

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

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

For the transition period from _____ to _____

Commission File Number: 0-23081

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

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

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

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

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

Class: Voting Common Stock, \$.001 Par Value Outstanding at August 10, 2001:
11,030,706

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FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 2001 ----- (Unaudited)	December 31, 2000 -----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,597,553	\$ 8,029,318
Short term investments - at cost (Note C)	5,415,608	6,218,636
Accounts receivable - net of allowance	7,944,442	10,352,972
Inventories (Note D)	6,131,615	6,364,290
Prepaid expenses and other assets	1,707,229	1,112,881
Deferred income taxes	254,902	203,816
	-----	-----
Total current assets	26,051,349	32,281,913
	-----	-----
PROPERTY AND EQUIPMENT - at cost:		
Machinery and equipment	3,928,720	3,580,892
Furniture and fixtures	1,308,706	1,253,248
Leasehold improvements	109,049	89,171
	-----	-----
Total	5,346,475	4,923,311
Less accumulated depreciation	(3,560,386)	(3,121,029)
	-----	-----
Property and equipment, net	1,786,089	1,802,282
	-----	-----
INTANGIBLE ASSETS - net	3,154,691	4,055,337
INVESTMENTS - at cost (Note C)	4,206,173	4,755,572
NOTES RECEIVABLE (Note E)	2,525,258	1,128,846
DEFERRED INCOME TAXES	675,324	675,324
	-----	-----
TOTAL ASSETS	\$ 38,398,884	\$ 44,699,274
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,394,554	\$ 2,965,417
Accrued liabilities	2,813,252	4,137,801
Income tax payable	84,486	684,409
Current portion of unearned service revenues	772,034	687,566
Customer deposits	143,326	133,984
	-----	-----
Total current liabilities	6,207,652	8,609,177
OTHER LONG-TERM LIABILITIES	145,169	134,644
	-----	-----
TOTAL LIABILITIES	6,352,821	8,743,821
	-----	-----
SHAREHOLDERS' EQUITY:		
Class A preferred stock - par value \$.001, 10,000,000 shares authorized, no shares issued and outstanding		
Common stock - par value \$.001, 50,000,000 shares authorized, 11,070,706 and 11,065,225 issued; 11,030,706 and 11,025,225 outstanding	11,071	11,066
Additional paid-in-capital	47,593,454	47,570,059
Accumulated deficit	(11,978,673)	(9,268,134)
Accumulated other comprehensive loss:		
Cumulative translation adjustments, net of tax	(3,429,164)	(2,206,913)
Treasury stock	(150,625)	(150,625)
	-----	-----
Total shareholders' equity	32,046,063	35,955,453
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 38,398,884	\$ 44,699,274
	=====	=====

See accompanying notes to condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Sales	\$ 8,265,131	\$ 10,923,279	\$ 16,670,661	\$ 20,773,046
Cost of sales	3,463,801	3,996,544	6,903,328	7,936,904
Gross profit	4,801,330	6,926,735	9,767,333	12,836,142
Operating expenses:				
Selling	3,764,470	3,401,020	7,193,595	7,031,161
General and administrative	1,518,664	1,348,761	2,901,785	2,643,895
Depreciation and amortization	657,541	803,316	1,324,478	1,441,415
Research and development	790,171	813,408	1,711,222	1,814,855
Employee stock options	-	31,671	-	63,342
Total operating expenses	6,730,846	6,398,176	13,131,080	12,994,668
(Loss) income from operations	(1,929,516)	528,559	(3,363,747)	(158,526)
Interest income	267,975	167,545	504,018	364,794
Interest expense	(412)	-	(766)	-
Other income, net	63,886	40,431	149,956	112,697
(Loss) income before income taxes	(1,598,067)	736,535	(2,710,539)	318,965
Income tax benefit (expense)	14,783	(145,137)	-	(145,137)
Net (loss) income	<u>\$ (1,583,284)</u>	<u>\$ 591,398</u>	<u>\$ (2,710,539)</u>	<u>\$ 173,828</u>
NET (LOSS) INCOME PER SHARE - BASIC	<u>(\$0.14)</u>	<u>\$ 0.05</u>	<u>(\$0.25)</u>	<u>\$ 0.02</u>
NET (LOSS) INCOME PER SHARE - DILUTED	<u>(\$0.14)</u>	<u>\$ 0.05</u>	<u>(\$0.25)</u>	<u>\$ 0.02</u>

See accompanying notes to condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Additonal Paid-in Capital	Unearned Compensation	Accumulated Deficit
	Shares	Amounts			
BALANCE, JANUARY 1, 2000	11,059,510	\$ 11,060	\$47,544,844	\$ (123,404)	\$ (9,307,651)
Net income					39,517
Currency translation adjustment, net of tax					
Comprehensive loss					
Issuance of common stock	5,715	6	25,215		
Amortization of unearned compensation				123,404	
BALANCE, DECEMBER 31, 2000	11,065,225	11,066	47,570,059	-	(9,268,134)
Net loss					(2,710,539)
Currency translation adjustment, net of tax					
Comprehensive loss					
Issuance of common stock	5,481	5	23,395		
BALANCE, JUNE 30, 2001 (Unaudited)	11,070,706	\$ 11,071	\$47,593,454	\$ -	\$(11,978,673)

	Accumulated Other Comprehensive Loss	Treasury Stock	Total
	BALANCE, JANUARY 1, 2000	\$(1,374,878)	\$ (150,625)
Net income			39,517
Currency translation adjustment, net of tax	(832,035)		(832,035)
Comprehensive loss			(792,518)
Issuance of common stock			25,221
Amortization of unearned compensation			123,404
BALANCE, DECEMBER 31, 2000	(2,206,913)	(150,625)	35,955,453
Net loss			(2,710,539)
Currency translation adjustment, net of tax	(1,222,251)		(1,222,251)
Comprehensive loss			(3,932,790)
Issuance of common stock			23,400
BALANCE, JUNE 30, 2001 (Unaudited)	\$(3,429,164)	\$ (150,625)	\$32,046,063

See accompanying notes to condensed consolidated financial statements

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2001	2000
OPERATING ACTIVITIES:		
Net (loss) income	\$ (2,710,539)	\$ 173,828
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,324,478	1,441,415
Bad debt expense	110,333	30,000
Inventory reserve	190,000	175,000
Provision for deferred income taxes	(76,362)	(108,107)
Employee stock options	-	63,342
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	1,745,347	(2,369,413)
Inventories	(117,104)	(769,634)
Prepaid expenses and other assets	(613,454)	(50,042)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(1,642,770)	1,218,962
Unearned service revenues	142,610	288,103
Income tax payable	(603,272)	82,878
Customer deposits	21,380	(5,111)
Net cash (used in) provided by operating activities	(2,229,353)	171,221
INVESTING ACTIVITIES:		
Proceeds from (payments for) investments, net	1,352,428	(582,153)
Purchases of property and equipment	(527,736)	(583,346)
Notes Receivable	(1,397,445)	(1,080,487)
Payments for intangibles and other	(313,480)	(166,393)
Net cash used in investing activities	(886,233)	(2,412,379)
FINANCING ACTIVITIES:		
Payments on debt	(15,394)	(6,846)
Proceeds from issuance of common stock, net	23,398	4,219
Net cash provided by (used in) financing activities	8,004	(2,627)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(324,183)	(396,216)
DECREASE IN CASH AND CASH EQUIVALENTS	(3,431,765)	(2,640,001)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,029,318	6,637,184
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,597,553	\$ 3,997,183

See accompanying notes to condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2001 and 2000

(Unaudited)

NOTE A - DESCRIPTION OF BUSINESS

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

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

NOTE B - BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and footnote disclosure required by accounting principles generally accepted in the United States for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated financial position and operating results for the interim periods have been included. The consolidated results of operations for the six months ended June 30, 2001 are not necessarily indicative of results that may be expected for the year ending December 31, 2001. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company as of December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000 included in the Company's 2000 Annual Report to Stockholders.

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

In July 2001, the Financial Accounting Standard Board 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 provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001, and as such the company as not yet adopted SFAS No. 142. Once adopted, operating expenses will be reduced by approximately \$310,000 on a quarterly basis for amortization and may increase for assets determined to be impaired, if any, during a respective quarter.

