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, 2001 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. [_]

As of March 20, 2002, there were outstanding 11,420,384 shares of Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant based on the last sale price reported on the NASDAQ National Market as of March 20, 2002 was $31,291,852.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Form 10-K Reference
Portions of the Proxy Statement, dated March 29, 2002....	Part III, Items 10-13

PART I

CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION

FARO Technologies, Inc. (the "Company") has made forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) in this report that are subject to risks and uncertainties, such as statements about our plans, objectives, projections, expectations, assumptions, strategies, or future events. Other written or oral statements, which constitute forward-looking statements, also may be made from time to time by or on behalf of the Company. Words such as "may," "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "will," "should," "could," variations of such words, and similar expressions are intended to identify such forward-looking statements. Similarly, statements that describe the Company's future plans, objectives, or goals also are forward-looking statements. These statements are not guarantees of future performance and are subject to a number of risks, uncertainties, and other factors, including those discussed below and elsewhere in this report, that could cause actual results to differ materially from future results, performances, or achievements expressed or implied by such forward-looking statements. Consequently, undue reliance should not be placed on these forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from what is expressed or forecasted in such forward-looking statements include, but are not limited to: (i) the potential loss of material customers; (ii) the failure to properly manage growth and successfully integrate acquired businesses such as SpatialMetrix Corporation; (iii) inability of the Company's products to attain broad market acceptance or increased length of the Company's sales cycle; (iv) inability of the Company to reduce selling expenses; (v) the impact of competitive product and pricing; (vi) delays in shipping the Company's new laser trackers as a result of manufacturing delays; (vii) fluctuations in quarterly operating results as a result of the size, timing and recognition of revenue from significant orders, increases in operating expenses required for product development and marketing, the timing and market acceptance of new products and product enhancements; customer order deferrals in anticipation of new products and product enhancements; the Company's success in expanding its sales and marketing programs, and general economic conditions; (viii) the financial condition of the Company's clients; (ix) adverse consequences of exchange rate fluctuations; (x) inability to protect our intellectual property and other proprietary rights; (xi) dependence on Simon Raab and Gregory A. Fraser and other key personnel; and (xii) the cyclical nature of the industries of the Company's customers.

ITEM 1. BUSINESS.

Industry Background

The Company believes that there are three principal forces driving the need for its products and services: 1) the widespread use by manufacturers of Computer-Aided Design (CAD) in product development which shortens product cycles, 2) the adoption by manufacturers of quality standards such as Six Sigma and ISO-9000 (and its offshoot QS-9000) which stress the measurement of every step in a manufacturing process to reduce or eliminate defects, and 3) the inability of traditional measurement devices to address many manufacturing problems, especially related to large components of products such as automobiles, aircraft, and heavy duty construction equipment.

CAD changes the manufacturing process. The creation of physical products involves the processes of design, engineering, production and measurement and quality inspection. These basic processes have been profoundly affected by the computer hardware and software revolution that began in the 1980s. CAD software was developed to automate the design process, providing manufacturers with computerized 3-D design capability. Today, most manufacturers use some form of CAD software to create designs and engineering specifications for new products and to quantify and modify designs and specifications for existing products. Use of CAD can shorten the time between design changes. 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. Assembly fixtures and measurement tools must be figuratively linked to the CAD design to enable production to keep up with the rate of design change.

Quality standards dictate measurement to reduce defects. QS-9000 is the name given to the Quality System Requirements of the automotive industry which were developed by Chrysler, Ford, General Motors and major truck manufacturers and issued in late 1994. Companies that become registered under QS-9000 are considered to have higher standards and better quality products. Six Sigma embodies principles of total quality management which focuses on measuring results and reducing product or service failure rates to 3.4 per million. All aspects of a Six Sigma company's infrastructure must be analyzed, and if necessary, restructured to increase revenues and raise the level of customer satisfaction. The all-encompassing nature of these and other quality standards has resulted in manufacturers measuring every aspect of their process, including stages of product assembly that may have never been measured before, in part because of the lack of suitable measurement equipment.

Traditional products don't measure up. A significant aspect of the manufacturing process, which traditionally has not benefited 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 (or check) 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 geometric measurements such as hole diameters or length and width of a rectangular component, their use for complex part measurements such as the fender of a car is limited. Also, these devices do not allow for the measurements to be directly compared to the CAD model of the part. Test fixtures (customized fixed tools used to make comparative measurements of complex 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 and provide a link to the CAD model of the object being measured. However, fixed-base CMM's require that the object being measured be brought to the CMM and that the object fit within the CMM's measurement grid. 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. Moreover, some parts or assemblies cannot be measured at all using traditional devices, because of problems of access.

An increasingly competitive global marketplace has created a demand for higher quality products with shorter life cycles. 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 devices. 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 Control Station and the Control Station Pro (formerly FAROArm) articulated measuring devices and their companion Soft Check Tool and CAM2 software, respectively, which provide for CAD-based inspection and factory-level statistical process control. Together, these products integrate the measurement and quality inspection function with CAD software to improve productivity, enhance product quality and decrease rework and scrap in the manufacturing process. The Company uses the acronym "CAM2" for this process, which stands for Computer-aided manufacturing measurement. 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 29 patents in the United States, 19 of which also are held or pending in other jurisdictions. The Company's products have been purchased by approximately 2,900 customers worldwide, ranging from small machine shops to such large manufacturing and industrial companies as Audi, Bell Helicopter, Boeing, British Aerospace, Caterpillar, DaimlerChrysler, General Electric, General Motors, Honda, Johnson Controls, Komatsu Dresser, Lockheed Martin, Siemens and Volkswagen among many others. See additional information about FARO's business as set forth under the caption "Recent Developments" below.

Recent Developments

On January 16, 2002, the Company acquired SpatialMetrix Corporation ("SMX"), a leading manufacturer and supplier of laser trackers and targets, metrology software, and contract inspection services. In connection therewith, the Company issued 500,000 shares of the Company's common stock to former SMX shareholders and satisfied certain debt obligations of SMX. Additionally, in connection with the SMX acquisition, the Company issued an additional 350,000 shares of FARO common stock and paid $2.0 million in cash to fully satisfy SMX's obligations to its two lenders. The Company also assumed and/or satisfied other obligations of SMX, including approximately $2.9 million in financing provided by the Company to SMX between April 1, 2001 and the completion of the acquisition. The acquisition will be recorded utilizing the purchase method of accounting.

SMX is based in Kennett Square, Pennsylvania and has approximately 60 employees. The Company believes that this acquisition provides FARO an excellent opportunity to expand its product line with a complementary technology for its existing worldwide customer base. The SMX new generation laser tracker is a high-accuracy, portable 3-dimensional measurement technology with a range of over 100 feet, which when combined with the Company's Control Station product line and their companion Soft Check Tool and CAM2 software, results in a portable, computer-based product line capable of handling a much wider range of manufacturing measurement applications.

The Company estimates that SMX has 35% of the installed laser tracker market. The Company exercised its contractual right to acquire SMX only after the successful design by SMX of a new generation laser tracker, which the Company expects to sell at competitive prices compared to the previous generation SMX tracker, and competitor's current products. SMX's previous generation laser tracker, which was introduced in 1996, was sold until September 2001. SMX halted production and sale of its earlier generation laser tracker in September 2001 as part of a settlement of a patent infringement lawsuit. The operations of SMX are expected to contribute favorably to the Company's revenue growth and results of operations once the new generation tracker begins to ship. The Company expects to start shipping new generation tracker products some time in the first half of 2002. Until then, the operations of SMX are expected to result in revenues of at least $1.0 million per quarter resulting form the sale of parts, comprehensive support, and technology consulting services. Operating expenses are estimated to be approximately $1.9 million per quarter.

FARO Products

The Control Station. The Control Station is a combination of a portable, six or seven-axis, instrumented, articulated measurement arm, a touch screen computer, and software programs known as SoftCheck Tools.

Articulated Arm: Each articulated arm is comprised of three major joints, each of which may consist of one, two or three axes of motion. The articulated arm 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.

Touch Screen Computer: One of the main goals of the Control Station system is to provide computer-based inspection without requiring the operator to program the inspection software or even have to touch a keyboard. As such the company developed software (see the following section) which runs entirely by the operator touching simple icons on the touch screen, not unlike how a restaurant waiter enters an order. The computers are not manufactured by the Company, but are purchased from various suppliers.

SoftCheck Tool Software: A SoftCheck Tool is custom software program designed to lead an operator through the measurement process with minimal training. The extensive use of photos of the customer's part assist in achieving this goal. These programs are created by the Company from specifications provided by the customer. When the customer changes its part production it then contracts with the Company to create updated or new SoftCheck Tool programs. The Company believes that providing this "prefabricated" inspection software will increase acceptance of the Control Station by new and existing customers as it significantly reduces the need for the customer to have sophisticated programmers and inspectors on the factory floor.

The Control Station Pro. The Control Station Pro is a combination of an articulated arm, standard computer (with keyboard), and one of the Company's following CAM2 Software programs: CAM2 Design, CAM2 Measure, CAM2 Automotive. In contrast to the basic Control Station, Control

Station Pro customers may write their own inspection programs using the Company's CAM2 software. This product requires more sophisticated operators, and is often used to measure multiple parts in the same day, while the basic Control Station is often dedicated to the same part.

CAM2 Software. CAM2 is the Company's family of proprietary CAD-based measurement and statistical process control software. The CAM2 product line includes four software programs:

CAM2 CAD Analyzer(R) allows users to convert very large, complex CAD files from engineering workstations into simpler graphical images which make them available on a personal computer level for numerous applications throughout the factory from assembly and inspection planning, to the creation of user or service manuals.

CAM2 Measure(R) allows users to compare measurements of manufactured components or assemblies with the corresponding CAD data for the components or assemblies. CAM2 Measure(R) is offered with the FAROArm(R) and is also offered as an unbundled product.

CAM2 Automotive(R) also allows users to compare measurements of manufactured components with the corresponding CAD file. Unlike CAM2 Measure(R), CAM2 Automotive(R) is especially suited to the measurement of very large components with large CAD files, typical of those in the automotive industry. CAM2 Automotive(R) is offered with the FAROArm(R) and is also offered as an unbundled product.

CAM2 SPC Process(R) allows for the collection, organization, and presentation of measurement data factory-wide. Not limited to measurements from the FAROArm(R), CAM2 SPC Process(R) accepts data from CMMs and other computer-based measurement devices from many different measurement applications along the production line.

Specialty Products. The Company licenses and supports certain specialty products based on its articulated arm technologies that are used in medical applications. License and support fees from these products do not represent a significant portion of the Company's revenues. However, the Company is maintaining an active campaign to license its formerly developed medical intellectual property to manufacturers of computer assisted surgical products.

Customers

The Company's products have been purchased by approximately 2,900 customers worldwide, ranging from small machine shops to large manufacturing and industrial companies. The Company's ten largest customers by revenue represented an aggregate of 7.6% of the Company's total revenues in 2001. No customer represented more than 1.1% of the Company's sales in 2001. The following table illustrates, by vertical market, the Company's diverse customer base:

AEROSPACE	AUTOMOTIVE	ELECTRIC UTILITIES AND MANUFACTURERS
Lear Corporation	Audi	General Electric
Boeing	DaimlerChrysler	Westinghouse
Lockheed Martin	General Motors	Southern California Edison
Northrop Grumman	Ford	Tennessee Valley Authority
GE Aerospace	Honda	ABB Power Generation
Orbital Sciences	Hyundai Motors	Hydro Quebec
Harris Corporation	Toyota	TurboCare
Dee Howard	Nissan	Potomac Electric Power
Hughes Brothers	Porsche	Turbine Technology International
Nordam Repair Div.	Volkswagen	Siemens Power Corporation
Ball Aerospace	BMW	

HEAVY EQUIPMENT	CONSUMER PRODUCTS	MISCELLANEOUS
John Deere	Harley Davidson	Bill Elliot Racing
Case Corporation	Polaris	American Sheet Metal
Caterpillar	Bombardier	Monyo Oil Field Products
Komatsu Dresser	Xerox	Atlas Foundry
Clark Industries	Hewlett Packard	Molded Fiberglass
Ingersol Rand	Fountain Power Boats	Creative Foam Products
AGCO	Taylor Made Products	Able Design Plastics
Hay and Forage	Mercury Marine	APW Enclosures

HEAVY EQUIPMENT	CONSUMER PRODUCTS	MISCELLANEOUS
Melroe Company	Amana	Applied Composites
Volvo Construction Equipment	Braun Corporation	Kolenda Tool and Die
Renault Agriculture	Eastman Kodak	Charmalloy Castings

Sales and Marketing

The Company directs its sales and marketing efforts from its headquarters in Lake Mary, Florida. At December 31, 2001, the Company employed 85 sales and marketing professionals who operate from the Company's headquarters, and include eight North American regional sales representatives located in Charlotte, Chicago, Columbus (Ohio), Dallas, Detroit, Los Angeles, Seattle and Toronto, three German regional sales offices in Stuttgart, Munich, and Gladbeck, and sales offices located in Coventry, United Kingdom, suburban Paris, France, in Barcelona, Spain, Rivoli, Italy and in Nagoya, Japan. The Company also utilizes 12 North American and 27 international distributors primarily in territories where the Company does not have regional sales offices. See Footnote 15 to the Notes to Consolidated Financial Statements, incorporated herein by reference to Item 8 hereof, for financial information about the Company's foreign and domestic operations and export sales required by this Item.

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 uses computerized sales and marketing software system with telemarketing, lead tracking and analysis, as well as customer support capabilities. Finally, the Company utilizes its state-of-the-art web site to promote its product offerings. Each of the Company's sales offices is linked electronically to the Company's headquarters.

In March 1999, the Company entered into an OEM agreement with Brown & Sharpe Manufacturing Company ("Brown & Sharpe"), a unit of Hexagon, A. B. of Stockholm, Sweden that is a world leader in the manufacture of traditional CMMs and other metrology products. Brown & Sharpe markets the FAROArm(R) worldwide under the name GAGE 2000 A. The agreement, which grants Brown & Sharpe non-exclusive distribution right worldwide, expires in March 2002, and is renewable for successive one-year terms. The Company anticipates that this agreement will be renewed.

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 functional adaptability 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 the family of CAM2 products. Significant efforts are also being directed toward the development of new Control Station measurement technologies and additional features for existing products. See "Technology".

At December 31, 2001, the Company employed 31 scientists and technicians in its research and development efforts. Research and development expenses were approximately $3.4 million in 2001 as compared to $3.6 million in 2000 and $3.8 million in 1999. 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 articulated arm in the Control Station and Control Station Pro is to provide orientation and position information with respect to the probe at the end of the arm. This information is processed by software and can be compared to the desired dimensions contained in the CAD data of a production part or assembly to determine whether the measured data conforms to such dimensional specifications.

To accomplish this measurement function, the articulated arm is designed 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 armlike 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 its 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 articulated arm 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. An on-board computer that is designed to handle complex analyses of joint data as well as communications with a variety of host computers processes the rotational information for each joint. 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. CAM2 is a Windows-based, 32-bit application family written for the most recent PC-based technology. CAM2 has been entirely designed and programmed by the Company utilizing field input and industry wide beta site installations. CAM2 CADanalyser(R) is a family member for viewing, analyzing and browsing CAD files. CAM2 Measure(R) is complete 3D measurement application written entirely on the ACIS CAD development platform. Family member CAM2 Automotive(R) is also a complete 3D measurement software designed for very large CAD files and for specific Automotive applications and is written using a FARO's proprietary graphics display engine. Family member CAM2 SPC Process(R) is designed for plant wide dimensional data acquisition and presentation in classical SPC (Statistical Process Control) formats for plant-wide quality control. CAM2 Open Measure is a version of CAM2 Measure which can be adapted to any CAD platform. This permits CAD users to have a complete 3D measurement application operating on their native CAD platform.

All the CAM2 family members are 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. The Company's software products are available in seven (7) languages worldwide.

Intellectual Property

The Company holds or has pending 29 patents in the United States, 19 of which are also held or pending in other jurisdictions. The Company also has 12 registered trademarks in the United States, 26 foreign registered trademarks, 6 trademark applications pending in the United States and 4 foreign trademark applications pending. The Company also has 45 URL domain names worldwide registered.

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 timeconsuming, 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 tested for accuracy and functionality before shipment. In limited circumstances, the Company performs in-house circuit board assembly and part machining.

"Quality" has rapidly emerged as a new emphasis in commerce and industry, and is a significant factor in international trade. The Company's manufacturing, engineering and design headquarters have been registered to the ISO 9001 standard since July 1998. Semi-annual surveillance audits have documented continuous improvement to this multinational standard. The Company continues to examine its scope of registration as the business evolves and has chosen English as the standard business language for its operations. This decision is expected to significantly influence the Company's operations and documentation globally. This has been done in concert with the ISO Standard Registrar, and is expected to increase customer confidence in the Company's products and services worldwide.

The Company continues to achieve new levels of certification, achieving Accreditation to Guide 25 in May, 2000, and Registration to ISO/IEC 17025 in October, 2001. These global standards apply to the "Calibration and Certification of Measuring and Test Equipment", and certify the organization's level of training, procedures, and efficiency.

Competition

The broad market for measurement devices, which include 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 market for measurement software to retrofit traditional CMMs, and for statistical process control is also highly competitive. 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 significant direct competitors for its Control Station and related software are Romer SRL (France), Romer, Inc., a Cimcore Company (California), and Kosaka Laboratory Ltd. (Japan). In addition the Company is aware of a direct competitor in Germany, two direct competitors in Italy, and a direct competitor in the United Kingdom, each of which the Company believes currently has significantly less sales volume than the Company. However, there can be no assurance that these companies or other companies will not devote additional resources to the development and marketing of products that compete with those of the Company. With respect to the laser tracker market, Leica Geosystems (Switzerland) is the company's only significant direct competitor. Leica Geosystems has the largest market share in the laser tracker market, is well established and is substantially larger and possesses substantially greater financial, technical, and marketing resources than the Company. As the market for laser trackers and our portable coordinate measurement machines expands, additional competition may emerge and the Company's existing and future competitors may commit more resources to the markets in which the Company participates.

The worldwide trend toward CAD-based factory floor metrology has resulted in the introduction of CAD-based inspection software and statistical process control 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, 2001, the Company had orders representing approximately $706,000 in product sales outstanding. The majority of such orders were shipped by March 20, 2002. Additionally, the Company had orders representing approximately $1.0 million in warranty, training and service sales outstanding at December 31, 2001.

Employees

At December 31, 2001, the Company had 235 full-time employees, consisting of 85 sales and marketing professionals, 29 production staff, 31 research and development staff, 44 administrative staff, and 46 customer service/application engineering specialists. 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 its staffing requirements over the foreseeable future.

Management of the Registrant

The officers and key management personnel of the Company are as follows:

Name	Age	Principal Position
Simon Raab, Ph.D.	49	Chairman of the Board, Chief Executive Officer, and President
Gregory A. Fraser, Ph.D.	47	Executive Vice President, Secretary, and Treasurer
Wendelin K.J. Scharbach.............	46	Managing Director of FARO Europe
Joanne M. Karimi........	43	Vice President of Human Resources
Edward M. Pelshaw.......	43	Vice President of Manufacturing
Allen Sajedi...........	42	Vice President and Chief Technical Officer

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 Executive Vice President, Secretary, and Treasurer since August 1999. Prior to that Mr. Fraser 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.

Wendelin K.J. Scharbach, a co-founder of CATS GmbH, a predecessor of FARO Europe, the Company's principal subsidiary in Europe, has served as Managing Director of FARO Europe since May 1998. Prior to that Mr. Scharbach was Managing Director of CATS GmbH.

Joanne M. Karimi., has served as Vice President of Human Resources of the Company since July 2001 and as Director of Human Resource Systems since October 1998. Prior to that, Ms. Karimi served as Director of Human Resources of the Disney Vacation Club, a unit of The World Disney Company. Ms. Karimi holds a MBA and a Bachelor's Degree in Business Management from the University of West Florida.

Edward M. Pelshaw has served as Vice President of Manufacturing of the Company since January 2000. Prior to that Mr. Pelshaw served as Director of Manufacturing of the Company since 1997, and as Purchasing Manager since 1996. Prior to that, Mr. Pelshaw served as Senior Supply and Logistic Officer with the U.S. Army. Mr. Pelshaw holds an MBA from the Webster University and a Bachelor of Science degree from Hawaii Pacific University.

Allen Sajedi has served as Vice President and Chief Technical Officer since 2002 and as Chief Engineer of the Company since 1990. Mr. Sajedi holds a Bachelor's Degree in Mechanical Engineering from McGill University, Montreal, Canada.

