SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 31, 1997 or

[] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from _____ to _____

Commission File Number 0-23081

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

Florida	59-3157093
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
125 Technology Park, Lake Mary, FL	32746
(Address of Principal Executive Offices)	(Zip Code)

(Registrant's Telephone Number, Including Area Code): (407) 333-9911

Securities to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
None	None

Securities to be registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.001

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definite proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of March 13, 1998, there were outstanding 9,959,241 shares of Common Stock. The aggregate market value of the voting stock held by nonaffiliates of the Registrant based on the last sale price reported on the Nasdaq National Market as of March 13, 1998 was $119,546,499.38.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Form 10-K Reference
Portions of the FARO Technologies, Inc. 1997 Annual Report to Shareholders	Part I, Item 2 Part II, Items 5-8
Portions of the Proxy Statement, dated March 25, 1998	Part III, Items 10-13

PART I

CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION

FARO Technologies, Inc. (the "Company") has made forward-looking statements in this document that are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future risks preceded by, following or that include the words "believes," "expects," "anticipates," or similar expressions. For those statements, the Company cautions that the numerous important factors discussed elsewhere in this document could affect the Company's actual results and could cause its actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

ITEM 1. BUSINESS.

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. Computer-aided design ("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 computer-aided manufacturing ("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.

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.

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.

FARO'S BUSINESS

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, 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 17 patents in the United States, 12 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.

FARO PRODUCTS

THE 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.

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.

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 15% of the Company's total revenues in 1997. No customer represented 10.0% or more of the Company's sales in 1997. The following table illustrates, by vertical market, the Company's diverse customer base:

AEROSPACE	APPAREL AND FOOTWEAR	AUTOMOTIVE	
Boeing	Nike	AO Smith	Johnson Controls
GE Aircraft Engines	Reebok	Chrysler	Lear Corporation
Lockheed Martin		Ford	Mercedes Benz
Nordam Repair Division		General Motors	Porsche
Northrop Grumman		Honda	Samsung Motors
Orbital Sciences		Hyundai	Toyota
Dee Howard			Vehma International

BUSINESS AND CONSUMER MACHINES	ELECTRIC UTILITIES AND MANUFACTURERS	FARM/LAWN EQUIPMENT
Corning Asahi	General Electric	New Holland North America
Xerox	Southern California Edison	Toro
	Tennessee Valley Authority	
	Westinghouse Electric	

HEAVY EQUIPMENT MANUFACTURERS	PERSONAL ROAD/ WATER/SNOW CRAFT	PLASTICS
Caterpillar	Harley Davidson	Able Design Plastics
Komatsu Dresser	Polaris Industries	Paramount Plastics
Champion Road Machinery		Thermoform Plastics
Texas Steel		

SALES AND MARKETING

The Company directs its sales and marketing efforts from its headquarters in Lake Mary, Florida. At December 31, 1997, the Company employed 34 sales professionals who operate from the Company's headquarters, five domestic regional sales offices located in Chicago, Dallas, Detroit, Los Angeles and Seattle, and three international sales offices located in Coventry, United Kingdom, St. Jean de Braye, France, and Ulm, Germany. 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 December 31, 1997, the Company employed 14 scientists and technicians in its research and development efforts. Research and development expenses were $1,076,000 in 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.

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

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

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

The Company does not believe that any of its products infringe on the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by the Company with respect to current or future products. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all, which could have a material adverse effect upon the Company's business, operating results and financial condition.

MANUFACTURING AND ASSEMBLY

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

COMPETITION

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

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

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

BACKLOG

At December 31, 1997, the Company had orders representing $1.7 million in sales. All outstanding orders at December 31, 1997, were shipped by February 28, 1998. 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 December 31, 1997, the Company had 111 full time employees, consisting of 34 sales/application engineering staff, 32 production staff, 14 research and development staff, 18 administrative staff, and 13 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.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Principal Position
Executive Officers:		
Simon Raab.....	44	Chairman of the Board, Chief Executive Officer, and President
Gregory A. Fraser.....	42	Chief Financial Officer, Executive Vice President, Secretary, and Treasurer
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.

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.

ITEM 2. PROPERTIES.

The Company's headquarters and principal operations are located in a leased building in Lake Mary, Florida containing approximately 35,000 square feet. The Company believes that its current facilities will be adequate for its foreseeable needs and that it will be able to locate suitable space for additional regional offices as those needs develop.

In addition, the Company has five sales offices in the United States and three sales offices in Europe. All of the offices comprising the sales offices are leased by the Company. The information required by the remainder of this Item is incorporated by reference from the inside back cover page of the Company's 1997 Annual Report to Stockholders.

ITEM 3. LEGAL PROCEEDINGS.

From time to time the Company may be involved in litigation incidental to its business. Currently, 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the last quarter of calendar 1997.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The market information required by this Item is incorporated by reference from the inside back cover page of the Company's 1997 Annual Report to Stockholders. As of March 24, 1998, there were 9,959,241 shares of the Company's Common Stock, par value $.001, outstanding, held by 70 shareholders of record.

The prospectus comprising part of the Company's Registration Statement on Form S-1, File No. 333-32983, was declared effective by the Securities and Exchange Commission on September 17, 1997. The managing underwriters were Raymond James & Associates, Inc. and Hanifen, Imhoff, Inc. Common Stock was the only class of securities registered. The offering closed on September 17, 1997 upon the sale by the Company of an aggregate of 2,919,000 shares of Common Stock, including 159,000 shares sold pursuant to the over-allotment option granted to the underwriters ("over-allotment"), and upon the sale of an aggregate of 945,000 shares of Common Stock by selling shareholders, including 345,000 shares sold pursuant to the over-allotment.

The offering price of all shares sold pursuant to the Prospectus was $12.00 per share. Total offering proceeds derived from the sale of Common Stock by the Company and selling shareholders aggregated $35,028,000 and $11,340,000, respectively, including $1,908,000 and $4,140,000 attributable to the over-allotment. Expenses incurred by the Company in connection with the offering to December 31, 1997 include estimated offering expenses of $899,000, and underwriters' discount of $2,452,000, including $134,000 attributable to the over-allotment. The selling shareholders incurred underwriters' discounts aggregating $793,000, including $289,000 attributable to the over-allotment. No payments were made to directors, officers, or their associates, or to persons holding 10% or more of the Company's Common Stock, or to any other affiliate of the Company in connection with the offering.

Net offering proceeds received by the Company, after deducting its expenses and underwriters' discounts, aggregate $31,677,000, including $1,774,000 attributable to the over-allotment. The Company did not receive proceeds from the shares sold by the selling shareholders.

As of December 31, 1997, none of the proceeds of the offering were used for construction of plant, building and facilities; purchase and installation of machinery and equipment; purchase of real estate; or acquisition of other businesses. Approximately $600,000 was used to repay indebtedness, $2.7 million was used as working capital, and $28 million was invested in money market investments, obligations of the United States government and its agencies and obligations of state and local government agencies all with maturities of less than three months. No payments were made to directors, officers, or their associates, to persons holding 10% or more of the Company's Common Stock, or to any other affiliate of the Company.

ITEM 6. SELECTED FINANCIAL DATA.

The information required by this Item is incorporated by reference from page 9 of the Company's 1997 Annual Report to Stockholders.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required by this Item is incorporated by reference from pages 10 through 14 of the Company's 1997 Annual Report to Stockholders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information required by this Item is incorporated by reference from pages 15 through 24 of the Company's 1997 Annual Report to Stockholders.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

Certain information required by Part III is omitted from this Report in that the Registrant will file a definitive proxy statement pursuant to Regulation 14A (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Report and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement that specifically address the Items set forth herein are incorporated by reference. Such incorporation does not include the Compensation Committee Report or the Performance Graph included in the Proxy Statement.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information concerning the Company's directors required by this Item is incorporated by reference from the Company's Proxy Statement.

The information concerning the company's executive officers required by this Item is incorporated by reference herein from the section of this Report in Part I, Item 1, entitled "Executive Officers of the Registrant."

The information regarding compliance with Section 16 of the Securities Exchange Act of 1934, as amended, is set forth in the Proxy Statement and is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated by reference from the Company's Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this Item is incorporated by reference from the Company's Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this Item is incorporated by reference from the Company's Proxy Statement.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(A) DOCUMENTS FILED AS PART OF THIS REPORT. The following documents are filed as part of this Report:

(1) FINANCIAL STATEMENTS. The following Consolidated Financial Statements of FARO Technologies, Inc. and Report of Deloitte & Touche LLP, Independent Certified Public Accountants, are incorporated by reference from pages 15 through 24 of the Registrant's 1997 Annual Report to Stockholders:

Consolidated Balance Sheets as of December 31, 1996 and 1997

Consolidated Statements of Income for the Years Ended December 31, 1995, 1996 and 1997

Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 1995, 1996 and 1997

Consolidated Statements of Cash Flows for the years Ended December 31, 1995, 1996 and 1997

Notes to Consolidated Financial Statements

Independent Auditors' Report

(2) FINANCIAL STATEMENT SCHEDULES. Schedules not listed herein have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

(3) EXHIBITS.

Exhibit No.	Description
3.1	Articles of Incorporation, as amended (Filed as Exhibit 3.1 to Registrant's Registration Statement on Form S-1, No. 333-32983, and incorporated herein by reference)
3.2	Bylaws, as amended (Filed as Exhibit 3.2 to Registrant's Registration Statement on Form S-1, No. 333-32983, and incorporated herein by reference)
4.1	Specimen Stock Certificate (Filed as Exhibit 4.1 to Registrant's Registration Statement on Form S-1, No. 333-32983, and incorporated herein by reference)
10.1	1997 Stock Option Plan, as amended (Filed as Exhibit 10.1 to Registrant's Registration Statement on Form S-1, No. 333-32983, and incorporated herein by reference)
10.2	1997 Employee Stock Option Plan (Filed as Exhibit 10.2 to Registrant's Registration Statement on Form S-1, No. 333-32983, and incorporated herein by reference)
10.3	1997 Non-Employee Director Stock Option Plan (Filed as Exhibit 10.3 to Registrant's Registration Statement on Form S-1, No. 333-32983, and incorporated herein by reference)
10.4	1997 Non-Employee Directors' Fee Plan (Filed as Exhibit 10.4 to Registrant's Registration Statement on Form S-1, No. 333-32983, and incorporated herein by reference)
10.5	Term WCMA Loan and Security Agreement, dated September 24, 1996, between the Registrant and Merrill Lynch Business Financial Services, Inc. (Filed as Exhibit 10.5 to Registrant's Registration Statement on Form S-1, No. 333-32983, and incorporated herein by reference)
10.6	WCMA Note, Loan and Security Agreement, dated April 23, 1997, between the Registrant and Merrill Lynch Business Financial Services, Inc. (Filed as Exhibit 10.6 to Registrant's Registration Statement on Form S-1, No. 333-32983, and incorporated herein by reference)
10.7	Business Lease, dated March 1, 1991, between the Registrant (as successor-by-merger) to FARO Medical Technologies (U.S.), Inc.) and Xenon Research, Inc. (Filed as Exhibit 10.7 to Registrant's Registration Statement on Form S-1, No. 333-32983, and incorporated herein by reference)
10.8	OEM Purchase Agreement, dated June 7, 1996 between the Company and Mitutoyo Corporation (Filed as Exhibit 10.8 to Registrant's Registration Statement on Form S-1, No. 333-32983, and incorporated herein by reference)
10.9	Nonexclusive Unique Application Reseller Agreement, dated September 9, 1996, between the Registrant and Autodesk, Inc. (Filed as Exhibit 10.9 to Registrant's Registration Statement on Form S-1, No. 333-32983, and incorporated herein by reference)
10.10	Form of Patent and Confidentiality Agreement between the Registrant and each of its employees (Filed as Exhibit 10.10 to Registrant's Registration Statement on Form S-1, No. 333-32983, and incorporated herein by reference)
10.11	Nonexclusive Unique Application Reseller Agreement, dated as of March 1, 1998, between the Registrant and Autodesk, Inc. (Filed herewith)
10.12	First Amendment to Business Lease, dated as of January 20, 1998, between the Registrant and Xenon Research, Inc., successor by merger to FARO Medical Technologies (US), Inc. (Filed herewith)

11.1	Statement re Computation of Per Share Earnings (Incorporated by reference from page 1 to the Registrant's 1997 Annual Report to Stockholders filed herewith as Exhibit 13.1)
13.1	Annual Report to Stockholders for the year ended December 31, 1997 (To be deemed filed herewith only to the extent required by the instructions to exhibits for reports on Form 10-K)
21.1	List of Subsidiaries (Filed herewith)
23.1	Consent of Deloitte & Touche LLP (Filed herewith)
24.1	Power of Attorney (Included on Page 14 of this Report)
27.1	Financial Data Schedule for year ended December 31, 1997 (Filed herewith for SEC filing purposes only)
27.2	Restated Financial Data Schedule for nine months ended December 31, 1997 (Filed herewith for SEC filing purposes only)
27.3	Restated Financial Data Schedule for six months ended December 31, 1997 (Filed herewith for SEC filing purposes only)
27.4	Restated Financial Data Schedule for year ended December 31, 1996 (Filed herewith for SEC filing purposes only)

(B) REPORTS ON FORM 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized

FARO TECHNOLOGIES, INC.

Date: March 26, 1998 By: /s/ Gregory A. Fraser

GREGORY A. FRASER, Ph.D.
Executive Vice President, Secretary, Treasurer, and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each person whose signature appears below constitutes and appoints SIMON RAAB and GREGORY A. FRASER, and each of them individually, his true and lawful attorney-in-fact and agent, with full power of substitution and revocation, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Report and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ Simon Raab Simon Raab	Chairman of the Board, President, Chief Executive Officer (Principal Executive Officer), and Director	March 26, 1998
/s/ Gregory A. Fraser Gregory A. Fraser	Executive Vice President, Secretary, Treasurer, Chief Financial Officer (Principal Financial and Accounting Officer), and Director	March 26, 1998
/s/ Hubert d'Amours Hubert d'Amours	Director	March 26, 1998
/s/ Philip Colley Philip Colley	Director	March 26, 1998
/s/ Alexandre Raab Alexandre Raab	Director	March 26, 1998
/s/ Norman H. Schipper Norman H. Schipper	Director	March 26, 1998
/s/ Andre Julien Andre Julien	Director	March 26, 1998

EXHIBIT 10.11

This Nonexclusive Unique Application Reseller Agreement (the "Agreement") is entered into as of March 1, 1998 (the "Effective Date") between Autodesk, Inc., a Delaware corporation with principal offices at 111 McInnis Parkway San Rafael, California 94903 ("Autodesk") and Faro Technologies, a Delaware corporation with principal offices at 125 Technology Park Dr., Lake Mary, FL 32746 ("UAR").

