SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1999

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

For the transition period from ____________ to ______________

Commission File Number: 0-23081

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

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

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

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

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

Class: Voting Common Stock, $.001 Par Value Outstanding at August 13, 1999: 11,350,499

FARO Technologies Inc.
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31, 1998	JUNE 30, 1999 (UNAUDITED)
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,183,656	$ 27,538
Short term investments	17,011,831	16,383,344
Accounts receivable - net of allowance	8,963,343	9,059,413
Income taxes refundable	716,048	900,411
Inventories	6,443,618	7,981,741
Prepaid expenses and other assets	155,037	461,631
Deferred income taxes	121,543	26,543
Total current assets	34,595,076	34,840,621
PROPERTY AND EQUIPMENT - at cost:		
Machinery and equipment	1,873,146	2,311,704
Furniture and fixtures	899,616	904,390
Leasehold improvements	28,889	30,020
Total	2,801,651	3,246,114
Less accumulated depreciation	(1,276,459)	(1,702,574)
Property and equipment, net	1,525,192	1,543,540
INTANGIBLE ASSETS - net	12,821,191	11,894,631
NOTES RECEIVABLE	178,688	179,431
DEFERRED INCOME TAXES	--	54,219
TOTAL ASSETS	$ 49,120,147	$ 48,512,442

LIABILITIES AND SHAREHOLDERS' EQUITY

	DECEMBER 31, 1998	JUNE 30, 1999 (UNAUDITED)
CURRENT LIABILITIES:		
Short term notes payable to banks	$ 296,230	
Accounts payable and accrued liabilities	2,852,452	$ 3,999,893
Current portion of unearned service revenues	329,731	479,869
Current portion of long-term debt	4,156	6,869
Customer deposits	114,738	116,538
Total current liabilities	3,597,307	4,603,169
DEFERRED INCOME TAXES	78,220	--
UNEARNED SERVICE REVENUES - less current portion	31,905	30,935
LONG-TERM DEBT - less current portion	37,324	--
TOTAL LIABILITIES	3,744,756	4,634,104
SHAREHOLDERS' EQUITY:		
Class A preferred stock - par value $.001, 10,000,000 shares authorized, no shares issued and outstanding		
Common stock - par value $.001, 50,000,000 shares authorized, 11,048,137 and 9,919,000 issued and outstanding, respectively	11,048	11,057
Additional paid-in-capital	47,520,732	47,553,599
Unearned compensation	(292,316)	(207,860)
Retained earnings (deficit)	(1,912,829)	(3,218,175)
Accumulated other comprehensive income:		
Cumulative translation adjustments, net of tax	199,381	(109,658)
Treasury stock	(150,625)	(150,625)
Total shareholders' equity	45,375,391	43,878,338
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 49,120,147	$ 48,512,442

See accompanying notes to condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1999	1998	1999
Sales	$ 7,721,808	$ 8,611,436	$ 14,404,009	$ 15,515,932
Cost of sales	2,779,843	3,447,453	5,461,605	6,186,182
Gross profit	4,941,965	5,163,983	8,942,404	9,329,750
Operating expenses:				
Selling	2,211,523	2,750,972	3,795,059	5,295,086
General and administrative	517,136	1,199,013	1,115,718	2,506,347
Depreciation and amortization	569,961	863,627	680,323	1,728,096
Research and development	435,534	913,301	821,978	1,687,567
Employee stock options	43,041	42,228	86,082	84,474
Purchased in-process research and development costs	3,210,000	--	3,210,000	--
Total operating expenses	6,987,195	5,769,141	9,709,160	11,301,570
Loss from operations	(2,045,230)	(605,158)	(766,756)	(1,971,820)
Interest income	302,852	262,254	622,779	356,723
Other (expense) income	5,408	70,474	2,754	150,401
Interest expense	(7,865)	--	(7,865)	--
Loss before income taxes	(1,744,835)	(272,430)	(149,088)	(1,464,696)
Income tax (expense) benefit	35,119	107,875	(537,237)	159,350
Net loss	$ (1,709,716)	$ (164,555)	$ (686,325)	$ (1,305,346)
NET LOSS PER SHARE - BASIC	$ (0.16)	$ (0.01)	$ (0.07)	$ (0.12)
NET LOSS PER SHARE - DILUTED	$ (0.16)	$ (0.01)	$ (0.07)	$ (0.12)