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's European headquarters are located in a leased building in Stuttgart, Germany containing approximately 14,000 square feet. The Company also has a combined sales and research and development facility that is located in a leased building in Aveiro, Portugal containing approximately 2,800 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 seven sales offices in Europe, a sales office in each Canada and Japan. The Company leases all of the sales offices. The information required by the remainder of this Item is incorporated herein by reference to Exhibit 99.1 attached hereto.

ITEM 3. 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 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 2001.

PART II

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

The Company's Common Stock, par value $.001 per share, began trading on the NASDAQ Stock Market in September 1997 under the symbol FARO. Before that date, there was no established public trading market for the Common Stock. The following table sets forth the high and low sale price of the Company's Common Stock for its two most recent fiscal years:

	2001		2000	
	High	Low	High	Low
First Quarter	4 3/8	2 3/16	5 7/8	2 3/8
Second Quarter	2 7/8	1 13/32	3 29/32	2 3/8
Third Quarter	2 63/64	1 19/32	5 1/2	3
Fourth Quarter	2 31/64	1 19/64	4 15/16	2 25/32

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 future earnings for use in operating and expanding its business and does not anticipate paying any cash dividends in the reasonably foreseeable future. As of March 20, 2002, the last sale price of the Company's Common Stock was $2.74, and there were approximately 81 holders of record of Common Stock. The Company believes that there are approximately 1,394 beneficial owners of its Common Stock.

On August 26, 1998 the Board of Directors authorized the officers of the Company, without further approval of the Board, to purchase in the open market up to a maximum of one million shares of the Company's Common Stock. In the fiscal year 1998, the Company purchased 40,000 shares of its Common Stock in the open market under such stock repurchase plan. During the three years in the period ended December 31, 2001 the Company did not purchase any shares of its Common Stock in the open market.

ITEM 6. SELECTED FINANCIAL DATA.

The operating results of SMX will be included in the consolidated statements effective at the date of acquisition. The pro forma selected financial data is presented for informational purposes assuming that the Company had acquired SMX as of January 1, 2001. The pro forma selected financial data has been prepared for comparative purposes only and do not purport to be indicative of the results of operations and financial position which actually would have resulted had the acquisition occurred on the date indicated, or which may result in the future.

	Years Ended December 31					
	Pro Forma(1)	Historical				
	2001	2001	2000	1999	1998	1997
Statement of Operations Data:						
Sales	$46,400,491	$35,113,596	$40,452,913	$33,105,740	$27,514,699	$23,516,385
Gross profit	23,617,844	20,809,513	25,704,285	18,944,802	16,223,386	13,905,547
Income (loss) from operations	(10,261,433)	(4,369,710)	(697,100)	(9,705,477)(2)	(5,684,607)(3)	4,932,276
Income (loss) before income taxes	(8,416,101)	(2,506,226)	464,198	(8,516,286)	(4,480,562)	5,321,260
Net income (loss)	(8,757,839)	(2,847,964)	39,517	(7,394,822)	(4,931,094)	3,206,630
Net income (loss) per common share:						
Basic	$ (0.74)	$ (0.26)	$ --	$ (0.67)	$ (0.46)	$ 0.41
Diluted	$ (0.74)	$ (0.26)	--	(0.67)	(0.46)	0.39
Weighted average common shares Outstanding:						
Basic	11,882,449	11,032,449	11,021,606	11,015,140	10,632,708	7,831,715
Diluted	11,882,449	11,032,449	11,094,144	11,015,140	10,632,708	8,189,048

	At December 31,					
	Pro Forma(1)	Historical				
	2001	2001	2000	1999	1998	1997
Consolidated Balance Sheet Data:						
Working capital	18,143,563	$22,303,204	$23,672,736	$24,869,844	$30,997,769	$37,277,545
Total assets	44,441,451	39,654,124	44,699,274	42,103,912	49,120,147	41,192,333
Total debt	55,506	55,506	49,260	26,236	337,710	--
Total shareholders' equity	32,488,788	32,336,461	35,955,453	36,599,346	45,375,391	38,939,411

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(1) The pro forma statement of operations and balance sheet data reflects a change to operations of $1.7 million to record amortization of intangible assets acquired (including $1.2 million for amortization of goodwill) and an adjustment to reduce interest expense (and accrued liabilities) of $866,000 related to SMX bank debt paid-off upon completion of the acquisition.

(2) Includes a charge to write down development and core technology in the amount of $3.1 million.

(3) Includes a charge for in-process research and development in connection with the German acquisition in the amount of $3.2 million.

ITEM 7. 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, 3D measurement systems that are used in a broad range of manufacturing and industrial applications. The Company's principal products are the Control Station and the Control Station Pro (formerly FAROArm(R)) articulated measuring devices and their companion Soft Check Tool and CAM2 software, respectively, which provide for CAD-based inspection and factory-level statistical process control. Together, these products integrate the measurement and quality inspection function with CAD software 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 29 patents in the United States, 19 of which also are held or pending in other jurisdictions. The Company's products have been purchased by approximately 2,900 customers worldwide, ranging from small machine shops to such large manufacturing and industrial companies as Audi, Bell Helicopter, Boeing, British Aerospace, Caterpillar, DaimlerChrysler, General Electric, General Motors, Honda, Johnson Controls, Komatsu Dresser, Lockheed Martin, Siemens and Volkswagen among many others.

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 1992, the Company has entered into additional licensing agreements for the use of its technology for medical applications. In 1995, the Company made a strategic decision to target international markets. The Company established sales offices in France and Germany in 1996, Great Britain in 1997, Japan and Spain in 2000 and Italy in 2001. International sales represented 60.8%, 50.6% and 46.6% of sales in 2001, 2000 and 1999, respectively.

The Company derives revenues primarily from the sale of its 3-D measurement equipment, and its related multi-faceted Soft Check Tool and CAM2 software. Revenue related to these products is recognized upon shipment. Going forward, the Company also expects to generate revenue from the sale of its laser tracker product.

Revenue growth has historically resulted 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 and expanded promotional efforts which include a multilingual web site and Company demo CD. In 2000 the Company introduced The Control Station with SoftCheck Tools, new accessory items such as The FARO Rail, the FARO Powerhouse and new versions of all the members of the CAM2 software family. In January 2001, the Company acquired SpatialMetrix Corporation ("SMX"), a leading manufacturer and supplier of laser trackers and targets, metrology software, and contract inspection services. The SMX new generation laser tracker is a high-accuracy, portable 3-dimensional measurement technology. The Company expects to begin shipments of this laser tracker in the second quarter of 2002.

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. In the normal course of business, the Company from time to time employs off-balance sheet financial instruments to hedge its exposure to foreign currency exchange rates, including cross-currency swaps, forward contracts, and foreign currency options (see Foreign Exchange Exposure below).

During 2001, the Company's sales growth has been adversely affected by the economic slowdown currently affecting the United States and Europe to a lesser extent. We expect that the current economic slowdown will continue to adversely affect U. S. sales and the Company's growth rate in other geographic markets during the first half of 2002. Accordingly, the Company adopted a cost reduction plan during the third quarter of 2001. This plan includes reducing discretionary spending, canceling certain non-strategic product development and marketing projects, and a reduction of approximately 15% of the company's U.S. workforce, or about 30 people, primarily in administration, research and development, and manufacturing.

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,		
	2001	2000	1999
Statement of Operations Data:			
Sales	100.0 %	100.0 %	100.0 %
Cost of Sales	40.7 %	36.5 %	42.7 %
Gross profit	59.3 %	63.5 %	57.3 %
Operating expenses:			
Selling	38.3 %	34.7 %	36.7 %
General and administrative	16.5 %	14.2 %	15.0 %
Depreciation and amortization	7.3 %	7.2 %	13.5 %
Research and development	9.6 %	8.8 %	11.6 %
Employee stock options	--	.3 %	0.5 %
Impairment loss on acquired intangible assets	--	--	9.3 %
Total operating expenses	71.7 %	65.3 %	86.6 %
Loss from operations	(12.4)%	(1.7)%	(29.3)%
Interest income	2.6 %	2.1 %	2.2 %
Other income, net	2.7 %	.7 %	1.4 %
Interest expense	--	--	--
Net income (loss) before income taxes	(7.1)%	1.1 %	(25.7)%
Income tax expense (benefit)	1.0 %	1.0 %	(3.4)%
Net income (loss)	(8.1)%	0.1 %	(22.3)%

2001 Compared to 2000

Sales. Sales decreased $5.3 million, or 13.2%, from $40.5 million in 2000 to $35.1 million in 2001. The decrease resulted from lower sales in the U.S. ($6.2 million, or 31.2%, from $20.0 million to $13.8 million) and Germany ($1.6 million, or 18.9%, from $8.6 million to $6.9 million), partially offset by increased sales in the remainder of the world (an increase of $2.5 million, or 21.2%, from $11.9 million to $14.4 million). The decrease in the U.S. primarily resulted from lower product unit sales resulting mainly from the slowing U.S. economy throughout 2001. The decrease in Germany reflects the adverse translation effect (approximately $700,000) of the stronger U.S. dollar in 2001.

Gross profit. Gross profit decreased by $4.9 million, or 19.0%, from $25.7 million in 2000 to $20.8 million in 2001. Gross margin decreased to 59.3% in 2001 from 63.5% in 2000. The decrease in gross margin resulted primarily from downward pressure on unit prices in the U.S. and Europe and the translation effect of the stronger U.S. dollar on international sales.

Selling expenses. Selling expenses decreased $598,000, or 4.3%, from $14.0 million in 2000 to $13.4 million in 2001. This decrease was primarily a result of lower selling expenses in the United States ($1.3 million) resulting from cost reduction efforts in the second half of 2001 and lower sales commissions on lower U.S. sales in 2001 and the translation effect of the stronger U.S. dollar in 2001 on the European selling expenses (approximately $275,000), offset in part by higher selling expenses in Europe ($670,000) and in Japan ($282,000), principally as a result of higher compensation and marketing expenses, offset in part by.

General and administrative expenses. General and administrative expenses increased by $50,000, or 1.0%, from $5,763,000 in 2000 to $5,813,000 in 2001. The increase was due to new operations in Japan ($188,000), offset in part by lower expenses in the U.S. ($53,000) and Europe ($15,000) and the effect of the stronger U.S. dollar in 2001 (approximately $70,000).

Depreciation and amortization expenses. Depreciation and amortization expenses decreased by $372,000, or 12.7%, from $2.9 million in 2000 to $2.6 million in 2001 primarily as a result of assets becoming fully amortized in 2001.

Research and development expenses. Research and development expenses decreased by $178,000, or 5.0%, from $3.5 million in 2000 to $3.4 million in 2001. The decrease was due to decline across many expense categories in Europe ($286,000) and the translation effect of the stronger U.S. dollar in 2001 ($50,000) on the European R&D expenses, offset in part by increase across many expense categories in the United States ($157,000).

Interest income. Interest income increased by $40,000, from $860,000 in 2000 to $900,000 in 2001 primarily as a result of higher average principal amounts invested in 2001, including loans to SMX (see Liquidity and Capital Resources below).

Other income, net. Other income, net increased by $663,000, from $302,000 in 2000 to $965,000 in 2001. The increase resulted principally from higher royalty income in 2001 and lower foreign exchange losses in Europe in 2001.

Income tax expense. Income tax expense decreased by $83,000, from $425,000 in 2000 to $342,000 in 2001. The net tax expense resulted from an increase in the valuation allowance for the Company's US deferred income tax assets offset by benefits realized by the utilization of German net operating loss carryforwards which were previously reserved. At December 31, 2001 the Company has deferred income tax assets of approximately $7.7 million (including $1.4 million related to the U.S. operations and $6.3 million related to foreign operations) which are offset by a valuation allowance of approximately $7.6 million. These deferred income tax assets are primarily attributable to net operating loss carryforwards and intangible assets for which future income tax benefits may be realized.

Net income (loss). The Company's net income (loss) decreased by $2,888,000, from net income of $40,000 in 2000 to a loss of $2,848,000 in 2001 to due to the factors mentioned above.

2000 Compared to 1999

Sales. Sales increased $7.3 million, or 22.2%, from $33.1 million in 1999 to $40.5 million in 2000. The increase resulted from increases in the U.S. ($2.3 million, or 13.1%, from $17.7 million to $20.0 million), Europe ($3.5 million, or 32.8%, from $10.6 million to $14.1 million) and the remainder of the world (an increase of $1.6 million, or 32.3%, from $4.8 million to $6.4 million). The increase primarily resulted from higher product unit sales in all geographic regions, partially offset by the effect of the stronger U.S. Dollar in 2000 (approximately $1.8 million).

Gross profit. Gross profit increased by $6.8 million, or 35.7%, from $18.9 million in 1999 to $25.7 million in 2000. Gross margin increased to 63.5% in 2000 from 57.3% in 1999. The increase in gross margin was primarily a result of cost reductions for computer hardware and software products in 2000, partially offset by the effect of the stronger U.S. dollar.

Selling expenses. Selling expenses increased $1.9 million, or 15.6%, from $12.1 million in 1999 to $14.0 million in 2000. This increase was primarily a result of higher selling expenses in the United States ($1.1 million) and in Europe ($1.2 million), principally as a result of higher compensation and marketing expenses, offset in part by the effect of the stronger U.S. dollar in 2000 (approximately $550,000).

General and administrative expenses. General and administrative expenses increased by $800,000, or 15.9%, from $5.0 million in 1999 to $5.8 million in 2000. The increase was due to increases across many categories in the U.S. ($720,000) and in Europe ($80,000), offset in part by the effect of the stronger U.S. dollar in 2000 (approximately $150,000).

Depreciation and amortization expenses. Depreciation and amortization expenses decreased by $1.5 million, or 34.4%, from $4.5 million in 1999 to $2.9 million in 2000. The decrease primarily resulted from the $3,073,000 impairment loss on acquired intangible assets at the end of 1999, which reduced the amount of acquired intangible assets to be amortized, offset in part by depreciation on assets acquired in 2000.

Research and development expenses. Research and development expenses decreased by $300,000, or 7.3%, from $3.8 million in 1999 to $3.5 million in 2000. The decrease was due to decreases across many expense categories in the United States ($234,000), and to by the effect of the stronger U.S. dollar in 2000 ($130,000) on European expenses, offset in part by increase, in local currency, across many categories in Europe ($85,000).

Employee stock option expenses. Employee stock option expenses decreased by $46,000, or 26.9%, from $169,000 in 1999 to $123,000 in 2000. This decrease was a result of a reduction in the amortized deferred compensation expense related to stock options issued in 1995 and 1997. For all options issued in 2000 and 1999, no compensation expense was recorded, as the exercise price of the options was equal to the market price on the day of the grant.

Impairment loss on acquired intangible assets. An unusual impairment loss of $3.1 million was recorded in 1999 to reflect an impairment of the intangible assets resulting from the German acquisition on May 15, 1998. The impairment resulted from the Company's revised forecast of the cash flows expected from the developed and core technology acquired with the German acquisition.

Interest income. Interest income increased by $144,000, from $716,000 in 1999 to $860,000 in 2000. The increase was primarily attributable to higher average yields of interest-earning cash, cash equivalents, and investments held and higher average principal amounts invested in 2000 (see Liquidity and Capital Resources below).

Other income. Other income decreased by $173,000, from $475,000 in 1999 to $302,000 in 2000. The decrease resulted principally from foreign exchange losses in 2000.

Income tax expense (benefit). Income tax expense (benefit) increased by $1.5 million, from a benefit of $1.1 million in 1999 to expense of $425,000 in 2000. The tax expense resulted from the Company's U.S. operation's taxable earnings in 2000. The Company has deferred income tax assets related to it's German operations which are fully offset against a valuation allowance. At December 31, 2000, the Company's foreign subsidiaries had deferred income tax assets relating to net operating loss carryforwards, which do not expire, and intangible assets of $3,360,729 and $3,131,325, respectively.

Net income (loss). The Company's net income (loss) increased by $7.4 million, from a loss of $7.4 million in 1999 to net income of $40,000 in 2000 due to the factors mentioned above.

Recent Developments

On January 16, 2002, the Company acquired SpatialMetrix Corporation ("SMX") in exchange for 500,000 shares of FARO common stock and the satisfaction by the Company of certain obligations of SMX. In connection therewith, the Company issued an additional 350,000 shares of FARO common stock and paid $2.0 million in cash to fully satisfy SMX's obligations to its two lenders. The Company also assumed and/or satisfied other obligations of SMX, including approximately $2.9 million in financing provided by the Company to SMX between April 1, 2001 and the completion of the acquisition. The acquisition will be recorded utilizing the purchase method of accounting in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." The Company estimates that SMX has 35% of the installed laser tracker market. The Company exercised its contractual right to acquire SMX only after the successful design by SMX of a new generation laser tracker, which the Company expects to sell at competitive prices compared to the previous generation SMX tracker, and competitor's current products. SMX's previous generation laser tracker, which was introduced in 1996, was sold until September 2001. SMX halted production and sale of its earlier generation laser tracker in September 2001 as part of a settlement of a patent infringement lawsuit. The operations of SMX are expected to contribute favorably to the Company's revenue growth and results of operations once the new generation tracker begins to ship. The Company expects to start shipping new generation tracker some time in the first half of 2002. Until then, the operations of SMX are expected to result in revenues of at least $1.0 million per quarter resulting from the sale of parts, comprehensive support, and technology consulting services and in additional operating expenses in the amount of approximately $1.9 million per quarter.

Liquidity and Capital Resources

Since 1997, the Company has financed its operations primarily from cash provided by operating activities and from the proceeds of its 1997 initial public offering of Common Stock (approximately

$31.7 million). Total marketable securities (cash and cash equivalents, short-term investments and investments) at December 31, 2001 were $14.1 million, compared to $19.0 million at December 31, 2000.

For the year ended December 31, 2001, net cash used in operating activities was $842,000 compared to net cash provided by operating activities of $4.7 million in 2000. Net cash used in operating activities increased primarily due to the operational loss in 2001. Net cash (excluding short-term investments and investments) provided by investing activities for the year ended December 31, 2001 was $267,000, compared to cash used in investing activities of $3.1 million in 2000. The increase in net cash provided by investing activities in 2001 was primarily due to net decreases in short-term investments and investments in 2001 of $4.1 million, offset primarily by loans to SMX $2.9 million (see Note 16 of Notes to Consolidated Financial Statements contained in Item 8 herein) and purchases of property and equipment of $788,000. Net cash provided in financing activities for the year ended December 31, 2001 was $9,000, compared to $11,000 in 2000. 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. Currency exchange rate changes resulted in a $224,000 reduction in the Company's reported cash at December 31, 2001.

On January 16, 2002, in connection with its acquisition of SMX, the Company issued 500,000 shares of FARO common stock and satisfied certain obligations of SMX. Additionally, the Company issued an additional 350,000 shares of FARO common stock and paid $2.0 million in cash to fully satisfy SMX's obligations to its two lenders. The Company also assumed and/or settled other obligations of SMX. The operations of SMX are expected to contribute favorably to the Company's liquidity after the new generation tracker has been introduced. The Company expects to start shipping the new generation tracker some time in the first half of 2002. Until then, the operations of SMX are expected to result in revenues of at least $1.0 million per quarter resulting from the sale of parts, comprehensive support, and technology consulting services and in additional operating expenses in the amount of approximately $1.9 million per quarter. See Recent Developments above.

The Company's principal commitments at December 31, 2001 consisted of leases on its headquarters and regional and sales offices (see Contractual Obligations and Commercial Commitments below). There were no material commitments for capital expenditures at that date. The Company believes that its cash, investments and cash flows from operations will be sufficient to satisfy its working capital and capital expenditure needs at least through 2002.

Contractual Obligations and Commercial Commitments

The Company was a party to a term loan that expires in 2003, capital leases for automotive and other equipment with an initial term of 36 to 60 months and non-cancelable operating leases, including leases with related parties (see Note 8 of Notes to Consolidated Financial Statements) that expire on or before 2006.

Commitments under these agreements are as follows at December 31, 2001:

	Payments due under:			
Year	Term Loan	Capital Leases	Operating Leases	Total
2002	$ 3,025	$22,095	$1,110,636	$1,135,756
2003	9,862	27,005	929,274	966,141
2004	--	15,045	607,222	622,267
2005	--	2,601	381,176	383,777
2006 and thereafter	--	993	95,756	96,749
Total	$12,887	$67,739	$3,124,064	$3,204,690

SMX's principal commitments consist of a lease on its headquarters. The lease expires in August 2003. Minimum lease payments required under the lease are $129,372 and $86,248 in 2002 and 2003, respectively.