THE PARTIES AGREE AS FOLLOWS:

DEFINITIONS.

"Software" shall mean the Autodesk software set forth on Exhibit A and any subsequent release delivered to UAR by Autodesk as mutually agreed upon by the parties in writing.

"Documentation" shall mean the reference manual customarily supplied to Customers by Autodesk with the Autodesk retail version of the Software.

"Customer" shall mean any third party licensee of the UAR Product who obtains such UAR Product solely in order to fulfill its own personal or business needs and not for further distribution or resale.

"UAR Product" shall mean the Software bundled in combination with and accompanied by UAR's software as described in Exhibit A.

"Territory" shall mean the countries set forth in Exhibit B.

"Sales Channels" shall be those channels set forth in Exhibit B.

"Market" shall mean the market set forth in Exhibit B.

All references in this Agreement to the "Sale" of or "selling" or "purchase" of Software shall mean the sale of a license to use such Software or Software Copies.

APPOINTMENT AND RESPONSIBILITIES OF UAR.

2.1 Appointment. Subject to the terms and conditions of this Agreement, and in consideration of UAR's purchase commitment and other obligations assumed below, Autodesk grants UAR a non-exclusive, non-transferable license to reproduce and distribute, through UAR's Sales Channels, promote, market and sublicense the Software, bundled with UAR's software to form the UAR Product within the Territory and Market as defined above. Without limitation to other remedies available to Autodesk, in the event UAR breaches any of the provisions of this authorization UAR shall pay to Autodesk, as liquidated damages and not as a penalty, an amount (with respect to each such sale) equal to the difference between the then-current Autodesk suggested retail price as indicated on the applicable published price list in the country of sale and the amount actually paid by UAR for each copy acquired by UAR under this Agreement.

Autodesk reserves the unrestricted right to distribute, promote, market and sublicense the Software and Documentation (as provided to UAR or as distributed by Autodesk in the Autodesk retail version of the Software) in the Territory, including but not limited to through OEMs, VARs, and other third party resellers (including other unique application resellers), as well as directly to Customers.

Distribution of Software. UAR shall not distribute any Autodesk Software or Documentation to any party separately or unbundled from the UAR Product, or price quote or invoice the Autodesk Software as a separate item, unless authorized by Autodesk for customer service purposes. UAR acknowledges that

any transfer of the Software or Documentation acquired pursuant to this Agreement as a stand-alone product is expressly prohibited. For the avoidance of doubt, failure of comply with this obligation shall constitute a material breach of this Agreement and may lead to immediate termination.

Promotion of UAR Products. UAR, shall, at its own expense, actively promote the distribution of the UAR Product within the Territory and shall assume all costs and obligations, including any commissions, involved with sales and marketing of the UAR Product. UAR shall not actively promote, advertise, market or solicit orders for UAR Product, or open branches or maintain distribution depots for supply or support of the UAR Product, outside the Territory.

Marketing. UAR shall, at its own expense:

(i) reference the Software as a component of the UAR Product in UAR's brochures and feature the Software as a component of the UAR Product in any applicable trade show that it attends;

(ii) provide adequate contact with existing Customers, including notifying Customers of bugs or errors in the Software and corrections or fixes for such bugs or errors as suggested by Autodesk to UAR;

(iii) assist Autodesk in assessing Customer requirements for the Software as a component of the UAR Product, including modifications and improvements thereto, in terms of quality, design, functional capability, and other features; and

promptly notify Autodesk of bugs or errors in the Software discovered by UAR or reported to UAR by Customers.

End User Licensing. UAR shall deliver Software to Customers and ensure that the standard Autodesk, Inc. Software License Agreement accompanying the Software is provided to and complied with by each Customer. UAR may not enter into any license agreement on behalf of Autodesk or Autodesk Inc. UAR shall forward all Software License Agreements acknowledgment forms or registration cards it receives to Autodesk. Notwithstanding the foregoing, the UAR Product may contain a separate license outlining the terms of UAR's Customer License with respect to that portion of the UAR Product not comprising the Software.

Registration. UAR shall be responsible for Customer registration of the UAR Product. To protect against unauthorized copying or use of Software and to ensure compliance with the terms of the Standard Autodesk Software License Agreement accompanying the Software, UAR shall maintain an accurate accounting of the Autodesk serial numbers incorporated into the UAR Product which must be registered by UAR's Customers, and shall provide registration reports to Autodesk as set forth in Paragraph 5.6 (Sales and Inventory Reports). Nothing herein shall limit Autodesk's right to register Customers directly.

3. REPRODUCTION.

3.1 Subject to the terms and conditions of this Agreement, Autodesk grants to UAR, a limited, nonexclusive right to reproduce copies of the Software. UAR may not sublicense its right to reproduce such Software to any third party unless Autodesk consents in writing to the sublicense. Such right to reproduce the Software does not include the right to reproduce the Documentation.

3.2 UAR is solely responsible for reproduction of the Software in accordance with industry standards of quality assurance.

3.3 UAR may use its own company label on the UAR Product media, provided however, that each copy of the media embodying the UAR Product bears the Autodesk copyright notice.

3.4 UAR may, from time to time, reproduce copies of the Software to be used for evaluation purposes so long as: (a) UAR notifies Autodesk of its need to reproduce such evaluation copies and the number of copies needed; and (b) the Software is destroyed and permanently deleted from any of the test systems on which it is installed. No royalty will be due on such evaluation copies.

RESTRICTIONS.

Modification.

For All Countries. Autodesk shall be responsible for all reproduction of copies of the Software and Documentation except as set forth in section 3 above. UAR shall not disable features of the Software, modify, enhance or make derivative works of the Software or Documentation or sublicense such rights. UAR may, however, link its software to the Software and revise the user interface of the Software. UAR also may affix a label to the Software and Documentation identifying UAR's name, address, phone number and identifying mark or logo, provided that the label does not obscure any other identifying mark or label of Autodesk. In no event shall UAR alter or modify the contents of any magnetic or printed material or offer to do so for any third party, without the previous written consent of Autodesk. UAR agrees not to reverse engineer, disassemble, or decompile the Software in whole or in part. UAR acknowledges that Autodesk desires to protect the integrity of the Software as a commercial technology. UAR agrees that the licenses granted herein are subject to UAR bundling the Software in its entirety, as delivered by Autodesk to UAR and UAR specifically agrees not to bundle a lesser subset of any Software files with the UAR Product without Autodesk's prior written consent.

In the European Community. Notwithstanding the foregoing, if the term Territory as defined in this Agreement includes a country that is a member of the European Community, UAR shall be entitled to reproduce one copy of the code of the Software (i.e., to decompile the code) where such decompilation is indispensable to obtain the information necessary to achieve the interoperability of an independently created computer program with such Software if the conditions of Article 6.1 of the EC Council Directive 14 May 1991 on the legal protection of computer programs (the "Directive") are met, subject to the further condition precedent that UAR has provided Autodesk with a written request for the information purportedly required to achieve interoperability, and Autodesk has been unable to provide said information within 45 days of UAR's request. UAR hereby undertakes that no information obtained from such decompilation shall be used in any manner incompatible with Article 6.2 or 6.3 of the Directive. Furthermore, UAR agrees to give at least 10 days prior written notice to Autodesk of all decompilation permitted hereby and to allow representatives of Autodesk to be present at all such decompilation. UAR hereby undertakes that no decompilation permitted in accordance with this Section 4.1 shall take place nor shall any information obtained from any such decompilation or resulting interoperable product be transferred outside the member states of the European Community. Without limiting the materiality of any other term of this Agreement, the failure of UAR to comply with the provisions of this Section 4.1 shall be considered a material breach of this Agreement.

Mail Order Sales.

In the United States. UAR shall not distribute the UAR Product by Mail Order or to any Sales Channel that UAR has reason to believe may distribute the UAR Product by Mail Order. "Mail Order" shall be defined as invitation, through advertising or otherwise, for orders

by mail or telephone, where Customer service, product demonstrations and installation services are not offered by UAR to the Customer.

In the European Community. UAR shall not distribute the UAR Product by Mail Order or to any Sales Channel that UAR has reason to believe may distribute the UAR Product by Mail Order unless it offers and makes available to Customers full on-site service and support, and makes professional counsel, advice and product demonstrations available to such Customers.

Software Purchases. Software for use in the UAR Product may only be purchased under the terms of this Agreement. UAR may not purchase Software for the UAR Product under any other agreements with Autodesk.

TERMS OF DELIVERY OF SOFTWARE AND DOCUMENTATION

Delivery. Autodesk shall deliver to UAR copies of the Software media (5 1/4, 3 1/2 floppy disk, CD-ROM or tape) and copies of the necessary documentation, as ordered by UAR from time to time.

Orders. All orders for copies of Software and Documentation shipped to UAR by Autodesk shall be in writing (including by facsimile),shall indicate the geographic region where the UAR Product is to be shipped to Customer, and shall be subject to the terms and conditions of this Agreement. Any purchase order which purports to supersede or otherwise modify this Agreement shall be of no force or effect. Each copy of Software and Documentation shall be deemed accepted by UAR upon receipt.

Shipping. All Software and Documentation delivered by Autodesk shall be FCA Autodesk's manufacturing plant. All shipping charges, special packing expenses, (including income, stamp, turnover, value added taxes and/or withholding taxes related to any payments made to Autodesk under this Agreement), duties, fees, insurance, charges, or assessments of any nature levied by any governmental authority other than U.S. in connection with this Agreement, whether levied against UAR or Autodesk, shall be the responsibility of UAR and shall be paid directly by UAR to the governmental authority concerned. Claims for missing or damaged items shall not be reviewed by Autodesk unless notified in detail and in writing to Autodesk within 10 business days of the delivery noted on the carrier's invoice. If at any time UAR is not in conformance with its obligations under the terms of this Agreement, Autodesk reserves the right to cease delivering Software and Documentation to UAR until such time as UAR is in compliance with such obligations.

Payment. The price to UAR for each copy of the Software and related Documentation shall be the then-current Price List price for the appropriate geographic region within the Territory, for the Autodesk version of the Software less the discount rate ("Discount Rate") set forth in Exhibit C. UAR's Discount Rate is dependent upon UAR's quarterly purchases (revenues) to Autodesk. Such Discount Rate shall be adjusted quarterly based on UAR's previous quarter revenues. Autodesk shall submit an invoice to UAR upon each shipment. In the event that UAR Product is shipped to a geographic region different from the geographic region indicated on the initial order, UAR's invoice shall be adjusted accordingly. Upon approval of UAR's credit standing by Autodesk, payment terms shall be thirty (30) days from the date of the invoice. Pending such approval, payment shall be due immediately upon delivery. Any invoiced amount not received within thirty (30) days of the date of invoice shall be subject to a service charge of one and one-half percent (1.5%) per month (or, if less, the maximum allowable by applicable law). UAR shall pay all sales, property, excise, duties, and other federal and local taxes (other than those based on Autodesk's net income).

Initial Purchase. Upon execution of this Agreement, UAR shall purchase the quantity of Software Copies set forth in Exhibit C. Such initial purchase shall determine UAR's Discount Rate for the first quarter of this Agreement.

Sales and Inventory Reports and Audit Rights. UAR shall provide Autodesk with a quarterly point-of-sale report for each of the Sales Channels set forth in Exhibit B, showing, at a minimum, date shipped, quantity of UAR Product sold and used internally, the Autodesk serial numbers and the corresponding UAR serial numbers, the Customers' names and addresses, quantities sold to such Customers (if any), as well as the quarter-end inventory position on hand for the UAR Product. This report must be forwarded within fifteen (15) days of the close of each quarter. Within the first five (5) days of every quarter, UAR shall provide Autodesk with a ninety (90) day rolling forecast showing prospective orders for each Sales Channel and intended date when such orders shall be submitted to Autodesk. UAR shall maintain complete and accurate records of the information required by this section. Autodesk shall be entitled, at any time during the term of this Agreement, to audit the books and records of UAR for purposes of compliance with the terms of this Agreement and verifying such sales and inventory reports. Any such audit shall be conducted by Autodesk or its representatives during normal business hours, and UAR shall cooperate fully with Autodesk or its representatives in any such audit. In the event such inspection or audit discloses any underpayment, UAR shall promptly pay Autodesk such amount, together with interest accrued daily at a rate per annum equal to the highest allowable rate under California law on the unpaid balance until paid in full.

Software Purchases from Authorized Resellers in the European Community. Software for use in the UAR Product may be purchased from Autodesk Authorized Dealers ("AAD's"), Autodesk Authorized Systems Centres ("ASC's") and other Authorized Resellers within the European Community which are authorized by Autodesk to offer the Software product versions specified in this Agreement in the Territory, at independently set prices, but always subject to the resale requirements specified in this Agreement. For the avoidance of doubt, the parties acknowledge that AADs, ASCs and other Authorized Resellers are free to set their own Software prices. UAR may not purchase Software for the UAR Product under any other agreements with Autodesk.

If at any time UAR is not in conformance with its obligations under the terms of this Agreement, Autodesk reserves the right to cease delivering Software and Documentation to UAR until such time as UAR is in compliance with such obligations.

6. CUSTOMER SERVICE.

Customer Support. UAR shall provide direct on-site Customer pre-sale and post sale service and support for the UAR Product and the Software as a component of the UAR Product. However, UAR may contract with its Sales Channel to provide on-site installation and support services solely through sales, installation and support personnel employed directly by UAR or its Sales Channel. UAR shall maintain adequate facilities and on staff full time sales and technical support personnel sufficiently knowledgeable with respect to the Software such that UAR shall be capable of fully supporting the Software as a component of the UAR Product. At no time during the term of this Agreement, shall UAR represent to any Customer that Autodesk is available to directly answer questions about the Software as a component of the UAR Product.

