SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

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

For the quarterly period ended June 30, 1998

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

For the transition period from _________ to __________

Commission File Number: 0-23081

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

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

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

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

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

Class: Voting Common Stock, $.001 Par Value   Outstanding at August 14, 1998: 11,359,828

FARO Technologies Inc.
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This Amendment on Form 10-Q/A amends the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1998, as filed by the Registrant on August 12, 1998, and is being filed to reflect the restatement of the Registrant's condensed consolidated financial statements (the "Restatement"). The Restatement reflects the revaluation of acquired in-process research and development in connection with the acquisition of CATS on May 15, 1998.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Unaudited)
ASSETS

	DECEMBER 31, 1997	JUNE 30, 1998 (AS RESTATED SEE NOTE C)
CURRENT ASSETS:		
Cash and cash equivalents	$ 28,815,069	$ 22,396,863
Accounts receivable, net of allowance	6,159,173	10,121,298
Inventories	4,275,376	5,249,930
Deferred tax asset	126,572	126,572
Prepaid expenses	109,649	277,516
Total current assets	39,485,839	38,172,179
PROPERTY AND EQUIPMENT - At cost:		
Machinery and equipment	1,014,309	1,564,658
Furniture and fixtures	605,913	890,067
Total	1,620,222	2,454,725
Less accumulated depreciation	(792,442)	(1,000,294)
Property and equipment - net	827,780	1,454,431
INTANGIBLE ASSETS, net of accumulated amortization of $321,261 and $778,896, respectively	747,979	13,641,103
DEFERRED TAXES	130,735	19,000
TOTAL ASSETS	$ 41,192,333	$ 53,286,713

LIABILITIES AND SHAREHOLDERS' EQUITY

	DECEMBER 31, 1997	JUNE 30, 1998
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 1,196,967	$ 3,559,888
Income taxes payable	413,167	--
Customer deposits	121,358	185,756
Current portion unearned service revenues	476,802	272,907
Total current liabilities	2,208,294	4,018,551
UNEARNED SERVICE REVENUES - less current portion	44,628	136,563
TOTAL LIABILITIES	2,252,922	4,155,114
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, 9,919,000 and 11,027,081 issued and outstanding, respectively	9,919	11,027
Additional paid-in-capital	36,502,004	47,497,781
Retained earnings	3,018,265	2,331,940
Unearned compensation	(464,480)	(378,398)
Accumulated other comprehensive income:		
Cumulative translation adjustments	(126,297)	(330,751)
Total shareholders' equity	38,939,411	49,131,599
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 41,192,333	$ 53,286,713

See accompanying notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1998 (AS RESTATED SEE NOTE C)	1997	1998 (AS RESTATED SEE NOTE C)
Sales	$ 5,429,064	$ 7,721,808	$ 10,318,535	$ 14,404,009
Cost of sales	2,239,731	2,779,843	4,188,280	5,461,605
Gross profit	3,189,333	4,941,965	6,130,255	8,942,404
Operating Expenses:				
Selling	1,353,507	2,211,523	2,512,066	3,795,059
General and administrative	319,569	517,136	622,092	1,115,718
Depreciation and amortization	65,773	569,961	124,646	680,323
Research and development	216,766	435,534	394,839	821,978
Employee stock options	360,876	43,041	364,146	86,082
Purchased in-process research and development	--	3,210,000	--	3,210,000
Total operating expenses	2,316,491	6,987,195	4,017,789	9,709,160
Income (loss) from operations	872,842	(2,045,230)	2,112,466	(766,756)
Interest income	--	302,852	--	622,779
Other income	51,877	5,408	46,067	2,754
Interest expense	(31,591)	(7,865)	(65,853)	(7,865)
Income (loss) before income taxes	893,128	(1,744,835)	2,092,680	(149,088)
Income tax expense (benefit)	357,251	(35,119)	837,072	537,237
Net income (loss)	535,877	(1,709,716)	1,255,608	(686,325)
Other Comprehensive Income (Expense)				
Foreign currency translation adjustments	(43,985)	(160,669)	(43,985)	(204,454)
Other comprehensive income (expense)	(43,985)	(160,669)	(43,985)	(204,454)
Comprehensive income (loss)	$ 491,892	$ (1,870,385)	$ 1,211,623	$ (890,779)
Net Income (Loss) Per Common Share - Basic	$ 0.08	$ (0.16)	$ 0.18	$ (0.07)
Net Income (Loss) Per Common Share - Diluted	$ 0.07	$ (0.16)	$ 0.17	$ (0.07)

See accompanying notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)