See accompanying notes to condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)

	COMMON STOCK SHARES	COMMON STOCK AMOUNTS	ADDITONAL PAID-IN CAPITAL	UNEARNED COMPENSATION	RETAINED EARNINGS (DEFICIT)
BALANCE DECEMBER 31, 1996	7,000,000	$ 7,000	$ 3,961,564	$ (6,500)	$ (188,365)
Net income					3,206,630
Currency translation adjustment, net of tax					
Comprehensive income					
Granting of employee and director stock options			866,793	(501,834)	
Amortization of unearned compensation				43,854	
Issuance of common stock	2,919,000	2,919	31,673,647		
BALANCE DECEMBER 31, 1997	9,919,000	9,919	36,502,004	(464,480)	3,018,265
Net loss					(4,931,094)
Currency translation adjustment, net of tax					
Comprehensive loss					
Issuance of common stock	1,129,137	1,129	10,323,564		
Income tax benefit resulting from the exercise of stock options			695,164		
Amortization of unearned compensation				172,164	
Acquisition of treasury stock					
BALANCE, DECEMBER 31, 1998	11,048,137	11,048	47,520,732	(292,316)	(1,912,829)
Net loss					(1,305,346)
Currency translation adjustment, net of tax					
Comprehensive loss					
Issuance of common stock	9,029	9	32,867		
Amortization of unearned compensation			84,456		
BALANCE, JUNE 30, 1999	11,057,166	$ 11,057	$ 47,553,599	$ (207,860)	$ (3,218,175)

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

Issuance of common stock			31,676,566
BALANCE DECEMBER 31, 1997	(126,297)	0	38,939,411
Net loss			(4,931,094)
Currency translation adjustment, net of tax	325,678		325,678
Comprehensive loss			(4,605,418)
Issuance of common stock			10,324,693
Income tax benefit resulting from the exercise of stock options			695,164
Amortization of unearned compensation			172,164
Acquisition of treasury stock		(150,625)	(150,625)
BALANCE, DECEMBER 31, 1998	199,381	(150,625)	45,375,391
Net loss			(1,305,346)
Currency translation adjustment, net of tax	(309,039)		(309,039)
Comprehensive loss			$ (1,614,385)
Issuance of common stock			32,876
Amortization of unearned compensation			84,456
BALANCE, JUNE 30, 1999	$ (109,658)	$ (150,625)	$ 43,878,338

See accompanying notes to condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	SIX MONTHS ENDED JUNE 30, 1998	SIX MONTHS ENDED JUNE 30, 1999
OPERATING ACTIVITIES:		
Net loss	$ (686,325)	$ (1,305,346)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and other	814,157	1,728,096
In-process research and development	3,210,000	--
Deferred income taxes	259,488	(37,439)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(2,614,372)	(96,070)
Income taxes refundable	--	(184,363)
Inventories	(944,217)	(1,538,123)
Notes receivable	--	(743)
Prepaid expenses and other assets	(55,507)	(306,594)
Increase (decrease) in:		
Accounts payable and accrued liabilities	202,206	1,147,443
Income taxes payable	(413,167)	--
Unearned service revenues	(111,960)	149,168
Customer deposits	64,398	1,800
Net cash used in operating activities	(275,299)	(442,171)
INVESTING ACTIVITIES:		
Sale of short-term investments	--	628,487
Purchases of property and equipment	(664,596)	(444,463)
Payments of patent costs	(87,863)	(87,211)
Payments of product design costs	(311,896)	(252,527)
Payments for other intangibles	--	(35,685)
Acsuisition of business, net of cash acquired	(5,306,057)	--
Net cash used in investing activities	(6,370,412)	(191,399)
FINANCING ACTIVITIES:		
Payments on debt	--	(330,841)
Proceeds from issuance of common stock, net	156,885	117,332
Net cash provided by (used in) financing activities	156,885	(213,509)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	70,620	(309,039)
DECREASE IN CASH AND CASH EQUIVALENTS	(6,418,206)	(1,156,118)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	28,815,069	1,183,656
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 22,396,863	$ 27,538
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 7,865	$ --
Cash paid for income taxes	$ 74,216	$ --
Noncash financing activities:		
Acquisition of business:		
Fair value of assets acquired	$ 17,667,382	
Common stock issued	10,395,000	
Liabilities assumed	(1,614,000)	

See accompanying notes to condensed consolidated financial statements.