NOTE C - CASH AND CASH EQUIVALENT AND INVESTMENTS

Cash and cash equivalents - The Company considers cash on hand and amounts on deposit with financial institutions which have original maturities of three months or less to be cash and cash equivalents. All short-term investments in debt securities which have maturities of three months or less are classified as trading securities, which are carried at market value based upon the quoted market prices of those investments at each respective balance sheet date.

Investments - Short-term investments and investments ordinarily consist of debt securities acquired with cash not immediately needed in operations. At June 30, 2001 and December 31, 2000 short-term investments of \$5.4 million and \$6.2 million, respectively, consist of government agency securities and corporate notes with maturities not exceeding one year. Investments have maturities of at least one year (none have maturities exceeding two years).

Investments consist of the following:

	June 30, 2001 ----	December 31, 2000 ----
Government agency securities	\$2,046,837	\$ 898,840
Certificates of deposit	339,000	240,309
Corporate notes	1,820,336	3,616,423
	-----	-----
Total investments	\$4,206,173	\$4,755,572
	=====	=====

NOTE D - INVENTORIES

Inventories consist of the following:

	June 30, 2001 ----	December 31, 2000 ----
Raw materials	\$ 559,277	\$ 486,002
Work-in-process	1,531,203	1,610,210
Finished goods	754,326	991,169
Sales demonstration	3,286,809	3,276,909
	-----	-----
Total inventories	\$6,131,615	\$6,364,290
	=====	=====

NOTE E - NOTES RECEIVABLE

In April 2001, the Company and SpatialMetrix Corporation ("SMX") entered into an agreement pursuant to which the Company provided to SMX \$1.5 million in financing. SMX Corp. is a manufacturer and worldwide supplier of laser trackers and targets, as well as metrology software and contract inspection services. FARO and SMX also have entered into two letters of intent. One of the letters of intent outlines the terms under which FARO will provide SMX with up to an additional \$1.5 million in financing. The other letter of intent outlines the terms pursuant to which FARO will have an option to acquire SMX. Both letters of intent are non-binding and are subject to the negotiation and execution of definitive agreements and the satisfaction of various conditions by SMX.

The Company provided the \$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 \$3.8 million bank line of credit. The line of credit bears interest at a rate of 2% in excess of SMX's bank's prime rate, which increases by an additional 3% during any default on the line of credit. Although the line of credit matured on May 31, 2001, SMX's bank has not taken any action to seek repayment of amounts due thereunder. The Company anticipates that the line of credit will be extended upon execution of a definitive agreement

providing for an additional \$1.5 million in financing.

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

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

NOTE F - EARNINGS PER SHARE

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

	Three months ended June 30,			
	2001		2000	
	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic EPS	11,030,706	\$(.14)	11,020,682	\$.05
Effect of dilutive securities	-		58,716	
Diluted EPS	11,030,706	\$(.14)	11,079,398	\$.05

	Six months ended June 30,			
	2001		2000	
	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic EPS	11,027,950	\$(.25)	11,020,252	\$.02
Effect of dilutive securities	-		52,511	
Diluted EPS	11,027,950	\$(.25)	11,072,763	\$.02

NOTE G - SEGMENT GEOGRAPHIC DATA

The Company develops, manufactures, markets and supports Computer Aided Design (CAD)-based quality assurance products and CAD-based inspection and statistical process control software. This one line of business represents more than 99% of consolidated sales. The Company operates through sales

teams established by geographic area. Each team is equipped to deliver the entire line of Company products to customers within its geographic area. The Company has aggregated the sales teams into a single operating segment as a result of the similarities in the nature of products sold, the type of customers and the methods used to distribute the Company's products.

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

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
SALES:				
United States	\$3,217,021	\$ 5,595,201	\$ 6,654,699	\$10,252,584
Germany	1,330,723	2,723,563	2,822,752	4,789,515
United Kingdom	1,143,412	629,596	1,768,999	1,581,438
France	933,090	668,732	1,872,871	1,416,928
Other foreign	1,640,885	1,306,187	3,551,340	2,732,581
Total	\$8,265,131	\$10,923,279	\$16,670,661	\$20,773,046
	=====	=====	=====	=====
			June 30,	December 31,
			2001	2000
			----	----
LONG-LIVED ASSETS (NET):				
United States			\$ 2,336,897	\$ 2,326,790
Germany			2,460,941	3,385,662
Other foreign			142,942	145,167
Total			\$ 4,940,780	\$ 5,857,619
			=====	=====

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

PART I. FINANCIAL INFORMATION

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

The following information should be read in conjunction with the Condensed Consolidated Financial Statements of the Company, including the notes thereto, included elsewhere in this Form 10-Q, and the Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Overview

The Company designs, develops, markets and supports portable, software-driven, 3-D measurement systems that are used in a broad range of manufacturing and industrial applications. The Company's principal products are the FAROArm(R) articulated measuring device, the Control Station and its multi-faceted CAM2 software which provides for CAD-based inspection on portable and fixed-base CMMs, and factory-level statistical process control. Together, these products integrate the measurement and quality inspection function with CAD, CAM and computer-aided engineering ("CAE") technology to improve productivity, enhance product quality and decrease rework and scrap in the manufacturing process. The Company's products bring precision measurement, quality inspection and specification conformance capabilities, integrated with leading CAD software, to the factory floor. Historically, the Company's revenue growth has 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 (including offices in international markets) and expanded promotional efforts which include a multilingual web site and Company demo CD.

During 2001, the Company's sales growth has been adversely affected by the economic slowdown currently affecting the United States and Europe. We expect that the current economic slowdown will continue to adversely affect U. S. and German sales and may adversely affect the Company's growth rate in other geographic markets during the balance of 2001. Accordingly, the Company adopted a cost reduction plan during the third quarter of 2001. This plan includes reducing the workforce by approximately 15%, reducing discretionary spending and canceling certain non-strategic product development and marketing projects. Severance payments and other costs of implementing these measures, recorded in July 2001, were not material to the Company's results of operations aggregated approximately \$90,000.

Results of Operations

Three Months Ended June 30, 2001 Compared to Three Months Ended June 30, 2000

Sales. Sales decreased by \$2.6 million, or 23.9%, from \$10.9 million for the three months ended June 30, 2000 to \$8.3 million for three months ended June 30, 2001. The decrease primarily resulted from reduction in product unit sales in the U.S. (\$2.4 million) and Germany (\$850,000) and the effect of the stronger U.S. dollar in the second quarter of 2001 (approximately \$500,000). This decrease was offset in part by an increase in sales in other international locations (\$764,000).

Gross profit. Gross profit decreased by \$2.1 million or 30.4%, from \$6.9 million for the three months ended June 30, 2000 to \$4.8 million for the three months ended June 30, 2001. Gross margin decreased to 58.1% for the three months ended June 30, 2001 from 63.4% for the three months ended June 30, 2000. The decrease in gross margin was primarily a result of more aggressive sales discounts and a shift in product mix in the three months ended June 30, 2001.

Selling expenses. Selling expenses increased by \$363,000 or 10.7%, from \$3.4 million for the three months ended June 30, 2000 to \$3.8 million for the three months ended June 30, 2001. This increase was primarily a result of higher expenses in Europe and Japan (resulting from increase in headcount and marketing efforts to develop new geographic markets) and restructuring of the Company's domestic sales force. This increase was partially offset by the effect of the stronger U.S. dollar in the second quarter of 2001.

General and administrative expenses. General and administrative expenses increased by \$170,000 or 13.1%, from \$1.3 million for the three months ended June 30, 2000 to \$1.5 million for the three months ended June 30, 2001. The increase was due to additional administrative expenses in Europe (\$107,000) and Japan (\$72,000), partially offset by the effect of the stronger U.S. dollar in 2001.

Depreciation and amortization expenses. Depreciation and amortization expenses decreased by \$145,000 or 18.1%, from \$803,000 for the three months ended June 30, 2000 to \$658,000 for the three months ended June 30, 2001. This decrease was primarily due to the effect of the stronger U.S. dollar in 2001 in connection with assets of the Company's European operations.

