SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2001

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

For the transition period from _________ to __________

Commission File Number: 0-23081

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Class: Voting Common Stock, $.001 Par Value Outstanding at May 11, 2001:
11,030,706

FARO Technologies, Inc.
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FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	MARCH 31, 2001	DECEMBER 31, 2000
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,463,312	$ 8,029,318
Short term investments - at cost (Note C)	7,461,071	6,218,636
Accounts receivable - net of allowance	8,922,287	10,352,972
Inventories (Note D)	6,726,678	6,364,290
Prepaid expenses and other assets	1,183,673	1,112,881
Deferred income taxes	203,816	203,816
Total current assets	30,960,837	32,281,913
PROPERTY AND EQUIPMENT - at cost:		
Machinery and equipment	3,710,344	3,580,892
Furniture and fixtures	1,295,332	1,253,248
Leasehold improvements	91,738	89,171
Total	5,097,414	4,923,311
Less accumulated depreciation	(3,335,326)	(3,121,029)
Property and equipment, net	1,762,088	1,802,282
INTANGIBLE ASSETS - net	3,567,352	4,055,337
INVESTMENTS - at cost (Note C)	4,147,015	4,755,572
NOTES RECEIVABLE (Note E)	1,128,846	1,128,846
DEFERRED INCOME TAXES	675,324	675,324
TOTAL ASSETS	$ 42,241,462	$ 44,699,274

LIABILITIES AND SHAREHOLDERS' EQUITY

	MARCH 31, 2001	DECEMBER 31, 2000
CURRENT LIABILITIES:		
Accounts payable	$ 3,178,444	$ 2,965,417
Accrued liabilities	3,766,210	4,137,801
Income tax payable	73,927	684,409
Current portion of unearned service revenues	846,648	687,566
Customer deposits	155,578	133,984
Total current liabilities	8,020,807	8,609,177
OTHER LONG-TERM LIABILITIES	124,305	134,644
TOTAL LIABILITIES	8,145,112	8,743,821
SHAREHOLDERS' EQUITY:		
Class A preferred stock - par value $.001, 10,000,000 shares authorized, no shares issued and outstanding		
Common stock - par value $.001, 50,000,000 shares authorized, 11,070,706 issued; 11,030,706 outstanding	11,071	11,066
Additional paid-in-capital	47,593,454	47,570,059
Accumulated deficit	(10,395,389)	(9,268,134)
Accumulated other comprehensive loss:		
Cumulative translation adjustments, net of tax	(2,962,161)	(2,206,913)
Treasury stock	(150,625)	(150,625)
Total shareholders' equity	34,096,350	35,955,453
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 42,241,462	$ 44,699,274

See accompanying notes to condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2000
Sales	$ 8,405,530	$ 9,849,767
Cost of sales	3,439,527	3,940,360
Gross profit	4,966,003	5,909,407
Operating expenses:		
Selling	3,429,125	3,630,141
General and administrative	1,383,121	1,295,134
Depreciation and amortization	666,937	638,099
Research and development	921,051	1,001,447
Employee stock options	--	31,671
Total operating expenses	6,400,234	6,596,492
Loss from operations	(1,434,231)	(687,085)
Interest income	236,043	197,249
Interest expense	(354)	--
Other income, net	86,070	72,266
Loss before income taxes	(1,112,472)	(417,570)
Income tax expense	(14,783)	--
Net loss	$(1,127,255)	$ (417,570)
NET LOSS PER SHARE - BASIC	($ 0.10)	($ 0.04)
NET LOSS PER SHARE - DILUTED	($ 0.10)	($ 0.04)

See accompanying notes to condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL		
	SHARES	AMOUNTS	PAID-IN CAPITAL	UNEARNED COMPENSATION	ACCUMULATED DEFICIT
BALANCE, JANUARY 1, 2000	11,059,510	$ 11,060	$ 47,544,844	$ (123,404)	$ (9,307,651)
Net income					39,517
Currency translation adjustment, net of tax					
Comprehensive loss					
Issuance of common stock	5,715	6	25,215	--	--
Amortization of unearned compensation				123,404	
BALANCE, DECEMBER 31, 2000	11,065,225	11,066	47,570,059	--	(9,268,134)
Net loss					(1,127,255)
Currency translation adjustment, net of tax					
Comprehensive loss					
Issuance of common stock	5,481	5	23,395		
BALANCE, MARCH 31, 2001 (Unaudited)	11,070,706	$ 11,071	$ 47,593,454	$ --	$(10,395,389)

	ACCUMUATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	TOTAL
BALANCE, JANUARY 1, 2000	$ (1,374,878)	$ (150,625)	$ 36,599,346
Net income			39,517
Currency translation adjustment, net of tax	(832,035)		(832,035)
Comprehensive loss			(792,518)
Issuance of common stock			25,221
Amortization of unearned compensation			123,404
BALANCE, DECEMBER 31, 2000	(2,206,913)	(150,625)	35,955,453
Net loss			(1,127,255)
Currency translation adjustment, net of tax	(755,248)		(755,248)
Comprehensive loss			(1,882,503)
Issuance of common stock	--	--	23,400
BALANCE, MARCH 31, 2001 (Unaudited)	$ (2,962,161)	$ (150,625)	$ 34,096,350

See accompanying notes to condensed consolidated financial statements

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
OPERATING ACTIVITIES:		
Net loss	$(1,127,255)	$ (417,570)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	666,937	638,099
Bad debt expense	15,000	30,000
Inventory reserve	30,000	(234,561)
Provision for deferred income taxes	1,825	(82,878)
Employee stock options	--	31,671
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	1,025,655	(991,065)
Inventories	(455,166)	(520,079)
Prepaid expenses and other assets	(97,222)	50,282
Increase (decrease) in:		
Accounts payable and accrued liabilities	(45,907)	568,395
Unearned service revenues	160,408	311,348
Income tax payable	(614,727)	--
Customer deposits	28,658	21,337
Net cash used in operating activities	(411,794)	(595,021)
INVESTING ACTIVITIES:		
(Payments for) proceeds from investments, net	(633,879)	1,276,464
Purchases of property and equipment	(200,465)	(225,556)
Payments for intangibles and other	(138,891)	(5,612)
Net cash provided by (used in) investing activities	(973,235)	1,045,296
Payments on debt	(15,158)	(6,094)
Proceeds from issuance of common stock, net	23,400	4,220
Net cash provided by (used in) financing activities	8,242	(1,874)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(189,219)	(169,271)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,566,006)	279,130
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,029,318	6,637,184
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 6,463,312	$ 6,916,314

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000

(UNAUDITED)

NOTE A - DESCRIPTION OF BUSINESS

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

The Company has four wholly-owned subsidiaries FARO FSC, Ltd.; FARO Europe GmbH & Co. KG, a German company, FARO Japan KKK, a Japanese company, and Antares LDA, a Portuguese company. The consolidated financial statements include the accounts of FARO Technologies, Inc. and all wholly-owned subsidiaries (collectively, the "Company"). All significant intercompany transactions and balances have been eliminated. The financial statements of foreign subsidiaries have been translated into U.S. dollars using the current exchange rate in effect at each balance sheet date, for assets and liabilities, and the weighted average exchange rates during each reporting period, for results of operations. Cumulative adjustments resulting from translation of the financial statements are reflected as a separate component of comprehensive loss in the equity section.

NOTE B - BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and footnote disclosure required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated financial position and operating results for the interim periods have been included. The consolidated results of operations for the three months ended March 31, 2001 are not necessarily indicative of results that may be expected for the year ending December 31, 2001. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company as of December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000 included in the Company's 2000 Annual Report to Stockholders.

In June 2000, the FASB issued Statement No. 138, Accounting for Certain Hedging Activities, which amended Statement No. 133, Accounting for Certain Hedging Activities and required concurrent adoption with Statement No. 133. The Company adopted these new Statements effective January 1, 2001. The Company's adoption of these Statements did not have a significant effect on its results of operations or financial position.

NOTE C - CASH AND CASH EQUIVALENT AND INVESTMENTS

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 and cash equivalents. All short-term investments in debt securities which have maturities of three months or less are classified as trading securities, which are carried at market value based upon the quoted market prices of those investments at each respective balance sheet date.

INVESTMENTS - Short-term investments and investments ordinarily consist of debt securities acquired with cash not immediately needed in operations. At March 31, 2001 and December 31, 2000 short-term investments consisted of government agency securities and corporate notes with maturities not exceeding one year. Investments have maturities of at least one year (none have maturities exceeding two years).

