Simon Raab, Chief Executive Officer (with a copy to Martin A. Traber, Foley & Lardner, 100 North Tampa Street, Suite 2700, Tampa, Florida 33602; or (ii) if to you, as the Underwriters, to (A) Raymond James & Associates, Inc., 880 Carillon Parkway, St. Petersburg, Florida 33716, Attention: Bruce M. Kelleher, Jr.; and (B) Hanifen, Imhoff Inc., 1125 17th Street, Suite 1500, Denver, Colorado 80202, Attention: Douglas S. Robinson (with a copy to King & Spalding, 191 Peachtree Street, Suite 4900, Atlanta, Georgia 30303, Attention: Jeffrey M. Stein; or (iii) if to one or more of the Selling Shareholders, to Simon Raab or Gregory A. Fraser, as Attorney-in-Fact for the Selling Shareholders, at 125 Technology Park, Lake Mary, Florida 32746.

This Agreement has been and is made solely for the benefit of the several Underwriters, the Company, its directors and officers and the other controlling persons referred to in Section 8 hereof, and the Selling Shareholders, and their respective successors and assigns, to the extent provided herein, and no other person shall acquire or have any right under or by virtue of this Agreement. Neither of the terms "successor" and "successors and assigns" as used in this Agreement shall include a purchaser from you of any of the Shares in his status as such purchaser.

SECTION 14. APPLICABLE LAW; COUNTERPARTS. This Agreement shall be governed by and construed in accordance with the laws of the State of Florida without reference to choice of law principles thereunder. This Agreement may be signed in various counterparts which together shall constitute one and the same instrument. This Agreement shall be effective when, but only when, at least one counterpart hereof shall have been executed on behalf of each party hereto.

If the foregoing correctly sets forth our understanding, please indicate your acceptance thereof in the space provided below for that purpose, whereupon this letter and your acceptance shall constitute a binding agreement between us.

Very truly yours,

FARO TECHNOLOGIES, INC.

By:

Simon Raab
President and Chief Executive Officer

SIMON RAAB

GREGORY A. FRASER

SELLING SHAREHOLDERS

By: _____
Attorney-in-Fact for the
Selling Shareholders
named in Schedule II hereto

CONFIRMED as of the date first
above mentioned, on behalf of
itself and the other several
Underwriters named in Schedule I
hereto.

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

By: RAYMOND JAMES & ASSOCIATES, INC.

By: _____
Authorized Representative

SCHEDULE I
UNDERWRITERS

Name -----	Number of Firm Shares -----
Raymond James & Associates Inc.....	
Hanifen, Imhoff Inc.	
Total.....	2,800,000 =====

SCHEDULE II
SELLING SHAREHOLDERS

Name -----	Number of Firm Shares -----	Number of Additional Shares -----
Xenon Research, Inc.....	166,855	
Gregory A. Fraser.....	75,995	
Hubert d'Amours.....	7,800	
Phillip R. Colley.....	9,110	
483663 Ontario Ltd.....	5,285	
Norman H. Schipper Q.C.....	21,804	
Philanderer Tree, Inc.....	57,435	
Philanderer Six Inc.....	9,360	
William Alcamo.....	2,611	
Alexis Nihon Credit Inc.....	5,720	
Thomas Beck.....	5,296	
Alec Bloom.....	1,716	
Charles Rosner Bronfman Family Trust.....	11,440	
Capital CDPQ, Inc.....	18,980	
Stephen Cole.....	317	
Consumers Glass Company Ltd. Pension Fund.....	15,600	
William and Gail Cornwall.....	2,708	
Fiducie de Quebec.....	3,432	
Hawk Hill Investments Limited.....	21,655	
H.T. Beck Investments.....	39,392	
Island City Investments Ltd.....	2,600	
Josyd Inc.....	1,560	
Les Fiduciares de la Cite et de District de Montreal.....	3,432	
Levesque Beaubien Geoffrion Inc.....	1,560	
L'Industrielle-Alliance, Compagnie d'Assurance sur la Vie.....	6,292	
O. Jack Mandel.....	12,561	
Remi Marcoux.....	2,080	
Marleau Lemire Inc.....	1,560	
Mar-Pick Enterprises, Inc.....	1,442	
Nicanco Holdings Inc.....	1,560	
Nodel Investments Limited.....	1,560	
Power Corporation of Canada.....	5,720	
Rash Holdings Reg'd.....	2,080	
Redpoll Holdings Ltd.....	2,288	
Richard Renaud.....	17,230	
Michael Rosenbloom.....	1,716	
Ali S. Sajedi.....	24,166	
1236344 Ontario Limited.....	21,268	
Starjay Holdings Inc.....	1,716	
T.N.G. Corporation Inc.....	3,016	
Stephen Vineberg.....	2,080	
TOTAL.....	599,998	
	=====	=====

SCHEDULE III
LOCK-UP AGREEMENTS

Name

- ----

Simon Raab
Gregory A. Fraser
Hubert d'Amours
Phillip R. Colley
Alexandre Raab
Martin M. Koshar
Norman H. Schipper
Andre Julien
William Alcamo
Alexis Nihon Credit Inc.
Thomas Beck
Alec Bloom
Charles Rosner Bronfman Family Trust
Capital CDPQ, Inc.
Stephen Cole
Consumers Glass Company Ltd. Pension Fund
William and Gail Cornwall
Fiducie de Quebec
Nicholas Hoare
Island City Investments Ltd.
Josyd Inc.
John Leopold
Les Fiduciares de la Cite et de District de Montreal
Levesque Beaubien Geoffrion Inc
L'Industrielle-Alliance, Compagnie d'Assurance sur la Vie
O. Jack Mandel
Remi Marcoux
Marleau Lemire Inc.
Mar-Pick Enterprises, Inc.
Nicanco Holdings Inc.
Nodel Investments Limited
Power Corporation of Canada
Rash Holdings Reg'd
Redpoll Holdings Ltd.
Richard Renaud
Michael Rosenbloom
Ali S. Sajedi
Martin Scheim
Lionel Schipper
James Scott
Starjay Holdings Inc.
T.N.G. Corporation Inc.
Stephen Vineberg

INDEPENDENT AUDITORS' CONSENT

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

We consent to the use in this Amendment No. 3 to the Registration Statement (Registration No. 333-32983) relating to 3,220,000 shares of Common Stock of FARO Technologies, Inc. on Form S-1 of our report dated February 24, 1997 (September 10, 1997 as to Note 11), 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
September 15, 1997