NOTE A - DESCRIPTION OF ORGANIZATION AND BUSINESS

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

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

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

NOTE B - BASIS OF PRESENTATION

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

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

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

NOTE C - ACQUISITION OF CATS

The operating results of CATS have been included in the consolidated statements since May 15, 1998, the date of the acquisition. The following unaudited pro forma results of operations are presented for informational purposes assuming that the Company had acquired CATS as of January 1, 1998. The $3.2 million charge off for in process research and development has been excluded from the pro forma results as it represents a material non-recurring charge.

	THREE MONTHS ENDED JUNE 30, 1998	SIX MONTHS ENDED JUNE 30, 1998
Revenues	$ 8,004,000	$ 15,200,000
Net income	512,000	943,000
Income per share:		
Basic	$ .05	$ .09
Diluted	$ .05	$ .08

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

NOTE D - Earnings Per Share

A reconciliation of the number of common shares used in the calculation of basic and diluted earnings per share ("EPS") is presented below:

THREE MONTHS ENDED JUNE 30,	1998		1999	
	SHARES	PER-SHARE AMOUNT	SHARES	PER-SHARE AMOUNT
Basic EPS				
Weighted-Average Shares	10,531,132	$(.16)	11,012,619	$ (.01)
Effect of Dilutive Securities				
Stock Options				
Diluted EPS				
Weighted-Average Shares and Assumed Conversions	10,531,132	$(.16)	11,012,619	$ (.01)

SIX MONTHS ENDED JUNE 30,	1998		1999	
	SHARES	PER-SHARE AMOUNT	SHARES	PER-SHARE AMOUNT
Basic EPS				
Weighted-Average Shares	10,239,613	$(.07)	11,011,943	$ (.12)
Effect of Dilutive Securities				
Stock Options				
Diluted EPS				
Weighted-Average Shares and Assumed Conversions	10,239,613	$(.07)	11,011,943	$ (.12)

NOTE E - SEGMENT GEOGRAPHIC DATA

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
SALES:	1998	1999	1998	1999
United States	$ 4,368,794	$ 4,532,282	$ 8,168,447	$ 8,151,822
United Kingdom		760,721	1,104,524	1,341,374
Germany	1,655,121	1,927,535	1,992,600	3,250,581
Canada	520,996		949,032	
Other foreign	1,176,897	1,390,898	2,189,406	2,772,155
Total	$ 7,721,808	$ 8,611,436	$14,404,009	$15,515,932

LONG-LIVED ASSETS (NET)	DECEMBER 31, 1998	JUNE 30, 1999
United States	$ 2,707,920	$ 2,995,750
Germany	11,592,360	10,401,817
Other foreign	46,103	40,604
Total	$14,346,383	$13,438,171

PART I. FINANCIAL INFORMATION

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

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

RESULTS OF OPERATIONS

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

SALES. Sales increased $890,000, or 11.6% from $7.7 million for the three months ended June 30, 1998 to $8.6 million for three months ended June 30, 1999. The increase was due to increases in product sales in the United States ($163,000) in the three European countries where the Company has sales offices ($716,000), and in the rest of the world of $11,000.

GROSS PROFIT. Gross profit increased $220,000, or 4.5% from $4.9 million for the three months ended June 30, 1998 to $5.2 million for the three months ended June 30, 1999. Gross margin decreased to 60.0% for the three months ended June 30, 1999 from 64.0% for the three months ended June 30, 1998. The decrease in gross margin was primarily a result of a decrease in the average selling price of the Company's FaroArm products following the three months ended June 30, 1998.

SELLING EXPENSES. Selling expenses increased $500,000, or 22.7%, from $2.2 million for the three months ended June 30, 1998 to $2.7 million for the three months ended June 30, 1999. This increase was a result of the Company's expansion of sales and marketing staff and activities in the United States and Europe, including those resulting from the Company's acquisition of CATS in May 1998.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased $682,000, or 131.9%, from $517,000 for the three months ended June 30, 1998 to $1.2 million for the three months ended June 30, 1999. The increase was due to widespread increases across many categories related to the company's expansion in the United States and Europe. The Company's United States operations accounted for $475,000 of the increase, including increases in salaries ($134,000), bonuses ($89,000), and hiring and training costs ($47,000).