Autodesk Support to UAR. Autodesk shall, during normal business hours, provide to UAR telephone assistance and response to written requests received by telecopy concerning Software errors and possible work arounds for the Software. Such support is specifically designed to assist UAR as a reseller of the Software and UAR is not to make such UAR support accessible to its Customers at any time.

Error Notifications. UAR shall promptly notify Autodesk of bugs or errors in the Software or Documentation. Autodesk shall not be obligated to correct any such errors discovered by UAR or reported to UAR by Customers.

Autodesk Developer Support. UAR shall register with Autodesk Developer Marketing to

participate in the Autodesk Developer Network Program at the then current fees.

UPGRADES BY UAR.

In the event Autodesk creates bug fixes or New Releases ("Upgrades") of the Software, Autodesk will notify UAR in writing (including through CompuServe) and UAR will advise Autodesk as to whether UAR wishes to receive such Upgrade. Once any such Upgrade is made available to UAR, if UAR decides to integrate the Upgrade into the UAR Product, UAR shall be responsible for providing such Upgrade as a component of the revised UAR Product to its Customers. UAR will ensure that the copy of the Software as a component of the UAR Product is destroyed either by UAR or by Customer at the time the Upgrade is installed. Any such Upgrade shall be subject to the terms of this Agreement. Unless other arrangements are made with Autodesk in writing, such Upgrade will not be delivered to Customers as stand-alone product but rather will be integrated into the new version of the UAR Product and delivered as an upgrade to the UAR Product already in the possession of UAR's installed base of Customers.

WARRANTIES.

Standard Limited Warranty. Autodesk will provide no warranty or continuing support for the Software to Customers or the Sales Channel and UAR agrees that UAR shall be solely responsible for providing warranty and continuing support to UAR's Customers and Sales Channel. Autodesk warrants to UAR, for a period of ninety (90) days from delivery by Autodesk to UAR, that the copies of the Software delivered to UAR (as a standalone product) will perform substantially in accordance with the Documentation. As Autodesk's entire liability and UAR's exclusive remedy under this warranty, Autodesk shall replace free of charge any defective diskette, hardware lock or manual which is returned to Autodesk within 90 days after delivery and which is accepted by Autodesk as defective and may at its discretion make reasonable efforts to correct any demonstrated error in the Software. UAR shall honor and shall require its Customers to honor the warranty against defective media, documentation and hardware locks indicated above and shall return any such defective items to Autodesk for credit or exchange pursuant to the return policies established by Autodesk from time to time. UAR SHALL NOT MAKE OR PASS ON TO ANY PARTY ANY WARRANTY OR REPRESENTATION CONCERNING THE SOFTWARE AND DOCUMENTATION ON BEHALF OF AUTODESK.

No Other Warranty. EXCEPT FOR THE LIMITED WARRANTY TO UAR DESCRIBED IN SUBPARAGRAPH 8.1 ("STANDARD LIMITED WARRANTY"), AUTODESK GRANTS NO OTHER WARRANTIES, EXPRESS OR IMPLIED, BY STATUTE OR OTHERWISE REGARDING SOFTWARE AND DOCUMENTATION. AUTODESK DOES NOT WARRANT THE PERFORMANCE OF THE SOFTWARE WHEN USED IN CONJUNCTION WITH THE UAR PRODUCT. FURTHERMORE, AUTODESK EXPRESSLY EXCLUDES ANY IMPLIED WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, MERCHANTABILITY OR NON-INFRINGEMENT.

CONTACT PERSONS.

The contact persons for the parties shall be:

Autodesk:	Randy Crothers 312 Dover Point Rd. Dover, NH 03820 tel: 603-749-0851 fax: 603-749-0908
UAR:	Greg Fraser Faro Technologies 125 Technology Park Dr. Lake Mary, FL 32746

tel: 407-333-9911
fax: 407-333-4181

OWNERSHIP OF PROPRIETARY RIGHTS.

UAR acknowledges that the Software and Documentation are proprietary to Autodesk and that Autodesk retains exclusive ownership of the Software and Documentation and all proprietary rights associated with the Software and Documentation. UAR shall take all reasonable measures to protect Autodesk's proprietary rights in the Software and Documentation. Except as provided herein, UAR is not granted any other rights or license to patents, copyrights, trade secrets or trademarks with respect to the Software and Documentation. UAR shall promptly notify Autodesk in writing upon its discovery of any unauthorized use or infringement of the Software and Documentation or Autodesk's patent, copyright, trade secret, trademark or other intellectual property rights. UAR shall not (and shall require that its Customers do not) remove, alter, or cover any copyright notices or other proprietary rights notices placed on or in any copy of the Software or Documentation by Autodesk. UAR shall not sell to any Customer if UAR has notified Autodesk that such Customer may be involved in potential unauthorized use of Software or Documentation or other infringement of Autodesk's proprietary rights.

CONFIDENTIALITY.

Confidentiality Required. Through its relationship with Autodesk UAR shall have access to certain information and materials concerning Autodesk's business, plans, Customers, technology, and products that are confidential and of substantial value to Autodesk, which value would be impaired if such information were disclosed to third parties ("Confidential Information"). UAR shall not disclose any such Confidential Information to any third party and shall take every reasonable precaution to protect such information. UAR shall not publish any technical description of Software and Documentation beyond the description published by Autodesk. In the event of termination of this Agreement, there shall be no use or disclosure by UAR of any confidential information of Autodesk.

Exceptions to Confidentiality. UAR's confidentiality obligations do not extend to Confidential Information which (i) becomes publicly available without the fault of UAR; (ii) is rightfully obtained by UAR from a third party with the right to transfer such information; or (iii) is independently developed by UAR and without reference to Autodesk's Confidential Information. UAR shall have the burden of proving the existence of any condition in this Paragraph.

12. CONFLICTS OF INTEREST.

Within the European Community.

Notice and Managing Confidential Information. UAR shall not promote the products of other companies if it will create a conflict of interest in handling Autodesk's confidential or proprietary information. In the event UAR begins to distribute one or more competing software programs, UAR shall immediately notify Autodesk and take the following steps to ensure that Confidential Information shall not be misused or misappropriated for the purpose of promoting, marketing or benefiting the competing software program(s):

UAR shall establish and maintain at all times a separate teams of sales and technical personnel dedicated exclusively to the promotion, marketing and support of Software whose names shall be furnished to Autodesk, each of whom shall have signed a non-disclosure agreement in substantially the same form as one provided by Autodesk upon request for this purpose.

UAR shall establish and maintain at all times such procedures as may be necessary to ensure that no personnel other than those whose names have been

communicated to Autodesk pursuant to 12.1.1., and in particular no personnel responsible for promotion, marketing, sales and support of competing software programs have access to Confidential Information for any purpose.

UAR shall not reassign personnel dedicated to Software to any position in which they have responsibility for marketing, promotion or support of competing software programs unless Autodesk is notified of each such intended reassignment at least three (3) months in advance. From the date of such notice, UAR undertakes to withhold all Confidential Information from the personnel to be reassigned unless disclosure is expressly approved by Autodesk.

In handling and distributing Confidential Information, UAR shall ensure that each copy of Confidential Information is marked according to guidelines furnished by Autodesk, that no unnecessary copies of Confidential Information are made or disseminated, and that all copies of Confidential Information are retrieved and destroyed promptly when the purpose for which they were provided has been fulfilled.

Outside the European Community. UAR shall not promote the products of other companies if it will create a conflict of interest in handling Autodesk's confidential or proprietary information.

13. TRADEMARKS.

During the term of this Agreement, UAR shall have a non-exclusive, non-transferable right to indicate to the public that it is an authorized UAR of Autodesk's Software and Documentation as a component of the UAR Product and to advertise such Software and Documentation as a component of the UAR Product within the Territory under the Autodesk trademarks and slogans adopted by Autodesk from time to time ("Trademarks"). UAR shall include the Autodesk Trademarks in any literature, promotion or advertising concerning the UAR Product. UAR shall not affix any Autodesk Trademark to products other than the UAR Product. UAR shall not contest, oppose or challenge Autodesk's ownership of the Trademarks. All representations of Autodesk Trademarks that UAR intends to use shall be exact copies of those used by Autodesk, or shall first be submitted to the appropriate Autodesk personnel for approval of design, color, and other details and such approval shall not be unreasonably withheld. If any of the Autodesk Trademarks are to be used in conjunction with another trademark on or in relation to the UAR Product, then the Autodesk Trademarks shall be presented equally legibly, equally prominently, but nevertheless separated from the other so that each appears to be a trademark in its own right, distinct from the other mark. Effective upon the termination of this Agreement, UAR shall cease to use all Autodesk Trademarks.

PROPRIETARY RIGHTS INDEMNITY.

Autodesk shall defend, at its expense, any action brought against UAR which alleges that the Software or Documentation infringes a United States copyright or patent, provided that UAR promptly notifies Autodesk in writing of any claim, gives Autodesk sole control of the defense and settlement thereof, and provides all reasonable assistance in connection therewith. If the Software and Documentation is finally adjudged to so infringe, Autodesk shall, at its option, (a) procure for UAR the right to continue using the Software and Documentation as a component of the UAR Product; (b) modify or replace the Software and Documentation so there is no infringement; or (c) accept return of the copies of the Documentation in UAR's inventory and refund the purchase price. Autodesk shall have no liability regarding any claim arising out of the use of the Software and Documentation in combination with other products, including the UAR Product, if the infringement would not occur but for such combination. THE FOREGOING STATES UAR'S SOLE AND EXCLUSIVE REMEDY WITH RESPECT TO CLAIMS OF INFRINGEMENT OF THIRD PARTY PROPRIETARY RIGHTS OF ANY KIND.

UAR shall defend, at its expense, any action brought against Autodesk for any claim which alleges the UAR Product infringes a United States copyright or patent. Autodesk shall provide all reasonable assistance in connection with any claim therewith.

TERM AND TERMINATION.

Term. The term of this Agreement shall be effective as of the Effective Date, set forth above, and shall continue until October 1, 1998 unless terminated earlier as set forth herein. The term shall be automatically renewed for one (1) year periods, thereafter, unless thirty (30) days prior to any October 1, anniversary date, either party notifies the other in writing of their intention not to renew the relationship.

Termination for Cause. Autodesk may terminate this Agreement upon thirty (30) days written notice of a material breach.

Termination for Convenience. This Agreement may be terminated without administrative or judicial resolution by either party for any reason or no reason, by giving the other party written notice sixty (60) days in advance.

Termination for Insolvency. Either party may terminate this Agreement immediately, upon written notice, (i) upon the institution by or against the other of insolvency, receivership or bankruptcy proceedings or any other proceedings for the settlement of the other's debts, (ii) upon the other's making an assignment for the benefit of creditors or (iii) upon the other's dissolution or ceasing to conduct business in the normal course.

Fulfillment of Orders Upon Notice of Termination. Upon delivery of notice of termination pursuant to this Paragraph 15 ("Term and Termination"), Autodesk shall not be obligated to fulfill any unfulfilled orders or any orders received by Autodesk subsequent to the date of delivery of notice of termination. In Autodesk's sole discretion Autodesk may continue to fulfill orders if UAR (i) submits prepayments for any such order and (ii) pays all credit balances then outstanding prior to any shipment of Software or Documentation by Autodesk.

Return of Materials. All Autodesk Confidential Information, data, photographs, samples, literature, and sales aids of every kind shall remain the property of Autodesk. Within thirty (30) days after the termination of this Agreement, UAR shall return all such items as Autodesk may direct, at Autodesk's shipping expense.

Survival of Certain Terms. The provisions of Paragraph 5.4 ("Payment"), Paragraph 6.1 ("Customer Support"), Paragraph 8 ("Warranties"), Paragraph 10 ("Ownership of Proprietary Rights"), Paragraph 11 ("Confidentiality"), Paragraph 13 ("Trademarks"), Paragraph 14 ("Proprietary Rights Indemnity"), Paragraph 15 ("Term and Termination"), Paragraph 16 ("Consequential Damages Waiver") and Paragraph 17 ("Limitation of Liability") shall survive the termination of this Agreement for any reason. All other rights and obligations of the parties shall cease upon termination of this Agreement.

CONSEQUENTIAL DAMAGES WAIVER.

THE PARTIES AGREE THAT IN NO EVENT WILL AUTODESK BE LIABLE TO UAR OR ANY OTHER PARTY, UNDER ANY THEORY OF LIABILITY, WHETHER IN AN ACTION BASED ON A CONTRACT, TORT (INCLUDING NEGLIGENCE) OR ANY OTHER LEGAL THEORY, HOWEVER ARISING, FOR ANY COSTS OF PROCUREMENT OF SUBSTITUTE GOODS OR SERVICES BY UAR OR FOR ANY LOSS OF USE, INTERRUPTION OF BUSINESS, OR INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES OF ANY KIND, WHETHER OR NOT AUTODESK HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH

DAMAGE. THIS LIMITATION SHALL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY.

17. LIMITATION OF LIABILITY.

AUTODESK'S AGGREGATE LIABILITY UNDER THE TERMS OF THIS AGREEMENT SHALL BE LIMITED TO THE TOTAL PAYMENTS MADE BY UAR TO AUTODESK FOR THE SOFTWARE AND DOCUMENTATION SHIPPED BY AUTODESK TO UAR FOR INCLUSION IN THE UAR PRODUCT IN THE MOST RECENT FULL CALENDAR YEAR PRECEDING IMPOSITION OF SUCH LIABILITY. THIS LIMITATION SHALL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY. AUTODESK DOES NOT EXCLUDE LIABILITY FOR DEATH OR PERSONAL INJURY ARISING FROM ITS NEGLIGENCE EXCEPT THE TO THE EXTENT PERMISSIBLE BY APPLICABLE LAW.

GENERAL PROVISIONS.