	COMMON STOCK SHARES	COMMON STOCK AMOUNTS	ADDITIONAL PAID-IN CAPITAL	UNEARNED COMPENSATION
BALANCE, DECEMBER 31, 1997	9,919,000	$ 9,919	$ 36,502,004	$ (464,480)
Common stock issued in connection with acquisition of business	916,668	917	10,394,083	
Registration costs in connection with acquisition of business			(133,391)	
Exercise of stock options	191,413	191	70,612	
Amortization of unearned compensation				86,082
Tax benefit from exercise of stock options			664,473	
Currency translation adjustment				
Net loss for period (As restated, See Note C)				
BALANCE, JUNE 30, 1998 (As restated, See Note C)	11,027,081	$ 11,027	$ 47,497,781	$ (378,398)

	CUMULATIVE TRANSLATION ADJUSTMENT	RETAINED EARNINGS	TOTAL
BALANCE, DECEMBER 31, 1997	$ (126,297)	$ 3,018,265	$ 38,939,411
Common stock issued in connection with acquisition of business			10,395,000
Registration costs in connection with acquisition of business			(133,391)
Exercise of stock options			70,803
Amortization of unearned compensation			86,082
Tax benefit from exercise of stock options			664,473
Currency translation adjustment	(204,454)		(204,454)
Net loss for period (As restated, See Note C)		(686,325)	(686,325)
BALANCE, JUNE 30, 1998 (As restated, See Note C)	$ (330,751)	$ 2,331,940	$ 49,131,599

See accompanying notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	SIX MONTHS ENDED JUNE 30, 1997	SIX MONTHS ENDED JUNE 30, 1998 (AS RESTATED SEE NOTE C)
OPERATING ACTIVITIES:		
Net income (loss)	$ 1,255,608	$ (686,325)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation, amortization and other	124,646	814,157
In-process research and development		3,210,000
Employee stock options	364,146	86,082
Deferred income taxes	(276,302)	259,488
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(1,903,666)	(2,614,372)
Inventories	(479,874)	(944,217)
Prepaid expenses	15,744	(55,507)
Increase (decrease) in:		
Accounts payable and accrued liabilities	139,856	202,206
Income taxes payable	649,090	(413,167)
Customer deposits	52,387	64,398
Unearned service revenues	326,610	(111,960)
Net cash provided by (used in) operating activities	268,245	(189,217)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(264,945)	(664,596)
Payments of patent costs	(148,274)	(87,863)
Payments of product design costs	--	(311,896)
Acquisition of business, net of cash acquired(5,618)	--	(5,306,057)
Net cash used in investing activities	(413,219)	(6,370,412)
FINANCING ACTIVITIES:		
Payments on debt	(831)	--
Proceeds from issuance of common stock, net	--	70,803
Net cash (used in) provided by financing activities	(831)	70,803
EFFECT OF FOREIGN CURRENCY FLUCTUATIONS	--	70,620
DECREASE IN CASH AND CASH EQUIVALENTS	(145,805)	(6,418,206)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	263,342	28,815,069
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 117,537	$ 22,396,863
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 19,226	$ 7,865
Cash paid for income taxes	$ 464,283	$ 74,216
Noncash financing activities:		
Acquisition of business:		
Fair value of assets acquired		$ 17,677,382
Common stock issued		10,395,000
Liabilities assumed		(1,614,000)
Net decrease in deferred tax assets and current tax liability due to exercise of employee stock options		$ 608,565

See accompanying notes to consolidated financial statements.

NOTE A - DESCRIPTION OF ORGANIZATION AND BUSINESS

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

NOTE B - BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and footnote disclosure required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated financial position and operating results for the interim periods have been included. The consolidated results of operations for the three and six months ended June 30, 1998 are not necessarily indicative of results that may be expected for the year ending December 31, 1998. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company as of December 31, 1996 and 1997, and for each of the three years in the period ended December 31, 1997 included in the Company's Annual Report to Stockholders incorporated by reference within the Company's Annual Report of Form 10-K and in conjunction with the Form S-1, as amended, dated August 7, 1998.

NOTE C - RESTATEMENT

Subsequent to the issuance of the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, the Company's management revised the amount of the purchase price which was allocated to in-process research and development ("IPR&D") in accounting for the acquisition of CATS Computer Aided Technologies, Computeranwendungen in der Fertigungssteurung, GmbH ("CATS") in May 1998 (See Note D). The revised allocation is based upon methods prescribed in a letter from the Securities and Exchange Commission ("SEC") sent to the American Institute of Certified Public Accountants in September 1998. The letter sets forth the SEC's views regarding the valuation methodology to be used in allocating a portion of the purchase price to IPR&D at the date of acquisition.

The Company's initial calculations to value the acquired IPR&D were based upon a methodology that focused on the after-tax cash flows attributable to the technology on an overall basis, without regard for stage of completion of individual projects, and the selection of an appropriate rate of return to reflect the risk associated with the stage of completion of the technology.