Investments consist of the following:

	MARCH 31, 2001	DECEMBER 31, 2000
Government agency securities	$ 1,536,495	$ 898,840
Certificates of deposit	339,000	240,309
Corporate notes	2,271,520	3,616,423
Total investments	$ 4,147,015	$ 4,755,572

NOTE D - INVENTORIES

Inventories consist of the following:

	March 31, 2001	December 31, 2000
Raw materials	$ 639,858	$ 486,002
Work-in-process	1,932,907	1,610,210
Finished goods	855,232	991,169
Sales demonstration	3,298,681	3,276,909
Total inventories	$ 6,726,678	$ 6,364,290

NOTE E - NOTES RECEIVABLE

In 1998, the Company acquired CATS GmbH for total consideration of $16 million (including direct costs of the acquisition), consisting of $5 million in cash, 916,668 shares of the Company's Common Stock and the assumption of certain outstanding liabilities of CATS. The acquisition agreement provided that the Company would provide a loan to each of the two former shareholders of CATS to fund their tax liability in connection with the Company's acquisition of CATS. Such former CATS shareholders remain key employees of the Company.

Pursuant to a Loan Agreement dated August 2, 1999 with each of the former CATS shareholders, the Company agreed to loan to the former CATS shareholders an amount equal to their tax obligation to the German tax authorities in connection with the Company's acquisition of CATS. In June 2000, the German tax authorities issued a tax assessment to each of the former CATS shareholders. In connection therewith, on June 20, 2000 the Company and each of the former CATS shareholders entered into an Amended and Restated Loan Agreement and the Company granted loans to the former CATS shareholders in the aggregate amount of $1.1 million ("the Loans"). The Loans are for a term of three years, at an interest rate of approximately 4.3%, and grant the borrowers an option to extend the term for an additional three years. As collateral for the Loans, the former CATS shareholders pledged to the Company 177,074 shares of the Company's Common Stock. The Loans are a non-recourse obligation of the former CATS shareholders.

NOTE F - EARNINGS PER SHARE

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

	THREE MONTHS ENDED MARCH 31,			
	2001		2000	
	SHARES	PER-SHARE AMOUNT	SHARES	PER-SHARE AMOUNT
Basic EPS	11,030,706	$ (.10)	11,019,836	$ (.04)
Effect of dilutive securities	--		--	
Diluted EPS	11,030,706	$ (.10)	11,019,836	$ (.04)

NOTE G - SEGMENT GEOGRAPHIC DATA

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

The following table presents information about the Company by geographic area:

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
SALES:		
United States	$3,437,678	$4,657,383
Germany	1,492,030	2,065,952
United Kingdom	625,587	951,842
France	939,781	748,196
Other foreign	1,910,454	1,426,394
Total	$8,405,530	$9,849,767

	MARCH 31, 2001	DECEMBER 31, 2000
LONG-LIVED ASSETS (NET):		
United States	$2,287,123	$2,326,790
Germany	2,910,764	3,385,662
Other foreign	131,553	145,167
Total	$5,329,440	$5,857,619

The geographical information presented above represents sales to the respective countries, whereas the long-lived assets are held in the respective countries.

PART I. FINANCIAL INFORMATION

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

THE FOLLOWING INFORMATION SHOULD BE READ IN CONJUNCTION WITH THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY, INCLUDING THE NOTES THERETO, INCLUDED ELSEWHERE IN THIS FORM 10-Q, AND THE MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS INCLUDED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2000.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

SALES. Sales decreased by $1.4 million, or 14.3%, from $9.8 million for the three months ended March 31, 2000 to $8.4 million for three months ended March 31, 2001. The decrease primarily resulted from decreases in product unit sales in all geographic regions and the effect of the stronger U.S. dollar in the first quarter of 2001.

GROSS PROFIT. Gross profit decreased by $900,000 or 16.0%, from $5.9 million for the three months ended March 31, 2000 to $5.0 million for the three months ended March 31, 2001. Gross margin decreased, to 59.1% for the three months ended March 31, 2001 from 60.0% for the three months ended March 31, 2000. The decrease in gross margin was primarily a result of more aggressive sales discounts and lower sales volume in the three months ended March 31, 2001.

SELLING EXPENSES. Selling expenses decreased by $200,000, or 5.6%, from $3.6 million for the three months ended March 31, 2000 to $3.4 million for the three months ended March 31, 2001. This decrease was primarily a result of lower selling expenses in the United States particularly in commissions due to lower sales volume, partially offset by slight increase in Europe and Japan due to higher compensation and marketing expenses and the effect of the stronger U.S. dollar in the first quarter of 2001.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased by $100,000 or 7.7%, from $1.3 million for the three months ended March 31, 2000 to $1.4 million for the three months ended March 31, 2001. The increase was due to increased administrative expenses in the United States, net of the effect of the stronger U.S. dollar in 2001.