Assignment. UAR shall not assign this Agreement, in whole or in part, without the prior written approval of Autodesk. To obtain prior written approval to assign this Agreement in the case of a change of ownership, UAR must submit information regarding the proposed assignee, as specified by Autodesk, at least thirty (30) days prior to the proposed date of assignment. Autodesk will review the information and accept or reject the proposed assignment, in writing, in Autodesk's sole discretion. For the purposes of this Paragraph, a change in the persons or entities who control 50% or more of the equity securities or voting interest of UAR shall be considered an assignment of this Agreement. Notwithstanding the foregoing, Autodesk's rights and obligations under this Agreement, in whole or in part, may be assigned by Autodesk and Autodesk may sell, pledge or otherwise transfer its right to receive payments under this Agreement.

Injunctive Relief. It is expressly agreed that a material breach of this Agreement by UAR shall cause irreparable harm and a remedy at law would be inadequate. In addition to any and all remedies available at law, Autodesk shall be entitled to an injunction or other equitable remedies in all legal proceedings in the event of any threatened or actual violation of any or all of the provisions of this Agreement.

Governing Law. This Agreement shall be governed by and construed under the laws of the State of California. The parties hereby submit to the exclusive personal jurisdiction of and venue in the Superior Court of the State of California, County of Marin, and the United States District Court for the Northern District of California in San Francisco.

Legal Expenses. The prevailing party in any legal action brought by one party against the other arising out of this Agreement shall be entitled, in addition to any other rights and remedies it may have, to reimbursement for its expenses, including court costs, expert witness fees and reasonable attorney's fees.

Independent Contractors. The relationship of Autodesk and UAR established by this Agreement is that of independent contractors, and nothing contained in this Agreement shall be construed to create an agency relationship between the parties or to allow UAR to create or assume any obligation on behalf of Autodesk for any purpose whatsoever.

Severability. In the event that any provision of this Agreement shall be unenforceable or invalid under any applicable law or be so held by applicable court decision, such unenforceability or invalidity shall not render this Agreement unenforceable or invalid as a whole.

Waiver. The failure of either party to require performance by the other party of any provision hereof shall not affect the full right to require such performance at any time thereafter; nor shall the

waiver by either party of a breach of any provision hereof be taken or held to be a waiver of the provision itself.

Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

Entire Agreement. This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter herein. This Agreement merges and supersedes all prior or contemporaneous agreements, discussions and understandings between the parties, oral or written, regarding such subject matter. No modification to, or amendment of, this Agreement, shall be effective unless in writing and signed by the party to be bound.

19. COMPLIANCE WITH LAWS

UAR shall comply with all laws and regulations of the Territory applicable to the marketing, license and support of the Software, execution or performance of this Agreement, as well as with all export laws, regulations and controls of the Territory and of the United States of America.

Foreign Corrupt Practices Act. In conformity with the United States Foreign Corrupt Practices Act and with Autodesk's established corporate policies regarding foreign business practices, UAR and its employees and agents shall not directly or indirectly make an offer, payment, promise to pay, or authorize payment, or offer a gift, promise to give, or authorize the giving of anything of value for the purpose of influencing an act or decision of an official of any government (including a decision not to act) or inducing such a person to use his influence to affect any such governmental act or decision in order to assist UAR in obtaining, retaining or directing any business.

Export Controls. In conformity with laws and regulations of the United States relating to international trade, UAR and its employees, agents or third parties shall not disclose, export or reexport, directly or indirectly, any Software, documentation, or technical data provided under this Agreement to any country or party which Autodesk has advised is ineligible to receive such items under U.S. laws and regulations. Until otherwise advised by Autodesk, the following countries and parties are embargoed:

Cuba, Iran, Iraq, Libya, North Korea, Sudan, and Syria;

Any party controlled by or acting for the governments of any of the countries listed in "a" above, or any other party identified on the U.S. Treasury Department's listing of "Specially Designated Nationals and Blocked Persons";

Any party on the U.S. Commerce Department's Table of Denial Orders;

Any party engaged in the design, development, production, stockpiling or use of nuclear weapons; missiles; chemical or biological weapons, agents, or precursors; or conventional weapons (including any party identified by the U.S. State Department or the U.S. Commerce Department's Entity List.)

Any other party, if the circumstances indicate the likelihood of further transfer to or for the benefit of any of the above embargoed countries or parties.

Restricted Rights. The Software shall not be exported from the United States contrary to the regulations of the United States Government. The Software is provided with RESTRICTED RIGHTS. Use, duplication, or disclosure by the Government is subject to restrictions as set forth in subparagraph (c)(1)(ii) of the Rights in Technical Data and Computer Software clause at DFARS 252.227-7018, and

in subparagraphs (a) through (d) of the Commercial Computer-Restricted Rights clause at FAR 52.227-19, and in similar clauses in the NASA FAR Supplement, when applicable.

Indemnification. UAR agrees to indemnify Autodesk against any claim demand, action, proceeding, investigation, loss, liability, cost and expense, including attorney's fees, suffered or incurred by Autodesk and arising out of or related to any violation (whether intentional or non-intentional) by UAR, its employees, agents, representatives, dealers of this Section 19.

"Autodesk" AUTODESK, INC.	"UAR" FARO TECHNOLOGIES
By:/s/ Gary Kuhn	By:/s/ Gregory A. Fraser
Gary Kuhn Printed Name	Gregory A. Fraser Printed Name
Manager of Autodesk Developer Channel Title	Executive Vice President Title
Date	Date

EXHIBIT A

SOFTWARE AND UAR PRODUCT

1. THE SOFTWARE:

AutoCAD, AutoSurf, 3D Studio Max, Mechanical Desktop

NOTE: ALL COPIES OF SOFTWARE FOR SALES OUTSIDE OF THE U.S AND CANADA MUST BE THE INTERNATIONAL HARDWARE LOCKED VERSIONS.

UAR PRODUCT:

AnthroCAM

AnthroCAM provides "all in one" 3D CAD and Inspection software program. It is a solution which combines CAD files with prismatic part measurement. It combines the ability of FaroArm 3D digitizer to (1) reverse engineer parts into AutoCAD, using a seamless driver directly into the AutoCAD database to create a CAD file and design; and, once the parts have been manufactured, (2) inspect (quality control), and the (3) compare the measurements against the CAD design file. Whereas a manufacturer typically uses one system to reverse engineer a manufactured part and then a different system to inspect and measure the part, AnthroCAM enables a manufacturer to use the same FaroArm 3D digitizer software for both processes and provides the additional capability to compare the information from the inspection process with the original design information. Inspection software tends to use menus of prismatic parts, whereas AnthroCAM, while it does offer that facility, enables the user to pull in an AutoCAD with AutoSurf drawing and use the drawing as a template for inspection. By using AutoCAD with AutoSurf, it enables full curve and surfacing capabilities. The AnthroCAM software solution is used in conjunction with Faro Technologies Inc.'s line of protable 3D Digitizers as well as other Coordinate Measuring Machines (CCM) manufactured by independent CMM suppliers.

NOTE: Bundling of AutoCAD or AutoCAD modules with hardware requires prior approval of European Channels Manager, European Market Group Manager and Vice President, European Operations.

EXHIBIT B

AUTHORIZED SALES CHANNELS, MARKET AND TERRITORY

A. SALES CHANNELS

UAR IS AUTHORIZED TO DISTRIBUTE THE UAR PRODUCT DIRECTLY TO CUSTOMERS.

IN THE EVENT THE TERM "TERRITORY" AS DEFINED BELOW INCLUDES THE EUROPEAN COMMUNITY, UAR IS AUTHORIZED TO DISTRIBUTE THE UAR PRODUCT THROUGH THE AUTODESK AUTHORIZED DEALERS AND AUTODESK AUTHORIZED SYSTEMS CENTERS WHICH ARE ACCREDITED IN THE EUROPEAN COMMUNITY TO SELL THE SOFTWARE IDENTIFIED IN EXHIBIT A.

UAR MAY SELL THE SOFTWARE THROUGH THE FOLLOWING SALES CHANNEL PROVIDED EACH RESELLER IN SAID SALES CHANNEL AGREES TO COMPLY WITH THE QUALITATIVE OBLIGATIONS CONTAINED IN THIS AGREEMENT, INCLUDING THOSE RELATED TO AND PRE AND POST SALE CUSTOMER SERVICE AND SUPPORT.

RESELLERS:

(IF APPLICABLE, PLEASE ATTACH A LIST OF RESELLERS TO THIS EXHIBIT B)

THE FOREGOING LIST OF RESELLERS MAY NOT BE MODIFIED WITHOUT AUTODESK's WRITTEN CONSENT. FURTHERMORE, UPON AUTODESK's REQUEST, UAR AGREES TO CEASE DISTRIBUTION OF THE UAR PRODUCT THROUGH ANY OR ALL OF THE FOREGOING RESELLERS IF AUTODESK CONCLUDES, AT ITS SOLE REASONABLE DISCRETION, THAT THE AFFECTED RESELLERS ARE NOT MEETING AUTODESK's QUALITATIVE STANDARDS.

B. MARKET

Departments within manufacturing facilities which are performing inspection and quality control of manufactured parts.

C. TERRITORY-

Worldwide

*UAR's authorized Sales Channels market and territory may be modified from time to time upon written agreement between the parties.

EXHIBIT B-1
FARO TECHNOLOGIES, INC.
NORTH AMERICAN DISTRIBUTOR LIST
(FOR GENERAL RELEASE)

Faro Technologies
125 Technology Park Drive
Lake Mary, FL 32746
contact: Greg Fraser
tel: 407-333-9911
fax: ###-##-####

OEM Partners:

Mr. Ken Susnjara, President
Thermwood Corporation
P.O. Box 436
Dale, Indiana 47523
tel: 812-937-4476
fax: 812-937-2956

Mr. Jeff Zobrist, Marketing Coordinator
Zonic Corporation
25 Whitney Drive
Milford, OH 45150
tel: 513-248-1911
fax: 513-248-1589

Distributors:
USA

Mr. Don McKillop
CADcad Technologies
890 Northern Way. Ste. A-2
Winter Springs, FL 32708
tel: 407-359-0063
fax: 407-359-5887

Mr. Jim Caliguri, President
Design and Software Int'l
526 Niles Rd., Ste. 2
Fairfield, OH 45014
tel: 513-939-1800
fax: 513-939-1212

Mr. Richard Lee, President
Direct Dimensions, Inc.
549 Ritchie Highway, Ste. 159
Severna Park, MD 21146
tel: 410-654-0555

Great Lakes Metrology
2710 Towering Oaks Dr.
White Lake, MI 48383
tel: 810-684-2568
fax: 810-684-2194

Mr. Joe LeDoux
Great Lakes Metrology
7435 North Lafayette
Dearborn Heights, MI 48127
tel: 313-561-7752
fax: 313-561-6167

Mr. Gary Lane
QC Inspection Services, Inc.
11975 Portland Ave., Ste. 10
Burnsville, MN 55337
tel: 612-895-1150
fax: 612-895-1152

Mr. Ray Burleson
The Tool & Gage House
538 Hebron St.
Charlotte, NC 28273
tel: 704-552-8444
fax: 704-552-6869

CANADA

Mr. Rene Desjean
AD3R Technologies, Inc.
1055 Pierre-Dupuy, B40
Longueuil, Quebec J4K 1A1
Canada
tel: 514-670-7876
fax: 514-670-6202

MEXICO

EXHIBIT B-1 (CONT.)
FARO TECHNOLOGIES, INC.
INTERNATIONAL DISTIBUTOR LIST
(FOR GENERAL RELEASE)

European Sales Offices:

Nicolas Tanala
Faro France
117 av Pierre et Marie Curie
45800 St. Jean de Braye
France
tel: 011-33-38-70-02-55
fax: 011-33-38-70-05-77

Christian Baugut
Faro Duetschland
Karlstr. 31
89073 Ulm
Germany
tel: 011-49-7-31-14-10-130
fax: 011-49-7-31-14-10-129

Mr. Vladimir Avdiisky
Faro Moscow
Ibragimov Str. 21
Moscow
Russian Federation
tel: 7095-369-7433
fax: 7095-373-4021
Territory: Russia

Distributors:

AFRICA

Mr. Ron Elvin
CAD/CAM Systems
P.O. Box 782318
Sandton, 2146
Johannesburg, South Africa
tel: 27-11-444-4620
fax: 27-11-444-1728
Territory: South Africa

ASIA

Mr. P. Ramesh Chandra
EDS Technologies Pvt. Ltd.
IAT Building, III Floor
15, Queens Rd.
Bangalore, 560 052 India
tel: 91-80-220-4224
fax: 91-80-226-0745

Territory: India

AUSTRALIA

Mr. Ray Smith
CAD Australia
832 High St.
East Kew, Victoria 3102
Australia
tel: 011 61 3 9810 9509
fax: 011 61 3 9859 6622
Territory: Australia

EUROPE

Mr. Janne Linden
Bergman & Beving Energi AB
Department Inspect
Jagerhornsvag 8
S-141 05 Huddinge, Sweden
tel: 46-8-680-6850
fax: 46-8-680-0390
Territory: Sweden

Mr. Daniel Russo
Sidca Quality
Mentana 9b
Torino 10133, Italy
tel: 339-11-473-3411
fax: 39-11-473-2783
Territory: Italy

Mr. Roger Steenacker
Steen Metrology Systems
Rue T. Gerkens, 74
B-4052 Chaudfontaine, Belgium
tel: 32-41-687080
fax: 32-41-687560
Territories: Belgium, Netherlands &
Luxembourg

Mr. James Carne
Ultra Fast Machining, Ltd.
416-418 London Rd.
Isleworth, Middlesex, TW7 58E,
England
tel: 44-181-560-1182
fax: 44-181-568-6882
Territory: UK

EXHIBIT B-1 (CONT.)
FARO TECHNOLOGIES, INC.
INTERNATIONAL DISTIBUTOR LIST (CONT.)