The revised valuation is based on management's estimates of the net cash flows associated with expected operations of CATS and gives explicit consideration to the SEC's views on acquired IPR&D as set forth in its September 1998 letter to the American Institute of Certified Public Accountants. As a result of the revised valuation, the Company's financial statements for the quarterly period ended June 30, 1998, have been restated to reduce the amount of acquired IPR&D by approximately $11.2 million, and to increase the amount ascribed to other intangible assets by approximately $11.2 million. Amortization expense has also increased by $307 thousand for the three and six months ended June 30, 1998.

A summary of the significant effects of the restatement is as follows:

	AS OF JUNE 30, 1998	
	AS PREVIOUSLY REPORTED	AS RESTATED
BALANCE SHEET DATA:		
Deferred tax asset	$ 526,572	$ 126,572
Intangible assets	2,422,562	13,641,103
Deferred taxes	1,219,000	19,000
Total assets	43,668,172	53,286,713
Accounts payable and accrued liabilities	3,807,768	3,559,888
Total shareholders' equity	39,265,178	49,131,599

	3 MONTHS ENDED JUNE 30, 1998		6 MONTHS ENDED JUNE 30, 1998	
	AS PREVIOUSLY REPORTED	AS RESTATED	AS PREVIOUSLY REPORTED	AS RESTATED
STATEMENT OF OPERATIONS DATA:				
Loss from operations	$(12,901,786)	$ (2,045,230)	$(11,623,312)	$ (766,756)
Income tax expense (benefit)	(1,025,254)	(35,119)	(452,898)	537,237
Net Loss	(11,576,137)	(1,709,716)	(10,552,746)	(686,325)
Net Loss per common share - Basic	$ (1.10)	$ (0.16)	$ (1.03)	$ (0.07)
Net Loss per common share - Diluted	$ (1.08)	$ (0.16)	$ (1.01)	$ (0.07)

NOTE D - ACQUISITION OF CATS

On May 15, 1998, the Company acquired CATS for a total purchase price of $16,069,000 consisting of $5.7 million in cash, 916,668 shares of common stock and the assumption of certain outstanding liabilities of CATS. In addition, 333,332 shares of common stock will be issued provided CATS meets certain sales performance goals. The purchase price includes direct costs of the acquisition in the amount of $674,000.

The acquisition was recorded under the purchase method of accounting and the final allocation among tangible and intangible assets and liabilities is as follows:

Tangible assets	$ 1,522,000
Intangible assets:	
Developed and core technology	8,940,000
Workforce in place	550,000
Customer relations	590,000
Goodwill	2,871,000
In process technology	3,210,000
Liabilities	(1,614,000)
	$ 16,069,000

The valuation of developed and core technology and in-process technology was based on management's estimates of after tax net cash flows and gives explicit consideration to the Securities and Exchange Commission's ("SEC") recent views on in-process research and development in purchase transactions. In allocating the purchase price, the Company considered the present value of cash flows and income, the status of projects, completion costs and project risk. Specifically, the Company considered (1) the value of core technology and ensured that the relative allocations to core technology and in process technology were consistent with the relative contributions of each of the final products and (2) the stage of completion of the individual projects and ensured that the value considered only the efforts completed as of the transaction date.

The amount allocated to in-process research and development of $3.2 million was expensed upon acquisition, as it was determined that the underlying projects had not reached technological feasibility, had no alternative future use and successful future development was uncertain. The operating results of CATS have been included in the consolidated statements since the date of acquisition.

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

	THREE MONTHS ENDED JUNE 30, 1998	SIX MONTHS ENDED JUNE 30, 1998
Revenues	$ 8,004,000	$ 15,200,000
Net income	512,000	943,000
Income per share:		
Basic	$ 0.05	$ 0.09
Diluted	$ 0.05	$ 0.08

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

Pro forma information has not been provided for comparable periods in 1997, as the historical operations of CATS are not material to the Company's operating results. Audited financial statements of CATS for the year ended December 31, 1997 are included as an exhibit to this Form 10-Q/A.

NOTE E - INVENTORY

Inventories consist of the following:

	DECEMBER 31, 1997	JUNE 30, 1998
Raw materials	$2,432,194	$2,827,648
Finished goods	804,827	983,352
Sales demonstration	1,038,355	1,438,930
	$4,275,376	$5,249,930

NOTE F - INTANGIBLE ASSETS

Goodwill represents the excess of purchase price over the fair value of businesses acquired and is amortized on a straight line basis over 5 years. Other acquired intangibles principally include core technology, existing product technology, workforce in place and customer relationships that arose in

connection with the acquisition of CATS. Other acquired intangibles are recorded at fair value at the date of acquisition and are amortized over their estimated useful lives of primarily 3 to 5 years.

Product design 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 3 years. The Company considers technological feasibility to be established when the Company has completed all planning, designing, coding and testing activities that are necessary to establish design specifications including function, features and technical performance requirements. Capitalization of product design costs ceases and amortization of such costs begins when the product is available for general release to customers.

Patents are recorded at cost. Amortization is computed using the straight-line method over the lives of the patents, which is 17 years. Other intangibles are amortized over periods ranging from 2 to 5 years.