Research and development expenses. Research and development expenses decreased by \$23,000, or 2.8%, from \$813,000 for the three months ended June 30, 2000 to \$790,000 for the three months ended June 30, 2001 principally as a result of the effect of the stronger U.S. dollar in 2001.

Interest income. Interest income increased by \$100,000, or 59.5%, from \$168,000 for the three months ended June 30, 2000, to \$268,000 for the three months ended June 30, 2001. The increase was primarily attributable to efforts to invest in higher yielding cash equivalents and investments during the second quarter of 2001 (see Liquidity and Capital Resources below).

Net (loss) income. Net (loss) income decreased by \$2.2 million from net income of \$591,000 for the three months ended June 30, 2000 to a net loss of \$1.6 million for the three months ended June 30, 2001 due to the factors stated above.

Six Months Ended June 30, 2001 Compared to Six Months Ended June 30, 2000

Sales. Sales decreased by \$4.1 million, or 19.7%, from \$20.8 million for the six months ended June 30, 2000 to \$16.7 million for six months ended June 30, 2001. The decrease primarily resulted from reduction in product unit sales in the U.S. (\$3.6 million) and Germany (\$1.3 million) and the effect of the stronger U.S. dollar in the first half of 2001 (approximately \$700,000). This decrease was offset in part by increase in sales in other international locations (\$1.5 million).

Gross profit. Gross profit decreased by \$3.0 million or 23.4%, from \$12.8 million for the six months ended June 30, 2000 to \$9.8 million for the six months ended June 30, 2001. Gross margin decreased, to 58.6% for the six months ended June 30, 2001 from 61.8% for the six months ended June 30, 2000 primarily a result of more aggressive sales discounts and a shift in product mix in the six months ended June 30, 2001.

Selling expenses. Selling expenses increased by \$162,000, or 2.3%, from \$7.0 million for the six months ended June 30, 2000 to \$7.2 million for the six months ended June 30, 2001. This increase was primarily a result of higher selling expenses in Europe (Italy and Spain) and Japan (resulting from increase in headcount and marketing efforts to develop new geographic markets) and restructuring of the Company's domestic sales force in the first quarter of 2001. This increase was offset in part by lower selling expenses in the United States particularly sales commissions due to lower sales volume and the effect of the stronger U.S. dollar in the first half of 2001.

General and administrative expenses. General and administrative expenses increased by \$258,000 or 9.9%, from \$2.6 million for the six months ended June 30, 2000 to \$2.9 million for the six months ended June 30, 2001. The increase was primarily due to additional administrative expenses to support geographic growth in Europe and Japan, partially offset by the effect of the stronger U.S. dollar in 2001.

Depreciation and amortization expenses. Depreciation and amortization expenses decreased by \$117,000 or 8.4%, from \$1.4 million for the six months ended June 30, 2000 to \$1.3 million for the six months ended June 30, 2001. This decrease was primarily due to the effect of the stronger U.S. dollar in 2001, partially offset by depreciation on normal fixed asset additions since the first half of 2000.

Research and development expenses. Research and development expenses decreased by \$104,000, or 5.8%, from \$1.8 million, for the six months ended June 30, 2000 to \$1.7 million for the six months ended June 30, 2001 principally as a result of lower R&D activities in Europe and the effect of the stronger U.S. dollar in 2001, offset in part by slightly higher R&D activity in the U.S. in 2001.

Interest income. Interest income increased by \$139,000, or 38.1%, from \$365,000 for the six months ended June 30, 2000, to \$504,000 for the six months ended June 30, 2001. The increase was primarily attributable to efforts to invest in higher yielding cash equivalents, and investments during 2001 (see Liquidity and Capital Resources below).

Net (loss) income. Net (loss) income decreased by \$2.9 million from net income of \$174,000 for the six months ended June 30, 2000 to a net loss of \$2.7 million for the six months ended June 30, 2001 due to the factors stated above.

Liquidity and Capital Resources

During the six months ended June 30, 2001, cash decreased by \$3.4 million from \$8.0 million at December 31, 2000 to \$4.6 million at June 30, 2001. For the six months ended June 30, 2001, net cash used in operating activities was \$2.2 million compared to cash provided by operating activities of \$171,000 for the six months ended June 30, 2000. The increase was principally due to the operating loss in 2001. Net cash used in investing activities was \$886,000 for the six months ended June 30, 2001, compared to \$2.4 million for the six months ended June 30, 2000. The decrease in net cash used in investing activities is primarily attributable to proceeds from investments (\$1.4 million) in 2001 versus payments for investments (\$582,000) in 2000. Currency exchange rate changes resulted in a \$324,000 reduction on the Company's reported cash at June 30, 2001.

In April 2001, the Company and SpatialMetrix Corporation ("SMX") entered into an agreement pursuant to which the Company provided to SMX \$1.5 million in financing. SMX Corp. is a manufacturer and worldwide supplier of laser trackers and targets, as well as metrology software and contract inspection services. FARO and SMX also have entered into two letters of intent. One of the letters of intent outlines the terms under which FARO will provide SMX with up to an additional \$1.5 million in financing. The other letter of intent outlines the terms pursuant to which FARO will have an option to acquire SMX. Both letters of intent are non-binding and are subject to the negotiation and execution of definitive agreements and the satisfaction of various conditions by SMX.

The Company provided the \$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 \$3.8 million bank line of credit. The line of credit bears interest at a rate of 2% in excess of SMX's bank's prime rate, which increases by an additional 3% during any default on the line of credit. Although the line of credit matured on May 31, 2001, SMX's bank has not taken any action to seek repayment of amounts due thereunder. The Company anticipates that the line of credit will be extended upon execution of a definitive agreement providing for an additional \$1.5 million in financing.

Additionally, the Company's has commitments at June 30, 2001 resulting from leases on its headquarters and regional offices and from leases on motor vehicles and office equipment. There were no other material commitments for capital expenditures at that date, although the Company anticipates amending its agreement with SMX to provide to SMX an additional \$1.5 million in financing. The Company believes that its cash, investments, cash flows from operations and funds available from its credit facility will be sufficient to satisfy its working capital, loan commitment and capital expenditure needs through the foreseeable future.

Foreign Exchange Exposure

Sales outside the United States represent a significant portion of the Company's total revenues. At present, the majority of the Company's revenues and expenses are invoiced and paid in U.S. dollars. In the future, the Company expects a greater portion of its revenues to be denominated in foreign currencies. Fluctuations in exchange rates between the U.S. dollar and such foreign currencies may have a material adverse effect on the Company's business, results of operations and financial condition, and could specifically result in foreign exchange losses. The impact of future exchange rate fluctuations on the results of operations cannot be accurately predicted. To the extent that the percentage of the Company's non-U.S. dollar revenues derived from international sales increases in the future, the Company's exposure to risks associated with fluctuations in foreign exchange rates will increase. Historically, the Company has not hedged against the risks associated with fluctuations in exchange rates. The Company at present is evaluating its exposure, and may use foreign exchange contracts and/or foreign currency options to hedge these risks in the future.

Inflation

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

Conversion to the Euro

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a.) Exhibits

- 10.17 Loan Participation Agreement, dated April 13, 2001, between the Registrant and PNC Bank, National Association. (Filed herewith).
- 10.18 Loan Agreement, dated April 13, 2001, between the Registrant and SpatialMetrix Corporation. (Filed herewith).
- 10.19 WCMA Loan Agreement, dated as of May 10, 2001, between the Registrant and Merrill Lynch Business Financial Services, Inc. (Filed herewith).

b.) Reports on Form 8-K

None.

SIGNATURES

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

Date: August 16, 2001 FARO TECHNOLOGIES, INC.
(Registrant)

By: /s/ Gregory A. Fraser

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

PARTICIPATION AGREEMENT

This Participation Agreement (the "Agreement") is made and executed this 13th day of April, 2001 by and between PNC BANK, NATIONAL ASSOCIATION ("Lender") with an office at 1600 Market Street, Philadelphia, Pennsylvania 19103, Attn: Frank Devine, Assistant Vice President, and FARO TECHNOLOGIES, INC., with an office at 125 Technology Park, Lake Mary, FL 32746, Attn: Dr. Simon Raab, President and CEO ("Participant").