(FOR GENERAL RELEASE)

PACIFIC RIM

Mr. K.M. Kwak
BBN Tektrade
1552-10 Seocho-Dong Seocho-ku
Seoul, Korea 137-070
tel: 82-2-587-4900
fax: 82-2-586-3603

Mr. Hiroshi Tsujii
ITT
2 Banchi Ohama-nishimachi
Sakai, Osaka, Japan
tel: 81-722-235974
fax: 81-722-235962
Territory: Japan

Mr. Gotaro Gamo
Sumisho Electronics Co. Ltd.
CAE Division #1, Sales Dept. #2
Tsuruya Bldg.
2-23 Shimomiyabi-cho, Shinjuku-ku
Tokyo, 162 Japan
tel: 81-03-5228-5668
fax: 81-03-5228-5682

Mr. Katsuhito Numata
Trilux Corporation/Anzen
Tohin-Nihonbashihoneho 2-Chrome
Chuo-ku Tokyo 103
Japan
tel: 81-33-66-17-741
fax: 81-33-66-67-288
Territory: Japan

SOUTH AMERICA

Mr. Francisco Saldanha
Grupo J
TBA
TBA
Territory: Brazil

EXHIBIT C

DISCOUNT RATES

THE DISCOUNTS INDICATED BELOW SHALL BE DEDUCTED FROM THE APPLICABLE PUBLISHED AUTODESK SUGGESTED RETAIL PRICE FOR THE RELEVANT SOFTWARE PRODUCT IN EFFECT AT THE TIME AUTODESK ACCEPTS UAR'S ORDER, AND IS APPLICABLE ONLY FOR ORDERS SUBMITTED DIRECTLY TO AUTODESK. ATTACHED FOR YOUR INFORMATION IS THE AUTODESK PRICE LIST APPLICABLE AT THE TIME OF CONTRACT SIGNATURE. AUTODESK RESERVES THE RIGHT TO CHANGE THE PUBLISHED SUGGESTED RETAIL PRICE FOR ITS SOFTWARE WITHOUT NOTICE TO UAR.

1. DISCOUNT. Based on UAR's Quarterly Purchase Commitment the price to UAR for each copy of the Software shall be the then-current suggested retail price of the Software for the appropriate geographic region within the Territory, less the discount per the schedule below:

Quarterly Purchase Commitment	UAR Discount Rate
$0 - $25,000	35%
$25,001 -	40%
$100,001 -	42%
$250,000 +	44%

UAR'S DISCOUNT RATE SHALL BE ADJUSTED QUARTERLY BASED ON UAR'S PURCHASES DURING THE PRECEDING FISCAL QUARTER.* SHOULD UAR FAIL TO MEET THE MINIMUM QUARTERLY PURCHASE COMMITMENT FOR A SPECIFIED UAR DISCOUNT RATE THE FOLLOWING QUARTER, UAR'S DISCOUNT RATE WILL BE LOWERED ONE DISCOUNT LEVEL.

* Autodesk's fiscal quarters are as follows:
February- April
May- July
August- October
November- January

INITIAL PURCHASE. Upon execution of this Agreement, UAR shall purchase zero (0) Software copies ($5,000 minimum) from Autodesk. Such purchase shall establish UAR's Discount Rate for the first fiscal quarter of this Agreement.

EXHIBIT 10.12

FIRST AMENDMENT TO BUSINESS LEASE

THIS FIRST AMENDMENT TO BUSINESS LEASE dated as of January 20th, 1998, is entered into between XENON RESEARCH INC., a Florida corporation, herein the Landllord, and FARO TECHNOLOGIES, INC., a Florida corporation, successor by merger to FARO Medical Technologies (US), Inc., a Delaware corporation, herein the Tenant. It witnesses as follows:

WHEREAS, SIRDAN RESEARCH LIMITED, INC., (Sirdan), and FARO MEDICAL TECHNOLOGIES (US), INC. (FARO), collectively, as Landlord, and Tenant, are parties to that certain Business Lease dated March 1, 1991 (the Lease), for the lease office space located at 125 Technology Park, Lake Mary, Florida, (the Leased Premises), and

WHEREAS, SIRDAN RESEARCH LIMITED, INC., assigned all of its right, title and interest in the Lease to XENON RESEARCH INC. by Assignment of Lease dated October 25, 1991 is not he Landlord thereunder, and

WHEREAS, the parties desire to extend the term of the Lease and to expand the Leased Premises; capitalized terms used herein have the same meanings as used in the Lease unless redefined herein; this First Amendment will control over any provisions to the contrary in the Business Lease.

NOW, THEREFORE, in consideration of TEN AND NO/100 DOLLARS ($10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, it is understood and agreed as follows:

Recitals. The Foregoing recitals are acknowledged as true and correct and are incorporated herein by reference.

Term. The term of the Lease is hereby extended an additional Five (5) year(s), such extension which began on March 1, 1996, (term to commence on February 1, 1997) and terminate on February 28, 20001 (the Extended Term). Such extension shall be on the same terms and conditions as currently exist for rental which is provided for hereafter.

Leased Premises. The Lease Premise is expanded to include the space set forth on Exhibit A hereto (the Expansion Premises) consisting of 18,000 square feet of air conditioned space. Thereafter, the total space rented under the Lease shall be 35,000 square feet.

Rent. Rent for the Expansion Premises shall be the amount of $170,640. Rent payments for the Expansion Premises shall commence on the earlier of (a) the date that Landlord obtains a certificate of occupancy for the Expansion Premises or (b) Tenant

takes occupancy of the Expansion Premises. If rent commences on any day other than the first of the month, rent for the first partial month shall be prorated. Thereafter, rent payments shall be made concurrently with existing rental payments, in the total amount of $331,747, together with applicable sales taxes and other sums required to be paid under the Lease.

Ratification. Except as modified hereby, the Business Lease remains in full force and effect and is unchanged.

IN WITNESS WHEREOF, the Landlord and Tenant have affixed their hands and seals effective as of the day and year first above written.

Signed, sealed and delivered
In the presence of:
(two are required for each party)

XENON RESEARCH, INC.
a Florida Corporation

/s/ Simon Raab

SIMON RAAB
Its President

FARO TECHNOLOGIES, INC.
a Florida Corporation

/s/ Gregory A. Fraser

GREGORY A. FRASER
Its Executive Vice President

COVER

Exhibit 13.1

Continuing the
CAD Revolution

[PICTURE OF FARO LOGO]

1997
Annual
Report

INSIDE FRONT COVER

COMPANY PROFILE

A PIONEER IN SOFTWARE-DRIVEN, 3-D MEASUREMENT TECHNOLOGY, FARO Technologies, Inc. designs, develops, markets and supports portable, three-dimensional measurement systems that bring precision measurement, quality inspection and specification conformance capabilities--integrated with leading CAD software--to the factory floor. The Company's principal products, the FAROArm(R) articulated measuring device and companion AnthroCam(R) software, are used worldwide by more than 600 customers, ranging from small machine shops to the largest of industrial companies, such as General Motors, Chrysler, Ford, Boeing, Lockheed Martin, General Electric, Westinghouse Electric, Caterpillar and Komatsu Dresser. Large and small alike have selected FARO to help them improve productivity, enhance product quality and decrease rework and scrap in the manufacturing process in an era of ever-intensifying global competition.

INTERNATIONAL

FARO products are marketed domestically through six U.S. sales offices and overseas through a direct sales force with offices in France, Germany and the United Kingdom and a network of distributors. In 1997, international sales increased to $8.2 million, or 35.0% of total sales, from $3.8 million, or 26.1%, for 1996. The Company's products are marketed in all regions of the world, including Europe, South America, Africa and the Asia/Pacific. Its distributors are located in Benelux, Italy, Finland, Russia, Brazil, South Africa, India, Japan, Korea and Australia.

FINANCIAL HIGHLIGHTS
(In millions, except per share and ratios)

December 31,	1997	1996	% Change
Sales	$ 23.5	$ 14.7	+ 60.5
Cost of sales	$ 9.6	$ 6.5	+ 48.2
Gross profit	$ 13.9	$ 8.2	+ 70.2
Income (loss) from operations	$ 4.9	$ 2.7	+ 82.0
Net income	$ 3.2	$ 1.4	+ 128.0
OTHER DATA			
Earnings per share:			
Basic	$ .41	$ .20	+ 105.0
Diluted	$ .39	$ .19	+ 105.3
Weighted-average common shares and common equivalent shares:			
Basic	7,831,715	7,000,000	+ 11.9
Diluted	8,189,048	7,349,041	+ 11.4
Working capital	$ 37.3	$ 3.8	+ 872.7
Total assets	$ 41.2	$ 7.8	+ 427.0
Total debt	$ 0.0	$ 1.5	- 100.0
Total shareholders' equity	$ 38.9	$ 3.8	+ 931.9
Debt:Equity	0.0	0.4	- 100.0

SALES
(Dollars in millions)
[GRAPH]

'95	9.9
'96	14.7
'97	23.5

OPERATING INCOME
(Dollars in millions)
[GRAPH]

'95	1.6
'96	2.7
'97	4.9

EARNINGS PER SHARE
(Dollars)
[GRAPH]

'95	.23
'96	.20
'97	.41

To Our Shareholders:

[PICTURE]
Simon Raab, Ph.D. (right)
Chairman of the Board and
Chief Executive Officer

Gregory A. Fraser, Ph.D. (left)
Chief Financial Officer and
Executive Vice President

We are pleased to announce that FARO ended its fiscal year on December 31, 1997 with record sales and earnings. Sales for 1997 increased 60% over 1996 to $23.5 million. This aggressive growth reflects the continuing acceptance of our unique CAD-based, three-dimensional measurement hardware and software. Product sales represented 95% of sales, Service and Warranty sales represented 3% of sales, and Royalty revenue from patent licensing was 2% of sales.

International sales increased to 35% of total sales in 1997, up from 26% in 1996. This resulted from increased sales from our three European sales offices, as well as our distributors and OEM customers in Europe, Asia/Pacific, and South America. Expansion of our international sales organization remains an important growth strategy for the Company.

Net income for 1997 was $3.2 million, up 128% from the previous year. This growth resulted from our increased sales, as well as from improvements in gross profit, which reflected cost savings related to design improvements in our hardware.

As a result of our initial public offering in 1997, our financial position is strong. Total assets increased to $41.2 million from $7.8 million in 1996. With cash of $29 million and no long-term debt, we have the resources to implement our corporate growth strategy, which includes both internal and external components.

NEW MARKET

One of the most common questions we are asked is, "What is your market, and how big is it?" This is not surprising because ours is a new market, a spin-off of two others: the CAD/CAM software market, and the Metrology, or inspection market. We call this new market Computer Assisted Manufacturing Measurement (CAMM). The demand drivers for this market include both a missing link between CAD/CAM and the manufacturing floor, and the limitations of traditional metrology or inspection devices. Until our FAROArm(R) and AnthroCam(R) products provided the link, manufacturers designing products with CAD software had very limited means to check that the actual manufactured parts matched the design. Based on the size of the CAD/CAM market ($3 billion in 1996) and its expected continued growth, we see the growth of this new CAMM market continuing towards the size of the traditional coordinate measuring machine market, which was $1.2 billion in 1995.

In 1997, approximately 25% of our customers were large Blue Chip companies from a variety of vertical markets, including Aerospace, Automotive, Business and Consumer Machines, Electric Utilities and Manufacturers, Heavy Equipment Manufacturers and others. However, the other 75% of our over 600 customers are smaller companies in these and many other markets, providing a balance and diversity we will continue to seek. The common denominator among the majority of our customers is the same; they need to inspect their assemblies on the factory floor against the CAD model. No single customer represented 10% of sales in 1997. We believe that we are therefore not overly dependent on any one market, or sector.

OUTLOOK

We intend to focus the Company on the Computer Assisted Manufacturing Measurement (CAMM) market. Doing so will include the expansion of our product line through the development and acquisition of additional software and hardware for portable three-dimensional measurement.

We intend to continue to expand our sales force and distribution, both domestic and overseas. We expect that international sales will reach 50% of total sales by the year 2000. In 1998, we will also focus on deepening and broadening the penetration of our installed customer base, especially large manufacturers with multiple facilities.

Our recent expansion more than doubles our output capacity. We now have the ability to respond quickly to market demands with expanded production, sales, and service facilities. We believe that the CAD revolution is incomplete until this virtual design information is brought to the manufacturing floor. The high market energy in this area is palpable and our ability to respond to its demand will determine our future success. The initial public offering in 1997 gives us the access to capital necessary to be a player in our market's expansion and the typical consolidation that follows. We believe we are the leader in bringing 3-D CAD measurement to the manufacturing floor and that we have the technical and market vision to continue without a letup in pace, to lead this new and exciting market.

We would like to thank our shareholders, our employees, our suppliers, and of course our customers for their support in 1997. We invite your participation in our continued growth.

Sincerely,

/s/ Simon Raab, Ph.D.	/s/ Gregory A. Fraser, Ph.D.
Simon Raab, Ph.D. Chairman of the Board, President and Chief Executive Officer	Gregory A. Fraser, Ph.D. Executive Vice President, Secretary, Treasurer and Chief Financial Officer

March 25, 1998

DEMAND DRIVERS

Behind demand for FARO's products lie these four marketplace trends:

- - Global competition: Success in world markets calls for shortened product cycles, increased attention to quality, and advances in productivity.

- - Need for link to CAD: Companies adopting CAD/CAM soon realize they need to verify manufactured parts against the CAD model.

- - Production floor presence: Most subassemblies and components require efficient measurement, not in a lab but on the factory floor.

- - Design sophistication: Innovative designs often require taking measurements never taken before.

FARO TECHNOLOGIES

[PICTURE]

BRIDGING THE VIRTUAL CAD WORLD
AND THE REAL WORLD OF
THE MANUFACTURING FLOOR

[THREE PICTURES OF PEOPLE USING FARO ARM]

Product design and manufacturing, driven by increasing global and competitive pressures for shorter product cycles, greater customization, higher quality and lower cost products, have evolved rapidly during the last decade. Key to that evolution has been the widespread adoption of 3-D software and computer-aided design (CAD) and computer-aided manufacturing (CAM) technology. The worldwide market for CAD, CAM and related 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, according to International Data Corporation.

Despite such technological advances in design and manufacturing, the measurement and quality inspection function generally remains limited to primitive methods--slow, imprecise and not linked to the CAD design. These methods include: manual, analog technology (scales, calipers, micrometers, plumb lines and test fixtures). Traditional, fixed-based coordinate measurement machines (CMMs), which offer high precision, are typically restricted to special labs off the manufacturing floor, where they measure small, readily moved subassemblies. Significant demand has therefore arisen for automated measurement systems for inspection, precision fitting, reverse engineering and numerous other uses--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.