NOTE G - EARNINGS PER SHARE

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

Three months ended June 30,

THREE MONTHS ENDED JUNE 30,	1997		1998	
	SHARES	PER-SHARE AMOUNT	SHARES	PER-SHARE AMOUNT
Basic EPS				
Weighted-Average Shares	7,000,000	$ .08	10,531,132	($0.16)
Effect of Dilutive Securities				
Stock Options	333,290			
Diluted EPS				
Weighted-Average Shares and Assumed Conversions	7,333,290	$ .07	10,531,132	($0.16)

SIX MONTHS ENDED JUNE 30,	1997		1998	
	SHARES	PER-SHARE AMOUNT	SHARES	PER-SHARE AMOUNT
Basic EPS				
Weighted-Average Shares	7,000,000	$ .18	10,239,613	($.07)
Effect of Dilutive Securities				
Stock Options	333,290			
Diluted EPS				
Weighted-Average Shares and Assumed Conversions	7,333,290	$ .17	10,239,613	($.07)

Note H - RECENT ACCOUNTING STANDARDS

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

Effective January 1, 1998 the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information" (SFAS No. 131). SFAS No. 131 establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Required disclosures are effective for the Company's December 31, 1998 year end financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", effective for fiscal years beginning after June 15, 1999. SFAS 133 requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company has not completed its evaluation of the impact of this standard on the financial statements.

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 CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY, INCLUDING THE NOTES THERETO, INCLUDED ELSEWHERE IN THIS FORM 10-Q/A, 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 DATED MARCH 13, 1998.

On May 15, 1998, the Company acquired CATS Computer Aided Technologies GmbH ("CATS") for total consideration of $15,395,000, consisting of $5 million in cash and 916,668 shares of common stock, and the assumption of certain outstanding liabilities of CATS. In addition, 333,332 shares of common stock will be issued provided CATS meets certain performance goals. The purchase price includes direct costs of the acquisition in the amount of $674,000. CATS, headquartered in Karlsruhe, Germany, develops, markets and supports 3-D measurement retrofit and statistical process control software used in both main frame and PC based CAD environments. The Company assumed current liabilities totaling $1.6 million and received tangible assets of $1.5 million and intangible assets of $16.2 million.

Subsequent to the issuance of the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998, the Company's management revised the amount of the purchase price which was allocated to in-process research and development ("IPR&D") in accounting for the acquisition of CATS Computer Aided Technologies, Computeranwendungen in der Fertigungssteurung, GmbH ("CATS") in May 1998 (See Note D). The revised allocation is based upon methods prescribed in a letter from the Securities and Exchange Commission ("SEC") sent to the American Institute of Certified Public Accountants in September 1998. The letter sets forth the SEC's views regarding the valuation methodology to be used in allocating a portion of the purchase price to IPR&D at the date of acquisition. The effects of the restatement in the Company's Financial Statements are presented in Note C.

The amount allocated to IPR&D was expensed upon acquisition, as it was determined that the underlying projects had not reached technological feasibility, had no alternative future use and successful future development was uncertain.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 1998 COMPARED TO THREE MONTHS ENDED JUNE 30, 1997

SALES. Sales increased $2.3 million, or 42.2% from $5.4 million for the three months ended June 30, 1997 to $7.7 million for three months ended June 30, 1998. The increase was due to 1) increased FARO product sales resulting from additional sales personnel of FARO ($1.0 million), and 2) FARO product and CATS product sales by CATS ($1.3 million) for the period May 15 to June 30, 1998. CATS was acquired by the Company on May 15, 1998.

GROSS PROFIT. Gross profit increased $1.7 million, or 55.0% from $3.2 million for the three months ended June 30, 1997 to $4.9 million for the three months ended June 30, 1998. Gross margin increased to 64.0% for the three months ended June 30, 1998, from 58.7% for the three months ended June 30, 1997. This margin increase was primarily a result of the higher margin CATS software sales.

SELLING EXPENSES. Selling expenses increased $858,000, or 63.4%, from $1.4 million for the three months ended June 30, 1997 to $2.2 million for the three months ended June 30, 1998. This increase was a result of the Company's continued expansion of sales and marketing staff in the United States and Europe, and the addition of the selling expenses ($186,000) from CATS. Selling expenses as a percentage of sales were 28.6% for the three months ended June 30, 1997, compared to 24.9% for the three months ended June 30, 1997.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased $198,000, or 61.8%, from $320,000 for the three months ended June 30, 1997 to $517,000 for the three months ended June 30, 1998. This increase was primarily due to salaries for additional administration and accounting employees, and the addition of general and administrative expenses ($36,000) from CATS. General and administrative expenses as a percentage of sales increased from 5.9% for the three months ended June 30, 1997 to 6.7% for the three months ended June 30, 1998.