DEPRECIATION AND AMORTIZATION EXPENSES. Depreciation and amortization expenses increased $294,000, or 51.6%, from $570,000 for the three months ended June 30, 1998 of 1998 to $864,000 for the first three months of 1999. This increase was primarily due to the amortization expenses related to the intangible assets associated with the Company's acquisition of CATS.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased $478,000, or 109.7%, from $436,000 for the three months ended June 30, 1998 to $913,000 for the three months ended June 30, 1999. The increase was primarily due to increases in salaries ($277,000) in the United States, and in all expenses in Europe ($263,000) resulting from the Company's acquisition of CATS.

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

INTEREST INCOME. Interest income decreased $41,000, or 13.4%, from $303,000 for the three months ended June 30, 1998, to $262,000 for the three months ended June 30, 1999. The decrease was primarily attributable to a decrease in the amount of interest-earning cash, cash equivalents, and short-term investments.

INCOME TAX BENEFIT. Income tax benefit increased $73,000, or 208.5% from $35,000 for the three months ended June 30, 1998, to $108,000 for the first three months of 1999. The tax benefit in the three months ended June 30, 1999 resulted from tax benefits in the United States ($125,000) and France ($31,000), offset by a tax expense of $48,000 in the UK.

NET LOSS. Net loss decreased $1.5 million from $1.7 million for the three months ended June 30, 1998 to $165,000 for the three months ended June 30, 1999 due to the factors stated above.

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

SALES. Sales increased $1.1 million, or 7.6% from $14.4 million for the six months ended June 30, 1998 to $15.5 million for six months ended June 30, 1999. The increase was primarily a result of an increase in product sales in Germany, primarily as a result of the Company's acquisition of CATS in May 1998.

GROSS PROFIT. Gross profit increased $387,000, or 4.3% from $8.9 million for the six months ended June 30, 1998 to $9.3 million for the six months ended June 30, 1999. Gross margin decreased to 60.1% for the six months ended June 30, 1999 from 62.1% for the six months ended June 30, 1998. The decrease in gross margin was primarily a result of a decrease in the average selling price of the Company's FaroArm products in the second half of 1998.

SELLING EXPENSES. Selling expenses increased $1.5 million, or 39.5%, from $3.8 million for the six months ended June 30, 1998 to $5.3 million for the six months ended June 30, 1999. This increase was a result of the Company's expansion of sales and marketing staff and activities, including those resulting from the Company's acquisition of CATS in May 1998.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased $1.4 million, or 127.2%, from $1.1 million for the six months ended June 30, 1998 to $2.5 million for the six months ended June 30, 1999. The increase from the Company's United States operations was $778,000, including increases in salaries ($122,000), subcontractor expenses ($124,000), bonuses ($109,000), and professional and legal expenses ($126,000). The increase in the Company's European operations was $558,000 primarily from the addition of CATS in May 1998.

DEPRECIATION AND AMORTIZATION EXPENSES. Depreciation and amortization expenses increased $1.0 million, or 147.1%, from $680,000 for the six months ended June 30, 1998 of 1998 to $1.7 million for the six months ended June 30, 1999. This increase was primarily due to the amortization expenses related to the intangible assets associated with the Company's acquisition of CATS.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased $866,000, or 105.3%, from $822,000 for the six months ended June 30, 1998 to $1.7 million for the six months ended June 30, 1999. The increase was primarily due to increases in salaries in the United States of $471,000, offset by a reduction in other expenses in the United States of $164,000, and an increase in all expenses in Europe of $559,000, resulting from the Company's acquisition of CATS.

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

INTEREST INCOME. Interest income decreased $266,000, or 42.7%, from $623,000 for the six months ended June 30, 1998, to $357,000 for the six months ended June 30, 1999. The decrease was primarily attributable to a decrease in the amount of interest-earning cash, cash equivalents, and short-term investments.

INCOME TAX EXPENSE (BENEFIT). Income tax expense (benefit) decreased $697,000, or 129.7% from an expense of $537,000 for the six months ended June 30, 1998, to a benefit of $159,000 for the six months ended June 30, 1999. Income tax expense decreased as a result of an increase in net loss before income taxes.