DEPRECIATION AND AMORTIZATION EXPENSES. Depreciation and amortization expenses increased by $29,000 or 4.5%, from $638,000 for the three months ended March 31, 2000 to $667,000 for the three months ended March 31, 2001. This increase was primarily due to depreciation on normal asset additions in the first quarter of 2001.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses decreased by $100,000, or 10%, from $1.0 million, for the three months ended March 31, 2000 to $900,000 for the three months ended March 31, 2001 principally as a result of lower R&D expenses in Europe and the effect of the stronger U.S. dollar in 2001.

INTEREST INCOME. Interest income increased by $39,000, or 19.8%, from $197,000 for the three months ended March 31, 2000, to $236,000 for the three months ended March 31, 2001. The increase was primarily attributable to an increase in the average amount of interest-earning cash, cash equivalents, and investments held during the first quarter of 2001 (see Liquidity and Capital Resources below).

NET LOSS. Net loss increased by $670,000 from $418,000 for the three months ended March 31, 2000 to $1.1 million for the three months ended March 31, 2001 due to the factors stated above.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended March 31, 2001, net cash used in operating activities was $412,000 compared to $595,000 for the three months ended March 31, 2000. The decrease was principally due to a decrease in net operating assets offset in part by the increase in operating loss, in 2001. Net cash used in investing activities was $973,000 for the three months ended March 31, 2001, compared to net cash provided of $1.0 million for the three months ended March 31, 2000. The decrease in net cash provided by investing activities is primarily attributable to payments for investments ($634,000) and payments for intangibles ($139,000) in 2001 versus proceeds from investments ($1.3 million) in 2000. Currency exchange rate changes resulted in a $189,000 reduction on the Company's reported cash at March 31, 2001.

In connection with its agreement with SMX Corp. to provide to SMX up to $3.0 million in new financing, the Company provided a $1.5 Million loan to SMX in April 2001.

The Company's principal commitments at March 31, 2001 resulted from leases on its headquarters and regional offices and from leases on motor vehicles and office equipment. 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 facility will be sufficient to satisfy its working capital, loan commitment and capital expenditure needs through the foreseeable future.

FOREIGN EXCHANGE EXPOSURE

Sales outside the United States represent a significant portion of the Company's total revenues. At present, 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, and could specifically result in foreign exchange losses. The impact of future exchange rate fluctuations on the results of operations cannot be accurately predicted. To the extent that the percentage of the Company's non-U.S. dollar revenues derived from international sales increases in the future, the Company's exposure to risks associated with fluctuations in foreign exchange rates will increase. Historically, the Company has not hedged against the risks associated with fluctuations in exchange rates. The Company at present is evaluating its exposure, and may use foreign exchange contracts and/or foreign currency options to hedge these risks in the future.

INFLATION

The Company believes that inflation has not had a material impact on its results of operations in recent years and it does not expect inflation to have a material impact on its operations in 2001.

CONVERSION TO THE EURO

On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency (Euro). The transition period for the introduction of the Euro ends June 30, 2002. After the transition period certain member countries of the European Union are expected to adopt the Euro as their national currency. Issues facing the Company as a result of the introduction of the Euro include converting information technology systems, reassessing currency risk, amending lease agreements and other contracts, and processing tax and accounting records. The Company is addressing these issues and does not expect the Euro to have a material effect on the Company's financial condition or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is incorporated by reference herein to the information contained in this report in Part I, Item 2, under the captions "Foreign Exchange Exposure" and "Inflation."

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

a. The Company's Annual Meeting of Shareholders was held on May 1, 2001.

b. The following members of the Board of Directors were elected to serve until the 2004 Annual Meeting and until their successors are elected and qualified:

	FOR	AGAINST	ABSTAINED
Norman Schipper	9,088,829	-	126,821
Alexandre Raab	9,088,879	-	126,771

The following member of the Board of Directors, who was appointed by the Board during 2000 to fill a vacancy, was elected to serve until the 2002 Annual Meeting and until his successor is elected and qualified:

	FOR	AGAINST	ABSTAINED
Stephen Cole	9,088,879	-	126,771

The following members of the Board of Directors whose term of office as a director continued after the meeting:

Simon Raab, Greg Fraser, Hubert d `Amours, and Andre Julien,

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not involved in any pending legal proceedings other than routine litigation arising in the ordinary course of business. The Company does not believe that the results of such litigation, even if the outcome were unfavorable to the Company, would have a material adverse effect on the Company's business, financial condition or results of operations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a.) Exhibits

None

b.) Reports on Form 8-K

None

SIGNATURES

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

Date: May 14, 2001

FARO TECHNOLOGIES, INC.
(Registrant)

By: /s/ GREGORY A. FRASER

Gregory A. Fraser
Executive Vice President, Secretary and Treasurer
(Duly Authorized Officer and Principal Financial Officer)