DEPRECIATION AND AMORTIZATION EXPENSES. Depreciation and amortization expenses increased $504,000, or 767% from $66,000 for the three months ended June 30, 1997, to $570,000 for the three months ended June 30, 1998. The increase was due primarily to the amortization expenses related to the intangible assets associated with the Company's acquisition of CATS.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased $219,000, or 100.9%, from $217,000 for the three months ended June 30, 1997 to $436,000 for the three months ended June 30, 1998. This increase was a result of the Company's continued activities associated with the development of technologies related to new products, and research and development costs ($112,000) from CATS.

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

INTEREST INCOME. Interest income is attributable to interest on the remaining cash proceeds (approximately $22 million at June 30) from the Company's initial public offering in 1997.

INTEREST EXPENSE. Interest expense decreased $24,000, or 75.1% from $32,000 for the three months ended June 30, 1997 to $8,000 for the three months ended June 30, 1998. This reduction was attributable to the repayment of the Company's debt in September 1997 from use of proceeds from the Company's initial public offering, and the addition of interest expense ($8.000) from CATS .

INCOME TAX EXPENSE. The income tax expense (benefit) recognized by the Company is comprised of Federal, state and foreign components based on U.S. and foreign operations.

NET INCOME. Net income decreased $2,246,000 from $536,000 for the three months ended June 30, 1997 to a loss of $1,710,000 for the three months ended June 30, 1998. The decrease was primarily due to the $3,210,000 charge for in-process research and development associated with the Company's acquisition of CATS.

SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO SIX MONTHS ENDED JUNE 30, 1997

SALES. Sales increased $4.1 million, or 39.6% from $10.3 million for the first six months of 1997 to $14.4 million for the first six months of 1998. The increase was the result of increased FARO product sales due to an expanded sales effort that included the addition of sales personnel at existing offices, and the opening of sales offices ($2,9 million), and the sale of FARO products and CATS products by CATS in the period May 15 - June 30 1998 ($1.3 million).

GROSS PROFIT. Gross profit increased $2.8 million, or 45.9%, from $6.1 million for the first six months of 1997 to $8.9 million for the first six months of 1998. Gross margin increased from 59.4% for the first six months of 1997 to 62.1% for the first six months of 1998. Gross margin increased primarily as a result of the higher margin CATS software sales.

SELLING EXPENSES. Selling expenses increased $1.3 million, or 51.1%, from $2.5 million for the first six months of 1997 to $3.8 million for the first six months of 1998. 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, ($1.1 million), and the addition of CATS selling expenses for the period May 15 -

June 30, 1998 ($186,000). Selling expenses as a percentage of sales increased from 24.3% for the first six months of 1997 to 26.3% for the first six months of 1998.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased $494,000 or 79.3% from $622,000 for the first six months of 1997 to $1,116,000 for the first six months of 1998. This increase resulted primarily from the hiring of additional administrative personnel and increases in professional and legal expenses , and the addition of CATS general and administrative expenses ($36,000). General and administrative expenses as a percentage of sales increased from 6.0% for the first six months of 1997 to 7.7% for the first six months of 1998.

DEPRECIATION AND AMORTIZATION EXPENSES. Depreciation and amortization expenses increased $556,000, or 446% from $125,000 for the six months ended June 30, 1997, to $680,000 for the six months ended June 30, 1998. The increase was due primarily to the amortization expenses related to the intangible assets associated with the Company's acquisition of CATS.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased $427,000, or 108.2%, from $395,000 for the first six months of 1997 to $822,000 for the first six months of 1998. This increase was a result of the Company's continued activities associated with the development of technologies related to new products, and the addition of CATS research and development expenses ($112,000). Research and development expenses as a percentage of sales increased from 3.8% for the first six months of 1997 to 5.7% for the first six months of 1998.

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

EMPLOYEE STOCK OPTIONS EXPENSES. Employee stock options expenses decreased $278,000 from $364,000 for the first six months of 1997 to $86,000 for the first six months of 1998. The higher expense in 1997 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.

INTEREST INCOME. Interest income increased $580,000, or 125.8% to $626,000 for the six months ended June 30 1998, compared to $46,000 in the six months ended June 30 1997. The increase was attributable to interest on the remaining cash proceeds (approximately $22 million at June 30, 1998) from the Company's initial public offering in 1997

INTEREST EXPENSE. Interest expense decreased $58,000, or 88.1%, from $66,000 for the first six months of 1997 to $8,000 for the first six months of 1998. This reduction was primarily attributable to the elimination of the Company's debt in September, 1997 from use of proceeds from the Company's initial public offering, and $8,000 in interest expense paid by CATS in the period May 15- June 30, 1998.

INCOME TAX EXPENSE. Income tax expense decreased $300,000, or 35.8%, from $837,000 for the first six months of 1997 to $537,000 for the first six months of 1998. The income tax expense resulted from an expense of $572,000 for the first three months of 1998, offset by a tax benefit of $35,000 for the three months ended June 30, 1998.