BACKGROUND

A. Pursuant to the terms and conditions of a certain Loan Agreement ("Loan Agreement") dated January 28, 1998 and related agreements, instruments and documents, all as amended from time to time (collectively called the "Credit Documents"), Lender has made loans, advances, and extensions of credit ("Line of Credit") to Spatialmetrix Corporation ("Borrower") up to a current maximum principal outstanding amount of \$2,300,000 at any one time.

B. Participant acknowledges receipt of copies of the Credit Documents. All capitalized terms used herein without definition shall have the respective meanings ascribed thereto in the Credit Documents.

C. Contemporaneously herewith, Lender is increasing the maximum principal amount of the Line of Credit to Three Million Eight Hundred Thousand (\$3,800,000) Dollars. Participant has agreed to purchase and accept and Lender is willing to sell and transfer to Participant a participating interest in the Line of Credit subject to the terms and conditions hereinafter set forth.

NOW, THEREFORE, with the foregoing Background deemed incorporated herein and made a part hereof, for good and valuable consideration the receipt of which is hereby acknowledged, and intending to be legally bound, the parties hereby covenant and agree as follows:

1. Pursuant and subject to the terms hereof, Lender hereby sells, extends and transfers to Participant and Participant hereby purchases and accepts from Lender an undivided participating interest in the Line of Credit ("Participation Share") in an amount equal to the lesser of: (i) thirty-nine and forty-seven one hundredths percent (39.47%) ("Participation Percentage") of the principal amount of the Line of Credit outstanding on the books of Lender, or (ii) \$1,500,000. Participant's Participation Share shall be sold on a "last out" basis, meaning the Participant's Participation Share shall only be paid after Lender's share of the Line of Credit is paid and satisfied in full.

2. INTENTIONALLY DELETED.

3. Lender shall pay over to Participant from and promptly after payment to Lender of, the interest actually received by Lender from Borrower, a sum equal to interest calculated on Participant's actual outstanding daily Participation Share of the Line of Credit for the period covered by the interest payment at one quarter percent (.25%) less than the rate(s) per annum

set forth in the Credit Documents. Participant shall not share in any prepayment premiums or fees set forth in the Loan Agreement. If Lender should, for any reason, receive less than the full amount of interest or other compensation due under the Credit Documents, Participant's share of such interest or compensation set forth herein shall abate ratably.

4. Except as set forth in Section 3 hereof, all amounts paid to and credited by Lender to the outstanding balance of the Line of Credit including, without limitation, principal, interest and expenses and including the proceeds or collections resulting from the realization from or disposition of any Collateral Security for the Line of Credit shall be applied first (to be applied to principal, interest and expenses in such order as Lender may elect) for the benefit of Lender and then second, to Participant. The term "Collateral Security" as used herein includes Lender's lien on or security interest in all of Borrower's Collateral (as defined in the Credit Documents) and the amounts payable under and the proceeds of all other agreements under which any party other than Borrower becomes liable in any capacity in connection with the Line of Credit; balances in any bank account (including proceeds of any setoff), or loss reserve account or other reserve account of Borrower which Lender or Participant appropriates and applies to or toward the satisfaction of any liability of Borrower to Lender; and all other property, real or personal, tangible or intangible, of Borrower or any third party which secures payment of the Line of Credit. Lender shall hold title to and possession of all Collateral Security and Credit Documents in its name. Upon payment in full of Lender's share of the Line of Credit, Participant shall be the full and sole owner of the Line of Credit, the Credit Documents and all rights and obligations thereunder in its sole name.

5. Lender shall, at all times, have the sole and exclusive right to service, administer and monitor the Line of Credit, the Collateral Security and Credit Documents, including without limitation the rights to: (i) exercise all rights, privileges and options under the Credit Documents, including the credit judgment with respect to the making of advances and the determinations to the basis on which and the extent to which advances may be made, (ii) amend the Credit Documents, (iii) modify or terminate the Line of Credit or accelerate the Line of Credit, (iv) release, substitute or exchange any of the Collateral Security, (v) waive nonperformance by Borrower or other Events of Default, or enforce or refrain from enforcing its rights or remedies under the Credit Documents, and (vi) compromise claims by or against Borrower or with respect to any Collateral Security. Participant shall have no right or vote in connection with Lender's rights set forth above. Notwithstanding the foregoing, Lender and Participant agree as follows: (a) Lender shall permit Borrower to draw upon the Line of Credit after the date hereof for up to a maximum of \$1,500,000 for the purposes set forth in Exhibit "A" hereto and made a part hereof; (b) Lender shall not make any further increases in the maximum principal amount of the Line of Credit beyond \$3,800,000 without the Participant's prior written consent; (c) Lender shall not release, substitute or exchange any of the Collateral Security without the Participant's prior written consent; and (d) Lender shall not extend the time for repayment of the principal balance of the Line of Credit beyond August 31, 2001 without the Participant's prior written consent.

6. Lender shall have the right to deduct from payments on the Line of Credit, or collections from or proceeds of Collateral Security, such funds as may be necessary to pay or reimburse Lender for costs and expenses incurred by it and not reimbursed by Borrower. All out-of-pocket costs and out-of-pocket expenses incurred by Lender and not reimbursed by Borrower after the date hereof in connection with the amendment, administration and enforcement of the Line

of Credit and Lender's rights in the Collateral Security (including, without limitation, reasonable counsel fees and expenditures to preserve and protect the Collateral Security under, and preserve and defend Lender's rights and interest under, the Credit Documents) shall be shared by Participant pro rata with Lender based on Participant's Participation Percentage, however, Participant shall only be required to reimburse Lender for such out-of-pocket costs and expenses to the extent Participant has received monies from Lender for application against its Participation Share. Lender shall not be responsible to Participant for any of Participant's costs and expenses arising from the interpretation of, amendment to or enforcement of this Agreement, and neither Participant nor Lender shall be entitled to share, on a pro rata basis with the other, any costs and expenses arising from any actions or proceedings brought by Lender or Participant against the other party.

7. Participant has entered into this Agreement solely upon its own independent investigation and credit analysis and is not relying upon any information supplied by or any representations made by Lender. Participant shall continue to make its own analysis and evaluation of Borrower. Lender makes no representation or warranty and assumes no responsibility with respect to (a) the financial condition of Borrower, any guarantor or other obligor, or any account debtor of Borrower; (b) the accuracy, sufficiency or currency of any information concerning the financial condition, prospects or results of operations of Borrower; (c) the sufficiency, authenticity, legal effect, validity or enforceability of the Credit Documents; or (d) the value, condition, location or quality of the Collateral Security. Lender assumes no responsibility or liability with respect to the collectibility of the Line of Credit or the performance by Borrower of any obligation under the Credit Documents.

8. During the term of this Agreement, Lender will furnish Participant with copies of all financial statements and field examination reports of Borrower and such other financial statements and reports as Participant may reasonably request. Lender shall promptly provide Participant with a copy of all correspondence from Lender to Borrower, including without limitation, demands for payment, notices of default, notices of acceleration, summons and complaints, and all notices relating to the sale of the Collateral Security. Lender will promptly notify Participant when it receives notice of or has actual knowledge of any Event of Default under the Credit Documents.

9. (a) Lender shall exercise the same care in accordance with commercially reasonable practices in administering, servicing and monitoring the Loan as it exercises with respect to similar transactions involving no participation. Lender shall exercise its right and options hereunder in a manner deemed by Lender to be in the best interests of Lender and Participant. Without limiting the foregoing, Lender may rely on the advice of counsel concerning legal matters and upon any written statements which it believes to be genuine or to have been presented by a proper person or entity and shall not be required to make any inquiry concerning the performance by Borrower of any of its obligations and liabilities under the Credit Documents or under any other document or agreement. Lender shall be entitled to rely on any notice, consent, certificate, affidavit, letter, telegram, teletype message, statement, order or other document believed by it to be genuine and correct and to have been signed and sent by the proper person or persons and, in respect of legal matters, upon an opinion of counsel selected by Lender.

(b) Notwithstanding paragraph 9(a) above, Lender shall not in any event have any liability whatsoever to Participant except for Lender's gross negligence, willful misconduct or bad faith.