Critical Accounting Policies

In response to the SEC'S financial reporting release, FR-60, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, we have selected our most subjective accounting estimation processes for purposes of explaining the methodology used in calculating the estimate in addition to any inherent uncertainties pertaining to the estimate and the possible effects on the Company's financial condition. The two accounting estimation processes discussed below are the Company's process of recognizing research and development expenditures, and the allowance for obsolete and slow-moving inventory. These estimation processes affect current assets and operating results and are therefore critical in assessing the financial and operating status of the Company. These estimates involve certain assumptions that if incorrect could create an adverse impact on the Company's operations and financial position.

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 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. The Company periodically assesses the value of capitalized product design costs and records a reserve for obsolescence or impairment when, in certain circumstances (including the discontinuance or probable discontinuance of the related products from the market), it deems the asset to be obsolete or impaired.

The reserve for obsolete and slow-moving inventory was $297,500 and $417,900 at December 31, 2001 and 2000, respectively. The reserve for obsolete and slow-moving inventory is used to state the Company's inventories at the lower of average cost or net realizable value. Since the amount of inventoriable cost that the Company will truly recoup through sales cannot be known with exact certainty, the Company relies on past sales experience and future sales forecasts. Inventory is considered as obsolete if the Company has withdrawn it from the market or if the Company has had no sales of the product for the past 12 months nor sales forecasted for the next 12 months, therefore a reserve in an amount equal to 100% of the average cost of such inventory is recorded. The Company classifies as slow-moving inventory with quantities of on hand greater than the amounts we have sold in the past 12 months or have forecasted to sell in the next 12 months, and reserve such amount as is adequate to reduce the carrying value to net realizable value. During 2001, 2000 and 1999, the provision for obsolete and slow-moving inventory was $856,600, $300,955 and $1,027,200, respectively.

Transactions with Related and Other Parties

The Company leases its headquarters from Xenon Research, Inc. ("Xenon"), all of the issued and outstanding capital stock of which is owned by Simon Raab, the Company's President and Chief Executive Officer, and Diana Raab, his spouse. The term of the lease expires on February 28, 2006, and the Company has two five-year renewal options. Base rent under the lease was $391,000 for 2001. Base rent during renewal periods will reflect changes in the U.S. Bureau of Labor statistics consumer Price Index for all Urban Consumers.

In June 2000, the Company and each of the former CATS shareholders entered into an Amended and Restated Loan Agreement pursuant to which 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 4.7%, 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.

The Company engaged Cole & Partners, a mergers and acquisition and corporate finance advisory service firm, to serve as the Company's financial advisor in connection with the Company's acquisition in January, 2002 of SpatialMetrix, Inc. ("SMX"). Stephen R. Cole, one of the Company's directors and member of the Audit Committee, is the founding Partner and President of Cole & Partners. The Company paid to Cole & Partners total fees of approximately $440,000 by early 2002 for its services in the SMX acquisition.

Foreign Exchange Exposure

The Company conducts a significant portion of its business outside the United States. At present, the majority of the Company's revenues are invoiced, and a significant portion of its operating expenses paid, 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 gains and losses. The impact of future exchange rate fluctuations on the results of the Company's 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 further. See additional discussion under Impact of Recently Issued Accounting Standards below.

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 2002.

Conversion to the Euro Currency

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 (the Euro). The transition period for the introduction of the Euro ends June 30, 2002. In connection therewith, in January 2002 certain member countries of the European Union adopted 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 adoption of the Euro to have a material effect on the Company's financial condition or results of operations.

Impact of Recently Issued Accounting Standards

In October 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS No. 144) which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes 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) but retains many of the fundamental provisions of SFAS No. 121. SFAS No. 144 also supersedes APB Opinion No. 30, "Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 retains the requirement in Opinion 30 to report separately discontinued operations and extends this reporting requirement to a component of an entity that either has been disposed of or is classified as held for sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. Early application is permitted. The Company does not expect the adoption of SFAS No. 144 to have a material impact on its financial statements or results of operations.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). SFAS No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The Company adopted this new Statement effective January 1, 2002. Upon adoption of SFAS No. 142, operating expenses will be reduced by approximately $480,000 on an annual basis for amortization and may increase for assets determined to be impaired, if any, during a respective year.

In January 2001, the Company adopted FASB Statement No. 133 (SFAS No. 133), Accounting for Derivative Instruments and Hedging Activities, as amended. SFAS 133 requires companies to recognize all their derivative instruments as either assets or liabilities at fair value in the statement of position. In August 2001, the Company entered into a foreign exchange rate swap allowing the Company the right to purchase up to $1.3 million at a base rate of 1.1049 Euros per $1.00. Under the agreement, the Company and the bank are to compensate one another based on the exchange rate agreement differential at specified measurement dates. This foreign exchange rate agreement does not qualify for special hedge accounting treatment, as it does not meet the specified criteria under SFAS 133. Therefore the changes in fair value are included in the determination of earnings.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143) which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and (or) normal use of the asset. The Company believes that the adoption of SFAS No. 143 will not have a material effect in its financial position or results of operations.

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

The information required by this item is incorporated by reference herein from the section of this Report in Part II, Item 7, under the captions "Foreign Exchange Exposure", "Inflation" and "Conversion to the Euro Currency" above.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2001. 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 auditing standards generally accepted in the United States. 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FARO Technologies, Inc. and subsidiaries at December 31, 2001 and 2000 and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Orlando, Florida
March 1, 2002

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of operations, shareholders' equity and cash flows of FARO Technologies, Inc. and subsidiaries for the year ended December 31, 1999. 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 auditing standards generally accepted in the United States of America. 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 provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of FARO Technologies, Inc. and subsidiaries for the year ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Certified Public Accountants

Tampa, Florida
March 17, 2000

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2001	December 31, 2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,238,564	$ 8,029,318
Short term investments	4,744,559	6,218,636
Accounts receivable (Note 4)	9,385,568	10,352,972
Income taxes refundable	545,118	--
Inventories, net (Note 5)	5,575,793	6,364,290
Prepaid expenses and other current assets	1,851,003	1,112,881
Deferred income taxes	76,418	203,816
Total current assets	29,417,023	32,281,913
PROPERTY AND EQUIPMENT--at cost:		
Machinery and equipment	4,038,582	3,580,892
Furniture and fixtures	1,313,809	1,253,248
Leasehold improvements	139,555	89,171
Total	5,491,946	4,923,311
Less accumulated depreciation and amortization	(3,945,247)	(3,121,029)
Property and equipment, net	1,546,699	1,802,282
INTANGIBLE ASSETS--net	2,632,791	4,055,337
INVESTMENTS	2,129,679	4,755,572
NOTES RECEIVABLE (Notes 2 and 16)	3,927,932	1,128,846
DEFERRED INCOME TAXES	--	675,324
TOTAL ASSETS	$ 39,654,124	$44,699,274
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 25,120	$ 17,397
Accounts payable	2,937,271	2,965,417
Accrued liabilities	3,064,463	4,120,404
Income taxes payable	--	684,409
Current portion of unearned service revenues	855,120	687,566
Customer deposits	231,845	133,984
Total current liabilities	7,113,819	8,609,177
OTHER LONG-TERM LIABILITIES	203,844	134,644
Total liabilities	7,317,663	8,743,821
COMMITMENTS AND CONTINGENCIES (Note 11)		
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, 11,075,252 and 11,065,225 issued, 11,035,252 and 11,025,225 outstanding, respectively	11,075	11,066
Additional paid-in capital	47,704,087	47,570,059
Unearned compensation	(109,000)	--
Accumulated deficit	(12,116,098)	(9,268,134)
Other comprehensive loss	(3,002,978)	(2,206,913)
Common stock in treasury, at cost--40,000 shares in 2001 and 2000	(150,625)	(150,625)
Total shareholders' equity	32,336,461	35,955,453
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 39,654,124	$44,699,274

See accompanying notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31		
	2001	2000	1999
SALES	$35,113,596	$40,452,913	$33,105,740
COST OF SALES	14,304,083	14,748,628	14,160,938
Gross profit	20,809,513	25,704,285	18,944,802
OPERATING EXPENSES			
Selling	13,436,209	14,033,725	12,139,567
General and administrative	5,812,803	5,763,040	4,974,558
Depreciation and amortization	2,559,495	2,931,546	4,465,441
Research and development	3,370,716	3,549,670	3,828,801
Employee stock options	--	123,404	168,912
Impairment loss on acquired intangible assets	--	--	3,073,000
Total operating expenses	25,179,223	26,401,385	28,650,279
LOSS FROM OPERATIONS	(4,369,710)	(697,100)	(9,705,477)
OTHER INCOME (EXPENSES)			
Interest income	900,281	860,254	715,953
Other income, net	964,950	302,378	475,162
Interest expense	(1,747)	(1,334)	(1,924)
INCOME (LOSS) BEFORE INCOME TAXES	(2,506,226)	464,198	(8,516,286)
INCOME TAX EXPENSE (BENEFIT)	341,738	424,681	(1,121,464)
NET INCOME (LOSS)	$(2,847,964)	$ 39,517	$(7,394,822)
NET LOSS PER SHARE--BASIC	$ (0.26)	$ 0.00	$ (0.67)
NET LOSS PER SHARE--DILUTED	$ (0.26)	$ 0.00	$ (0.67)

See accompanying notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amounts	Additional Paid-in Capital	Unearned Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Common Stock in Treasury	Total
BALANCE, JANUARY 1, 1999........	11,048,137	$11,048	$47,520,732	$(292,316)	$ (1,912,829)	$ 199,381	$(150,625)	$45,375,391
Net loss...............					(7,394,822)			(7,394,822)
Currency translation...						(1,574,259)		(1,574,259)
Comprehensive loss.....								(8,969,081)
Issuance of common stock.................	11,373	12	24,112					24,124
Amortization of unearned compensation..........				168,912				168,912
BALANCE, DECEMBER 31, 1999......	11,059,510	$11,060	$47,544,844	$(123,404)	$ (9,307,651)	$(1,374,878)	$(150,625)	$36,599,346
Net Income.............					39,517			39,517
Currency translation...						(832,035)		(832,035)
Comprehensive loss.....								(792,518)
Issuance of common stock.................	5,715	6	25,215					25,221
Amortization of unearned compensation..........				123,404				123,404
BALANCE, DECEMBER 31, 2000......	11,065,225	$11,066	$47,570,059	$ --	$ (9,268,134)	$(2,206,913)	$(150,625)	$35,955,453
Net loss...............					(2,847,964)			(2,847,964)
Currency translation...						(796,065)		(796,065)
Comprehensive loss.....								(3,644,029)
Options granted subject to variable accounting............			109,000	(109,000)				
Issuance of common stock.................	10,027	9	25,028					25,037
BALANCE, DECEMBER 31, 2001......	11,075,252	$11,075	$47,704,087	$(109,000)	$(12,116,098)	$(3,002,978)	$(150,625)	$32,336,461

See accompanying notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2001	2000	1999
CASH FLOWS FROM:			
OPERATING ACTIVITIES:			
Net income (loss)	$(2,847,964)	$ 39,517	$ (7,394,822)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	2,559,495	2,931,546	4,465,441
Bad debt expense	310,981	30,271	169,144
Provision for inventory losses	856,551	300,955	1,027,186
Impairment loss on acquired intangible assets	--	--	3,073,000
Provision for deferred income taxes	802,722	(127,139)	(708,678)
Loss on disposals of fixed assets			5,400
Employee stock options	--	123,404	168,912
Change in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	197,437	(946,693)	(1,096,418)
Income taxes refundable	(545,118)	234,470	481,578
Inventories	(178,323)	(549,516)	(794,260)
Notes receivable			47,752
Prepaid expenses and other assets	(796,145)	(586,176)	(422,079)
Increase (decrease) in:			
Accounts payable and accrued liabilities	(894,764)	2,095,884	2,380,514
Income taxes payable	(684,409)	684,409	398
Unearned service revenues	268,794	436,132	(5,757)
Customer deposits	108,249	55,817	(28,458)
Net cash (used in) provided by operating activities	(842,494)	4,722,881	1,368,853
INVESTING ACTIVITIES:			
Proceeds from investments	6,250,000	6,690,000	21,782,431
Purchases of investments	(2,150,029)	(7,422,252)	(15,012,556)
Notes receivable	(2,799,086)	(1,001,593)	--
Purchases of property and equipment	(788,168)	(1,197,532)	(1,120,552)
Payments for intangible assets	(245,694)	(120,264)	(316,527)
Net cash provided by (used in) investing activities	267,023	(3,051,641)	5,332,796
FINANCING ACTIVITIES:			
Payments of long-term debt, Capital lease obligations and notes payable	(16,497)	(14,070)	(306,403)
Proceeds from issuance of common stock, net	25,037	25,221	24,124
Net cash provided by (used in) financing activities	8,540	11,151	(282,279)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(223,823)	(161,035)	(1,095,064)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(790,754)	1,521,356	5,324,306
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,029,318	6,507,962	1,183,656
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 7,238,564	$ 8,029,318	$ 6,507,962

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Principles of Consolidation--The consolidated financial statements include the accounts of FARO Technologies, Inc. and all majority-owned subsidiaries (collectively, the "Company"). All significant intercompany transactions and balances have been eliminated. The financial statements of the foreign subsidiaries are translated into U.S. dollars using exchange rates in effect at period-end for assets and liabilities and average exchange rates during each reporting period for results of operations. Adjustments resulting from translation of financial statements are reflected as a separate component of comprehensive (loss) income.

Revenue Recognition, Product Warranty and Extended Maintenance Contracts--Revenue related to the Company's 3-D measurement equipment and related software is recognized upon shipment as the Company considers the earnings process substantially complete as of the shipping date. Revenue from sales of software only is recognized when no further significant production, modification or customization of the software is required and where the following criteria are met: persuasive evidence of a sales agreement exists, delivery has occurred, and the sales price is fixed or determinable and deemed collectible. Revenues resulting from sales of comprehensive support, training and technology consulting services are recognized as such services are performed. Extended maintenance plan revenues are recognized in proportion to maintenance costs 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.

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 cash and equivalents, 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 ordinarily consist of short-term debt securities acquired with cash not immediately needed in operations. Such amounts have maturities not exceeding one year. Investments ordinarily consist of debt securities acquired with cash not immediately needed in operations. Such amounts have maturities of at least one year (none have maturities exceeding two years).

Investments consisted of the following:

	December 31	
	2001	2000
Government agency securities	$2,032,679	$ 898,840
Certificates of deposit	97,000	240,309
Corporate notes	--	3,616,423
	$2,129,679	$4,755,572

Management determines the appropriate classification of its short term investments and investments in debt securities at the time of the purchase and reevaluates such determinations at each balance sheet date. All investments in debt securities are classified as held to maturity as the company has the positive intent and ability to hold the securities to maturity. Held to maturity securities are stated at amortized cost. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and interest are included in other income in the consolidated statements of operations. The Company's investments in debt securities are diversified among high credit quality securities in accordance with the Company's investment policy. The gross unrealized gain on all held to maturity debt securities was approximately $123,000 and $65,000 at December 31, 2001 and 2000, respectively.

Inventories--Inventories are stated at the lower of average cost or net realizable value. In order to achieve a better matching of production costs with the revenues generated in production, certain fixed overhead costs and certain general and administrative costs that are related to production are capitalized into inventory when they are incurred and are charged to cost of sales as product costs at the time of sale. Shipping and handling costs are classified as a component of Cost of Sales in the Consolidated Statement of Operations.

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

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

Machinery and equipment..	2 to 10 years
Furniture and fixtures...	3 to 5 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.

Intangibles--Goodwill represents the excess of purchase price over the fair value of businesses acquired and was amortized on a straight-line basis over 5 years through December 31, 2001. Effective January 1, 2002, the Company ceased to amortize goodwill in accordance with the provisions of SFAS No. 142 (see Recently Adopted Accounting Standards below).

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 3 to 5 years.

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.

Income Taxes--Deferred tax assets and liabilities reflect the future income tax effects of temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates that apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fair Value of Financial Instruments--The Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, investments, foreign exchange rate agreements, and accounts payable. The carrying amounts of such financial instruments approximate their fair value.

Earnings Per Share--Basic earnings per share ("EPS") is computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings. A reconciliation of the number of common shares used in calculation of basic and diluted EPS is presented in Note 13.

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.

In 1999, the Company entered into an OEM agreement with Brown & Sharpe Manufacturing Company ("Brown & Sharpe"), a unit of Hexagon, A. B. of Stockholm, Sweden that is a world leader in the manufacture of traditional coordinate measurement machines (CMMs) and other metrology products. Brown & Sharpe will market the FAROArm(R) worldwide under the name GAGE 2000 A. The agreement, which grants Brown & Sharpe non-exclusive distribution right worldwide, expires in March 2002, and is renewable for successive one-year terms. The Company anticipates that this agreement will be renewed.

No customer represented more than 6% of the Company's total sales for the years ended December 31, 2001, 2000 and 1999.

Stock-Based Compensation--In accordance with Statement of Financial Accounting Standards ("SFAS" No. 123), "Accounting for Stock-Based Compensation," ("SFAS No. 123"), the Company has elected to continue to account for its employee stock compensation plans under Accounting Principle Board (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. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. 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.

In April 2000, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 44 (FIN 44), Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25. FIN 44 clarifies and modifies APB Opinion No. 25, Accounting for Stock Issued to Employees. During 2001, certain options to purchase common stock were effectively re-priced and will be accounted for as variable plan options. Such accounting could result in future charges to earnings (see Note 12).

Long-Lived Assets--Long-lived assets, including property and equipment and certain intangible assets to be held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses are recognized if expected future discounted or undiscounted cash flows of the related assets are less than their carrying values. Measurement of an impairment loss is based on the fair value of the asset. Long-lived assets and certain identifiable intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. See Note 2 regarding the impairment of certain developed and core technology.

Estimates--The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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.

Impact of Recently Issued Accounting Standards--In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). SFAS No. 142 establishes accounting and reporting standards for acquired goodwill and other intangible assets, and supersedes APB Opinion No.17, "Intangible Assets". SFAS No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The Company adopted this new Statement effective January 1, 2002. Upon adoption of SFAS No. 142, operating expenses will be reduced by approximately $480,000 on an annual basis for amortization and may increase for assets determined to be impaired, if any, during a respective year.

In January 2001, the Company adopted Statement of Financial Accounting Standards Statement No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities, as amended. SFAS 133 requires companies to recognize all their derivative instruments as either assets or liabilities at fair value in the statement of financial position. The accounting for changes in the fair value (i.e. gains and losses) of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument based on the exposure being hedged. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss is reported as a component of other comprehensive income. Accounting for such instruments is referred to as "special hedge accounting." However, SFAS 133 eliminates special hedge accounting if the derivative instrument does not meet certain criteria.

In August 2001, the Company entered into a foreign exchange rate swap allowing the Company the right to purchase up to $1.3 million at a base rate of 1.1049 Euros per $1.00. Under the agreement, the Company and the bank are to compensate one another based on the exchange rate agreement differential at specified measurement dates. This foreign exchange rate agreement expires in September 2002 and does not qualify for special hedge accounting mentioned above, as it did not meet the specified criteria under SFAS 133. Therefore the changes in fair value are recorded in income.

During the year ended December 31, 2001, the Company recognized a gain of $37,000 related to the change in fair value of the foreign exchange rate agreement in the Statement of Operations. The asset of $37,000 is recorded in other assets on the balance sheet.

2. ACQUISITION OF CATS

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 was recorded under the purchase method of accounting.

The acquisition agreement provided that the Company would provide a loan to each of the two former shareholders of CATS, who remain key employees of the Company, to fund their tax liability in connection with the Company's acquisition of CATS. In connection therewith, in June 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 4.7%, 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.

The valuation of CATS was based on management's estimates of after tax net cash flows for certain intangible assets. The actual after tax net cash flows may vary from management's original estimates. In the fourth quarter of 1999, the Company recorded a write-down of developed and core technology of approximately $3.1 million in the consolidated statement of operations. This write-down was in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets" ("SFAS No. 121"). Developed and core technology was determined to have been impaired because the anticipated future cash flows resulting from the software products acquired from CATS GmbH indicate that the recoverability of a portion of the developed and core technology is not reasonably assured. The estimated fair value of the developed and core technology was determined by calculating the present value of the estimated future cash flows.