FARO Technologies' innovative software-driven, portable measurement systems bridge the gap. The FAROArm is a portable six-axis device that approximates the range of motion and dexterity of the human arm. Its six to seven major joints, each with a measuring capability, enable the probe at the tip of the arm to reach behind, underneath and into previously inaccessible spaces, touching and measuring complex shapes and ergonomic structures. The counterbalanced arm's complete flexibility, unrestricted positioning and ease of use allow workers to measure more accurately and efficiently than previously possible virtually every size, contour and angle. The simple press of a button captures reliable, instant 3-D information essential to solving quality and fit problems, pinpointing exactly whether, where and by how much a part is out of specification.

The FAROArm is available in a variety of sizes, configurations and precision levels. Lightweight and portable, the arm can be moved to multiple locations on the factory floor to measure large parts and assemblies not easily transported to a conventional CMM, eliminating travel time to and from quality inspection departments. The arm automatically monitors and compensates for temperature changes, enabling it to measure objects with an accuracy of up to three one-thousandths of an inch--precision that meets the intermediate precision need of many manufactured products.

AnthroCam, the Company's proprietary CAD-based measurement software, links the FAROArm with CAD software, enabling users to compare measurements of manufactured components with CAD data. Such comparisons are critical to effective, ongoing quality control. Problems can be corrected immediately, resulting in substantial cost savings while reducing production downtime.

AnthroCam can also be used for direct measurement of features not tied to CAD, and for reverse engineering or modeling of older parts and assemblies which are not documented in CAD drawings.

Based on an open architecture, AnthroCam is a Windows-based, 32-bit application designed to be used with almost any CAD software and host computer. While AnthroCam was created as an enabling software for the FAROArm, it is also sold separately for use with laser trackers, theodolites, CMMs and other 3-D measurement devices. The resulting integration of automated measurement and quality inspection processes with automated design and production creates significant savings by reducing the need for test fixtures, improves productivity by reducing production set-up time, and enhances product quality by maximizing the opportunities to make precise measurements based on engineering specifications.

FAROArm and AnthroCam together bring to measurement an unmatched sophistication necessary to link CAD with the manufactured product, meeting an expanding and as yet unfilled need.

[PICTURE]

FARO PRODUCT FEATURES

The Company's sophisticated measurement products overcome many limitations of hand-measurement tools, test fixtures and conventional CMMs by incorporating the following features:

- - CAD integration

- - Six-axis articulating arm

- - Portability and adaptability

- - Precision levels responsive to industry needs

- - Broad affordability

- - Ease of use

- - Paperless data collection

- - Open architecture

MEASURING UP

Companies of all types and sizes are finding that FARO products can help them solve difficult measurement problems resulting in improved quality, lowered cost and greater productivity.

[PICTURE]

CHAMPION ROAD MACHINERY: ADDRESSING THE SOURCE OF THE PROBLEM

To reduce the number of "reworks," or the custom-fitting of subassemblies to the frames of its road graders, Champion employed the FAROArm and AnthroCam software. Historically, each time component parts did not fit together, Champion had corrected the deviations on a case-by-case basis by custom-fitting the parts--adjusting each part so that it would fit--an expensive solution for a recurring problem. With FARO, Champion can now capture measurement data from the parts and identify the origin of variations. It can address the source of the problems and eliminate them before a fit is attempted, rather than continue to make individual adjustments. Reduced dimensional variation and improved process capability have been the result. Champion has estimated annual savings of $5-$10 million.

[PICTURE]

SOUTHERN CALIFORNIA EDISON: CUTTING "DOWN" TIME

Like other large public utility companies, Southern California Edison (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 its equipment. Common problems encountered by SCE during down-time included: obsolete parts, long waits for replacement parts and difficulty in regaining the full use of damaged parts. Using the FAROArm and AnthroCam, SCE was able to measure large damaged blades and create CAD drawings for quick manufacture of replacements. FARO enabled SCE to bring its power generation units on-line without undue delay and expense.

TEXAS STEEL: REACHING THE UNMEASURABLE

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 not only used the FAROArm to improve the accuracy of dimensional checks of these large castings but also found FARO methods to be safer, faster and more efficient than its previous measurement methods. Texas Steel reported a 75% time savings. It also could measure exceptionally large parts previously unreachable with previous methods. The arm's ease of use encouraged Texas Steel to expand the range of parts checked, further increasing production quality.

[PICTURE]

[PICTURE]

CHRYSLER CANADA CORPORATION: IMPROVING QUALITY

At its Windsor, Ontario plant, Chrysler Canada Corporation manufactures Dodge Ram trucks, vans and wagons. The plant turns out some 420 vehicles per shift, two shifts a day. Chrysler discovered certain fit problems with its large panels and sub-assemblies--vehicle doors were not closing tightly. The automaker also discovered that previous inspection tools--such as test fixtures, templates and patterns--could not meet its requirements for on-site product measurement. Chrysler turned to the FAROArm as an interim solution. Chrysler identified one of its three production lines as its "ideal" or "good" line and used the FAROArm to compare the products produced by the lines and adjust the two "bad" lines. Within two weeks, Chrysler experienced significantly improved product quality. Significant capital savings resulted as well. Overall, there was a 33% improvement in process control for large auto body panels and finished assemblies in less than two years for the entire plant. At the Windsor plant, the FAROArm is now a permanent addition to the factory floor.

BREADTH OF APPEAL

FARO products have been purchased by more than 600 customers worldwide. Representative industries and customers include:

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

APPAREL & 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 & CONSUMER MACHINES
Corning Asahi
Xerox

ELECTRIC POWER
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

Selected Consolidated Financial Data

The following is a summary of selected financial data of the Company and its subsidiaries as of and for each of the five years ended December 31, 1997. The historical consolidated financial data has been derived from the historical financial statements of the Company. These data 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 appearing elsewhere in this document.

Year ended December 31,	1997	1996	1995	1994	1993
STATEMENT OF OPERATIONS DATA:					
Sales	$23,516,385	$14,656,337	$9,862,242	$4,508,837	$5,106,270
Cost of sales	9,610,838	6,486,268	4,987,779	2,222,085	2,266,296
Gross profit	13,905,547	8,170,069	4,874,463	2,286,752	2,839,974
Operating expenses:					
Selling	5,676,113	3,731,762	2,008,301	1,569,014	1,971,177
General and administrative	1,519,657	744,206	503,184	521,040	424,026
Depreciation and amortization	293,996	230,799	341,494	270,615	211,682
Research and development	1,075,505	730,124	363,871	173,400	276,489
Employee stock options	408,000	23,100	106,700	--	--
Total operating expenses	8,973,271	5,459,991	3,323,550	2,534,069	2,883,374
Income (loss) from operations	4,932,276	2,710,078	1,550,913	(247,317)	(43,400)
Other income	499,752	25,145	62,212	11,706	12,648
Interest expense	(110,768)	(212,669)	(355,468)	(192,543)	(110,504)
Income (loss) before income taxes	5,321,260	2,522,554	1,257,657	(428,154)	(141,256)
Income tax expense (benefit)	2,114,630	1,115,892	(342,000)	--	--
Net income (loss)	$ 3,206,630	$ 1,406,662	$1,599,657	$ (428,154)	$ (141,256)
Net income (loss) per common share:					
Basic	$ 0.41	$ 0.20	$ 0.23	$ (0.06)	$ 0.02
Assuming dilution	$ 0.39	$ 0.19	$ 0.22	$ (0.06)	$ (0.02)
Weighted-average common shares outstanding:					
Basic	7,831,715	7,000,000	7,000,000	7,000,000	7,000,000
Assuming dilution	8,189,048	7,349,041	7,166,739	7,149,690	7,149,690

At December 31,	1997	1996	1995	1994	1993
CONSOLIDATED BALANCE SHEET DATA:					
Working capital	$37,277,545	$3,832,424	$1,321,517	$ (718,564)	$ (109,760)
Total assets	41,192,333	7,815,668	5,479,698	4,229,551	3,877,445
Total debt	--	1,501,267	2,200,000	2,925,000	2,100,000
Total shareholders' equity	38,939,411	3,773,699	2,343,937	637,580	1,158,034

FARO TECHNOLOGIES

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 document.

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 measurement and quality inspection functions 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, ranging from small machine shops to such large manufacturing and industrial companies as General Motors, Chrysler, Ford Motor Co., 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 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 Great Britain in 1997. International sales represented 21.6% of sales in 1995, 26.1% of sales in 1996 and 35.0% of sales in 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 products 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.

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 proportionately as costs are projected to be incurred.

Cost of sales consists primarily of material, production overhead and labor. Selling expenses consist primarily of salaries and commissions to sales and marketing personnel, and promotion, advertising, travel and telecommunications. 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,	1997	1996	1995
STATEMENT OF OPERATIONS DATA:			
Sales	100.0%	100.0%	100.0%
Cost of sales	40.9	44.3	50.6
Gross profit	59.1	55.7	49.4
Operating expenses:			
Selling	24.1	25.5	20.4
General and administrative	6.5	5.1	5.1
Depreciation and amortization	1.3	1.6	3.5
Research and development	4.6	5.0	3.7
Employee stock options	1.7	0.2	1.1
Total operating expenses	38.2	37.4	33.8
Income (loss) from operations	20.9	18.3	15.6
Other income	2.1	0.2	0.6
Interest expense	(0.5)	(1.5)	(3.6)
Income (loss) before income taxes	22.5	17.0	12.6
Income tax expense (benefit)	9.0	7.6	(3.5)
Net income (loss)	13.5%	9.4%	16.1%

1997 COMPARED TO 1996

Sales. Sales increased $8.9 million, or 60.5%, from $14.6 million in 1996 to $23.5 million in 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, and the opening of sales offices. International sales increased to 35.0% of total sales in 1997, from 26.1% in 1996, in part because of increased sales in the European countries in which the Company has sales offices, and increased sales to several international distributors.

Gross profit. Gross profit increased $5.7 million, or 70.2%, from $8.2 million in 1996 to $13.9 million in 1997. Gross margin increased from 55.7% in 1996 to 59.1% in 1997. This margin increase was attributable to a reduction in product costs as a result of technological improvements, purchasing economies and production efficiencies.

Selling expenses. Selling expenses increased $1.9 million, or 52.1%, from $3.7 million in 1996 to $5.7 million in 1997. This increase was a result of the Company's expansion of sales and marketing staff in the United States and Europe, and expanded promotional efforts. Specifically, hiring, training, and salary expenses increased $965,000, sales commissions and bonuses increased $378,000, and promotional expenses increased $333,000. Selling expenses as a percentage of sales decreased from 25.5% in 1996 to 24.1% in 1997.

General and administrative expenses. General and administrative expenses increased $775,000, or 104.2%, from $774,000 in 1996 to $1.5 million in 1997. This increase resulted primarily from the hiring of additional administrative personnel, and increases in professional and legal expenses, in part as a result of the Company's periodic reporting requirements with the Securities and Exchange Commission resulting from the Company's initial public offering in September 1997. General and administrative expenses as a percentage of sales increased from 5.1% in 1996 to 6.5% in 1997.

Research and development expenses. Research and development expenses increased $345,000, or 47.3%, from $730,000 in 1996 to $1.1 million in 1997. This increase was primarily a result of a $246,000 increase in hiring, training, and salary cost related to new personnel. Research and development expenses as a percentage of sales decreased from 5.0% in 1996 to 4.6% in 1997, as the growth in these expenses did not match the percentage growth in sales.

Employee stock options expenses. Employee stock options expenses increased $385,000 from $23,000 in 1996 to $408,000 in 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 the grant.

Other income. Other income increased $475,000 from $25,000 in 1996 to $500,000 in 1997. This increase was attributable to interest income on the $30 million proceeds from the Company's initial public offering in 1997.

Interest expense. Interest expense decreased $102,000, or 47.9%, from $213,000 in 1996 to $111,000 in 1997. This reduction was attributable to the refinancing of the Company's indebtedness at a lower interest rate, and also the utilization of the proceeds from the Company's initial public offering to repay all indebtedness.

Income tax expense. Income tax expense increased $999,000, or 89.5%, from $1.1 million in 1996 to $2.1 million in 1997. The provision for income taxes as a percentage of income before income taxes was 44.2% in the twelve months of 1996 and 39.7% in the twelve months of 1997. The lower effective tax rate in 1997 was because of a higher Research and Development tax credit and the creation of a Foreign Sales Corporation.

Net income. Net income increased $1.8 million, or 128.0%, from $1.4 million in 1996 to $3.2 million in 1997. This increase was a result of increased sales, higher gross margin, $442,000 in interest income in 1997 which was zero in 1996, and a lower tax rate.

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 charge 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 tax 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.

LIQUIDITY AND CAPITAL RESOURCES

In September 1997, the Company completed an initial public offering of common stock which provided net proceeds of $31.7 million.

For the year ended December 31, 1997, net cash used by operating activities was $832,000 compared to net cash provided by operating activities of $1.5 million for 1996. Net cash decreased due to an increase in accounts receivable and a decrease in accounts payable.

Net cash used in investing activities was $792,000 for the year ended December 31, 1997 compared to $550,000 for 1996. Net cash used in investing activities increased in 1997 due to a $108,000 increase in product design costs, a $70,000 increase in patent costs, and a $64,000 increase in purchases of property and equipment.

Net cash provided by financing activities for the year ended December 31,1997 was $30.2 million compared to net cash used in financing activities of $715,000 for 1996. Net cash provided by financing activities increased due to the proceeds from the Company's initial public offering in September 1997. The Company invests excess cash balances in short-term investment grade securities, such as money market investments, obligations of the U.S. government and its agencies, and obligations of state and local government agencies.

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 fully amortized in the ensuing year. The Company had available borrowings under the Agreement totaling approximately $2 million as of December 31, 1997. Interest accrues at the 30-day commercial paper rate plus 2.7% and is paid monthly. Borrowings under the Agreement 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. There were no outstanding borrowings under this loan agreement at December 31, 1997.

In April 1997, the Company obtained a one-year secured $1.0 million line of credit which bears interest at the 30-day commercial paper rate plus 2.65% per annum (8.65% at December 31, 1997). There were no outstanding borrowings under this loan agreement at December 31, 1997.

The Company's principal commitments at December 31, 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 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 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 12 months. The Company believes that it will have adequate capital to cover these expenses at least through 1998.