10. (a) In the event that: (a) Lender is required to refund or repay to Borrower or any other party all or any portion of any principal, interest or other payment which was paid to Lender after the date of this Agreement, and (b) Lender remitted all or a portion of such principal, interest or other payment to Participant pursuant to this Agreement, then Participant shall remit to Lender, on demand of Lender, such refunded or repaid amounts actually received by Participant.

(b) Participant hereby indemnifies Lender, ratably according to its Participation Percentage, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever arising after the date hereof, which may be imposed on, incurred by or asserted against the Bank in any way relating to or arising out of Lender's execution of, or compliance with this Agreement or actions taken or omitted by Lender at the direction of or with the consent of Participant in connection with the terms hereof, provided that Participant shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the willful misconduct or gross negligence of Lender. Participant's obligations under this Section shall survive the termination of the Credit Documents and this Agreement.

11. (a) Participant acknowledges and agrees that this Agreement merely sets forth the terms and conditions under which it is acquiring an interest in certain loans and extensions of credit made and to be made by Lender in a commercial loan transaction entered into between Lender and Borrower, and that this Agreement is therefore not intended to represent and shall not be deemed to constitute a security. This Agreement and the participation of Participant in the Line of Credit are not intended to and shall not be deemed to create or constitute any joint venture or partnership between Participant and Lender.

(b) No amounts paid by Participant hereunder shall be considered as a loan by Participant to Lender. It is expressly agreed that the participation herein described is a full-risk, non-recourse participation and that Participant shall look only to payments received and collected by Lender from Borrower or from Collateral Security or from any guarantor or other obligor for repayment of the participation.

12. (a) Participant shall not sell, subparticipate, assign, transfer or pledge all or any portion of its Participation Share in the Line of Credit, or its rights or obligations hereunder, without the prior written consent of Lender.

(b) Subject to the provisions of Section 13 hereof, nothing herein contained shall prohibit or restrict Lender from granting other participations in the Line of Credit to any other party as Lender may, in its sole discretion, elect. Lender shall provide Participant with prior written notice of the grant of other participations in the Line of Credit.

13. (a) At any time after the date of this Agreement, Participant may, but is not obligated to, on ten (10) days' prior written notice to Lender, terminate this Agreement and tender to Lender, on the effective date of such termination, an amount of cash or Federal Funds or other funds immediately available in Philadelphia, Pennsylvania equal to 100% of Lender's Share in the outstanding balance of the Line of Credit, plus accrued interest as of the date of such tender. If such tender is duly made, Participant shall thereupon be deemed to have acquired Lender's entire Share for which such tender was made and this Agreement shall be terminated, except for obligations existing under paragraph 10(b) hereof on the date of tender.

(b) If Lender has granted a participation in this Line of Credit to any person other than the Participant (an "Other Participant"), at any time after the date of this Agreement, Participant may, but is not obligated to, on ten (10) days' prior written notice to the Other Participant, terminate this Agreement and tender to the Other Participant, on the effective date of termination, an amount of cash or Federal Funds or other funds immediately available in Philadelphia, Pennsylvania, equal to 100% of such Other Participant's Share in the outstanding balance of the Line of Credit, plus accrued interest as of the date of such tender. If such tender is duly made, Participant shall thereupon be deemed to have acquired such Other Participant's entire Share for which such tender was made and the Participation Agreement entered into between the Other Participant and Lender shall be terminated. Each participation agreement entered into by the Lender in which a participation in the Line of Credit is granted to any Other Participant shall incorporate the provisions of this Section 13.

(c) From and after receipt of written notice from the Participant of its intention to exercise its option under Section 13(a) hereof, the Lender shall not take any of the actions described in Section 5(i) through (vi) without the prior written consent of Participant.

14. During the term of this Agreement, Participant shall not with respect to Borrower, without the prior written consent of Lender, offer, solicit, negotiate, or otherwise contact Borrower in any manner regarding the Line of Credit, the Credit Documents, this Agreement or any of the terms of any of the above, provided however, that Participant is permitted to contact the Borrower with respect to refinancing of the Line of Credit.

15. This Agreement may be executed in counterpart copies, each of which shall be deemed a duplicate original hereof.

16. No modification or waiver of any provision of this Agreement shall be binding or enforceable unless in writing and signed by the party against whom enforcement is sought. No rights are intended to be created hereunder for the benefit of Borrower or any other third party beneficiary. Notices required or given hereunder shall be sent to the addresses set forth above either by telecopy, hand delivery against receipt or by a nationally-recognized overnight courier service on an overnight or next business day basis and sent to the addresses described on the first page of this Agreement. Notices shall be effective either immediately upon hand delivery or one business day after pick-up by express courier.

17. This Agreement shall inure to the benefit of Lender and Participant and their respective successors and assigns. This Agreement shall be governed by the laws of the Commonwealth of Pennsylvania.

18. THE PARTICIPANT HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE PARTICIPANT ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the day and year first above written.

PNC BANK, NATIONAL ASSOCIATION

By:_____

Title:_____

FARO TECHNOLOGIES, INC.

By:_____

Title:_____

AGREEMENT

THIS AGREEMENT (this "Agreement") is made and effective as of April 13, 2001, by and between SPATIALMETRIX CORPORATION, a Delaware corporation (the "Borrower") and FARO TECHNOLOGIES, INC., a Florida corporation (the "Lender")

R E C I T A L S

WHEREAS, pursuant to the terms and conditions of a certain Loan Agreement ("Loan Agreement") dated January 28, 1998 and related agreements, instruments and documents, all as amended from time to time (collectively called the "Credit Documents"), PNC Bank, National Association (the "Senior Lender") has made loans, advances, and extensions of credit ("Line of Credit") to Borrower up to a current maximum principal outstanding amount of \$2,300,000 at any one time; and

WHEREAS, contemporaneously herewith, the Lender is entering into a Participation Agreement (the "Participation Agreement") with the Senior Lender pursuant to which Lender shall provide \$1,500,000 to Senior Lender to increase the maximum principal amount available under the Line of Credit to Three Million Eight Hundred Thousand (\$3,800,000) Dollars; and

WHEREAS, Lender is willing to enter into the Participation Agreement in reliance upon the Borrower's representations, warranties and covenants contained in this Agreement; and

WHEREAS, the Borrower has determined that the entry into this Agreement is in the best interests of the Borrower, and that the additional financing made available to the Borrower by the Lender's entry into the Participation Agreement is fair and adequate consideration for this Agreement.

NOW, THEREFORE, for good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged) and intending to be legally bound hereby, the Borrower and Lender hereby agree as follows:

ARTICLE 1 : REPRESENTATIONS AND WARRANTIES

Borrower hereby represents and warrants to Lender as set forth in this Article 1.

1.1. Corporate Organization. Borrower is a corporation duly organized,

validly existing and in good standing under the laws of the State of Delaware. Borrower has all requisite corporate power and authority to own, operate and lease its properties, to carry on its business as and where such is now being conducted, to enter into this Agreement and the other documents and instruments to be executed and delivered by Borrower pursuant hereto and to carry out the transactions contemplated hereby and thereby. Borrower is duly licensed or qualified to do business as a foreign corporation, and is in good standing, in each jurisdiction wherein the character of the properties owned or leased by it, or the nature of its business, makes such licensing or qualification necessary, except where the failure to be so qualified would not,

individually or in the aggregate, have a material adverse effect. Borrower does not own any interest in any corporation, partnership or other entity.

1.2. Authority. The execution and delivery of this Agreement and the other

documents and instruments to be executed and delivered by Borrower pursuant hereto and the consummation of the transactions contemplated hereby and thereby have been duly authorized. Except for any necessary third party consents, which consents have been obtained, no other or further corporate act or proceeding on the part of Borrower is necessary to authorize this Agreement or the other documents and instruments to be executed and delivered by Borrower pursuant hereto or the consummation of the transactions contemplated hereby and thereby. This Agreement constitutes, and when executed and delivered, the other documents and instruments to be executed and delivered by Borrower pursuant hereto will constitute, valid binding agreements of Borrower, enforceable in accordance with their respective terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights, and (b) general principles of equity that restrict the availability of equitable remedies.