3. SUPPLEMENTAL CASH FLOW INFORMATION

Selected cash payments and non cash activities were as follows:

	Years ended December 31		
	2001	2000	1999
Cash paid for interest	$ 1,747	$ 1,334	$ 3,237
Cash paid for income taxes	673,787	54,000	24,392
Non cash investing and financing activities:			
Fixed assets acquired under capital lease obligations	33,041	55,795	--

4. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts is as follows:

	Years ended December 31		
	2001	2000	1999
Balance, beginning of year	$ 353,514	$334,612	$139,690
Provision	310,981	30,271	169,144
(Amounts written off) recoveries	(324,780)	(11,369)	25,778
Balance, end of year	$ 339,715	$353,514	$334,612

5. INVENTORIES

Inventories, net consist of the following:

	December 31	
	2001	2000
Raw materials	$ 496,298	$ 486,002
Work-in-process	1,875,912	1,610,210
Finished goods	341,348	991,169
Sales demonstration	2,862,235	3,276,909
	$5,575,793	$6,364,290

The allowance for obsolete and slow-moving inventory is as follows:

	Years ended December 31		
	2001	2000	1999
Balance, beginning of year	$ 417,930	$1,080,815	$ 54,728
Charges to Cost of Sales	856,551	300,955	1,027,186
Amounts written off	(976,973)	(963,840)	(1,099)
Balance, end of year	$ 297,508	$ 417,930	$1,080,815

6. INTANGIBLE ASSETS

Intangible assets consist of the following:

	December 31	
	2001	2000
Goodwill	$ 2,325,225	$ 2,456,913
Existing product technology	4,589,775	4,849,715
Work force in place	445,445	470,673
Customer relationships	477,842	504,904
Product design costs	341,948	861,367
Patents	1,225,815	1,235,300
Other	131,033	277,253
Total	9,537,083	10,656,125
Accumulated amortization	(6,904,292)	(6,600,788)
Intangible assets--net	$ 2,632,791	$ 4,055,337

Amortization expense was $1,557,819, $2,062,293 and $3,625,045 in 2001, 2000 and 1999, respectively.

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31	
	2001	2000
Accrued compensation and benefits	$1,060,378	$2,185,314
Accrued royalties and warranties	138,200	183,385
Other accrued liabilities	1,865,885	1,751,705
	$3,064,463	$4,120,404

8. NOTES PAYABLE AND DEBT

The Company has an available line of credit of $1,500,000. Drawings under the line of credit bear interest at a rate equivalent to a 30-day commercial paper plus 2.75%. There were no amounts outstanding under the line of credit at December 31, 2001 and 2000.

Long-term debt consists of the following:

	December 31	
	2001	2000
4-year, 5.9% automobile loan	$ 12,887	$ 16,635
Obligations under capital leases	67,739	50,022
Total	80,626	66,657
Less current portion	(25,120)	(17,397)
	$ 55,506	$ 49,260

Long-term debt of $55,506 and $49,260 is included in other long-term liabilities in the accompanying consolidated balance sheet as of December 31, 2001 and 2000, respectively. Long-term debt at December 31, 2001 is due as follows: 2002--$25,120; 2003--$36,867; 2004--$15,045; 2005--$2,601 and thereafter--$993.

In 1999, a subsidiary financed the purchase of a motor vehicle with a term loan that expires in 2003. Additionally, in 2000 the Company's Japanese subsidiary entered into capital leases for automotive and other equipment with an initial term of 36 to 60 months. The present value of the minimum lease payments due under the lease agreements is included in Long-term debt.

9. RELATED PARTY TRANSACTIONS

Related Party Lease--The Company leases its plant and office building from Xenon Research, Inc. ("Xenon"), a 29.7% shareholder. Pursuant to the terms of the lease agreement, which expires in 2006, the Company has a five-year renewal option. 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 $391,000 in 2001, $355,000 in 2000, and $358,000 in 1999.

Related Party Loans--On June 20, 2000 the Company and each of the former CATS shareholders entered into an Amended and Restated Loan Agreement pursuant to which the Company granted loans to the former CATS shareholders in the aggregate amount of $1.1 million ("the Loans"). The Loans outstanding are for a term of three years, at an interest rate of approximately 4.7%, and grant the borrowers an option to extend the term for an additional three years. See Note 2 of Notes to Consolidated Financial Statements above.

Related Party Consulting Services--The Company engaged Cole & Partners, a mergers and acquisition and corporate finance advisory service firm, to serve as the Company's financial advisor in connection with the Company's acquisition in January, 2002 of SpatialMetrix, Inc. ("SMX"). Stephen R. Cole, one of the Company's directors and member of the Audit Committee, is the founding Partner and President of Cole & Partners. The Company paid to Cole & Partners total fees of approximately $440,000 by early 2002 for its services in the SMX acquisition.

10. INCOME TAXES

(Loss) income before taxes consisted of the following:

	Years ended December 31		
	2001	2000	1999
Domestic	$(2,229,358)	$ 1,814,032	$(2,508,948)
Foreign	(276,868)	(1,349,834)	(6,007,338)
(Loss) income before income taxes	$(2,506,226)	$ 464,198	$(8,516,286)

The components of the income tax expense (benefit) for income taxes are as follows:

	Years ended December 31		
	2001	2000	1999
Current:			
Federal	$(460,984)	$ 503,000	$ (357,453)
State	--	48,820	(55,333)
	(460,984)	551,820	(412,786)
Deferred:			
Federal	731,704	(115,891)	(585,932)
State	71,018	(11,248)	10,174
Foreign	--	--	(132,920)
	802,722	(127,139)	(708,678)
	$ 341,738	$ 424,681	$(1,121,464)

Income tax expense (benefit) for the years ended December 31, 2001, 2000, and 1999 differ from the amount computed by applying the federal statutory corporate rate to (loss) income before income taxes. The differences are reconciled as follows:

	Years ended December 31		
	2001	2000	1999
Tax (benefit) expense at statutory rate	$ (775,605)	$ 157,827	$(2,895,537)
State income taxes, net of federal benefit	(73,568)	55,155	(109,543)
Nontaxable interest income	--	--	(141,180)
Foreign tax rate difference	194,430	28,551	(986,167)
Research and development credit	(159,160)	(134,638)	(171,059)
Nondeductible items	33,356	36,684	42,530
Change in deferred tax asset valuation allowance	1,092,132	430,392	3,028,662
Other	30,153	(149,290)	110,830
Total income tax expense (benefit)	$ 341,738	$ 424,681	$(1,121,464)

The components of the Company's net deferred income tax asset are as follows:

	December 31, 2001	December 31, 2000
Net deferred income tax asset--Current		
Product design costs	$ (41,880)	$ (113,519)
Tax credits	382,315	36,839
Other	240,408	280,496
Valuation allowance	(504,425)	--
Net deferred income tax asset--Current	$ 76,418	$ 203,816
Net deferred income tax asset--Non-current		
Depreciation	$ 411,803	$ 291,145
Employee stock options	183,348	183,986
Unearned service revenue	169,362	200,193
Intangible assets	3,227,871	3,131,325
Carryforwards	3,087,378	3,360,729
Valuation allowance	(7,079,762)	(6,492,054)
Net deferred income tax asset--Non current	$ --	$ 675,324

At December 31, 2001, the Company's domestic entities had deferred income tax assets in the amount of $1,345,356. For financial reporting purposes a valuation allowance of $1,268,938 was set up during the year to appropriately reflect the portion of the deferred tax asset that is more likely than not to be realized.

At December 31, 2001, the Company's foreign subsidiaries had deferred income tax assets relating to net operating loss carry-forwards, which do not expire, and intangible assets of $3,087,378 and $3,227,871, respectively. For financial reporting purposes, a valuation allowance of $6,315,249 has been recognized to offset the deferred tax assets relating to the net operating losses and intangible assets.

11. COMMITMENTS AND CONTINGENCIES

Leases--The following is a schedule of future minimum lease payments required under non-cancelable operating leases, including leases with related parties (see Note 8), in effect at December 31, 2001:

Year Ending December 31	Amount
2002	$1,110,636
2003	929,274
2004	607,222
2005	381,176
2006 and thereafter	95,756
Total future minimum lease payments	$3,124,064

Rent expense for 2001, 2000, and 1999 was approximately $1,101,000, $1,120,000, and $973,000, respectively.

Litigation--The Company is not involved in any pending legal proceedings other than routine litigation arising in the normal course of business. The Company does not believe 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.

12. STOCK OPTION PLANS

The Company has three stock option plans that provide for the granting of stock options to key employees and non-employee members of the Board of Directors. The 1993 Stock Option Plan ("1993 Plan") and the 1997 Employee Stock Option Plan ("1997 Plan") provide for granting incentive stock options and nonqualified stock options to officers and key employees of the Company. The 1997 Non-employee Director Plan provides for granting nonqualified stock options and formula options to non-employee directors. Additionally, in connection with its initial public offering in 1997, the Company issued warrants to purchase 100,000 shares of its Common Stock at $13.20 per share. Such warrants expire in 2002.

The Company is authorized to grant options for up to 1,000,000 shares of Common Stock under the 1993 Plan, of which 295,997 and 123,372 options have been granted at exercise prices of $.36 and $3.60, respectively. These options vest over primarily 3 and 4-year periods. The Company is authorized to grant options for up to 1,400,000 shares of Common Stock under the 1997 Plan, of which 916,219 options have been granted at exercise prices between $1.50 and $12.00 (for those meant to qualify for treatment as incentive stock options). These options vest over a three-year period. The Company is authorized to grant up to 250,000 shares of Common Stock under the 1997 Non-employee Director Plan. Each non-employee director is granted 3,000 options upon election to the Board of Directors and then annually upon attending the annual meeting of shareholders (formula options). Formula options granted to directors are generally granted upon the same terms and conditions as options granted to officers and employees. These options vest over a three-year period. Additionally in 1997, certain non-employee directors were granted options to purchase 160,000 of Common Stock in consideration for their prior service on the Board of Directors. These options vested upon grant at an exercise price of $12.

The Company's 1997 Non-Employee Directors' Fee Plan, under which the Company is authorized to issue up to 250,000 shares of Common Stock, permits non-employee directors to elect to receive directors' fees in the form of Common Stock rather than cash. Common Stock issued in lieu of cash directors' fees is issued at the end of the quarter in which the fees are earned, with the number of shares being based on the fair market value of the Common Stock for the five trading days immediately preceding the last business day of the quarter.

In the fourth quarter of 2001, the Company cancelled approximately 548,000 "out of the money" options, including approximately 440,000 options issued under the 1997 Plan and approximately 108,000 options issued under the 1997 Non-employee Director Plan. As a result, 91,000 options granted in 2001, under the 1997 Plan, were subjected to variable accounting treatment. Under FIN No. 44, stock options issued within six months of a cancellation must be accounted for as variable under certain circumstances. Variable accounting requires companies to re-measure compensation costs for the variable options until the options are exercised, cancelled, or forfeited without replacement. Compensation is dependent on fluctuations in the quoted stock prices for the

Company's common stock. Such compensation costs will be recognized over a three-year vesting schedule until the options are fully vested, exercised, cancelled, or forfeited, after which time the compensation will be recognized immediately at each reporting period.

Compensation costs charged to operations associated with the Company's stock option plans was $123,404 and $168,912, in 2000, and 1999, respectively. There was no charge to operations in 2001 in connection with these plans. Compensation cost was based on the difference between the value of the stock, at date of grant, and its exercise price multiplied by the number of shares vested in each year.

A summary of stock option activity and weighted average exercise prices follows:

	Years Ended December 31,					
	2001		2000		1999	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	1,291,315	$ 8.61	1,140,686	$ 9.79	1,194,165	$ 9.73
Granted	334,000	1.77	260,050	2.70	66,000	4.76
Cancelled	(548,074)	12.45	--		--	
Forfeited	(123,197)	7.60	(108,249)	6.63	(108,106)	7.76
Exercised	(4,546)	0.36	(1,172)	3.60	(11,373)	2.60
Outstanding at end of year	949,498	4.19	1,291,315	8.61	1,140,686	9.79
Outstanding exercisable at year-end	474,464	$ 6.32	881,640	$10.23	659,275	$10.49
Weighted-average fair value of options granted during the year	$1.00		$1.63		$3.75	

A summary of stock options outstanding and exercisable as of December 31, 2001 follows:

Exercise Price	Options Outstanding	Weighted-Average Remaining Contractual Life (Years)	Options Exercisable
$ 0.36	23,312	3.97	23,312
$ 1.50	265,700	9.84	0
$ 2.56-2.94	256,100	8.43	65,934
$ 3.13-3.75	226,715	6.63	213,881
$ 4.13-5.12	18,000	7.39	11,666
$10.34-12.00	59,671	6.01	59,671
$13.20	100,000	0.71	100,000
	949,498		474,464

Remaining non-exercisable options as of December 31, 2001 become exercisable as follows:

Years Ending December 31	Amount
2002	185,101
2003	179,433
2004	110,500
	475,034

Had compensation cost for the Company's stock-based compensation plans been determined consistent with SFAS No. 123, the Company's net earnings and earnings per share would have been as follows:

	Years Ended December 31,		
	2001	2000	1999
Net (loss) income			
As reported	$(2,847,964)	$ 39,517	$(7,394,822)
Pro forma	(3,173,944)	(943,306)	(8,531,554)
(Loss) income per share--Basic			
As reported	$ (0.26)	$ --	$ (0.67)
Pro forma	(0.29)	(0.09)	(0.77)
(Loss) income per share--Diluted			
As reported	$ (0.26)	$ --	$ (0.67)
Pro forma	(0.29)	(0.09)	(0.77)

The Company used the Black-Scholes option-pricing model to determine the fair value of grants made. The following assumptions were applied in determining the pro forma compensation cost:

	Years Ended December 31,		
	2001	2000	1999
Risk-free interest rate	3.60% to 6.72%	4.44% to 6.72%	5.50%
Expected dividend yield	0%	0%	0%
Expected option life	1-10 years	3-10 years	3-10 years
Stock price volatility	62.50%	65.30%	105.21%

The effects of applying SFAS No. 123 for the pro forma disclosures are not representative of the effects expected on reported net (loss) income and income per share in future years since the disclosures do not reflect compensation expense for options granted prior to 1996.

13. EARNINGS PER SHARE

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

	Years Ended December 31,					
	2001		2000		1999	
	Shares	Per-Share Amount	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic EPS...............	11,032,449	$(0.26)	11,021,606	$0.00	11,015,140	$(0.67)
Effect of Dilutive Securities:						
Stock Options.........			72,538			
Diluted EPS.............	11,032,449	$(0.26)	11,094,144	$0.00	11,015,140	$(0.67)

14. EMPLOYEE RETIREMENT BENEFITS PLAN

The Company maintains a 401(k) defined contribution retirement plan for its U.S. 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 6% of compensation. Costs charged to operations in connection with the Plan during 2001 and 2000 aggregated $83,400 and $35,000, respectively. The Company made no contributions to the Plan prior to 2000.

15. 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:

	December 31,					
	2001		2000		1999	
	Sales	Long-lived Assets	Sales	Long-lived Assets	Sales	Long-lived Assets
United States...........	$13,755,991	$2,058,163	$19,997,884	$2,326,790	$17,687,875	$2,522,654
Germany.................	6,936,796	1,944,642	8,557,809	3,385,662	6,321,760	5,083,420
France..................	3,128,551	6,842	2,927,787	9,136	1,716,031	41,145
United Kingdom..........	2,973,442		2,603,297		2,568,020	
Other Foreign...........	8,318,816	169,843	6,366,136	136,031	4,812,054	
	$35,113,596	$4,179,490	$40,452,913	$5,857,619	$33,105,740	$7,647,219

The geographical sales information presented above represents sales to customers located in each respective country whereas the long-lived assets information represents assets held in the respective countries.

16. SUBSEQUENT EVENT

On January 16, 2002, the Company acquired SpatialMetrix Corporation ("SMX") in exchange for 500,000 shares of FARO common stock and the satisfaction by the Company of certain obligations of SMX. In connection therewith, the Company issued an additional 350,000 shares of FARO common stock and paid $2.0 million in cash to fully satisfy SMX's obligations to its two lenders. The Company also assumed and/or satisfied other obligations of SMX. The transaction will be recorded utilizing the purchase method of accounting in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." SMX Corp. is a leading manufacturer and supplier of laser trackers and targets, metrology software, and contract inspection services.

In April 2001, the Company provided $1.5 million in financing to SMX by entering into a Participation Agreement with SMX's bank pursuant to which the Company funded and simultaneously acquired a $1.5 million interest in SMX's then outstanding $3.8 million bank line of credit. In October 2001, the Company and SMX entered into an additional agreement pursuant to which the Company would provide to SMX up to an additional $1.5 million in financing. The Company and SMX's bank amended the Participation Agreement so that such additional financing to SMX also would be made through participation in SMX's bank line of credit. Consequently, SMX's bank line of credit could increase to a maximum of $5.3 million, of which FARO would own up to $3.0 million. Prior to closing, the Company had provided $2.9 million of aggregate financing to SMX pursuant to the Participation Agreement.

17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Quarter Ended	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Sales..................	$ 8,405,530	$ 8,265,131	$8,416,886	$10,026,049
Gross profit............	4,966,003	4,801,330	5,300,500	5,741,680
Net income (loss).......	(1,127,255)	(1,583,284)	(699,035)	561,610
Net income (loss) per share:				
Basic.................	(0.10)	(0.14)	(0.06)	0.05
Diluted...............	(0.10)	(0.14)	(0.06)	0.05

Quarter Ended	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
Sales....................	$9,849,767	$10,923,279	$8,810,972	$10,868,895
Gross profit............	5,909,407	6,926,735	5,614,077	7,254,066
Net income (loss)........	(417,570)	591,398	(360,387)	226,076
Net income (loss) per share:				
Basic..................	(0.04)	0.05	(0.03)	0.02
Diluted................	(0.04)	0.05	(0.03)	0.02

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

The information contained in the Company's current report on Form 8-K dated August 21, 2000 is incorporated herein by reference.

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 to be set forth under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement is incorporated herein by reference.

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 "Management of the Registrant."

ITEM 11. EXECUTIVE COMPENSATION.

The information to be set forth under the caption "Executive Compensation" in the Proxy Statement is incorporated herein by reference; provided, however that the Company specifically excludes from such incorporation by reference any information set forth under the caption Report by the "Compensation Committee on Executive Compensation."

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

Security ownership of certain beneficial owners and management to be set forth under the caption "Principal Shareholders" in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information to be set forth under the caption "Certain Relationships and Related Transactions" in the Proxy Statement is incorporated herein by reference.

PART IV

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. Included in Part II, Item 8 is an index to the Consolidated Financial Statements of FARO Technologies, Inc. and Report of Ernst & Young LLP, Independent Certified Public Accountants, filed as part of this Form 10-K. Additionally, included as Exhibit 99.2 are the unaudited financial statements of SpatialMetrix Corporation ("SMX") for each of the two years in the period ended December 31, 2001 and unaudited pro forma financial information pertaining to the acquisition of SMX.

(2) Financial Statement Schedules. Schedules not listed in the index to the Consolidated Financial Statements included in Part II, Item 8, 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
2.1	Agreement and Plan of Merger dated September 14, 2001, as amended, between the Registrant and Spatialmetrix Corporation (Filed as Exhibit 2.1 to Registrant's Current Report on Form 8-K dated January 16, 2002 and incorporated herein by reference)
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	1993 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	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)
10.6	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)
10.7	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)
10.8	Nonexclusive Unique Application Reseller Agreement, dated as of March 1, 1998, between the Registrant and Autodesk, Inc. (Filed as Exhibit 10.11 to Registrant's Form 10-K for calendar year 1997, No. 0-23081, and incorporated herein by reference)
10.9	First Amendment to Business Lease, dated as of January 20, 1998, between the Registrant (as successor by merger to FARO Medical Technologies (US), Inc.) and Xenon Research, Inc., (Filed as Exhibit 10.12 to Registrant's Form 10-K for calendar year 1997, No. 0-23081 and incorporated herein by reference)
10.10	FARO OEM Purchase Agreement, dated March 12, 1999 between the Company and Brown & Sharpe Manufacturing Company. (Filed as Exhibit 10.13 to Registrant's Form 10-K for calendar year 1998, No. 0-23081 and incorporated herein by reference)

Exhibit No.	Description
10.11	OEM Contract (1) year extension, signed March 1, 2001 between the Registrant and Brown & Sharpe Manufacturing Company. (Filed as Exhibit 10.15 to Registrant's Form 10-K for calendar year 2000, No. 000-23081 and incorporated herein by reference)
10.12	WCMA Line of Credit No. 740-07K27 dated May 10, 2001 between the Registrant and Merrill Lynch Business Financial Services, Inc. (Filed herewith)
21.1	List of Subsidiaries (Filed herewith)
23.1	Consent of Ernst & Young LLP (Filed herewith)
23.2	Consent of Deloitte & Touche LLP (Filed herewith)
24.1	Power of Attorney (Included on Page 46 of this Report)
99.1	Properties (Filed herewith)
99.2	Unaudited Financial Statements of SpatialMetrix Corporation for the two years in the period ended December, 31, 2001 and unaudited pro forma financial information pertaining to the acquisition of SMX (Filed herewith)

(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.