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 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.

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 1998.

YEAR 2000

The inability of computers, software and other equipment utilizing microprocessors to recognize and properly process data fields containing a two-digit year is commonly referred to as the Year 2000 Compliance issue. As the year 2000 approaches, such systems may be unable to accurately process certain date-based information.

The Company is in the process of identifying all significant applications that will require modification to ensure Year 2000 Compliance. Internal and external resources are being used to make the required modifications and test Year 2000 Compliance. The modification process of all significant applications is substantially complete. The Company plans on completing the testing process of all significant applications by December 31, 1998.

In addition, the Company is in the process of initiating formal communications with others with whom it does significant business to determine their Year 2000 Compliance readiness and the extent to which the Company is vulnerable to any third party Year 2000 issues. However, there can be no guarantee that the systems of other companies on which the Company's systems rely will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the Company.

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 any given year. These costs and the date on which the Company plans to complete the Year 2000 modification and testing processes are 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No.130). This statement establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. 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. SFAS No.130 does not require a specific format for that financial statement but requires that an enterprise display an amount representing total comprehensive income for the period in that financial statement. Additionally, SFAS No.130 requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. This Statement is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. Management has not determined the effect of this statement on its financial statement disclosure.

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.

CERTAIN FORWARD-LOOKING INFORMATION

Certain matters discussed in this document 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 and 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; and general economic conditions.

FARO TECHNOLOGIES

CONSOLIDATED BALANCE SHEETS

December 31,	1997	1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$28,815,069	$ 263,342
Accounts receivable-- net of allowance	6,159,173	2,992,681
Inventories	4,275,376	3,298,744
Prepaid expenses	109,649	40,871
Deferred taxes	126,572	102,500
Total current assets	39,485,839	6,698,138
PROPERTY AND EQUIPMENT -- At cost:		
Leasehold improvements	--	14,938
Machinery and equipment	1,014,309	700,799
Furniture and fixtures	605,913	453,892
Total	1,620,222	1,169,629
Less accumulated depreciation	792,442	568,279
Property and equipment-- net	827,780	601,350
PATENTS AND LICENSES -- net of accumulated amortization of $321,261 and $270,925, respectively	639,693	486,480
PRODUCT DESIGN COSTS	108,286	--
DEFERRED TAXES	130,735	29,700
TOTAL ASSETS	$41,192,333	$7,815,668
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ --	$ 611,111
Accounts payable and accrued liabilities	1,196,967	1,710,814
Income taxes payable	413,167	128,216
Current portion unearned service revenues	476,802	185,180
Customer deposits	121,358	230,393
Total current liabilities	2,208,294	2,865,714
UNEARNED SERVICE REVENUES-- less current portion	44,628	286,099
LONG-TERM DEBT-- less current portion	--	890,156
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, 9,919,000 and 7,000,000 issued and outstanding, respectively	9,919	7,000
Additional paid-in capital	36,502,004	3,961,564
Retained earnings (accumulated deficit)	3,018,265	(188,365)
Unearned compensation	(464,480)	(6,500)
Cumulative translation adjustments	(126,297)	--
Total shareholders' equity	38,939,411	3,773,699
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$41,192,333	$7,815,668

See notes to consolidated financial statements.

FARO TECHNOLOGIES

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31,	1997	1996	1995
SALES	$23,516,385	$14,656,337	$9,862,242
COST OF SALES	9,610,838	6,486,268	4,987,779
Gross profit	13,905,547	8,170,069	4,874,463
OPERATING EXPENSES:			
Selling	5,676,113	3,731,762	2,008,301
General and administrative	1,519,657	744,206	503,184
Depreciation and amortization	293,996	230,799	341,494
Research and development	1,075,505	730,124	363,871
Employee stock options	408,000	23,100	106,700
Total operating expenses	8,973,271	5,459,991	3,323,550
INCOME FROM OPERATIONS	4,932,276	2,710,078	1,550,913
OTHER INCOME (EXPENSE):			
Other income	499,752	25,145	62,212
Interest expense	(110,768)	(212,669)	(355,468)
INCOME BEFORE INCOME TAXES	5,321,260	2,522,554	1,257,657
INCOME TAX EXPENSE (BENEFIT)	2,114,630	1,115,892	(342,000)
NET INCOME	$ 3,206,630	$ 1,406,662	$1,599,657
NET INCOME PER COMMON SHARE-- BASIC	$ 0.41	$ 0.20	$ 0.23
NET INCOME PER COMMON SHARE-- ASSUMING DILUTION	$ 0.39	$ 0.19	$ 0.22

See notes to consolidated financial statements.

FARO TECHNOLOGIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Additional Paid-in	Retained Earnings (Accumulated)	Unearned Compen-	Cumulative Translation	
	Share	Amounts	Capital	Deficit)	sation	Adjustment	Total
BALANCE, JANUARY 1, 1995	7,000,000	$7,000	$ 3,825,264	$(3,194,684)	--	--	$ 637,580
Granting of employee and director 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	(1,595,027)	(39,800)	--	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	(188,365)	(6,500)	--	3,773,699
Granting of employee and director stock options			866,793	--	(501,834)	--	364,959
Amortization of unearned compensation			--	--	43,854	--	43,854
Issuance of common stock	2,919,000	2,919	31,673,647	--	--	--	31,676,566
Currency translation adjustment			--	--	--	$(126,297)	(126,297)
Net income			--	3,206,630	--	--	3,206,630
BALANCE, DECEMBER 31, 1997	9,919,000	$9,919	$36,502,004	$ 3,018,265	$(464,480)	$(126,297)	$38,939,411

See notes to consolidated financial statements.

FARO TECHNOLOGIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,	1997	1996	1995
OPERATING ACTIVITIES:			
Net income	$ 3,206,630	$ 1,406,662	$ 1,599,657
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	293,996	230,799	341,494
Product design costs	--	--	531,186
Employee stock options	408,000	23,100	106,700
Provision for bad debts	--	28,432	24,806
Provision for obsolete inventory	--	--	27,629
Deferred income taxes	(125,107)	232,800	(365,000)
Loss on the sale of fixed assets	10,850	--	--
Changes in operating assets and liabilities:			
Decrease (Increase) in:			
Accounts receivable	(3,292,789)	(843,349)	(1,147,174)
Notes receivable	--	--	47,947
Inventory	(976,632)	(1,230,457)	(453,120)
Prepaid expenses and other assets	(68,778)	55,435	(47,193)
Increase (Decrease) in:			
Accounts payable and accrued liabilities	(513,847)	990,993	126,925
Income taxes payable	284,951	105,216	23,000
Unearned service revenues	50,151	471,278	--
Customer deposits	(109,035)	53,460	118,865
Net cash (used in) provided by operating activities	(831,610)	1,524,369	935,722
INVESTING ACTIVITIES:			
Purchases of property and equipment	(480,127)	(416,162)	(210,868)
Payment of patent costs	(203,549)	(134,046)	(74,088)
Payments for product design costs	(108,286)	--	--
Net cash used in investing activities	(791,962)	(550,208)	(284,956)
FINANCING ACTIVITIES:			
Repayment of related party loans	--	(2,200,000)	(725,000)
Proceeds from debt	--	1,625,816	--
Payments on debt	(1,501,267)	(140,556)	--
Proceeds from issuance of common stock, net	31,676,566	--	--
Net cash provided by (used in) financing activities	30,175,299	(714,740)	(725,000)
INCREASE (DECREASE) IN CASH	28,551,727	259,421	(74,234)
CASH, BEGINNING OF YEAR	263,342	3,921	78,155
CASH, END OF YEAR	$28,815,069	$ 263,342	$ 3,921
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 110,768	$ 256,654	$ 352,987
Cash paid for income taxes	$ 1,951,286	$ 777,876	$ --

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 1997, 1996 and 1995

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 three primary offices located in France, Germany and the United Kingdom. Faro France, s.a.s, commenced operations in July 1996.

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

Revenue Recognition, Product Warranty and Extended Maintenance Contracts -- Revenue related to the Company's 3-D measurement equipment is recognized upon shipment. Extended maintenance plan revenues are recognized proportionately as maintenance costs are projected to be incurred. 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.

Cash and Cash Equivalents -- The Company considers cash on hand and amounts on deposit with financial institutions which have original maturities of three months or less to be cash.

Inventories -- Inventories are stated at the lower of average cost or market value. For 1996, inventories are stated at the lower of cost (determined on the first-in, first-out method) or market value. The change from the first-in, first-out method to the average cost method of inventory valuation did not have a material effect on the Company's consolidated financial statements. In order to achieve a better matching of production costs with the revenues generated in production, certain fixed overhead costs and certain general and administrative costs that are related to production are capitalized into inventory when they are incurred and are charged to cost of sales as product costs at the time of sale.

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

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

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

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

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

Product Design Costs -- Costs incurred in the development of products after technological feasibility is attained are capitalized and amortized using the straight-line method over the estimated economic lives of the related products, not to exceed three years. During 1996 and 1995, the Company's products had an economic life of less than one year, due to the rate of technological development. As a result, $531,186 of unamortized product design costs at January 1, 1995 were charged to cost of sales in 1995.

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.

Earnings Per Share -- During the year ended December 31, 1997, the Company adopted SFAS 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. All EPS data presented has been restated to conform with the requirements of SFAS No. 128.

A reconciliation of the number of common shares used in calculation of basic and diluted EPS is presented below:

Years Ended December 31,	1997		1996		1995	
	Shares	Per-Share Amount	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic EPS						
Weighted-Average Shares	7,831,715	$0.41	7,000,000	$0.20	7,000,000	$0.23
Effect of Dilutive Securities						
Stock Options	355,495		349,041		166,739	
Warrants	1,838					
Diluted EPS						
Weighted-Average Shares and Assumed Conversions	8,189,048	$0.39	7,349,041	$0.19	7,166,739	$0.22

Earnings per share for the years ended December 31, 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 option grants 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.

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

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.

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

Effective January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). SFAS No. 123 establishes a fair value-based method of accounting for stock-based employee compensation plans; however, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under the fair value-based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. The Company has elected to continue to account for its employee stock compensation plans under APB Opinion No. 25 with pro forma disclosures of net earnings and earnings per share, as if the fair value-based method of accounting defined in SFAS No. 123 has been applied. See Note 8.

New Accounting Standards -- In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130). This statement establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. 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. SFAS No. 130 does not require a specific format for that financial statement but requires that an enterprise display an amount representing total comprehensive income for the period in that financial statement. Additionally, SFAS No. 130 requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. This Statement is effective for fiscal years

beginning after December 15, 1997. Reclassification of financial statements for earlier periods, provided for comparative purposes, is required. Management has not determined the effect of this statement on its financial statement disclosure.

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.

2. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable are net of an allowance for doubtful accounts of $9,534 for the years ended December 31, 1997 and 1996.

3. INVENTORIES

Inventories consist of the following:

December 31,	1997	1996
Raw materials	$2,432,194	$1,888,227
Finished goods	804,827	472,408
Sales demonstration	1,038,355	938,109
	$4,275,376	$3,298,744

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 Agreement totaling approximately $2 million as of December 31, 1997. Interest accrues at the 30-day commercial paper rate plus 2.7% and is payable monthly. Borrowings under the Agreement 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. No borrowings were outstanding under this line of credit as of December 31, 1997.

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. No borrowings were outstanding under this line of credit as of December 31, 1997.

5. RELATED PARTY TRANSACTIONS

Leases -- The Company leases its plant and office building from Xenon Research, Inc. ("Xenon"). All of the outstanding capital stock of Xenon is owned by Simon Raab and his spouse. Simon Raab is the Chairman of the Board, President and Chief Executive Officer of the Company. 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 $150,000 for both 1997 and 1996, and $148,000 for 1995.

During the year ended December 31, 1997, the Company's Board of Directors gave approval to the Company to amend the existing lease agreement with Xenon to include additions to the existing premises which are being constructed by Xenon. Upon completion of the expansion premises, rent under the lease will increase approximately $150,000 per year. Increased payments under the lease are scheduled to commence on the earlier of (a) the date Xenon obtains a certificate of occupancy or (b) the Company takes occupancy. The Company expects to take occupancy of the expansion premises during the first quarter of 1998.

Notes -- 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 $355,468 in 1995 and $185,585 in 1996.

6. INCOME TAXES

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

	1997	1996	1995
Current:			
Federal	$1,945,035	$ 721,700	$ 23,000
State	294,702	161,392	--
	2,239,737	883,092	23,000
Deferred:			

Federal	(108,646)	221,100	(334,000)
State	(16,461)	11,700	(31,000)
	(125,107)	232,800	(365,000)
	$2,114,630	$1,115,892	$(342,000)

Income taxes for the years ended December 31, 1997 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:

	1997	1996	1995
Tax expense at statutory rate	$ 1,809,228	$ 857,700	$ 428,000
State income taxes, net of federal benefit	181,713	114,200	46,000
Research and development credit	(64,893)	--	(30,000)
Nondeductible items	159,198	61,000	--
Other	29,384	82,992	--
Change in deferred tax asset valuation allowance	--	--	(786,000)
Total income tax expense (benefit)	$ 2,114,630	$1,115,892	$(342,000)

The components of the Company's net deferred tax asset at December 31, 1997 and 1996 are as follows:

	1997	1996
Deferred tax assets:		
Employee stock option	$200,599	$ 51,300
Unearned service revenue	178,271	186,200
Other	14,770	9,400
Gross deferred assets	393,640	246,900
Deferred tax liabilities:		
Patent amortization	72,963	88,200
Depreciation	22,979	26,500
Product design costs	40,391	--
Gross deferred tax liabilities	136,333	114,700
Net deferred tax asset	$257,307	$132,200

7. COMMITMENTS

The following is a schedule of future minimum lease payments required under noncancelable leases, including leases with related parties (see Note 5), in effect at December 31, 1997:

Year Ending December 31,	Amount
1998	$ 395,000
1999	342,500
2000	337,600
2001	55,300
Total future minimum lease payments	$1,130,400

8. STOCK OPTION PLANS

In 1993, the Company adopted the Employee Stock Option Plan (the "1993 Plan"). The Company reserved 1,000,000 shares of common stock for issuance to eligible employees under the Plan. On December 19, 1995, the Company granted 243,265 options to purchase shares of common stock of the Company to certain employees at exercise prices of $0.36. These options vested over four years from January 1, 1992 or the date of the optionee's employment, whichever was later, and became exercisable to the extent vested upon completion of the Company's initial public offering in September 1997. At December 31, 1995, the value of one share of common stock was determined to be $1.07, based on a third-party offer for Company stock.