1.3. No Violation. Neither the execution and delivery of this Agreement or

the other documents and instruments to be executed and delivered by Borrower pursuant hereto, nor the consummation by Borrower of the transactions contemplated hereby and thereby (a) to the knowledge of Borrower will violate any applicable law, statute, regulation or order of any Official Body, (b) require any authorization, consent, approval, exemption or other action by or notice to any Official Body, or (c) subject to obtaining the consents referred to in Schedule 1.3, will violate or conflict with, or constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, or will result in the termination of, or accelerate the performance required by, or result in the creation of any Lien upon any of the assets of Borrower under, any term or provision of the Certificate of Incorporation or Bylaws of Borrower or of any contract, commitment, understanding, arrangement, agreement or restriction of any kind or character to which Borrower is a party or by which Borrower or any of its assets or properties may be bound or affected.

1.4. Financial Statements. Included as Schedule 1.4 are true and complete

copies of the financial statements of Borrower consisting of (i) a balance sheet of Borrower as of December 31, 1999, and the related statements of income and cash flows for the year then ended (including the notes contained therein or annexed thereto), which financial statements have been audited by Arthur Anderson LLP, independent auditors for Borrower for such year, and (ii) an unaudited balance sheet of Borrower as of December 31, 2000 (the "Recent Balance Sheet"), and the related unaudited statements of income for the year then ended and for the corresponding period of the prior year (including the notes and schedules contained therein or annexed thereto). All of such financial statements (including all notes and schedules contained therein or annexed thereto) are true, complete and accurate, have been prepared in accordance with generally accepted accounting principles (except, in the case of unaudited statements, for the absence of footnote disclosure) applied on a consistent basis, have been prepared in accordance with the books and records of Borrower, and fairly present, in accordance with generally accepted accounting principles, the assets, liabilities and financial position, the results of operations and cash flows of Borrower as of the dates and for the years and periods indicated. Except as and to the extent set forth in Schedule 1.4, since the date of the

Recent Balance Sheet there has not been

any material damage, destruction or loss to Borrower's assets, and no event or condition has occurred or exists, which has resulted or, to Borrower's knowledge, could reasonably be expected to result in a material adverse change to the business, assets, operations, financial condition or results of operation of the Borrower.

1.5. Tax Matters. Borrower has duly withheld and paid all taxes which it is

required to withhold and pay, including all taxes relating to salaries and other compensation heretofore paid to the employees of Borrower. Borrower has not received from the Internal Revenue Service or from the tax authorities of any state, county, local or other jurisdiction any notice of underpayment of taxes or other deficiency which has not been paid nor any objection to any return or report filed by Borrower.

1.6. No Litigation. Except as set forth in Schedule 1.6 there is no

litigation pending or, to the knowledge of Borrower, threatened against Borrower, its directors (in such capacity), its business or any of its assets, nor does Borrower know, or have grounds to know, of any reasonable basis for any litigation. Schedule 1.6 also identifies all litigation to which Borrower or any

of its directors (in such capacity) have been parties since January 1, 1999. Except as set forth in Schedule 1.6, to the knowledge of Borrower, neither

Borrower nor its business or assets is subject to any order arising out of any litigation against or involving the Borrower.

1.7. Credit Documents. The Credit Documents constitute the legal, valid and

binding obligations of the Borrower, enforceable in accordance with their terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights, and (b) general principles of equity that restrict the availability of equitable remedies. The Borrower represents that it has no defenses or set-offs or counterclaims against the Senior Lender, its officers, directors, employees, agents or attorneys with respect to the Credit Documents or any matters or course of conduct arising thereunder. Borrower ratifies and confirms its obligations under the Credit Documents.

ARTICLE 2 : COVENANTS

Borrower covenants and agrees that Borrower will comply with the covenants set forth in this Article, unless Lender otherwise consents in writing.

2.1. Board Observers. Borrower shall permit 2 representatives of Lender

("Lender's Representatives") to attend all meetings of the Board of Directors of Borrower. Borrower shall provide to Lender's Representatives copies of all materials presented to members of the Borrower's Board of Directors simultaneously with presentation to such directors. Lender's Representatives shall be permitted to address and to ask questions of the Board of Directors, but shall not have any voting rights. Lender's Representatives shall comply with all confidentiality and nondisclosure agreements in effect between Borrower and Lender. Borrower reserves the right to exclude any such Lender Representative from access to any material or meeting or portion thereof if Borrower believes that such exclusion is reasonably necessary to preserve attorney-client privilege or if the discussions concern negotiations with Lender.

2.2. Exclusivity. The Borrower acknowledges that the Lender has incurred

significant expense in its due diligence of the Borrower and its preparation and negotiation of the this

Agreement and the Participation Agreement, and proposes to incur additional expenses in the negotiation of the extension of further credit and possible acquisition of the Borrower. The Borrower acknowledges that the Lender is relying upon the Borrower's compliance with this Section in incurring such expenditures. Until the earliest of (a) 11:59 P.M., Philadelphia time on June 30, 2001, or (b) receipt of written notice from the Lender stating that the Lender shall not proceed further with negotiations for the acquisition of the Borrower, neither Borrower nor its officers, directors, or shareholders, without the prior written consent of the Lender, shall directly or indirectly solicit or make or entertain any offer or proposal from or to any third party regarding (i) the sale or possible sale of the Borrower or its assets or discuss in any manner any such sale with any third party or provide any information concerning any such sale to any third party or provide any information concerning any such sale to any third party and/or (ii) the borrowing or possible borrowing of additional interest-bearing or secured debt from any third person or provide any information concerning any such borrowing from any third party. Notwithstanding the foregoing, the Borrower may conduct discussions with other lenders, including, without limitation, GE Capital, for the refinancing of the Line of Credit.

2.3. Use of Proceeds. The Borrower shall use the advances under the Line of

Credit made available by Borrower's entry into the Participation Agreement (the "New Availability") for the purposes and in the amounts described in Schedule 2.3. Without limiting the generality of the foregoing, the Borrower shall not use any of the New Availability for any of the following purposes without the prior written consent of the Lender:

- a. Direct or indirect payments to any of the Borrower's shareholders, directors or executive officers (other than regular compensation to salaried employees for services actually rendered at salary rates prevailing prior to the date of this Agreement); or
- b. Payments to First Union Capital Partners; or
- c. Distributions to shareholders of the Borrower, whether as dividends or in redemption of stock of the Borrower.

ARTICLE 3 : CONDITIONS PRECEDENT

3.1. Conditions Precedent to Lender's Entry into Participation Agreement.

Each of the following are conditions precedent to the entry into the Participation Agreement by the Lender:

- a. Credit Agreement. The Borrower shall enter into such amendments to

the Credit Agreement and to the loan documents ancillary thereto as the are required by the Senior Lender and approved by the Borrower.
- b. Representations and Warranties. The representations and warranties

contained in this Agreement shall be true, correct and complete.
- c. Organization Documents. Lender shall have received a copy of the

Certificate of Incorporation of Borrower, and all amendments thereto, certified by the Secretary of State of Delaware as of a date not earlier than 10 days before the date of this Agreement.

d. Good Standing Certificates. Lender shall have received good standing

certificates for Borrower, issued by the Secretary of State of Delaware and by the Secretary of State of the Commonwealth of Pennsylvania, certified by the Secretary of State of the Commonwealth of Pennsylvania as of a date not earlier than 10 days before the date of this Agreement.

e. Incumbency Certificate. Lender shall have received a certificate

executed by the Secretary of the Borrower setting forth the names of the directors and officers of the Borrower, the names of the officers duly authorized by the Borrower to execute this Agreement and the Credit Documents, and including a specimen of signatures of officers authorized by the Borrower to execute and deliver this Agreement and the Credit Documents, and a certified copy of the resolutions of the Borrower authorizing the transactions herein contemplated. In addition, the secretary or other appropriate officer of the Borrower shall certify that there have been no amendments to the Certificate of Incorporation of the Borrower since the date of its certification by the Secretary of State, State of Delaware.

f. Compliance with Laws and Other Agreements. Lender shall have

determined or received assurances satisfactory to it that none of this Agreement, the Credit Documents or any of the transactions contemplated thereby violate any applicable law, court order or agreement binding upon Borrower.