By: /s/ Gregory A. Fraser

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

Date: March 27, 2002

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 27, 2002
/s/ Gregory A. Fraser Gregory A. Fraser	Executive Vice President, Secretary, Treasurer, and Director	March 27, 2002
/s/ Hubert d'Amours Hubert d'Amours	Director	March 27, 2002
/s/ Stephen R. Cole Stephen R. Cole	Director	March 27, 2002
/s/ Norman H. Schipper Norman H. Schipper	Director	March 27, 2002
/s/ Andre Julien Andre Julien	Director	March 27, 2002

EXHIBIT 10.12

Private Client Group

Merrill Lynch Business
Financial Services Inc.
222 North LaSaIIe Street
17th Floor
Chicago, Illinois 60601
(312) 499-3179
FAX: (312) 499-3253

Merrill Lynch

May 10, 2001

Mr. Simon Raab
Faro Technologies, Inc.
125 Technology Park
Lake Mary, FL 32746

Re: WCMA Line of Credit Approval

Dear Mr. Raab,

As I believe you know, we have approved the request of Faro Technologies, Inc. ("Customer") for a WCMA Line of Credit upon the terms and conditions set forth in the enclosed documents ("Loan Documents").

For your information, the following are some of the principal terms of the approval:

Maximum WCMA Line of Credit: $1,500,000.00.

WCMA Interest Rate: Variable at a per annum rate equal to the sum of 2.75% plus the 30-day Dealer Commercial Paper Rate (as published in The Wall Street Journal), based upon actual days elapsed over a 360-day year.

Initial Expiration Date: May 31, 2002 (subject to renewal annually thereafter).

Annual WCMA Line Fee: $7,500.00.

Please refer to the Loan Documents for a complete statement of the terms.

In addition to conditions set forth in the Loan Documents, our approval is subject to:

(a) The valid subscription and continued maintenance by Customer of a Working Capital Management Account with Merrill Lynch, Pierce, Fenner and Smith Incorporated for use in connection with the WCMA Line of Credit, which subscription and maintenance shall be evidenced on Merrill Lynch's computer system.

(b) Our receipt of all of the Loan Documents together with any additional documents contemplated thereby or otherwise reasonably required by us, all of which shall be duly executed and, if applicable, recorded, and all of which shall be in form and substance satisfactory to us.

(c) Acceptance by us in writing of the executed Loan Documents at our office in Chicago after review and a final determination by us of the consistency of the Loan Documents with our original internal credit approval. (Without limiting the foregoing, it should be understood that prior to such acceptance we are not bound by any clerical or other errors in or omissions from the Loan Documents.)

(d) Our continuing satisfaction with the financial condition of Customer.

(e) There not occurring any event which under the terms of the Loan Documents would constitute a Default.

(f) Evidence satisfactory to us of the perfection and priority of any liens required by us in the Loan Documents. Our approval will remain open subject to said conditions until June 9,2001, after which time it shall be void.

Note that the Loan Documents require an initial WCMA Line Fee of $7,500.00. This fee will be charged to Customer's WCMA Account after the Loan Documents have been executed and returned to us. Note further that under the terms of the Loan Documents Customer is responsible for a Florida documentary stamp tax in the amount of $5,250.00. Consult your tax advisor about this tax, since it may not be due if the Loan Documents are executed outside of the State of Florida, as evidenced by a notary's acknowledgment at the end of certain of the Loan Documents. Subject to such evidence that the tax is not payable, please also include with the executed documents a check for the documentary stamp taxes payable to "Lexis Document Services".

To assist you in completing the Loan Documents, we have affixed a "Sign Here" sticker to each page requiring a signature, and have penciled an x" in front of each signature line.

In order to minimize signature requirements, we normally seek only one copy of each of the Loan Documents. After the WCMA Line of Credit has been activated, we will return a fully executed duplicate copy for your records.

Although we will endeavor to make the WCMA Line of Credit available as soon as feasible after the conditions of our approval have been met, there may be system delays of up to several days until actual availability. Accordingly, we suggest that you contact us prior to your initial use of the WCMA line.

If you have any questions about our approval or the structure or terms of the facility, please call me at 312-269-4451. If you have any questions about the Loan Documents, please call Diane Segert at (312) 499-3179.

Very truly yours,

MERRILL LYNCH BUSINESS

FINANCIAL SERVICES INC.

Signature on file for: Thomas P. Coffey
Senior Relationship Manager

cc: Manny Calzon

WCMA LOAN AGREEMENT NO. 740-07K27 ("loan Agreement") dated as of May 10, 2001, between FARO TECHNOLOGIES, INC., a corporation organized and existing under the laws of the State of Florida having its principal office at 125 Technology Park, Lake Mary, FL 32746 ("Customer"), and MERRILL LYNCH BUSINESS FINANCIAL SERVICES INC., a corporation organized and existing under the laws of the State of Delaware having its principal office at 222 North LaSalle Street, Chicago, IL 60601 ("MLBFS").

In accordance with that certain WORKING CAPITAL MANAGEMENT ACCOUNT AGREEMENT NO. 740-07K27 ("WCMA Agreement") between Customer and MLBFS' affiliate, MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED ("MLPF&S"), Customer has subscribed to the WCMA Program described in the WCMA Agreement. The WCMA Agreement is by this reference incorporated as a part hereof. In conjunction therewith and as part of the WCMA Program, Customer has requested that MLBFS provide, and subject to the terms and conditions herein set forth MLBFS has agreed to provide, a commercial line of credit for Customer (the WCMA Line of Credit).

Accordingly, and in consideration of the premises and of the mutual covenants of the parties hereto, Customer and MLBFS hereby agree as follows:

Article I. DEFINITIONS

1.1 Specific Terms. In addition to terms defined elsewhere in this Loan Agreement, when used herein the following terms shall have the following meanings:

(a) "Activation Date" shall mean the date upon which MLBFS shall cause the WCMA Line of Credit to be fully activated under MLPF&S' computer system as part of the WCMA Program.

(b) "Additional Agreements" shall mean all agreements, instruments, documents and opinions other than this Loan Agreement, whether with or from Customer or any other party, which are contemplated hereby or otherwise reasonably required by MLBFS in connection herewith, or which evidence the creation, guaranty or collateralization of any of the Obligations or the granting or perfection of liens or security interests upon any collateral for the Obligations.

(c) "Bankruptcy Event" shall mean any of the following: (i) a proceeding under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt or receivership law or statute shall be filed or consented to by Customer; or (ii) any such proceeding shall be filed against Customer and shall not be dismissed or withdrawn within sixty (60) days after filing; or (iii) Customer shall make a general assignment for the benefit of creditors; or (iv) Customer shall generally fail to pay or admit in writing its inability to pay its debts as they become due; or (v) Customer shall be adjudicated as bankrupt or insolvent.

(d) "Business Day" shall mean any day other than a Saturday, Sunday, federal holiday or other day on which the New York Stock Exchange is regularly closed.

(e) "Commitment Expiration Date" shall mean June 9, 2001.

(f) "Default" shall mean either an "Event of Default" as defined in Section 3.4 hereof, or an event which with the giving of notice, passage of time, or both, would constitute such an Event of Default.

(g) "Default Interest Rate" shall mean a rate equal to the sum of the "Interest Rate", as determined below, plus two percent (2%) per annum.

(h) "General Funding Conditions" shall mean each of the following conditions to any WCMA Loan by MLBFS hereunder: (i) no Default shall have occurred and be continuing or would result from the making of any WCMA Loan hereunder by MLBFS; (ii) there shall not have occurred and be continuing any material adverse change in the business or financial condition of Customer; (iii) all representations and warranties of Customer herein or in any

Additional Agreements shall then be true and correct in all material respects; (iv) MLBFS shall have received this Loan Agreement and all of the Additional Agreements, duly executed and filed or recorded where applicable, all of which shall be in form and substance reasonably satisfactory to MLBFS; (v) MLBFS shall have received evidence reasonably satisfactory to it as to the ownership of and the perfection and priority of MLBFS' liens and security interests on any collateral for the Obligations furnished pursuant to any of the Additional Agreements; and (vii) any additional conditions specified in the "WCMA Line of Credit Approval" letter executed by MLBFS with respect to the transactions contemplated hereby shall have been met to the reasonable satisfaction of MLBFS.

(i) "Initial Maturity Date" shall mean the first date upon which the WCMA Line of Credit will expire (subject to renewal in accordance with the terms hereof); to wit: May 31, 2002.

(j) "Interest Due Date" shall mean the last Business Day of each calendar month during the term hereof (or, if Customer makes special arrangements with MLPF&S, the last Friday of each calendar month during the term hereof).

(k) "Interest Rate" shall mean a variable per annum rate of interest equal to the sum of 2.75% and the 30-day Dealer Commercial Paper Rate. The "30-day Dealer Commercial Paper Rate" shall mean, as of the date of any determination, the interest rate from time to time published in the 'Money Rates' section of The Wall Street Journal as the "Dealer Commercial Paper" rate for 30-day high-grade unsecured notes sold through dealers by major corporations. The Interest Rate will change as of the date of publication in The Wall Street Journal of a 30-day Dealer Commercial Paper Rate that is different from that published on the preceding Business Day. In the event that The Wall Street Journal shall, for any reason, fail or cease to publish the 30-day Dealer Commercial Paper Rate, MLBFS will choose a reasonably comparable index or source to use as the basis for the Interest Rate. Upon the occurrence and during the continuance of a Default, the Interest Rate with respect the WCMA Line of Credit may be increased to the 'Default Interest Rate', as herein provided.

(l) "Line Fee" shall mean a fee of $7,500.00 payable periodically by Customer to MLBFS in accordance with the provisions of Section 2.2(k) hereof.

(m) "Maturity Date" shall mean the date of expiration of the WCMA Line of Credit.

(n) "Maximum WCMA Line of Credit" shall mean $1,500,000.00.

(o) "Obligations" shall mean all liabilities, indebtedness and other obligations of Customer to MLBFS, howsoever created, arising or evidenced, whether now existing or hereafter arising, whether direct or indirect, absolute or contingent, due or to become due, primary or secondary or joint or several, and, without limiting the foregoing, shall include interest accruing after the filing of any petition in bankruptcy, and all present and future liabilities, indebtedness and obligations of Customer under this Loan Agreement.

(p)

(q) "Renewal Year" shall mean and refer to the 12-month period immediately following the Initial Maturity Date and each 12-month period thereafter.

(r) "WCMA Account" shall mean and refer to the Working Capital Management Account of Customer with MLPF&S identified as Account No. 740-07K27 and any successor Working Capital Management Account of Customer with MLPF&S.

(s) "WCMA Loan" shall mean each advance made by MLBFS pursuant to this Loan Agreement.

(t) "WCMA Loan Balance" shall mean an amount equal to the aggregate unpaid principal amount of all WCMA Loans.

1.2 Other Terms. Except as otherwise defined herein: (i) all terms used in this Loan Agreement which are defined in the Uniform Commercial Code of Illinois ("UCC") shall have the meanings set forth in the UCC, and (ii) capitalized terms used herein which are defined in the WCMA Agreement shall have the meanings set forth in the WCMA Agreement.

ARTICLE II. THE WCMA LINE OF CREDIT

2.1 WCMA PROMISSORY NOTE. FOR VALUE RECEIVED, Customer hereby promises to pay to the order of MLBFS, at the times and in the manner set forth in this Loan Agreement, or in such other manner and at such place as MLBFS may hereafter designate in writing, the following: (a) on the Maturity Date, or if earlier, on the date of termination of the WCMA Line of Credit, the WCMA Loan Balance; (b) interest at the Interest Rate (or, if applicable, at the Default Interest Rate) on the outstanding WCMA Loan Balance, from and including the date on which the initial WCMA Loan is made until the date of payment of all WCMA Loans in full; and (c) on demand, all other sums payable pursuant to this Loan Agreement, including, but not limited to, the periodic Line Fee. Except as otherwise expressly set forth herein, Customer hereby waives presentment, demand for payment, protest and notice of protest, notice of dishonor, notice of acceleration, notice of intent to accelerate and alt other notices and formalities in connection with this WCMA Promissory Note and this Loan Agreement.

2.2 WCMA LOANS

(a) Activation Date. Provided that: (i) the Commitment Expiration Date shall not then have occurred, and (ii) Customer shall have subscribed to the WCMA Program and its subscription to the WCMA Program shall then be in effect, the Activation Date shall occur on or promptly after the date, following the acceptance of this Loan Agreement by MLSPS at its office in Chicago, Illinois, upon which each of the General Funding Conditions shall have been met or satisfied to the reasonable satisfaction of MLBFS. No activation by MLBFS of the WCMA Line of Credit for a nominal amount shall be deemed evidence of the satisfaction of any of the conditions herein set forth, or a waiver of any of the terms or conditions hereof.

(b) WCMA Loans. Subject to the terms and conditions hereof, during the period from and after the Activation Date to the first to occur of the Maturity Date or the date of termination of the WCMA Line of Credit pursuant to the terms hereof, and in addition to WCMA Loans automatically made to pay accrued interest, as hereafter provided: (i) MLBFS will make WCMA Loans to Customer in such amounts as Customer may from time to time request in accordance with the terms hereof, up to an aggregate outstanding amount not to exceed the Maximum WCMA Line of Credit, and (ii) Customer may repay any WCMA Loans in whole or in part at any time, and request a re-borrowing of amounts repaid on a revolving basis. Customer may request such WCMA Loans by use of WCMA Checks, FTS, Visa charges, wire transfers, or such other means of access to the WCMA Line of Credit as may be permitted by MLBFS from time to time; it being understood that so long as the WCMA Line of Credit shall be in effect, any charge or debit to the WCMA Account which but for the WCMA Line of Credit would under the terms of the WCMA Agreement result in an overdraft, shall be deemed a request by Customer for a WCMA Loan.

(c) Conditions of WCMA Loans. Notwithstanding the foregoing, MLBFS shall not be obligated to make any WCMA Loan, and may without notice refuse to honor any such request by Customer, if at the time of receipt by MLBFS of Customer's request: (i) the making of such WCMA Loan would cause the Maximum WCMA Line of Credit to be exceeded; or (ii) the Maturity Date shall have occurred, or the WCMA Line of Credit shall have otherwise been terminated in accordance with the terms hereof; or (iii) Customer's subscription to the WCMA Program shall have been terminated; or (iv) an event shall have occurred and be continuing which shall have caused any of the General Funding Conditions to not then be met or satisfied to the reasonable satisfaction of MLBFS. The making by MLBFS of any WCMA Loan at a time when any one or more of said conditions shall not have been met shall not in any event be construed as a waiver of said condition or conditions or of any Default, and shall not prevent MLBFS at any time thereafter while any condition shall not have been met from refusing to honor any request by Customer for a WCMA Loan.

(d) Limitation of Liability. MLBFS shall not be responsible, and shall have no liability to Customer or any other party, for any delay or failure of MLBFS to honor any request of Customer for a WCMA Loan or any other act or omission of MLBFS, MLPF&S or any of their affiliates due to or resulting from any system failure, error or delay in posting or other clerical error, loss of power, fire, Act of God or other cause beyond the reasonable control of MLBFS, MLPF&S or any of their affiliates unless directly arising out of the willful wrongful act or active gross negligence of MLBFS. In no event shall MLBFS be liable to Customer or any other party for any incidental or consequential damages arising from any act or omission by MLBFS, MLPF&S or any of their affiliates in connection with the WCMA Line of Credit or this Loan Agreement.

(e) Interest. (i) An amount equal to accrued interest on the WCMA Loan Balance shall be payable by Customer monthly on each Interest Due Date, commencing with the Interest Due Date occurring in the calendar month in which the Activation Date shall occur. Unless otherwise hereafter directed in writing by MLBFS on or after the first to occur of the Maturity Date or the date of termination of the WCMA Line of Credit pursuant to the terms hereof, such interest will be automatically charged to the WCMA Account on the applicable Interest Due Date, and, to the extent not paid with free credit balances or the proceeds of sales of any Money Accounts then in the WCMA Account, as hereafter provided, paid by a WCMA Loan and added to the WCMA Loan Balance. All interest shall be computed for the actual number of days elapsed on the basis of a year consisting of 360 days.

(ii) Upon the occurrence and during the continuance of any Default, but without limiting the rights and remedies otherwise available to MLBFS hereunder or waiving such Default, the interest payable by Customer hereunder shall at the option of MLBFS accrue and be payable at the Default Interest Rate. The Default Interest Rate, once implemented, shall continue to apply to the Obligations under this Loan Agreement and be payable by Customer until the date such Default is either cured or waived in writing by MLBFS,

(iii) Notwithstanding any provision to the contrary in this Agreement or any of the Additional Agreements, no provision of this Agreement or any of the Additional Agreements shall require the payment or permit the collection of any amount in excess of the maximum amount of interest permitted to be charged by law ('Excess Interest'). If any Excess Interest is provided for, or is adjudicated as being provided for, in this Agreement or any of the Additional Agreements, then: (A) Customer shall not be obligated to pay any Excess Interest; and (B) any Excess Interest that MLBFS may have received hereunder or under any of the Additional Agreements shall, at the option of MLBFS, be: (1) applied as a credit against the then unpaid WCMA Loan Balance, (2) refunded to the payer Thereof, or (3) any combination of the foregoing.

(f) Payments. All payments required or permitted to be made pursuant to this Loan Agreement shall be made in lawful money of the United States. Unless otherwise directed by MLBFS, payments on account of the WCMA Loan Balance may be made by the delivery of checks (other than WCMA Checks), or by means of FTS or wire transfer of funds (other than funds from the WCMA Line of Credit) to MLPF&S for credit to Customer's WCMA Account. Notwithstanding anything in the WCMA Agreement to the contrary, Customer hereby irrevocably authorizes and directs MLPF&S to apply available free credit balances in the WCMA Account to the repayment of the WCMA Loan Balance prior to application for any other purpose. Payments to MLBFS from funds in the WCMA Account shall be deemed to be made by Customer upon the same basis and schedule as funds are made available for investment in the Money Accounts in accordance with the terms of the WCMA Agreement. All funds received by MLBFS from MLPF&S pursuant to the aforesaid authorization shall be applied by MLBFS to repayment of the WCMA Loan Balance. The acceptance by or on behalf of MLBFS of a check or other payment for a lesser amount than shall be due from Customer, regardless of any endorsement or statement thereon or transmitted therewith, shall not be deemed an accord and satisfaction or anything other than a payment on account, and MLBFS or anyone acting on behalf of MLBFS may accept such check or other payment without prejudice to the rights of MLBFS to recover the balance actually due or to pursue any other remedy under this Loan Agreement or applicable law for such balance. All checks accepted by or on behalf of MLBFS in connection with the WCMA Line of Credit are subject to final collection.

(g) Irrevocable Instructions to MLPF&S. In order to minimize the WCMA Loan Balance, Customer hereby irrevocably authorizes and directs MLPF&S, effective on the Activation Date and continuing thereafter so long as this Agreement shall be in effect: (i) to immediately and prior to application for any other purpose pay to MLBFS to the extent of any WCMA Loan Balance or other amounts payable by Customer hereunder all available free credit balances from time to time in the WCMA Account; and (ii) if such available free credit balances are insufficient to pay the WCMA Loan Balance and such other amounts, and there are in the WCMA Account at any time any investments in Money Accounts (other than any investments constituting any Minimum Money Accounts Balance under the WCMA Directed Reserve Program), to immediately liquidate such investments and pay to MLBFS to the extent of any WCMA Loan Balance and such other amounts the available proceeds from the liquidation on of any such Money Accounts.

(h) Statements. MLPF&S will include in each monthly statement it issues under the WCMA Program information with respect to WCMA Loans and the WCMA Loan Balance. Any questions that Customer may have with respect to such information should be directed to MLBFS; and any questions with respect to any other matter in such statements or about or affecting the WCMA Program should be directed to MLPF&S.