NET INCOME. Net income decreased $1,942,000 or 154.7%, from $1.3 million for the first six months of 1997 to a loss of $686,000 for the first six months of 1998. The decrease was primarily due to the $3,210,000 charge for in-process research and development associated with the Company's acquisition of CATS.

LIQUIDITY AND CAPITAL RESOURCES

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

For the six months ended June 30, 1998, net cash used in operating activities was $189,000 compared to net cash provided by operating activities of $268,000 for the same period of 1997. Net cash used in this period increased as a result of decreases in net income of $1,942,000, offset by increases in accounts receivable of $2,614,000 , inventories of $944,000 and decreases in income taxes payable of $413,000.

Net cash used in investing activities was $6,732,000 for the six months ended June 30, 1998 compared to $413,000 for the six months ended June 30, 1997. Net cash used in investing activities increased for the first six months of 1998 primarily due to the acquisition of CATS for $5,668,000.

Net cash provided by financing activities for the six months ended June 30, 1998 was $433,000 compared to net cash used in financing activities of $1,000 for the six months ended June 30, 1997. The increase in net cash provided by financing activities was due primarily to the proceeds from issuance of common stock.

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 June 30, 1998. 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 June 30, 1998.

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. The line of credit was extended in 1998 and expires on March 31, 1999. There were no outstanding borrowings under this loan agreement at June 30, 1998.

The Company's principal commitments at June 30, 1998 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 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 operation and financial condition, particularly its operating margins, and could also result in exchange losses. The impact of future exchange rate fluctuations on the results of the Company's operations cannot be accurately predicted. Historically, the Company has not managed the risks associated with fluctuations in exchange rates but 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.

IMPACT OF YEAR 2000

The Company has invested significant resources in the latest information technologies over the past five years and therefore has minimized the effect of Year 2000 issues. Management initiated a program to evaluate all internal computer systems and applications, and products with computer systems and determined the adjustments necessary to become Year 2000 compliant. Management is confident that existing internal resources are sufficient to correct any internal systems deficiencies that have or may be determined. The Company has set a target date of September 30, 1999 for complete compliance of internal computer systems, applications, and products. The Company has also made inquiries of its major suppliers, customers and other third-party entities with which it has business relations to obtain assurances of their Year 2000 compliance. However, there can be no assurance that the systems of other companies on which the Company relies will be timely corrected, or that any failure by another company to correct such systems would not have a material adverse effect on the Company. Contingency plans are currently being developed to be implemented in the event any information technology system, non-information technology system, third party or supplier is not Year 2000 compliant in a timely manner.

The total cost to the Company of these Year 2000 Compliance activities has not been and is not anticipated to be material to its financial position or results of operations in a given year. The Company has a provision of $12,500 per quarter in 1999 to cover the cost of any unexpected corrections to any internal sysytems or product deficiencies. These costs 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.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The effective date of the Company's registration statement filed under the Securities Act in connection with its initial public offering was September 17, 1997.

From the effective date of such registration statement to June 30, 1998 none of the net proceeds from the Company's initial public offering were used for construction of plant, building and facilities; purchase and installation of machinery and equipment or the purchase of real estate. The Company used $5 million of such net proceeds to acquire CATS.

In addition, in connection with the acquisition of CATS, the Company issued 916,668 shares of common stock to the former CATS shareholders plus the right to receive 333,332 shares of common stock as contingent earn-out depending on post-closing sales by CATS.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

EXHIBIT NO.	DESCRIPTION
27.1.1	Financial Data Schedule (for SEC use only)
99.1	Financial Statements of CATS GmbH for the two years in the period ended December 31,1997.

b) Reports on Form 8-K

On May 22, 1998, the Company filed a Report on Form 8-K to report that on May 7, 1998, pursuant to an Acquisition Agreement executed in the United States dated as of May 7, 1998 (the "Agreement"), the Company acquired all of the assets of CATS Computer Aided Technologies, Computeranwendungen in der Fertigungssteurung, GmbH ("CATS") in exchange for $5 million in cash and 916,667 shares of FARO common stock.

SIGNATURES

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

Date: March __, 1999

FARO TECHNOLOGIES, INC.
(Registrant)

By: /s/ GREGORY A. FRASER

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

EXHIBIT 99.1

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheets of CATS computer aided technologies, Computeranwendungen in der Fertigungssteuerung GmbH, Karlsruhe, as of December 31, 1997 and 1996, and the related statements of income and cash flows for each of the two 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 audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America and Germany. 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 audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of CATS computer aided technologies, Computeranwendungen in der Fertigungssteuerung GmbH, Karlsruhe, as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 1997, in conformity with generally accepted accounting principles in the United States of America.