ARTICLE 4 : RIGHT OF FIRST REFUSAL

4.1. Commencement Date; Definitions.

a. Right of First Refusal Commencement Date. The Right of First Refusal

set forth in this Article 4 shall commence and be exercisable by the Lender in accordance with the provisions of this Article 4 from and after the earliest of the following dates (the "Right of First Refusal Commencement Date"):

1. On 12:00 A.M., Philadelphia time, July 1, 2001 (or such later date as the parties may agree in writing), if the parties have failed to enter into mutually acceptable definitive agreements concerning the acquisition of the Borrower by the Lender, as described in the Letter of Intent, by 11:59 P.M. Philadelphia time, on June 30, 2001 (as such time may be extended by the parties in writing); or
2. Immediately after Borrower or the Lender breaks off from further negotiation of the transactions described in the Letter of Intent; or
3. Immediately upon a breach by the Borrower of its covenants made in Section 2.2 hereof.

The provisions of this Article 4 shall not survive the entry of the Borrower and Lender into definitive agreements for the transactions described in the Letter of Intent.

b. Definitions. The following terms shall have the following meanings

whenever used in this Article 4:

1. "Bona Fide Offer" shall mean (i) a written offer to purchase the

Business, alone or as part of a larger transaction (whether by purchase of stock or underlying assets or by merger or other form of acquisition), (ii) any offering of securities by the Borrower (other than a bona fide offering of securities of the Borrower to current shareholders of the Borrower); and (iii) a written offer to enter into any form of transaction which would result in the current officers, directors and shareholders of five percent (5%) or more of any class of equity securities of the Borrower holding securities which, in the aggregate, constitute less than 50 per cent (50%) of the equity of the Company or having the right to vote for less than a majority of the members of the Board of Directors of the Borrower.

2. "Business" shall mean all or any substantial portion of the

Borrower's business of designing, manufacturing, marketing, and servicing high-accuracy dynamic measurement devices, including the development, marketing and licensing of associated software, whether organized as a separate legal entity, as a division of any direct or indirect subsidiary of the Borrower, or otherwise and all of the associated operating assets.

3. "Registered Notice" shall mean notice given in accordance with

Section 4.2 hereof. Such Registered Notice shall contain a true and complete copy of the Bona Fide Offer, setting forth the price and all terms and conditions thereof, with the name(s), address(es) (both home and office), and business(es) or other occupation(s) of all offerors. If the Registered Notice is sent with respect to a merger proposal, the Registered Notice shall include both a true and complete copy of the written offer to merge with the Borrower, which offer shall include the name of the merging party, and its shareholders if such merging party is not a public company, and the basic structure of the merger, and a statement of the willingness of the Borrower to enter into the proposed merger. If the Registered Notice is sent with respect to a proposed issuance of securities of the Borrower, the Registered Notice shall include a complete description of the type, amount and issue price of the securities to be offered and the proposed purchaser of such securities. Any notice that omits in any material respect any of the requisite information shall not be considered a "Registered Notice" for the purposes of this Agreement.

4.2. Receipt of Bona Fide Offer. From and after the Right of First Refusal

Commencement Date until December 31, 2002, in the event that the Borrower shall receive at any time during the term of this Agreement a Bona Fide Offer and the Borrower's Board of Directors shall decide to sell the Business or otherwise accept the Bona Fide Offer, the Borrower shall promptly send a Registered Notice to Lender offering to sell the Business to Lender, together with such other assets as are subject to the Bona Fide Offer, at the same price and upon the same terms and conditions as are contained in the Bona Fide Offer, and Lender shall have the right of first refusal (the "Right of First Refusal") to purchase or otherwise acquire the Business, together with such other assets as are subject to the Bona Fide Offer, on such terms and conditions. Lender shall then have such rights and privileges, for the prescribed time periods, as are set forth in Section 4.4 hereof.

4.3. Excluded Transactions. The Right of First Refusal shall not apply to,

and shall survive the following transactions:

- a. any transfer of the Business to an entity directly or indirectly owned and controlled by the Borrower;
- b. any conversion of one class of securities of the Borrower issued and outstanding as of the date of this Agreement into another class of securities of the Borrower;
- c. any bona fide offering of securities of the Borrower to current shareholders of the Borrower.

4.4. Procedure. Whenever, under Section 4.2 hereof, a Bona Fide Offer has

been received, and Registered Notice of the Bona Fide Offer has been sent by the Company, the procedures specified in this Section 4.4 shall be complied with. For a period of fifteen (15) days following its receipt of the Registered Notice, Lender shall have the right, at its sole option, to notify the Borrower of its election to purchase the Business subject to the Bona Fide Offer. Acceptance by Lender of the Bona Fide Offer shall be on the same terms and conditions as set forth in the Bona Fide Offer, subject to the terms and conditions set forth herein, and shall be made by Lender's delivery to the Borrower of its notice to purchase the Business on the terms and conditions of the Bona Fide Offer, subject to the payment of cash in lieu of non-cash consideration, in an amount computed in accordance with the provisions of Section 4.5 hereof (the "Acceptance"). If Lender shall not deliver the Acceptance to the Borrower within the prescribed time period, the Borrower shall have the right to accept the Bona Fide Offer in whole, but not in part, and to sell the Business in accordance with the terms thereof, but only in strict accordance with all of the provisions of the Bona Fide Offer, and only if the sale is fully consummated within one hundred twenty (120) days following the receipt of the Registered Notice by the Lender as provided for in Section 4.2 hereof. In the event such sale is not fully consummated within such one hundred twenty (120) day period, the provisions of this Agreement must again be complied with by the Borrower before the Borrower may accept a Bona Fide Offer.

4.5. Valuation of Non-Cash Consideration.

a. The fair market value of non-cash consideration in the Bona Fide Offer consisting of marketable securities shall be paid by Lender based upon the average closing price for such marketable securities for the twenty (20) trading days ending on the date immediately prior to the purchase by Lender hereunder. The Lender, at its option, may pay in cash or in stock of the Lender, based upon the average closing prices for stock of the Lender for the twenty (20) trading days ending on the date immediately prior to the purchase by Lender hereunder.

b. The fair market value of non-cash consideration that does not consist of marketable securities shall be determined on the basis of an appraisal conducted by an independent, qualified professional appraiser selected by the Borrower and having at least five (5) years of experience valuing assets similar to those proposed to be paid in accordance with the Bona Fide Offer (a "Qualified Appraiser"). If Lender objects to the valuation determined by the Borrower's chosen Qualified Appraiser, then Lender shall, within fifteen (15) days of receipt of such determination, obtain a separate written appraisal of the disputed fair market value by another Qualified Appraiser and shall deliver to the Company a copy of such second appraisal. If the fair market value presented by such second appraiser is not less than ninety percent (90%) nor more than one hundred ten percent (110%) of the fair market value presented in the original appraisal, then the fair market value shall equal the average of the two (2) appraisals. If a greater discrepancy exists between the first and second appraisals, then the Qualified Appraisers selected by Borrower and the Lender shall select a third Qualified Appraiser who shall, within thirty (30) days after selection, deliver to Borrower and the Lender a third written appraisal of the fair market value of the non-cash consideration and the fair market value of the non-cash consideration shall equal the average of the two (2) appraisals which are closest in amount. The cost of the initial appraisal and, if applicable, the second and third appraisals, shall be paid for one-half by each of Borrower and the Lender.