(i) Use of WCMA Loan Proceeds. The proceeds of each WCMA Loan initiated by Customer shall be used by Customer solely for working capital in the ordinary course of its business, or, with the prior written consent of MLSFS, for other lawful business purposes of Customer not prohibited hereby. Customer agrees that under no circumstances will the proceeds of any WCMA Loan be used: (i) for personal, family or household purposes of any person whatsoever, or (ii) to purchase, carry or trade in securities, or repay debt incurred to purchase, carry or trade in securities, whether in or in connection with the WCMA Account, another account of

Customer with MLPF&S or an account of Customer at any other broker or dealer in securities, or (iii) unless otherwise consented to in writing by MLBFS, to pay any amount to Merrill Lynch and Co., Inc. or any of its subsidiaries, other than Merrill Lynch Bank USA, Merrill Lynch Bank & Trust Co. or any subsidiary of either of them (including MLBFS and Merrill Lynch Credit Corporation).

(j) Renewal at Option of MLBFS; Right of Customer to Terminate. MLBFS may at any time, in its sole discretion and at its sole option, renew the WCMA Line of Credit for one or more Renewal Years; it being understood, however, that no such renewal shall be effective unless set forth in a writing executed by a duly authorized representative of MLBFS and delivered to Customer. Unless any such renewal is accompanied by a proposed change in the terms of the WCMA Line of Credit (other than the extension of the Maturity Date), no such renewal shall require Customers approval. Customer shall, however, have the right to terminate the WCMA Line of Credit at any time upon written notice to MLBFS.

(k) Line Fees. (i) In consideration of the extension of the WCMA Line of Credit by MLBFS to Customer during the period from the Activation Date to the Initial Maturity Date, Customer has paid or shall pay the Line Fee to MLBFS. If the Line Fee has not heretofore been paid by Customer, Customer hereby authorizes MLBFS, at its option, to either cause the Line Fee to be paid on the Activation Date with a WCMA Loan, or invoice Customer for such Line Fee (in which event Customer shall pay said fee within 5 Business Days after receipt of such invoice). No delay in the Activation Date, howsoever caused, shall entitle Customer to any rebate or reduction in the Line Fee or to any extension of the Initial Maturity Date.

(ii) Customer shall pay an additional Line Fee for each Renewal Year. In connection therewith, Customer hereby authorizes MLBFS, at its option, to either cause each such additional Line Fee to be paid with a WCMA Loan on or at any time after the first Business Day of such Renewal Year or invoiced to Customer at such time (in which event Customer shall pay such Line Fee within 5 Business Days after receipt of such invoice). Each Line Fee shall be deemed fully earned by MLBFS on the date payable by Customer, and no termination of the WCMA Line of Credit, howsoever caused, shall entitle Customer to any rebate or refund of any portion of such Line Fee; provided, however, that if Customer shall terminate the WCMA Line of Credit not later than 5 Business Days after the receipt by Customer of notice from MLBFS of a renewal of the WCMA Line of Credit, Customer shall be entitled to a refund of any Line Fee charged by MLBFS for the ensuing Renewal Year.

Article III. GENERAL PROVISIONS

3.1 REPRESENTATIONS AND WARRANTIES

Customer represents and warrants to MLBFS that:

(a) Organization and Existence. Customer is a corporation, duly organized and validly existing in good standing under the laws of the State of Florida and is qualified to do business and in good standing in each other state where the nature of its business or the property owned by it make such qualification necessary.

(b) Execution, Delivery and Performance. The execution, delivery and performance by Customer of this Loan Agreement and such of the Additional Agreements to which it is a party: (i) have been duly authorized by all requisite action, (ii) do not and will not violate or conflict with any law or other governmental requirement, or any of the agreements, instruments or documents which formed or govern Customer, and (iii) do not and will not breach or violate any of the provisions of, and will not result in a default by Customer under, any other agreement, instrument or document to which it is a party or by which it or its properties are bound.

(c) Notices and Approvals. Except as may have been given or obtained, no notice to or consent or approval of any governmental body or authority or other third party whatsoever (including, without limitation, any other creditor) is required in connection with the execution, delivery or performance by Customer of such of this Loan Agreement and the Additional Agreements to which it is a party.

(d) Enforceability. This Loan Agreement and such of the Additional Agreements to which Customer is a party are the legal, valid and binding obligations of Customer, enforceable against it in accordance with their respective terms, except as enforceability may be limited by bankruptcy and other similar laws affecting the rights of creditors generally or by general principles of equity.

(e) Financial Statements. Except as expressly set forth in Customers financial statements, all financial statements of Customer furnished to MLBFS have been prepared in conformity with generally accepted accounting principles, consistently applied, are true and correct in all material respects, and fairly present the financial condition of it as at such dates and the results of its operations for the periods then ended (subject, in the case of interim unaudited financial statements, to normal year-end adjustments); and since the most recent date covered by such financial statements, there has been no material adverse change in any such financial condition or operation.

(f) Litigation. No litigation, arbitration, administrative or governmental proceedings are pending or, to the knowledge of Customer, threatened against Customer, which would, if adversely determined, materially and adversely affect the liens and security interests of MLBFS hereunder or under any of the Additional Agreements, the financial condition of Customer or the continued operations of Customer.

(g) Tax Returns. All federal, state and local tax returns, reports and statements required to be filed by Customer have been filed with the appropriate governmental agencies and all taxes due and payable by Customer have been timely paid (except to the extent that any such failure to file or pay will not materially and adversely affect either the liens and security interests of MLBFS hereunder or under any of the Additional Agreements, the financial condition of Customer, or the continued operations of Customer).

(h) No Outside Broker. Except for employees of MLBFS, MLPF&S or one of their affiliates, Customer has not in connection with the transactions contemplated hereby directly or indirectly engaged or dealt with, and was not introduced or referred to MLBFS by, any broker or other loan arranger.

Each of the foregoing representations and warranties: (i) has been and will be relied upon as an inducement to MLBFS to provide the WCMA Line of Credit, and (ii) is continuing and shall be deemed remade by Customer concurrently with each request for a WCMA Loan.

3.2 FINANCIAL AND OTHER INFORMATION

(a) Customer shall furnish or cause to be furnished to MLBFS during the term of this Loan Agreement all of the following:

(i) Annual Financial Statements. Within 120 days after the close of each fiscal year of Customer, a copy of the annual audited financial statements of Customer, including in reasonable detail, a balance sheet and statement of retained earnings as at the close of such fiscal year and statements of profit and loss and cash flow for such fiscal year;

(ii) Interim Financial Statements. Within 45 days after the close of each fiscal quarter of Customer, a copy of the interim financial statements of Customer for such fiscal quarter (including in reasonable detail both a balance sheet as of the close of such fiscal period, and statement of profit and loss for the applicable fiscal period); and

(iii) Other Information. Such other information as MLBPS may from time to time reasonably request relating to Customer.

(b) General Agreements With Respect to Financial Information. Customer agrees that except as otherwise specified herein or otherwise agreed to in writing by MLBFS: (i) all annual financial statements required to be furnished by Customer to MLRFS hereunder will be prepared by either the current independent accountants for Customer or other independent accountants reasonably acceptable to MLBFS, and (ii) all other financial information required to be furnished by Customer to MLBFS hereunder will be certified as correct in all material respects by the party who has prepared such information, and, in the case of internally prepared information with respect to Customer, certified as correct by its chief financial officer.

3.3 OTHER COVENANTS

Customer further covenants and agrees during the term of this Loan Agreement that:

(a) Financial Records; Inspection. Customer will: (i) maintain at its principal place of business complete and accurate books and records, and maintain all of its financial records in a manner consistent with the financial statements heretofore furnished to MLBFS, or prepared on such other basis as may be approved in writing by MLBFS; and (ii) permit MLBFS or its duly authorized representatives, upon reasonable notice and at reasonable times, to inspect its properties (both real and personal), operations, books and records.

(b) Taxes. Customer will pay when due all taxes, assessments and other governmental charges, howsoever designated, and all other liabilities and obligations, except to the extent that any such failure to pay will not materially and adversely affect either any liens and security interests of MLBFS under any Additional Agreements, the financial condition of Customer or the continued operations of Customer.

(c) Compliance With Laws and Agreements. Customer will not violate any law, regulation or other governmental requirement, any judgment or order of any court or governmental agency or authority, or any agreement, instrument or document to which it is a party or by which it is bound, if any such violation will materially and adversely affect either any liens and security interests of MLBFS under any Additional Agreements, or the financial condition or the continued operations of Customer.

(d) No Use of Merrill Lynch Name. Customer will not directly or indirectly publish, disclose or otherwise use in any advertising or promotional material, or press release or interview, the name, logo or any trademark of MLBFS, MLPF&S, Merrill Lynch and Co., Incorporated or any of their affiliates.

(e) Notification By Customer. Customer shall provide MLBFS with prompt written notification of: (i) any Default; (ii) any materially adverse change in the business, financial condition or operations of Customer; (iii) any information which indicates that any financial statements of Customer fail in any material respect to present fairly the financial condition and results of operations purported to be presented in such statements; and (iv) any change in Customers outside accountants. Each notification by Customer pursuant hereto shall specify the event or information causing such notification, and, to the extent applicable, shall specify the steps being taken to rectify or remedy such event or information.

(f) Notice of Change. Customer shall give MLBFS not less than 30 days prior written notice of any change in the name (including any fictitious name) or principal place of business or residence of Customer.

(g) Continuity. Except upon the prior written consent of MLBFS, which consent will not be unreasonably withheld: (i) Customer shall not be a party to any merger or consolidation with, or purchase or otherwise acquire all or substantially all of the assets of, or any material stock, partnership, joint venture or other equity interest in, any person or entity, or sell, transfer or lease all or any substantial part of its assets, if any such action would result in either: (A) a material change in the principal business, ownership or control of Customer, or (B) a material adverse change in the financial condition or operations of Customer; (ii) Customer shall preserve its existence and good standing in the jurisdiction(s) of establishment and operation; (iii) Customer shall not engage in any material business substantially different from its business in effect as of the date of application by Customer for credit from MLBFS, or cease operating any such material business; (iv) Customer shall not cause or permit any other person or entity to assume or succeed to any material business or operations of Customer; and (v) Customer shall not cause or permit any material change in its controlling ownership.

3.4 EVENTS OF DEFAULT

The occurrence of any of the following events shall constitute an 'Event of Default' under this Loan Agreement:

(a) Exceeding the Maximum WCMA Line of Credit. If the WCMA Loan Balance shall at any time exceed the Maximum WCMA Line of Credit and Customer shall fail to deposit sufficient funds into the WCMA Account to reduce the WCMA Loan Balance below the Maximum WCMA Line of Credit within five (5) Business Days after written notice thereof shall have been given by MLBFS to Customer,

(b) Other Failure to Pay. Customer shall fail to pay to MLBFS or deposit into the WCMA Account when due any other amount owing or required to be paid or deposited by Customer under this Loan Agreement, or shall fail to pay when due any other Obligations, and any such failure shall continue for more than five (5) Business Days after written notice thereof shall have been given by MLBFS to Customer.

(c) Failure to Perform. Customer shall default in the performance or observance of any covenant or agreement on its part to be performed or observed under this Loan Agreement or any of the Additional Agreements (not constituting an Event of Default under any other clause of this Section), and such default shall continue unremedied for ten (10) Business Days after written notice thereof shall have been given by MLBFS to Customer.

(d) Breach of Warranty. Any representation or warranty made by Customer contained in this Loan Agreement or any of the Additional Agreements shall at any time prove to have been incorrect in any material respect when made.

(e) Default Under Other Agreement. A default or Event of Default by Customer or any other party providing collateral for the Obligations shall occur under the terms of any other agreement, instrument or document with or intended for the benefit of MLBFS, MLPF&S or any of their affiliates, and any required notice shall have been given and required passage of time shall have elapsed.

(f) Bankruptcy Event. Any Bankruptcy Event shall occur.

(g) Material Impairment. Any event shall occur which shall reasonably cause MLBFS to in good faith believe that the prospect of full payment or performance by Customer of its liabilities or obligations under this Loan Agreement or any of the Additional Agreements to which Customer is a party has been materially impaired. The existence of such a material impairment shall be determined in a manner consistent with the intent of Section 1-208 of the UCC.

(h) Acceleration of Debt to Other Creditors. Any event shall occur which results in the acceleration of the maturity of any indebtedness of $100,000.00 or more of Customer to another creditor under any indenture, agreement, undertaking, or otherwise.

3.5 REMEDIES

(a) Remedies Upon Default. Upon the occurrence and during the continuance of any Event of Default, MLBFS may at its sole option do any one or more or all of the following, at such time and in such order as MLBFS may in its sole discretion choose:

(i) Termination. MLBFS may without notice terminate the WCMA Line of Credit and all obligations to provide the WCMA Line of Credit or otherwise extend any credit to or for the benefit of Customer (it being understood, however, that upon the occurrence of any Bankruptcy Event the WCMA Line of Credit and all such obligations shall automatically terminate without any action on the part of MLBFS); and upon any such termination MLBFS shall be relieved of alt such obligations.

(ii) Acceleration. MLBFS may declare the principal of and interest on the WCMA Loan Balance, and all other Obligations to be forthwith due and payable, whereupon all such amounts shall be immediately due and payable, without presentment, demand for payment, protest and notice of protest, notice of dishonor, notice of acceleration, notice of intent to accelerate or other notice or formality of any kind, all of which are hereby expressly waived; provided, however, that upon the occurrence of any Bankruptcy Event all such principal, interest and other Obligations shall automatically become due and payable without any action on the part of MLBFS.

(b) Set-Off. MLBFS shall have the further right upon the occurrence and during the continuance of an Event of Default to set-off, appropriate and apply toward payment of any of the Obligations, in such order of application as MLBFS may from time to time and at any time elect, any cash, credit, deposits, accounts, financial assets, investment property, securities and any other property of Customer which is in transit to or in the possession, custody or control of MLBFS, MLPF&S or any agent, bailee, or affiliate of MLBFS or MLPF&S. Customer hereby collaterally assigns and grants to MLBFS a continuing security interest in all such property as additional security for the Obligations. Upon the occurrence and during the continuance of an Event of Default, MLBFS shall have all rights in such property available to collateral assignees and secured parties under all applicable laws, including. without limitation, the UCC.

(c) Remedies are Severable and Cumulative. All rights and remedies of MLBFS herein are severable and cumulative and in addition to all other rights and remedies available in the Additional Agreements, at law or in equity, and any one or more of such rights and remedies may be exercised simultaneously or successively.

3.6 MISCELLANEOUS

(a) Non-Waiver. No failure or delay on the part of MLBFS in exercising any right. power or remedy pursuant to this Loan Agreement or any of the Additional Agreements shall operate as a waiver thereof, and no single or partial exercise of any such right, power or remedy shall preclude any other or further exercise thereof, or the exercise of any other right, power or remedy. Neither any waiver of any provision of this Loan Agreement or any of the Additional Agreements, nor any consent to any departure by Customer therefrom, shall be effective unless the same shall be in writing and signed by MLBFS. Any waiver of any provision of this Loan Agreement or any of the Additional Agreements and any consent to any departure by Customer from the terms of this Loan Agreement or any of the Additional Agreements shall be effective only in the specific instance and for the specific purpose for which given. Except as otherwise expressly provided herein, no notice to or demand on Customer shall in any case entitle Customer to any other or further notice or demand in similar or other circumstances.

(b) Disclosure. Customer hereby irrevocably authorizes MLBFS and each of its affiliates, including without limitation MLPF&S, to at any time (whether or not an Event of Default shall have occurred) obtain from and disclose to each other any and all financial and other information about Customer. In connection with said authorization, the parties recognize that in order to provide a WCMA Line of Credit certain information about Customer is required to be made available on a computer network accessible by certain affiliates of MLBFS, including MLPF&S.

(c) Communications. All notices and other communications required or permitted hereunder shall be in writing, and shall be either delivered personally, mailed by postage prepaid certified mail or sent by express overnight courier or by facsimile. Such notices and communications shall be deemed to be given on the date of personal delivery, facsimile transmission or actual delivery of certified mail, or one Business Day after delivery to an express overnight courier. Unless otherwise specified in a notice sent or delivered in accordance with the terms hereof, notices and other communications in writing shall be given to the parties hereto at their respective addresses set forth at the beginning of this Loan Agreement, or, in the case of facsimile transmission, to the parties at their respective regular facsimile telephone number.

(d) Fees, Expenses and Taxes. Customer shall pay or reimburse MLBFS for: (i) all Uniform Commercial Code filing and search fees and expenses incurred by MLBFS in connection with the verification, perfection or preservation of MLBFS' rights hereunder or in any collateral for the Obligations; (ii) any and all stamp, transfer and other taxes and fees payable or determined to be payable in connection with the execution, delivery and/or recording of this Loan Agreement or any of the Additional Agreements; and (iii) all reasonable fees and out-of-pocket expenses (including, but not limited to, reasonable fees and expenses of outside counsel) incurred by MLBFS in connection with the collection of any sum payable hereunder or under any of the Additional Agreements not paid when due, the enforcement of this Loan Agreement or any of the Additional Agreements and the protection of MLBFS' rights hereunder or hereunder, excluding, however, salaries and normal overhead attributable to MLBFS employees. Customer hereby authorizes MLBFS, at its option, to either cause any and all such fees, expenses and taxes to be paid with a WCMA Loan, or invoice Customer therefore (in which event Customer shall pay all such fees, expenses and taxes within 5 Business Days after receipt of such invoice). The obligations of Customer under this paragraph shall survive the expiration or termination of this Loan Agreement and the discharge of the other Obligations.

(e) Right to Perform Obligations. If Customer shall fail to do any act or thing which it has covenanted to do under this Loan Agreement or any representation or warranty on the part of Customer contained in this Loan Agreement shall be breached, MLBFS may, in its sole discretion, after 5 Business Days written notice is sent to Customer (or such lesser notice, including no notice, as is reasonable under the circumstances), do the same or cause it to be done or remedy any such breach, and may expend its funds for such purpose. Any and all reasonable amounts so expended by MLBFS shall be repayable to MLBFS by Customer upon demand, with interest at the Interest Rate during the period from and including the date funds are so expended by MLBFS to the date of repayment, and all such amounts shall be additional Obligations. The payment or performance by MLBFS of any of Customers obligations hereunder shall not relieve Customer of said obligations or of the consequences of having failed to pay or perform the same, and shall not waive or be deemed a cure of any Default.

(f) Further Assurances. Customer agrees to do such further acts and things and to execute and deliver to MLBFS such additional agreements. instruments and documents as MLBFS may reasonably require or deem advisable to effectuate the purposes of this Loan Agreement or any of the Additional Agreements.

(g) Binding Effect. This Loan Agreement and the Additional Agreements shall be binding upon, and shall inure to the benefit of MLBFS, Customer and their respective successors and assigns. Customer shall not assign any of its rights or delegate any of its obligations under this Loan Agreement or any of the Additional Agreements without the prior written consent of MLBFS. Unless otherwise expressly agreed to in a writing signed by MLBFS, no such consent shall in any event relieve Customer of any of its obligations under this Loan Agreement or the Additional Agreements.

(h) Headings. Captions and section and paragraph headings in this Loan Agreement are inserted only as a matter of convenience, and shall not affect the interpretation hereof.

(i) Governing Law. This Loan Agreement, and, unless otherwise expressly provided therein, each of the Additional Agreements, shall be governed in all respects by the laws of the State of Illinois.

(j) Severability of Provisions. Whenever possible, each provision of this Loan Agreement and the Additional Agreements shall be interpreted in such manner as to be effective and valid under applicable law. Any provision of this Loan Agreement or any of the Additional Agreements which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Loan Agreement and the Additional Agreements or affecting the validity or enforceability of such provision in any other jurisdiction.

(k) Term. This Loan Agreement shall become effective on the date accepted by MLBFS at its office in Chicago, Illinois, and, subject to the terms hereof, shall continue in effect so long thereafter as the WCMA Line of Credit shall be in effect or there shall be any Obligations outstanding.

(I) Counterparts. This Loan Agreement may be executed in one or more counterparts which, when taken together, constitute one and the same agreement.