Deloitte & Touche GmbH
Wirtschaftsprufungsgesellschaft

/s/ Dr. KAMM	/s/ KOMPENHANS
(Dr. Kamm)	(Kompenhans)
Wirtschafsprufer	Wirtschaftsprufer

Mannheim, May 26, 1998
Kom/Pf

CATS COMPUTER AIDED TECHNOLOGIES,

COMPUTERANWENDUNGEN IN DER FERTIGUNGSSTEUERUNG GMBH

BALANCE SHEETS

	DECEMBER 31, 1997	DECEMBER 31, 1996
	(in thousands of DM)	
ASSETS		
Current Assets		
Cash and cash equivalents	5	6
Accounts receivable	2,154	569
(net of allowance for doubtful accounts of DM 21 in 1997 and DM 6 in 1996)		
Inventories	54	32
Other current assets and prepaid expenses		
Deferred tax assets	154	34
	2,367	641
EDP equipment and office furniture (net)	360	96
Long-term receivables from related parties	328	143
	3,055	880
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Liabilities to banks	1,092	121
Accounts payable	1,227	260
Other liabilities and other accruals	534	433
Deferred tax liabilities	56	8
	2,909	822
Stockholders' Equity		
Registered capital	50	50
Retained earnings	96	8
	146	58

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3,055	880
=====	=====

See Notes to the Financial Statements.

CATS COMPUTER AIDED TECHNOLOGIES,
COMPUTERANWENDUNGEN IN DER FERTIGUNGSSTEUERUNG GMBH

STATEMENTS OF OPERATIONS
(IN THOUSANDS OF DM)

	YEARS ENDED DECEMBER 31, 1997	1996
Net sales	5,711	3,116
Cost of sales	1,718	928
Gross profit	3,993	2,188
Selling and administrative	2,069	1,439
Research and development	1,669	712
Income from operations	255	37
Net interest	40	21
Income before income taxes	215	16
Income taxe expense	127	13
Net ncome	88	3

See Notes to the Financial Statements.

CATS COMPUTER AIDED TECHNOLOGIES,
COMPUTERANWENDUNGEN IN DER FERTIGUNGSSTEUERUNG GMBH
STATEMENTS OF CASH FLOW

	YEARS ENDED DECEMBER 31, 1997	1996
Operating activities		
Net income	68	3
Adjustments to reconcile net income to cash (used by) provided by operating activities		
Deferred income taxes	48	(7)
Depreciation	92	62
Changes in assets and liabilities that provided (used) cash		
Inventories	(22)	(31)
Accounts payable and accrued charges	1,068	274
Accounts receivable and other assets	(1,890)	(257)
Cash (used) provided by operating activities	(616)	44
Investing activities		
Purchase of EDP-equipment and office furniture	(356)	(84)
Cash provided by (used in) investing activities	(356)	(84)
Financing activities		
Increase of bank liabilities, net	971	44
Cash provided by financing activities	971	44
Net change in cash and cash equivalents	(1)	4
Cash and cash equivalents, beginning of year	6	2
Cash and cash equivalents, end of year	5	6

See Notes to the Financial Statements.

CATS
COMPUTER AIDED TECHNOLOGIES, COMPUTERANWENDUNGEN
IN DER FERTIGUNGSSTEUERUNG GMBH

NOTES TO THE FINANCIAL STATEMENTS
(DEUTSCHE MARK IN THOUSANDS)

1. DESCRIPTION OF BUSINESS

CATS computer aided technologies, Computeranwendungen in der Fertigungssteuerung GmbH ("CATS") is engaged in the production and marketing of software and computer applications used in managing and controlling computer integrated manufacturing applications as well as in the related training. Offered are modules for CAD/CAM-technologies (computer aided design, computer aided manufacturing), CAQ-technologies (computer aided quality control) and manufacturing, planning and control systems. Workstations can be delivered ready for operation including hardware, software and other services.

The company operates in one segment providing customer oriented development of overall concepts relating to computer aided manufacturing in Germany. The main customers are large German car manufacturers and component suppliers for the car industry.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The company's accounting policies are in accordance with accounting policies generally accepted in the United States of America. 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 the revenue and expenses during the reporting period. Actual results could differ from those estimates. The following policies are considered to be significant.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and amounts on deposit with financial institutions.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and liabilities to banks. The carrying amounts of the financial instruments approximate their fair value because of their short term maturities.

INVENTORIES

Inventories include raw materials and are stated at the lower of average cost or market.

EDP-EQUIPMENT AND OFFICE FURNITURE

Property, plant and equipment are recorded at cost.

Depreciation is computed using the straight-line method over the estimated useful lives of the various classes of assets as follows:

Office furniture ....5 - 10 years

EDP-equipment ....3 - 4 years

RESEARCH AND DEVELOPMENT

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

Costs incurred in the development of products, after technological feasibility is attained, are principally to be capitalized and amortized over the estimated economic lives of the related products. According to the assessment of the management the company's products have an economic life of less than one year, due to the fast rate of technological development. As a result, all product design costs are charged to income.