ARTICLE 5 : DEFINITIONS

5.1. Certain Terms. The following terms when used in this Agreement

(including the preamble and recitals hereof) have the following meanings:

a. "Lender" means FARO TECHNOLOGIES, INC., a Florida corporation, and

any successor, assignee, transferee, or pledgee thereof.

b. "Borrower" means SPATIALMETRIX CORPORATION, a Delaware corporation.

c. "Affiliate", as it relates to any Person, shall mean: (i) any

parent, spouse, brother, sister, or natural or adopted lineal descendant or spouse of any such parent, brother, sister, or descendant, of such Person (any such Person hereinafter in this Agreement being referred to as a "Relative") and (ii) any other Person directly or indirectly controlling, controlled by or under common control with such Person.

d. "Agreement" means this Agreement and all exhibits, schedules and

supplemental addenda hereto, all as may be amended and - otherwise modified from
time to time hereafter.

e. "Credit Documents" is defined in the Recitals.

f. "Letter of Intent" is defined in Section 6.6

g. "Official Body" means any federal, state, local, or other government

(or any political subdivision, agency, authority, bureau, commission, department
or instrumentality thereof) and any court, tribunal, grand jury or arbitrator,
in each instance whether foreign or domestic.

h. "Participation Agreement" is defined in the Recitals hereto.

i. "Person" means any natural person, corporation, partnership, limited

liability company, firm, association, trust, government, governmental agency or
any other entity, whether acting in an individual, fiduciary or other capacity.

j. "Right of First Refusal" is defined in Section 4.2 hereof.

k. "Senior Lender" means PNC Bank, National Association

ARTICLE 6 : MISCELLANEOUS PROVISIONS

6.1. Amendments. No amendment to or waiver of any provision of this

Agreement, nor consent to any departure by any Borrower herefrom, shall in any
event be effective unless such amendment, waiver or consent is in writing and
signed by Lender and Borrower Any such waiver or consent will be effective only
in the specific instance and for the specific purpose for which given.

6.2. Addresses for Notices. Any notice, request, consent, waiver or other

communication required or permitted under or in connection with this Agreement
will be deemed satisfactorily given if it is in writing and is delivered either
personally to the addressee thereof, or by prepaid registered or certified U.S.
mail (return receipt requested), or by a nationally recognized commercial
courier service with next-day delivery charges prepaid, or by telegraph, or by
facsimile (voice confirmed), or by any other reasonable means of personal

delivery to the party entitled thereto at its respective address set forth below
its signature to this Agreement. If Borrower fails to insert an address below,
then such failure shall constitute a designation of its last known address as

the address for all notices, including notices of default and sale. Any party to
this Security Agreement may change its address or facsimile number for notice
purposes by giving notice thereof to the other parties hereto in accordance with
this Section, provided that such change shall not be effective until 2 calendar

days after notice of such change. All such notices and other communications will
be deemed given and effective (a) if by mail, then upon actual receipt or 5
calendar days after mailing as provided above (whichever is earlier), or (b) if
by facsimile, then upon successful transmittal to such party's designated
number, or (c) if by telegraph, then upon actual receipt or 2 Business Days
after delivery to the telegraph company (whichever is earlier), or (d) if by

nationally recognized

commercial courier service, then upon actual receipt or 2 Business Days after delivery to the courier service (whichever is earlier), or (e) if otherwise delivered, then upon actual receipt.

6.3. Severability. Wherever possible, each provision of this Agreement

shall be interpreted in such manner as to be effective and valid under applicable law. If any provision of this Agreement shall be prohibited by or invalid under such law, then such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

6.4. Governing Law. This Agreement shall be governed by and construed in

accordance with the internal laws of the Commonwealth of Pennsylvania

6.5. Entire Agreement. This Agreement and the Credit Documents constitute

the entire understanding among the parties hereto with respect to the subject matter hereof and supersede any prior agreements (written or oral) with respect thereto.

6.6. Refinancing of Line of Credit. The Borrower and the Lender have

exchanged a Letter of Intent dated April __, 2001 relating to a proposal from Lender to acquire Borrower (the "Letter of Intent"). The parties agree that, if the Line of Credit is refinanced with a lender other than the Senior Lender, and such refinancing is terminated before maturity as a result of the Lender's election to acquire the Borrower, all fees for early termination of the refinancing shall constitute accrued expenses in the computation of Working Capital for the purposes of determining the acquisition consideration for the stock of Borrower under the Letter of Intent. Nothing in this section 6.6 shall be construed to commit either the Borrower or the Lender to consummate the transactions described in the Letter of Intent.

6.7. Specific Performance. The Borrower acknowledges that, in view of the

uniqueness of arrangements contemplated by this Agreement, the Lender would not have an adequate remedy at law for money damages in the event that this Agreement were not performed in accordance with its terms. The Borrower therefore agrees that the Lender shall be entitled to seek specific enforcement of the terms hereof in addition to any other remedy to which the Lender may be entitled at law or in equity.

6.8. Waiver of Notice; Waiver of Bond. Borrower waives the posting of any

bond otherwise required of Lender in connection with any judicial process or proceeding to enforce any judgment or other court order entered in favor of Lender, or to enforce by specific performance, temporary restraining order or preliminary or permanent injunction this Agreement.

6.9. Forum Selection and Consent to Jurisdiction. Any litigation in any way

related to this Agreement, or any course of conduct, course of dealing, statements (whether verbal or written), actions or inactions of Lender or Borrower will be brought and maintained exclusively in the courts of the Commonwealth of Pennsylvania of the United States District Court for the Eastern District of Pennsylvania. Borrower and Lender hereby expressly and irrevocably submit to the jurisdiction of the courts of the Commonwealth of Pennsylvania or the United States District Court for the Eastern District of Pennsylvania for the purpose of any such litigation as set forth above and irrevocably agree to be bound by any final and non-appealable judgment

rendered thereby in connection with such litigation. Borrower and Lender further irrevocably consents to the service of process by registered or certified mail, postage prepaid, or by personal service within or outside the Commonwealth of Pennsylvania. Borrower and Lender hereby expressly and irrevocably waive (to the fullest extent permitted by law) any objection which they may have or hereafter may have to the laying of venue of any such litigation brought in any such court referred to above and any claim that any such litigation has been brought in an inconvenient forum.

6.10. Waiver of Jury Trial. Lender and Borrower each hereby knowingly,

voluntarily and intentionally waives any rights it may have to a trial by jury in respect of any litigation (whether as claim, counter-claim, affirmative defense or otherwise) in any way related to this Agreement or any Credit Documents, or any course of conduct, course of dealing, statements (whether verbal or written), actions or inactions of Lender or Borrower. Borrower acknowledges and agrees (a) that it has received full and sufficient consideration for this provision (and each other provision of each of this Agreement and the Credit Document to which it is a party), and (b) that it has been advised by legal counsel in connection herewith, and (c) that this provision is a material inducement for Lender entering into this Agreement.

6.11. Counterparts. This Agreement may be executed in any number of

counterparts with the same effect as if all the signatures on such counterparts appeared on one document. Each counterpart will be deemed to be an original, but all counterparts together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, as an instrument under seal (whether or not any such seals are physically attached hereto), through their duly authorized officers, as of the date first written above.

ATTEST:

SPATIALMETRIX CORPORATION
(Borrower)

By: _____
Name:
Title:

By: _____
Name:
Title:

[CORPORATE SEAL]

Address: 222 Gale Lane
Kennett Square, PA 19348
Facsimile No: _____
Attn: _____

FARO TECHNOLOGIES, INC.
(Lender)

By: _____
Name:
Title:

Address: 125 Technology Park Drive
Lake Mary, Florida 32746
Facsimile No: _____
Attn: _____

[Merrill Lynch Logo Appears here]

WCMA* LOAN AGREEMENT

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 a 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 to 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 all 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 MLBFS 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(R) 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 Customers 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 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 MLBFS, 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 Customer's 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 Customer's 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 MLBFS 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 MLBFS 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 Customer's 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 all 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 thereunder, 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 therefor (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 Customer's 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.

(l) 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 WRITING 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.

By: /s/ Simon Raab /s/ Gregory A. Fraser

Signature (1) Signature (2)

/s/ Simon Raab /s/ Gregory A. Fraser

Printed Name Printed Name
CEO EVP

Title Title

STATE OF FLORIDA)
-----)
COUNTY OF SEMINOLE)SS.
-----)

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.

/s/ Sharon G. Trowbridge

NOTARY PUBLIC

/s/ Sharon G. Trowbridge

PRINTED NAME OF NOTARY PUBLIC

My Commission Expires: 3/25/04

[S E A L]

OFFICIAL NOTARY SEAL
SHARON G TROWBRIDGE
[SEAL] COMMISSION NUMBER
CC915886
MY COMMISSION EXPIRES
MAR. 25, 2004

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

By:

The undersigned hereby certifies 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 21 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: Gregory A. Fraser

Secretary: Gregory A. Fraser

EVP, SEC-TREASURER

Additional Title

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 21 day of May, 2001.

(Corporate Seal) Sharon G. Trowbridge Secretary

Printed Name: Sharon G. Trowbridge