On January 1, 1997, the Company granted options to purchase 133,218 shares of common stock of the Company pursuant to the 1993 Plan at an exercise price of $3.60 per share. These options vest over a period of three years beginning September 23, 1998, and are exercisable upon vesting.

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 an exercise price of $0.36 per share. Such options were immediately vested and became exercisable upon completion of the Company's initial public offering in September 1997; consequently, the associated compensation expense has been recorded during the year ended December 31, 1997.

In July 1997, the Company adopted the 1997 Employee Stock Option Plan (the "1997 Plan") that provides for the grant to key employees of the Company of incentive or nonqualified stock options. An aggregate of 750,000 shares of common stock are reserved for issuance pursuant to the 1997 Plan. The 1997 Plan is administered by the Compensation committee of the Board of Directors, which has broad discretion in the granting of awards. The exercise price of all options granted under the 1997 Plan must be at least equal to the fair market value of the common stock on the date of grant. During the year ended December 31, 1997, Simon Raab, President and Chief Executive Officer and Gregory A. Fraser, Chief Financial Officer were granted 80,000 and 60,000 options, respectively, under the 1997 Plan. Also, 74 other employees were granted options to purchase a total of 188,000 shares of common stock at the exercise price of $12.00 per share, which represented the fair value of such shares (except for options granted to Simon Raab at an exercise price of $13.20 per share to qualify for treatment as incentive stock options). All options issued under the 1997 Plan 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 Director Plan") which provides for the grant of nonqualified stock options to members of the Board of Directors who are not employees of the Company. Although adopted in July 1997, the Non-Employee Director Plan was not effective until September 18, 1997, upon completion of the Company's initial public offering. An aggregate of 250,000 shares of Common Stock of the Company have been reserved for issuance under the Non-Employee Director Plan. Under the Non-Employee Director Plan, each nonemployee director shall automatically be granted options to purchase 3,000 shares of the Company's common stock (i) on the effective date of the Non-Employee Director Plan if serving on the Board as of such date, or (ii) on the date on which he or she is first elected or appointed, if he or she is subsequently elected or appointed to the Board. Additionally, the Non-Employee Director Plan provides that each nonemployee director shall automatically be granted options to purchase 3,000 shares of common stock of the Company on the day following the annual meeting of shareholders at which he or she is reelected to the Board. Formula grants under the Non-Employee Director Plan become exercisable in one-third increments on the first, second and third anniversary of the date of grant. The exercise price of options granted under the Non-Employee Director Plan is equal to the fair market value of the Company's common stock as defined in the Plan. Options granted under the Non-Employee Director Plan, other than pursuant to the above formula, may only be granted upon specific approval of each grant by the Board, which has the discretion to establish a vesting schedule different than the established vesting schedule of formula options.

On September 18, 1997, the effective date of the Non-Employee Director Plan, each nonemployee Director was granted options to purchase 3,000 shares of common stock at exercise prices of $12.00 per share. Additionally, pursuant to the Non-Employee Director Plan on September 18, 1997, outside Directors, other than Martin Koshar, were granted options to purchase an aggregate of 160,000 shares of common stock of the Company at exercise prices of $12.00 per share in consideration for their prior service on the Board. The nonformula option grants were immediately vested.

Compensation cost charged to operations associated with the Company's stock option plans was $408,000, $23,100 and $106,700 in 1997, 1996 and 1995, respectively. Compensation cost was based on the difference between the 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 1997, 1996 and 1995, 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:

	1997	1996	1995
Net income			
As reported	$3,206,630	$1,406,662	$1,599,657
Pro forma	2,345,551	1,382,140	1,572,628
Income per share -- Basic			
As reported	$ 0.41	$ 0.20	$ 0.23
Pro forma	0.30	0.19	0.22
Income per share -- Assuming dilution			
As reported	$ 0.39	$ 0.19	$ 0.22
Pro forma	0.29	0.19	0.22

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 granted in 1997 and 1995: dividend yield of 0%, expected volatility of 46.33% and 90% for 1997 and 1995, respectively, risk-free interest rate of 5.63%, and expected life ranging from 3 to 10 years. There were no stock options granted in 1996.

A summary of the status of options under the Company's stock-based compensation plans as of December 31, 1997 and 1996, and changes during the years ending on those dates is as follows:

1997	Options	Weighted-Average Exercised Price
Outstanding at beginning of year	190,512	$0.36
Granted	797,001	9.90
Forfeited	(31,790)	9.67
Outstanding at end of year	955,723	8.00
Grants exercisable at year-end	498,680	--
Weighted-average fair value of options granted during the year	$ 4.82	--
1996		
Outstanding at beginning of year	210,902	$0.36
Granted	--	--
Forfeited	(20,390)	0.36
Outstanding at end of year	190,512	0.36
Grants exercisable at year-end	--	--
Weighted-average fair value of options granted during the year	--	--
1995		
Outstanding at beginning of year	--	--
Granted	210,902	$0.36
Forfeited	--	--
Outstanding at end of year	210,902	0.36
Grants exercisable at year-end	--	--

Weighted-average fair value of options granted during the year	$ 1.00	--

The following table summarizes information about the outstanding grants at December 31, 1997:

Exercise Price	Options Outstanding	Weighted-Average Remaining Contractual Life	Options Exercisable
$ 0.36	243,244	4.75	238,680
3.57	131,479	6.75	--
12.00	481,000	9.75	160,000
13.20	100,000	4.75	100,000
	955,723		498,680

Remaining non-exercisable options as of December 31, 1997 become exercisable as follows:

1998	155,390
1999	150,826
2000	150,827
	457,043

9. BENEFIT PLAN

During 1996, the Company established a defined contribution retirement plan (401(k)) 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 compensation. The Company made no contribution to the Plan in 1996 or 1997.

FARO TECHNOLOGIES

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, 1997	$15,599,150	$2,201,848	$4,135,982	$560,872	$1,018,533	$23,516,385
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

11. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Quarter Ended	MARCH 31, 1997	JUNE 30, 1997	SEPTEMBER 30, 1997	DECEMBER 31, 1997
Sales	$4,889,471	$5,429,064	$5,909,306	$7,288,544
Gross profit	2,940,922	3,189,333	3,530,192	4,245,100
Net income	719,731	535,877	829,115	1,121,907
Net income per share:				
Basic	$ 0.09	$ 0.07	$ 0.11	$ 0.11
Assuming dilution	0.09	0.07	0.11	0.11

Quarter Ended	March 31, 1996	June 30, 1996	September 30, 1996	December 31, 1996
Sales	$3,037,610	$3,422,503	$4,083,193	$4,113,031
Gross profit	1,850,944	1,864,175	2,327,073	2,127,877
Net income	397,061	285,099	503,989	220,513
Net income per share:				
Basic	$ 0.06	$ 0.04	$ 0.07	$ 0.03
Assuming dilution	0.05	0.04	0.07	0.03

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, 1997 and 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. 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 audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 audit 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, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Jacksonville, Florida
February 13, 1998

CORPORATE INFORMATION

EXECUTIVE OFFICERS

Simon Raab (44)
Chairman of the Board, President and
Chief Executive Officer

Gregory A. Fraser (42)
Chief Financial Officer and
Executive Vice President

SENIOR MANAGEMENT

Daniel T. Buckles (42)
Vice President -- Sales

Ali S. Sajedi (37)
Chief Engineer

DIRECTORS

Simon Raab (1) (44)
Chairman of the Board, President and
Chief Executive Officer; Co-founder; Director since 1982

Gregory A. Fraser (42)
Chief Financial Officer, Executive Vice President, Secretary and Treasurer;
Co-founder; Director since 1982

Hubert d'Amours (1,2) (58)
President, Montroyal Capital Inc. and Capimont Inc. both Montreal, Canada
(venture capital investment); Director, FARO Technologies, Inc. since 1990

Philip R. Colley (59)
President, Colley, Borland and Vale Insurance Brokers Ltd., Ontario, Canada;
Director, FARO Technologies, Inc. since 1984

Andre Julien (1,2) (54)
Private consultant, retired co-founder of Performance Sail Craft, Inc.,
Montreal, Canada, and retired President and owner of Chateau Paints, Inc.,
Montreal, Canada; Director, FARO Technologies, Inc. since 1986

Alexandre Raab (72)
Chairman, privately-held Advanced Agro Enterprises, Ontario, Canada, and former
Chief Executive Officer, privately-held White Rose Nurseries, Ltd., Markham,
Ontario, Canada; Director, FARO Technologies, Inc. since 1982

Norman H. Schipper, Q.C. (67)
Partner, Goodman, Phillips & Vineberg, Toronto, Canada (law firm); Director,
FARO Technologies, Inc. since 1982

1) Member, Audit Committee
2) Member, Compensation Committee
( ) Age

TRANSFER AGENT & REGISTRAR
Firstar Trust Company
Milwaukee, Wisconsin

AUDITORS
Deloitte & Touche LLP
Jacksonville, Florida

LEGAL COUNSEL
Foley & Lardner
Tampa, Florida

COMMON STOCK MARKET PRICES AND DIVIDENDS
The Company's Common Stock, par value $.01 per share, began trading
on the NASDAQ Stock Market on September 18, 1997, under the symbol FARO. Before
that date, there was no established public trading market for the Common Stock.
The following table sets forth, for the period indicated, the high and low sales
prices of the Common Stock.

Period	High	Low
September 18, 1997 - December 31, 1997	$18 1/8	$9 3/8

The Company has not paid any cash dividends on its Common Stock to date. The
payment of dividends, if any, in the future is within the discretion of the
Board of Directors and will depend on the Company's earnings, its capital
requirements and financial condition, and may be restricted by future credit
arrangements entered into by the Company. The Company expects to retain any
future earnings for use in operating and expanding its business and does not
anticipate paying any cash dividends in the reasonably foreseeable future.

10-K REPORT
FARO Technologies, Inc.'s annual report to the Securities and Exchange Commission on Form 10-K will be provided to holders of the Company's securities at no charge when available. Contact: Investor Relations at 800-736-0234.

ANNUAL STOCKHOLDERS' MEETING
Date: April 27, 1998
Time: 10 A.M.
Location: 125 Technology Park Drive
Lake Mary, FL 32746

FARO USA

CORPORATE HEADQUARTERS -- FLORIDA
FARO Technologies, Inc.
125 Technology Park
Lake Mary, FL 32746-6204
Phone: 407-333-9911
Facsimile: 407-333-4181

KANSAS
1133 S. Rock Road
Suite 3-361
Wichita, KS 67207
Phone: 316-523-1504
Facsimile: 316-526-8535

ILLINOIS
1415 West 22nd Street
Tower Floor
Oak Brook, IL 60523
Phone: 630-571-3400
Facsimile: 630-571-3401

CALIFORNIA
5230 Pacific Concourse Drive
Suite 226
Los Angeles, CA 90045
Phone: 310-536-7001
Facsimile: 310-536-7003

MICHIGAN
39111 West Six Mile Road
Suite 101
Livonia, MI 48152
Phone: 734-591-6742
Facsimile: 734-591-6753

WASHINGTON
500 108th Avenue NE
Suite 800
Bellevue, WA 98004
Phone: 425-688-3533
Facsimile: 425-688-3534

FARO EUROPE

FARO FRANCE
117 Av. Pierre et Marie Curie
45800 St. Jean de Braye
France
Phone: 011-33-2-38-70-02-55
Facsimile: 011-33-2-38-70-05-77

FARO DEUTSCHLAND
Karistr. 31
89073 Ulm
Germany
Phone: 011-49-731-141-0130
Facsimile: 011-49-731-141-0129

FARO UK
42 Warwick Road
Kenilworth
Warwickshire, C8V 1HE England
Phone: 011-44-1926-863-036
Facsimile: 011-44-1926-851-238

Printed on recycled paper.

EXHIBIT 21.1

FARO TECHNOLOGIES, INC.
a Florida corporation

Subsidiaries

1. FARO Worldwide, Inc.
   a Florida corporation

2. FARO France SAS
   a French corporation

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in this Annual Report of FARO Technologies, Inc. on Form 10-K of our report dated February 13, 1998, appearing in the 1997 Annual Report to Shareholders of FARO Technologies, Inc.

We also consent to the incorporation by reference in Registration Statements Nos. 333-41115, 333-41125, 333-41131, and 333-41135 of FARO Technologies, Inc. on Form S-8 of our report dated February 13, 1998, incorporated by reference in this Annual Report on Form 10-K of FARO Technologies, Inc. for the year ended December 31, 1997.

Jacksonville, Florida
March 26, 1998

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1997 AND THE CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FILING ON FORM 10-K FOR THE ANNUAL PERIOD ENDED DECEMBER 31, 1997.

YEAR	
DEC-31-1997	
JAN-01-1997	
DEC-31-1997	
	28,815,069
	0
	6,168,707
	9,534
	4,275,376
	39,485,839
	1,620,222
	792,442
	41,192,333
	2,208,294
	0
	0
	0
	0
	9,919
	38,929,492
	41,192,333
	23,516,385
	24,016,137
	9,610,838
	8,973,271
	0
	0
	110,768
	5,321,260
	2,114,630
	0
	0
	0
	0
	3,206,630
	.41
	.39

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FROM THE CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 1997 AND THE CONSOLIDATE STATEMENT OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FILING ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1997.

9-MOS
DEC-31-1997
SEP-30-1997
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
.29
.28

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 1997 AND THE CONSOLIDATED STATEMENT OF INCOME FOR THE SIX MONTHS ENDED JUNE 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FILING ON FORM S-1 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1997.

6-MOS
DEC-31-1997
JUN-30-1997
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
.18
.17

THIS SCHEDULE CONTAINS SUMMARY FINANIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1996 AND THE CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FILING ON FORM S-1 FOR THE ANNUAL PERIOD ENDED DECEMBER 31, 1996.

YEAR
DEC-31-1996
DEC-31-1996
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
0
.20
.19