REVENUE RECOGNITION

The company recognizes revenue at the date of shipment.

INCOME TAXES

Income taxes have been provided for in accordance with the asset and liability methodology of Statement for Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

EARNINGS PER SHARE

Earnings per share are not calculated because the company has two shareholders with ownership of 50% each.

3. OTHER CURRENT ASSETS AND PREPAID EXPENSES

The balances were as follows:

	1997 (DM)	1996 (DM)
Tax receivables	108	0
Receivables from employees	33	18
Prepaid expenses	2	10
Other	11	6
	154	34

4. EDP-EQUIPMENT AND OFFICE FURNITURE

Cost and accumulated depreciation were as follows:

	1997 (DM)	1996 (DM)
EDP -equipment and office furniture	613	257
Less accumulated depreciation	253	161
	360	96

5. LONG-TERM RECEIVABLES FROM RELATED PARTIES

	1997 (DM)	1996 (DM)
Argus Q GmbH, Germany (former AC-Tech GmbH)	215	143
Antares Ltd., Portugal	113	0
	328	143

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

The receivables from Argus Q GmbH and Antares Ltd. have a residual term in excess of one year. They are bearing interest with a rate of 4.5%.

6. LIABILITIES TO BANKS

The average interest rate of the short-term borrowings outstanding at year-end was approx. 10.0%.

Cash payment for interest amounted to DM 37 in 1997 and DM 25 in 1996.

The bank loans are secured by guarantees given by the company's shareholders. Furthermore, accounts receivable and the company's telephone system serve as collateral.

There are no significant credit lines available in addition to the drawings on short-term credit lines shown on the balance sheet.

7. OTHER LIABILITIES AND OTHER ACCRUALS

The balances were as follows:

	1997	1996
	(DM)	(DM)
Accrued warranty expenses	57	31
Accrued vacation expenses	112	89
Other accruals	143	14
Payables to related parties	52	43
Withholding tax liability	126	199
Other liabilities	44	57
	534	433

8. LEASE COMMITMENTS

The Company has operating lease agreements for the rental of cars and office space. Expenses for operating leases were DM 289 in 1997 and DM 124 in 1996 respectively.

Future minimum lease payments, which have initial or remaining non cancelable terms in excess of one year at December 31, 1997, were as follows:

	(DM)
1998	337
1999	327
2000	256
2001	70
2002	35
	1,025

9. SHAREHOLDERS' EQUITY

The registered capital of the Company is DM 50, which has been paid in by the company's two shareholders. Such ownership shares are not negotiable.

The following table presents the changes in retained earnings for the period from January 1, 1996, to December 31, 1997:

	(DM)
Balance - January 1, 1996	5
Net Income 1996	3
Balance - December 31, 1996	8
Net Income 1997	88
Balance - December 31, 1997	96

10. INCOME TAXES

The components of income taxes are as follows:

	1997 (DM)	1996 (DM)
Current Taxes	79	20
Deferred Taxes	48	(7)
	127	13

The provision for income taxes differed from the statutory rate (45%) for the following reasons:

	1997	1996
	(DM)	(DM)
Corporate income tax at statutory rate......................	99	8
Municipal trade tax, net of corporation income tax effect...	18	1
Corporate income tax surcharge..............................	7	0
Non-deductible expenses.....................................	5	3
Other	(2)	1
	127	13

Corporate income taxes and municipal trade taxes paid amounted to DM 206 in 1997 and DM 0 in 1996.

The components of the recorded deferred tax liabilities are:

	1997	1996
	(DM)	(DM)
Accounts receivable and other current assets................	10	(28)
Accounts payable and accrued changes........................	46	36
	56	8

11. RELATED PARTY TRANSACTIONS

The company's operations include transactions with companies that are owned by the stockholders of CATS GmbH. The material transactions are as follows:

	1997	1996
	(DM)	(DM)
Argus Q GmbH, Germany		
Net sales..	320	0
Antares Ltd., Portugal		
Net sales..	533	0
Purchased Services......................................	537	0

Antares Ltd. is developing software for the company. The business of Argus Q GmbH is the quality control for the automotive and aircraft industry.

Amounts due from these companies are included in trade accounts receivable.

The balances outstanding were:

	1997	1996
	(DM)	(DM)
Argus Q GmbH, Germany	368	0
Antares Ltd., Portugal.....................................	533	0

Long-term receivables from related parties:

	1997	1996
	(DM)	(DM)
Argus Q GmbH, Germany	215	143
Antares Ltd., Portugal	113	0
	328	143

The accounts payable include liabilities to related parties.

	1997	1996
	(DM)	(DM)
Argus Q GmbH, Germany	280	0
Antares Ltd., Portugal	537	0

The short term payables to related parties include the advance accounts of the stockholders.