NET LOSS. Net loss increased $619,000 from $686,000 for the six months ended June 30, 1998 to $1.3 million for the six months ended June 30, 1999 due to the factors stated above.

LIQUIDITY AND CAPITAL RESOURCES

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

For the six months ended June 30, 1999, net cash used in operating activities was $442,000 compared to $275,000 for the six months ended June 30, 1998. This increase was due to increases in inventories, prepaid expenses, and accounts payable. Net cash used in investing activities was $191,000 for the six months ended June 30, 1999, compared to net cash used by investing activities of $6.4 million for the six months ended June 30, 1998. This decrease was due to the acquisition of CATS during the six months ended June 30, 1998 decreases in payments of product design costs. Net cash used in financing activities for the six months ended June 30, 1999 was $213,000 compared to net cash provided by financing activities of $157,000 for the six months ended June 30, 1998. This change was due to payments on debt during the six months ended June 30, 1999.

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

In May 1999, the Company cancelled two revolving lines of credit aggregating $445,000 under which a subsidiary could borrow funds for operations. This cancellation resulted in the elimination of related fees, and the Company believes that it has sufficient liquidity at the corporate level to fund the subsidiary's operating needs.

The Company's principal commitments at June 30, 1999 were leases on its headquarters and regional offices, and there were no material commitments for capital expenditures at that date. The Company believes that its cash, investments, cash flows from operations and funds available from its credit facilities will be sufficient to satisfy its working capital and capital expenditure needs at least through 1999.

FOREIGN EXCHANGE EXPOSURE

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

YEAR 2000

The Company has invested significant resources in the latest information technologies over the past five years and therefore has minimized the effect of Year 2000 issues. Management initiated a program to evaluate all internal computer systems and applications, and products with computer systems and determined the adjustments necessary to become Year 2000 compliant. Management is confident that existing internal resources are sufficient to correct any internal systems deficiencies that have or may be determined. The Company has set a target date of September 30, 1999 for complete compliance of internal computer systems, applications, and products. The Company has received positive responses from its major customers and approximately 50 per cent of its suppliers regarding their Year 2000 readiness. The Company continues to make inquiries of major suppliers which have not yet provided assurances of their Year 2000 compliance. For these suppliers the Company has either identified alternative suppliers, or has plans to increase its stock of the goods supplied by such suppliers to cover the first few months of the year 2000. However, there can be no assurance that the systems of other companies on which the Company relies will be timely corrected, or that any failure by another company to correct such systems would not have a material adverse effect on the Company. Contingency plans are currently being developed to be implemented in the event any information technology system, non-information technology system, third party or supplier is not Year 2000 compliant in a timely manner.

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

EFFECTS OF INFLATION

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is incorporated by reference herein from the section of this report in Part I, Item 2, under the caption "Foreign Exchange Exposure."

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On April 2, 1998 the Company filed an action for declaratory judgement action against Kosaka Laboratory Ltd. of Tokyo, Japan (Civil Action No. 98-381-CIV-ORL-19A in the Federal Court for the Middle District of Florida). The Company seeked to have the Court declare its rights with regard to Kosaka's U.S. Patent number 4,430,796 regarding a method of measuring an object using, for example, a coordinate measuring machine (CMM), when an object is larger than the coordinate system physically measurable by the CMM. Preceding the filing of the declaratory judgement action, the Company and Kosaka had sought to resolve this matter in an amicable manner. However, Kosaka has persisted in its erroneous claims that its patent was infringed by the Company, and threatened to file suit if the Company did not pay a relatively large licensing fee. In order to make it clear to the market that the Company did not infringe the patent, the Company filed the above mentioned action.

On June 30, 1999 the Company settled its dispute with Kosaka. As a result of the settlement, Kosaka agreed that the Company did not infringe the asserted claims of the patent, and each company agreed to pay its own legal fees in the matter.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a.) Exhibits

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

b.) Reports on Form 8-K

None

SIGNATURES

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

Date: August 13, 1999

FARO TECHNOLOGIES, INC.
(Registrant)

By: /s/ GREGORY A. FRASER

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

EXHIBIT INDEX

EXHIBIT	DESCRIPTION
27.7	Financial Data Schedule (For SEC Use Only)

5

6-MOS
DEC-31-1999
JAN-01-1999
JUN-30-1999
27,538
16,383,344
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(159,350)
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0
(1,305,346)
(0.12)
(0.12)