(m) Jurisdiction; Waiver. CUSTOMER ACKNOWLEDGES THAT THIS LOAN AGREEMENT IS BEING ACCEPTED BY MLBFS IN PARTIAL CONSIDERATION OF MLBFS' RIGHT AND OPTION, IN ITS SOLE DISCRETION, TO ENFORCE THIS LOAN AGREEMENT (INCLUDING THE WCMA NOTE SET FORTH HEREIN) AND THE ADDITIONAL AGREEMENTS IN EITHER THE STATE OF ILLINOIS OR IN ANY OTHER JURISDICTION WHERE CUSTOMER OR ANY COLLATERAL FOR THE OBLIGATIONS MAY BE LOCATED. CUSTOMER IRREVOCABLY SUBMITS ITSELF TO JURISDICTION IN THE STATE OF ILLINOIS AND VENUE IN ANY STATE OR FEDERAL COURT IN THE COUNTY OF COOK FOR SUCH PURPOSES, AND CUSTOMER WAIVES ANY AND ALL RIGHTS TO CONTEST SAID JURISDICTION AND VENUE AND THE CONVENIENCE OF ANY SUCH FORUM, AND ANY AND ALL RIGHTS TO REMOVE SUCH ACTION FROM STATE TO FEDERAL COURT. CUSTOMER FURTHER WAIVES ANY RIGHTS TO COMMENCE ANY ACTION AGAINST MLBFS IN ANY JURISDICTION EXCEPT IN THE COUNTY OF COOK AND STATE OF ILLINOIS. MLBFS AND CUSTOMER HEREBY EACH EXPRESSLY WAIVE ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES AGAINST THE OTHER PARTY WITH RESPECT TO ANY MATTER RELATING TO, ARISING OUT OF OR IN ANY WAY CONNECTED WITH THE WCMA LINE OF CREDIT, THIS LOAN AGREEMENT, ANY ADDITIONAL AGREEMENTS AND/OR ANY OF THE TRANSACTIONS WHICH ARE THE SUBJECT MATTER OF THIS LOAN AGREEMENT. CUSTOMER FURTHER WAIVES THE RIGHT TO BRING ANY NON-COMPULSORY COUNTERCLAIMS.

(n) Integration. THIS LOAN AGREEMENT, TOGETHER WITH THE ADDITIONAL AGREEMENTS, CONSTITUTES THE ENTIRE UNDERSTANDING AND REPRESENTS THE FULL AND FINAL AGREEMENT BETWEEN THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF, AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR WRITTEN AGREEMENTS OR PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS OF THE PARTIES. WITHOUT LIMITING THE FOREGOING, CUSTOMER ACKNOWLEDGES THAT EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN: (I) NO PROMISE OR COMMITMENT HAS BEEN MADE TO IT BY MLBFS, MLPF&S OR ANY OF THEIR RESPECTIVE EMPLOYEES, AGENTS OR REPRESENTATIVES TO EXTEND THE AVAILABILITY OF THE WCMA LINE OF CREDIT OR THE MATURITY DATE, OR TO INCREASE THE MAXIMUM WCMA LINE OF CREDIT, OR OTHERWISE EXTEND ANY OTHER CREDIT TO CUSTOMER OR ANY OTHER PARTY; (II) NO PURPORTED EXTENSION OF THE MATURITY DATE, INCREASE IN THE MAXIMUM WCMA LINE OF CREDIT OR OTHER EXTENSION OR AGREEMENT TO EXTEND CREDIT SHALL BE VALID OR BINDING UNLESS EXPRESSLY SET FORTH IN A WRITTEN INSTRUMENT SIGNED BY MLBFS; AND (III) THIS LOAN AGREEMENT SUPERSEDES AND REPLACES ANY AND ALL PROPOSALS, LETTERS OF INTENT AND APPROVAL AND COMMITMENT LETTERS FROM MLBFS TO CUSTOMER, NONE OF WHICH SHALL BE CONSIDERED AN ADDITIONAL AGREEMENT. NO AMENDMENT OR MODIFICATION OF THIS AGREEMENT OR ANY OF THE ADDITIONAL AGREEMENTS TO WHICH CUSTOMER IS

A PARTY SHALL BE EFFECTIVE UNLESS IN A WRIT1NG SIGNED BY BOTH MLBFS AND CUSTOMER.

IN WITNESS WHEREOF, this Loan Agreement has been executed as of the day and year first above written.

FARO TECHNOLOGIES, INC.

Signature on file for: Simon Raab, CEO
Signature on file for: Greg A. Fraser, EVP

STATE OF FLORIDA

COUNTY OF SEMINOLE

The foregoing instrument was acknowledged before me this day of 21 May AD, 2001 by Simon Raab of FARO TECHNOLOGIES, INC., a Florida corporation, on behalf of
----
the corporation. Said person is personally known to me or has produced as identification.

Sharon G. Trowbridge
- --------------------
NOTARY PUBLIC

Sharon G. Trowbridge
- --------------------
PRINTED NAME OF NOTARY PUBLIC
My Commission Expires: 03/25/04

Accepted at Chicago, Illinois:
MERRILL LYNCH BUSINESS FINANCIAL
SERVICES INC.

By:

The undersigned hereby codifies to MERRILL LYNCH BUSINESS FINANCIAL SERVICES INC. that the undersigned is the duly appointed and acting Secretary (or Assistant Secretary) of FARO TECHNOLOGIES, INC., a corporation duly organized, validly existing and in good standing under the laws of the State of Florida; and that the following is a true, accurate and compared transcript of resolutions duly, validly and lawfully adopted on the 21st day of May 2001 by the Board of Directors of said Corporation acting in accordance with the laws of the state of incorporation and the charter and by-laws of said Corporation

"RESOLVED, that this Corporation is authorized and empowered, now and from time to time hereafter, to borrow and/or obtain credit from, and/or enter into other financial arrangements with, MERRILL LYNCH BUSINESS FINANCIAL SERVICES INC. ('MLBFS'), and in connection therewith to grant to MLBFS liens and security interests on any or all property belonging to this Corporation; all such transactions to be on such terms and conditions as may be mutually agreed from time to time between this Corporation and MLBFS; and

"FURTHER RESOLVED, that the President. any Vice President, Treasurer, Secretary or other officer of this Corporation, or any one or more of them, be and each of them hereby is authorized and empowered to: (a) execute and deliver to MLBFS on behalf of this Corporation any and all loan agreements, promissory notes, security agreements, pledge agreements, financing statements, mortgages, deeds of trust, leases and/or all other agreements, instruments and documents required by MLBFS in connection therewith, and any present or future extensions, amendments, supplements, modifications and restatements thereof: all in such form as any such officer shall approve, as conclusively evidenced by his or her signature thereon, and (b) do and perform all such acts and things deemed by any such officer to be necessary or advisable to carry out and perform the undertakings and agreements of this Corporation in connection therewith; and any and all prior acts of each of said officers in these premises are hereby ratified and confirmed in all respects; and

"FURTHER RESOLVED, that MLBFS is authorized to rely upon the foregoing resolutions until it receives written notice of any change or revocation from an authorized officer of this Corporation, which change or revocation shall not in any event affect the obligations of this Corporation with respect to any transaction conditionally agreed or committed to by MLBFS or having its inception prior to the receipt of such notice by MLBFS."

The undersigned further certifies that: (a) the foregoing resolutions have not been rescinded, modified or repealed in any manner, are not in conflict with any agreement of said Corporation and are in full force and effect as of the date of this Certificate, and (b) the following individuals are now the duly elected and acting officers of said Corporation and the signatures set forth below are the true signatures of said officers:

President: Simon Raab

Vice President:

Treasurer: Greg Fraser

Secretary: Greg Fraser

Executive Vice President: Greg Fraser

IN WITNESS WHEREOF, the undersigned has executed this Certificate and has affixed the seal of said Corporation hereto, pursuant to due authorization, all as of this 21st day of May, 2001.

(Corporate Seal)

Sharon Trowbridge

Secretary

Printed Name: Sharon Trowbridge

EXHIBIT 21.1

FARO TECHNOLOGIES, INC. LIST OF SUBSIDIARIES

Faro Europe GmbH and Co. KG
Ingersheimerstr. 12
D-70499 Stuttgart-Weilimdorf
Germany

Antares LDA
Rua das Leirinhas N.
3810 Aveiro
Portugal

Faro Japan KKK
10-33 Nishi 3chome
Naka-ku, Nagoya
Aichi Japan

Faro Spain
CL Rosellon 224
E-08008
Barcelona, Spain

CAM 2 S.R.L
I-10098 Rivoli
Italy

Faro Laser Trackers, LLC
222 Gale Lane
Kenneth Square, PA 19348

Faro Delaware, Inc.
125 Technology Park
Lake Mary, FL 32746

Faro FNH Netherlands Holdings B.V
Drentestraat 24 BG

Amsterdam, The Netherlands

Faro Cayman, LTD
Grand Cayman
Cayman Islands

Faro Cayman L.P.
Grand Cayman
Cayman Islands

EXHIBIT 23.1

Consent of Independent Certified Public Accountants

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-41115) pertaining to the 1997 Employee Stock Option Plan, (Form S-8 No. 333-41125) pertaining to the 1997 Non-Employee Director Stock Option Plan, (Form S-8 No. 333-41131) pertaining to the 1997 Non-Employee Directors' Fee Plan, (Form S-8 No. 333-41135) pertaining to the 1993 Stock Option Plan of FARO Technologies, Inc. of our report dated March 1, 2002, with respect to the consolidated financial statements included in the Annual Report (Form 10-K) for the year ended December 31, 2001.

/s/ Ernst & Young, LLP

Orlando, Florida
March 25, 2002

EXHIBIT 23.2

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-41115, 333-41125, 333-41131, and 333-41135 of FARO Technologies, Inc. on Forms S-8 of our report dated March 17, 2000, appearing in this Annual Report on Form 10-K of FARO Technologies, Inc. for the year ended December 31, 2001.

/s/ DELOITTE & TOUCHE LLP

Certified Public Accountants

Tampa, Florida
March 27, 2002

EXHIBIT 99.1

FARO TECHNOLOGIES, INC. LIST PROPERTIES

Faro Europe GmbH & Co. KG
Europe HQ - Germany
Ingersheimer Str. 12
D- 70499 Stuttgart-Weilimdorf
Germany
Telephone: 011-49-171122-22435
Facsimile: 011-49-171122-22444

Munich Sales Office
Fraunhofer str. 18a, 2 Stock
82152 Martinsried,
Germany
Telephone: 011-49-8989-55620
Facsimile: 011-49-8989-556222

Gladbeck Sales Office
Am Wiesenbush 2
45966 Gladbeck,
Germany
Telephone: 011-49-2043-944387
Facsimile: 011-49-2043-944395

Faro UK Sales Office
The Techno Centre
Coventry University, Technology Park
Puma Way, Coventry, CV1 2TT
United Kingdom
Telephone: 011-44-247623-6151
Facsimile: 011-44-247623-6150

Faro France Sales Office
46, avenue des Freres Lumiere
78190 Trappes, France
France
Telephone: 011-33-13016-0600
Facsimile: 011-33-13016-0606

EXHIBIT 99.1

Portugal Sales & R & D Office
KG-Antares Aveiro
Rva das Leirinhas n 48, Aradas
Aveiro, 3810
Portugal
Telephone: 011-35-10343-71141
Facsimile: 011-35-10343-71143

Faro Spain, SL
CL Rosellon 224
E-08008 Barcelona
Spain
Telephone: 011-34-9321-58271
Facsimile: 011-34-6709-08730

Faro Japan
1015 Yamanota, Nagakute-cho
Aichi-ken, 480-1143
Japan
Telephone: 011-81-56162-9804
Facsimile: 011-81-56164-3883

CAM 2 S.R.L.
I-10098 Rivoli
Italy
Telephone: 011-39-011958890

Faro Laser Trackers, LLC
222 Gale Lane
Kenneth Square, PA 19348
Telephone:
Facsimile: 610-444-2300

EXHIBIT 99.2

SPATIALMETRIX CORPORATION

UNAUDITED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000

TABLE OF CONTENTS

SPATIALMETRIX CORPORATION

BALANCE SHEETS
AS OF DECEMBER 31, 2001 AND 2000

	2001	2000
ASSETS		
CURRENT ASSETS:		
Cash	$ 120,472	$ 44,480
Accounts receivable, net of reserves of $246,397 and $ 78,930	2,171,327	4,147,392
Inventories	1,268,881	2,100,237
Prepaid expenses and other	18,600	62,723
Total current assets	3,579,280	6,354,832
PROPERTY AND EQUIPMENT, NET	234,716	286,351
OTHER	14,213	75,341
	$ 3,828,209	$ 6,716,524
LIABILITIES AND STOCKHOLDER'S DEFICIT		
CURRENT LIABILITIES:		
Line of credit	$ 3,870,400	$ 2,250,000
Current portion of long-term debt	2,850,000	2,780,915
Accounts payable	2,467,750	2,481,654
Accrued expenses	2,167,736	2,190,347
Deferred revenues	1,337,795	763,841
Total current liabilities	12,693,681	10,466,757
LONG-TERM DEFERRED REVENUES	--	38,342
LONG-TERM DEBT	--	17,726
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
REDEEMABLE PREFERRED STOCK, $.01 PAR VALUE		
Series A 4,000,000 shares authorized, issued and outstanding (liquidation value of $1,174,966 at December 31, 2001)	1,174,966	1,054,966
Series B Convertible 650,000 shares authorized, issued and outstanding (liquidation value of $2,296,358 at December 31, 2001)	2,296,358	2,176,355
Series C Convertible 1,009,144 shares authorized, issued and outstanding (liquidation value of $2,930,256 at December 31, 2001)	2,930,256	2,768,793
Series D Convertible 348,000 shares authorized, issued and outstanding (liquidation value of $2,158,934 at December 31, 2001)	2,158,934	2,033,654
Series E Convertible, $.01 par value, 550,000 shares authorized, 516,389 shares issued and outstanding at (liquidation value of $1,875,273 at December 31, 2001)	1,875,273	1,751,629
	10,435,787	9,785,397
STOCKHOLDER'S DEFICIT:		
Common stock, $.01 par value, 4,997,144 shares authorized, 851,781 shares issued and outstanding.	8,518	8,518
Accumulated deficit	(19,309,777)	(13,600,216)
Total stockholder's deficit	(19,301,259)	(13,591,698)
	$ 3,828,209	$ 6,716,524

The accompanying notes are an integral part of these statements.

SPATIALMETRIX CORPORATION

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
REVENUES:		
Product	$ 7,750,539	$10,261,302
Services	3,607,510	3,683,129
	11,358,049	13,944,431
COSTS OF REVENUES:		
Cost of product	6,391,420	5,288,962
Cost of services	2,105,105	2,402,600
	8,496,525	7,691,562
Gross profit	2,861,524	6,252,869
OPERATING EXPENSES:		
Selling, general and administrative	4,688,124	3,606,563
Research and development	2,348,357	1,622,596
	7,036,481	5,229,159
Operating income (loss)	(4,174,957)	1,023,710
INTEREST EXPENSE, NET	884,214	832,253
Income (loss) before income taxes	(5,059,171)	191,457
INCOME TAX EXPENSE	--	335,160
NET LOSS	$(5,059,171)	$ (143,703)

The accompanying notes are an integral part of these statements.

SPATIALMETRIX CORPORATION

STATEMENTS OF STOCKHOLDER'S DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	STOCKHOLDER'S DEFICIT			
	COMMON STOCK		ACCUMULATED	
	SHARES	AMOUNT	DEFICIT	TOTAL
BALANCE, JANUARY 1, 2000	851,781	$8,518	$(12,806,128)	$(12,797,610)
Accretion of preferred stock	--	--	(650,385)	(650,385)
Net loss	--	--	(143,703)	(143,703)
BALANCE, DECEMBER 31, 2000	851,781	8,518	(13,600,216)	(13,591,698)
Accretion of preferred stock	--	--	(650,390)	(650,390)
Net loss	--	--	(5,059,171)	(5,059,171)
BALANCE, DECEMBER 31, 2001	851,781	$8,518	$(19,309,777)	$(19,301,259)

The accompanying notes are an integral part of these statements.

SPATIALMETRIX CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(5,059,171)	$ (143,703)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities-		
Depreciation and amortization	162,910	300,850
Non-cash interest expense	122,500	122,500
Deferred tax asset	--	314,259
Inventory write-off	598,285	--
Changes in assets and liabilities-		
Decrease (increase) in:		
Accounts receivable	1,976,065	(1,411,762)
Inventories	233,071	(167,465)
Prepaid expenses and other	95,251	(22,309)
Increase (decrease) in:		
Accounts payable	(13,904)	937,064
Accrued expenses	(22,611)	239,020
Deferred revenues	535,612	136,908
Net cash (used in) provided by operating activities	(1,371,992)	305,362
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(111,275)	(365,165)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) on lines of credit	1,620,400	(50,000)
Net repayments of debt	(61,141)	(218,616)
Net cash provided by (used in) financing activities	1,559,259	(268,616)
NET INCREASE (DECREASE) IN CASH	75,992	(328,419)
CASH AT BEGINNING OF YEAR	44,480	372,899
CASH AT END OF YEAR	$ 120,472	$ 44,480

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2001 AND 2000

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES:

NATURE OF BUSINESS

SpatialMetriX Corporation (the Company) manufactures, markets and services high-accuracy dynamic measurement devices for a variety of markets throughout the United States, Europe and Asia.

In May 1995, the Company received its first substantial outside investment. During subsequent years, the Company utilized these proceeds, as well as proceeds from additional outside sources, to fund its operations.

As part of a litigation agreement (see Note 7), the Company stopped selling their current product as of September 30, 2001. As a result, the Company did not generate tracker revenues during the fourth quarter of the year ended December 31, 2001. Throughout the past two years, the Company has been developing a new substitute product, which is expected to be introduced during the second quarter of 2002. Management believes future revenues from this product will be sufficient to generate positive cash flows. In the event that the Company does not generate sufficient revenues, the Company will obtain the necessary funding from its parent company, Faro. As of December 31, 2001 the Company had an accumulated deficit of $19,192,147.

On January 16, 2002, the Company was acquired by Faro Technologies Inc. (see Note 14).

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments consist of cash, accounts receivable, accounts payable, debt instruments and certain current liabilities. These financial instruments are recorded at cost, which approximates fair value, due to the short-term nature of these instruments.

REVENUE RECOGNITION

Product revenue is recognized when the product is shipped to the customer assuming no remaining obligations exist. A provision for estimated warranty costs is recorded at the time product revenue is recognized and periodically adjusted to reflect actual experience. Service revenue consists of maintenance and extended support, training and consulting. Service revenue is recognized over the contractual period or as services are performed. Maintenance and extended support revenue is recognized on a pro-rata basis over the one to three year coverage periods resulting in both current and long-term deferred revenues. As of December 31, 2001, all remaining extended support related to one-year coverage periods.

During the year ended December 31, 2001, the Company sold $644,512 of products to customers with a provision that the product may be exchanged at the buyers' option for the next model when available. The revenues associated with these sales has been deferred as of December 31, 2001. Cost of goods sold of $285,000 was recorded as the products will no longer be sellable once returned to the Company.

In December 1999, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). The bulletin draws on existing accounting rules and provides specific guidance on how those accounting rules should be applied. The Company adopted SAB 101 during the year ended December 31, 2000. SAB 101 had no impact on the Company's financial position or results of operations as the revenue recognition policy was consistent with SAB 101.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories include cost of material, labor and overhead.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Property and equipment acquired under capital leases are recorded at the lesser of the present value of the minimum lease payments or the fair market value of the asset. Depreciation and amortization are provided using the straight-line method over the shorter of the estimated useful lives of the assets or the lease term. Expenditures for repairs and maintenance are charged to expense as incurred, while major renewals and improvements are capitalized.

LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets, and for Long-lived Assets to be Disposed of," management continually evaluates whether events and circumstances have occurred that indicate that the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. Whether factors indicate that long-lived assets should be evaluated for possible impairment, an estimate of the related undiscounted cash flows is used in measuring whether the long-lived assets should be written down to fair value. Measurement of the amount of the impairment is based on generally accepted valuation methodologies, as deemed appropriate. As of December 31, 2001, management believes that no revision to the remaining useful lives or write-down of long-lived assets is required.

RESEARCH AND DEVELOPMENT

Research and development includes costs related to the product design including conceptual formulation, construction and testing of preproduction prototypes. Such costs are charged to expense as incurred.

SOFTWARE DEVELOPMENT COSTS

In accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," the Company is eligible to capitalize certain costs incurred to internally develop software which is licensed to customers. Capitalization of such software development costs would begin upon the establishment of technological feasibility (typically determined to be upon completion of a working model) and conclude when the product is ready for general release. For the years ended December 31, 2001 and 2000, such costs were immaterial. Costs incurred prior to the establishment of technological feasibility are charged to research and development expense.

SUPPLEMENTAL CASH FLOW INFORMATION

For the years ended December 31, 2001 and 2000, the Company paid interest of approximately $383,600 and $361,000, respectively. The Company paid no income taxes during the years ended December 31, 2001 and 2000.

INCOME TAXES

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires the liability method of accounting for deferred income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered.

2. INVENTORIES:

	DECEMBER 31	
	2001	2000
Finished product	$ -	$1,105,000
Purchased parts	1,268,881	995,237
	$1,268,881	$2,100,237

During 2000, the Company reclassified the net value of their used trackers out of property and equipment and into inventory. These used trackers were sold during 2001.

As of September 30, 2001 the Company was no longer able to sell their existing product (see Note 7), and therefore wrote-off $598,285 of inventory, which included both raw materials and finished goods. The write-off of inventory included $284,000 of trackers sold to customers with a return right for future product (see Note 1).

3. PROPERTY AND EQUIPMENT:

	USEFUL LIFE/ LEASE TERM	DECEMBER 31 2001	2000
Equipment	5-7 years	$ 386,658	$ 382,734
Office furniture and fixtures	3-7 years	229,691	229,691
Leasehold improvements	2-5 years	507,403	411,413
Computers/software	3 years	611,054	599,693
Trackers/vehicles	3 years	29,968	29,968
		1,764,774	1,653,499
Less- Accumulated depreciation and amortization		(1,530,058)	(1,367,148)
		$ 234,716	$ 286,351

Depreciation and amortization for the years ended December 31, 2001 and 2000, was $162,910 and $300,850, respectively.

4. LINES OF CREDIT:

In December 2000, the Company's $2,300,000 revolving line of credit was extended to expire in February 2001. On April 13, 2001, the line of credit was increased to $3,800,000 through a Participation Agreement between the bank and Faro Technologies, Inc. (Faro). (See Note 14.) The line was increased to $5,300,000 on November 1, 2001 through an amended Participation Agreement between the Bank and Faro. Interest is due monthly at the prime rate plus five percent. The line is collateralized by all personal property of the Company. The Company had $3,870,400 (including $2,875,000 due to Faro and $995,400 due to the bank) and $2,250,000 outstanding on this line as of December 31, 2001 and 2000, respectively.

The highest aggregate outstanding balance on the line of credit during the years ended December 31, 2001 and 2000, was $3,925,400 and $2,300,000, respectively. The weighted average interest rates for the years ended December 31, 2001 and 2000 was approximately 9.00 percent and 11.24 percent, respectively.

5. LONG-TERM DEBT:

	DECEMBER 31 2001	DECEMBER 31 2000
Note payable to venture fund, payable in 16 quarterly principal installments of $187,500 beginning on April 30, 1999, presented net of unamortized discount of $150,000 and $262,500, respectively. No principal or interest has been paid; $2,062,500 (11 principal payments) is due in arrears as of December 31, 2001 and the note is in default. A waiver has been obtained through December 31, 2001 and the note was repaid in January 2002. (See Note 14). Interest of 12% is due quarterly in arrears.	$ 2,850,000	$ 2,737,500
Pennsylvania Capital Loan Fund Note, payable in 60 equal monthly installments of $2,359 through April 30, 2001, including interest at 5%. The note is guaranteed by the principal common stockholder and collateralized by machinery and equipment and furniture and fixtures.	--	9,339
Pennsylvania Capital Loan Fund Note, payable in 95 equal monthly installments of $1,277 through April 1, 2002, including interest at 5%. The note is collateralized by machinery and equipment, real estate owned by a stockholder, a $40,400 certificate of deposit, and a life insurance policy on the principal common stockholder. Amount was fully paid on April 15, 2001.	--	18,527
Equipment loans due to finance company at various rates from 10% to 18% with varying maturities through December 2001.	--	33,275
	2,850,000	2,798,641
Less- Current maturities	(2,850,000)	(2,780,915)
	$ --	$ 17,726

In April 1997, the Company borrowed $3,000,000 from a venture fund. In conjunction with this note, the venture fund received 300,000 warrants to purchase the Company's common stock at $.01 per share. The warrants are exercisable for ten years and have been valued at $675,000 using the Black-Scholes option-pricing model. The warrant valuation has been recorded as a discount on the note payable and is being amortized over the six-year term of the note. The valuation less offering expenses of $52,867 has been reflected as additional paid-in capital. The Company also paid a 2 percent loan origination fee of $60,000. Included in prepaids on the accompanying December 31, 2001 and 2000 balance sheets is $10,000 of the unamortized fee. Included in other assets on the accompanying December 31, 2001 and 2000 balance sheets is $3,832 and $13,832, respectively, of the unamortized fee. Amortization expense of $112,500 and $10,000 on the note discount and loan originator fee, respectively has been included in interest expense for the years ended December 31, 2001 and 2000.

6. ACCRUED EXPENSES:

	DECEMBER 31	
	2001	2000
Accrued interest	$ 990,000	$ 630,000
Accrued (litigation) settlement (see Note 7)	648,000	1,230,000
Other	529,736	330,347
	$2,167,736	$2,190,347

7. COMMITMENTS AND CONTINGENCIES:

OPERATING LEASES

The Company leases office and warehouse space under two noncancellable operating lease agreements that expire in August and September 2003, respectively. Minimum future payments under the operating leases are $128,748 for 2002 and $85,832 in 2003.

Rent expense from operating leases was approximately $133,000 and $122,000 for the years ended December 31, 2001 and 2000, respectively.

EMPLOYEE STAY BONUS PLAN

On January 2001, the Company's Board of Directors approved a "Stay Bonus" plan. If the Company was sold before December 31, 2002, 10.5 percent of the first $10 million and 17.5 percent of all amounts above $10 million in purchase price would be reserved for employees and paid as a bonus at the time of closing. The bonus would be paid only to employees with the Company at the inception of the program (January 1, 2001) who were also with the Company at the time of sale. The bonus could be paid in cash or stock of the acquiring company at the Company's option.

As part of the acquisition by Faro (see Note 14), the Stay Bonus obligation was satisfied by 65,000 shares of Faro common stock given to eight key employees and a cash payment of $46,000 to all other remaining employees.

LITIGATION SETTLEMENT

In May 2000, the Company settled a patent infringement lawsuit with a competitor. The Company was required to pay an aggregate of $626,000 in three installments in 2000 and an aggregate of $624,000 in three installments in 2001. Actual payments were $748,765 and $20,000 in 2001 and 2000, respectively. The Company incurred additional legal and late payment fees of $166,765 in 2001 that were payable to the competitor, due to various disputes and delayed payments by the Company. The Company paid the remaining balance of $648,000 on January 15, 2002 immediately prior to the acquisition by Faro Technologies (Note 14).

LITIGATION

The Company is subject to various claims and legal proceedings that arise in the ordinary course of its business activities. Although the ultimate liability from these potential claims cannot be ascertained, management does not anticipate that any related settlement, after consideration of potential insurance recovery, would have a material adverse affect on the Company's financial position.

8. REDEEMABLE PREFERRED STOCK:

The holders of Series A preferred stock (Series A) are entitled to receive cumulative quarterly dividends at an annual rate of $.01 per share. Each holder of Series A shares is also entitled to 1/20th of a vote per share. Upon liquidation or redemption, the holders are entitled to $.10 per share plus $.03 per share for each year the shares were outstanding less the cumulative amount of paid dividends. The Company has the option to redeem the Series A shares beginning on or after January 1, 1996, with the consent of 66-2/3 percent of the holders of the Series B and the Series C. The Series A stockholders have the option to redeem the shares beginning on or after January 1, 2000.

The holders of Series B, Series C, Series D and Series E convertible preferred stock are entitled to receive cumulative annual dividends of $.18462, $.16, $.36 and $.24 per share, respectively, for each of the first four years subsequent to the date of issuance, payable upon liquidation or redemption. For each year thereafter, the holders of the Series B, Series C, Series D and Series E shares are entitled to cumulative annual dividends of $.18462, $.16, $.36 and $.24 per share, respectively, payable quarterly. Each holder of Series B, Series C, Series D and Series E shares is also entitled to one vote for each share of common stock into which a Series B, Series C, Series D and Series E share could currently be converted. The Series B, Series C, Series D and Series E shares are convertible at the stockholder's option, at any time, into shares of common stock equal to the number of Series B, Series C, Series D or Series E shares outstanding divided by the conversion ratio, as defined. At December 31, 2001, the conversion ratio is 1 share of common stock for each share of Series B, Series C, Series D or Series E. The Series B, Series C, Series D and Series E shares are redeemable upon written request of not less than 51 percent of the Series B, Series C, Series D or Series E stockholders any time on or after the sixth anniversary of the issuance of the first share of Series B, Series C, Series D or Series E. The initial redemption dates are as follows: Series B - May 12, 2001, Series C - March 31, 2002, Series D - March 5, 2003, Series E - April 30, 2005. The Series B, Series C, Series D and Series E redemption price is the greater of the determined fair market value, as defined, or the liquidation price.

In the event of liquidation, Series A, Series B, Series C, Series D and Series E shares have senior preference equal to the aggregate original issue prices of $.10, $2.3077, $2, $4.50 and $3.00 respectively, per share plus accrued dividends not yet paid. Liquidation payment deficiencies will be allocated on a pro rata basis in proportion to the full preferential amount each class would be entitled to receive.

Common stock dividends require consent of 66-2/3 percent of the holders of the Series B, Series C, Series D and Series E shares outstanding. Series B, Series C, Series D and Series E shares participate in common stock dividends based on the aggregate number of shares of common stock, assuming conversion of the Series B, Series C, Series D and Series E shares.

9. STOCK OPTION PLAN

The 1993 Stock Option Plan (1993 Plan), as amended, was established for employees, directors and certain other individuals. In January 2000, the Board of

Directors cancelled the Option Plan and implemented a new 2000 Incentive Stock Option Plan (2000 Plan), which provides for the grant of stock options to employees, directors and certain other individuals. The Company cancelled all options issued under the 1993 Plan and issued employees new options under the 2000 Plan. This event was deemed a repricing for accounting purposes and therefore the new options are accounted for using variable plan accounting. As of December 31, 2001 and 2000, no charge was recorded due to the decrease in the fair market value of the Company's common stock from the repricing date.

Under the 2000 Plan, the Company may grant either nonqualified or incentive stock options. An aggregate of 1,043,000 shares of common stock have been reserved for the 2000 Plan as of December 31, 2001 and 2000. A committee of the Board of Directors (the Committee) administers the Plan and determines the terms of the grants. Under the terms of the 2000 Plan, the exercise price per share of each option granted will not be less than 110 percent of the fair market value of the stock for employees owning 10 percent or more of the voting power of the Company, as defined, and no less than 100 percent of the fair market value for all other individuals. Under the 2000 Plan, options vest over a four-year period; 25 percent at the end of each anniversary date of the grant. The exercise periods, which are determined by the Committee, are not more than four years from the date of grant for employees owning 10 percent or more of the voting power of the Company and not more than ten years for all other individuals. Each option entitles the holder to purchase one share of common stock at the indicated exercise price.

The Company accounts for its option plan under APB Opinion No. 25, which values options at their intrinsic value. No compensation cost has been recognized under the APB Opinion No. 25 methodology. Had compensation cost for the Option Plan been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," a fair value valuation method, the Company's net loss would have been $4,953,341 and $152,298 for the years ended December 31, 2001 and 2000, respectively. The fair value of options granted at market during the years ended December 31, 2001 and 2000, was estimated as $0.01 and $0.03, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: risk-free interest rate of 6.67 percent, an expected life of six years; dividend yield of zero; and volatility of zero.

The following table summarizes the option activity under the Option Plan:

	SHARES AVAILABLE FOR GRANT	OPTIONS OUTSTANDING NUMBER OF SHARES	EXERCISE PRICE PER SHARE	AGGREGATE PRICE
BALANCE, JANUARY 1, 2000	594,500	534,750	$.143-$3.150	$ 983,979
Cancelled	534,750	(534,750)	3.150	(983,979)
Plan termination	(1,129,250)	--	--	--
Authorized	1,043,000	--	--	--
Granted	(1,043,000)	1,043,000	.10	104,300
BALANCE, DECEMBER 31, 2000	--	1,043,000	.10	104,300
Cancelled	30,000	(30,000)	.10	3,000
BALANCE, DECEMBER 31, 2001	30,000	1,013,000	$ .10	$ 101,300

As of December 31, 2001, 253,250 options were exercisable at a price of $0.10 per share.

10. INCOME TAXES:

	DECEMBER 31 2001	2000
Current	$ -	$ 20,903
Deferred	(2,338,217)	29,560
	(2,338,217)	50,462
Increase in valuation allowance provision	2,338,217	284,698
	$ -	$335,160

The difference between the Company's federal statutory income tax rate and its effective income tax rate is primarily due to state income taxes and the valuation allowance.

As of December 31, 2001 and 2000, the Company had federal and state net operating loss carryforwards of approximately $6,904,000 and $3,952,000, respectively, which began to expire during 1997. The net operating loss carryforwards differ from the accumulated deficit principally due to the timing of the recognition of certain accrued expenses. In accordance with the Tax Reform Act of 1986, the net operating loss carryforwards could be subject to certain limitations. For the year ended December 31, 2000, the Company was subject to alternative minimum tax of approximately $21,000.

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2001 and 2000 are as follows:

	DECEMBER 31	
	2001	2000
GROSS DEFERRED TAX ASSETS:		
Net operating loss carryforwards	$ 6,951,656	$ 3,952,139
Accrued expenses not currently deductible	157,149	895,730
Research credits not currently deductible	639,987	514,146
Depreciation and amortization	43,544	43,544
Other	60,643	109,203
	7,852,979	5,514,762
VALUATION ALLOWANCE	(7,852,979)	(5,514,762)
NET DEFERRED TAX ASSETS	$ --	$ --

A valuation allowance was established for 100 percent of the net deferred tax asset, as the Company does not believe the realization of the tax benefits is more likely than not.

11. MAJOR CUSTOMERS AND CONCENTRATIONS:

For the years ended December 31, 2001 and 2000, the Company did not have any customers that accounted for 10 percent or more of the Company's revenues.

12. EMPLOYEE SAVINGS PLAN:

The Company provides a 401(k) savings plan that covers all qualified employees. Under the terms of the savings plan, the Company makes a matching contribution of 50 percent of pretax deferrals by eligible employees up to a maximum of 6 percent of the employees' annual compensation, subject to certain IRS limitations. The Company's matching contributions for the years ended December 31, 2001 and 2000, were approximately $111,300 and $90,000, respectively.

13. RELATED PARTY TRANSACTIONS:

Effective September 30, 1999, the services of the Company's former president and majority stockholder were terminated though he remains on the Company's board of directors. The Company paid $14,313 in 2000, related to severance for the individual. In addition, 153,750 vested incentive stock options were converted to non-qualified stock options with a ten-year expiration period. No compensation was recorded in conjunction with this new measurement date as the fair market value of the stock was less than the exercise price as of September 30, 1999.

14. SUBSEQUENT EVENT:

On January 16, 2002, The Company was acquired by Faro Technologies (Faro) for the following considerations:

PAYEE	CONSIDERATION
Preferred stockholder	400,000 shares of Faro common stock
Common stockholders	35,000 shares of Faro common stock
Key employees	65,000 shares of Faro common stock
Litigation settlement	$648,000
Line of credit with bank	$995,400
Note Payable	$1,000,000 and 350,000 shares of Faro common stock

The total consideration given a Faro common stock price of $2.25 on January 16, 2002 was $4,555,900. A gain of $4,927,500 was recognized by the Company on the forgiveness of the line of credit with Faro and a portion of the note payable.

The operating results of SpatialMetrix Corporation ("SMX") will be included in the consolidated statements effective January 16, 2002, the date of acquisition. The pro forma selected financial data is presented for informational purposes assuming that the Company had acquired SMX as of January 1, 2001. The pro forma selected financial data has been prepared for comparative purposes only and do not purport to be indicative of the results of operations and financial position which actually would have resulted had the acquisition occurred on the date indicated, or which may result in the future.

FARO TECHNOLOGIES, INC. and Subsidiaries
CONSOLIDATED PRO-FORMA BALANCE SHEET
As of December 31, 2001

	FARO Technologies, Inc.	SpatialMetrix Corporation	CONSOLIDATION AND PRO FORMA ADJUSTMENTS		CONSOLIDATED PRO FORMA
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 7,238,564		($1,000,000)	A	$ 6,238,564
Short term investments	4,744,559		(1,629,458)	A	3,115,101
Accounts receivable	9,385,568	2,171,000			11,556,568
Income taxes refundable	545,118				545,118
Inventories, net	5,575,793	1,287,000			6,862,793
Prepaid expenses and other current assets	1,851,003	30,000	(383,183)	B	1,497,820
Deferred income taxes	76,418				76,418
Total current assets	29,417,023	3,488,000	(3,012,641)		29,892,382
PROPERTY AND EQUIPMENT - at cost:					
Machinery and equipment	4,038,582	200,000			4,238,582
Furniture and fixtures	1,313,809	100,000			1,413,809
Leasehold improvements	139,555				139,555
Total	5,491,946	300,000	-		5,791,946
Less accumulated depreciation and amortization	(3,945,247)				(3,945,247)
Property and equipment, net	1,546,699	300,000	-		1,846,699
INTANGIBLE ASSETS - net	2,632,791		6,886,968	E/G	9,519,759
INVESTMENTS	2,129,679				2,129,679
NOTES RECEIVABLE	3,927,932		(2,875,000)	A	1,052,932
DEFERRED INCOME TAXES	-		0		0
TOTAL ASSETS	$ 39,654,124	$ 3,788,000	$ 999,327		$ 44,441,451
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Current portion of long-term debt	$ 25,120	$ 995,000	$ (995,000)	C	$ 25,120
Accounts payable	2,937,271	2,444,000			5,381,271
Accrued liabilities	3,064,463	887,000	(148,000)	A/C	3,803,463
Income taxes payable	-		100,000	A	100,000
Current portion of unearned service revenues	855,120	1,352,000			2,207,120
Customer deposits	231,845				231,845
Total current liabilities	7,113,819	5,678,000	(1,043,000)		11,748,819
OTHER LONG-TERM LIABILITIES	203,844				203,844
Total liabilities	7,317,663	5,678,000	(1,043,000)		11,952,663
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, 11,075,252 issued; 11,035,252 outstanding	11,075		850	A	11,925
Additional paid-in capital	47,595,087		1,826,650	A	49,421,737
Accumulated deficit	(12,116,098)	(1,890,000)	214,827	E/G	(13,791,271)
Other comprehenvive loss	(3,002,978)				(3,002,978)
Common stock in treasury, at cost - 40,000 shares	(150,625)				(150,625)
Total shareholders' equity	32,336,461	(1,890,000)	2,042,327		32,488,788
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 39,654,124	$ 3,788,000	$ 999,327		$ 44,441,451

FARO TECHNOLOGIES, INC. and Subsidiaries
CONSOLIDATED PRO-FORMA STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2001

	FARO Technologies, Inc.	SpatialMetrix Corporation	CONSOLIDATION AND PRO FORMA ADJUSTMENTS	CONSOLIDATED PRO FORMA
SALES	$ 35,113,596	$11,286,895		$46,400,491
COST OF SALES	14,304,083	8,478,564		22,782,647
Gross profit	20,809,513	2,808,331	-	23,617,844
OPERATING EXPENSES				
Selling	13,436,209	3,125,857		16,562,066
General and administrative	5,812,803	1,475,246		7,288,049
Depreciation and amortization	2,559,495	112,193	1,675,173 G	4,346,861
Research and development	3,370,716	2,311,585		5,682,301
Total operating expenses	25,179,223	7,024,881	1,675,173	33,879,277
LOSS FROM OPERATIONS	(4,369,710)	(4,216,550)	(1,675,173)	(10,261,433)
OTHER INCOME (EXPENSES)				
Interest income	900,281			900,281
Other income	964,950			964,950
Interest expense	(1,747)	(884,214)	866,062 F	(19,899)
INCOME (LOSS) BEFORE INCOME TAXES	(2,506,226)	(5,100,764)	(809,111)	(8,416,101)
INCOME TAX EXPENSE (BENEFIT)	341,738	-		341,738
NET INCOME (LOSS)	$(2,847,964)	$(5,100,764)	$ (809,111)	$(8,757,839)
NET LOSS PER SHARE - BASIC	$ (0.26)			$ (0.74)
NET LOSS PER SHARE - DILUTED	$ (0.26)			$ (0.74)
Shares Outstanding - Basic	11,032,449		850,000	11,882,449
Shares Outstanding - Diluted	11,032,449		850,000	11,882,449

Notes:
A - Represents entry to record consideration given upon closing of the purchase of SMX ($7,931,958).
B - Represents entry to record additional acquisition costs incurred prior to closing ($383,183).
C - Represents adjustment to purchase price for liabilities paid at closing but previously recorded by SMX ($1,643,000).
D - Entry intentionally not used.
E - Represents entry to eliminate Investment in SMX in consolidation.
F - Represents entry to reverse interest expense recorded by SMX on bank loans paid upon closing ($866,062).
G - Represents entry to record amortization of intangible assets acquired (including $1,200,000 of amortization of goodwill).