SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A

(Mark One)

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

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

Commission File Number 0-23081

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

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

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

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

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

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

Common Stock, par value $.001

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

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

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Form 10-K Reference
Portions of the FARO Technologies, Inc. 1997 Annual Report to Shareholders	Part I, Item 2 Part II, Items 5-7
Portions of the Proxy Statement, dated March 25, 1998	Part III, Items 10-13

PART I

CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION

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

ITEM 1. BUSINESS.

INDUSTRY BACKGROUND

The creation of physical products involves the processes of design, engineering, production and measurement and quality inspection. These basic processes have been profoundly affected by the computer hardware and software revolution that began in the 1980s. Computer-aided design ("CAD") software was developed to automate the design process, providing manufacturers with computerized 3-D design capability. Today, most manufacturers use some form of CAD software to create designs and engineering specifications for new products and to quantify and modify designs and specifications for existing products. The benefits of CAD are significant. The CAD process offers a three-dimensional, highly-efficient and inherently flexible alternative to traditional design methods. Many manufacturers have also recently adopted computer-aided manufacturing ("CAM") technology, in which CAD data directs machines in the manufacturing process. CAM has further improved the efficiency and quality of the production of manufactured goods.

A significant aspect of the manufacturing process which traditionally has not benefitted from computer-aided technology is measurement and quality inspection. Historically, manufacturers have measured and inspected products using hand-measurement tools such as scales, calipers, micrometers and plumb lines for simple measuring tasks, test fixtures for certain large manufactured products and traditional coordinate measurement machines ("CMMs") for objects that require higher precision measurement. However, the broader utility of each of these measurement methods is limited. Although hand-measurement tools are often appropriate for simple measurements, their use for complex measurements is time-consuming and limited in adaptability. Test fixtures (customized fixed tools used to make comparative measurements of production parts to "master parts") are relatively expensive and must be reworked or discarded each time a dimensional change is made in the part being measured. In addition, these manual measuring devices do not permit the manufacturer to compare the dimensions of an object with its CAD model.

Conventional CMMs are generally large, fixed-base machines that provide very high levels of precision but have only recently begun to provide a link to the CAD model of the object being measured. Fixed-base CMMs require that the object being measured be brought to the CMM and that the object fit within the CMM's measurement grid. In addition, conventional CMMs generally operate in metrology laboratories or environmentally-stable quality inspection departments of manufacturing facilities rather than on the factory floor.

Isolation from the factory floor and the relatively small measurement grids of CMMs limit their utility to small, readily portable workpieces that require high levels of measurement precision. As manufactured subassemblies increase in size and become integrated into even larger assemblies, they become less transportable, thus diminishing the utility of a conventional CMM. Consequently, manufacturers must continue to use hand-measuring tools or expensive customized test fixtures to measure large or unconventionally shaped objects.

An increasingly competitive global marketplace has created a demand for higher quality products with shorter life cycles. While manufacturers previously designed their products to be in production for longer periods of time, current manufacturing practices must accommodate more frequent product introductions and modifications, while satisfying more stringent quality and safety standards. In most cases, only a relatively small percentage of the components of a manufactured product requires highly precise measurements (less than one-thousandth of an inch). Conventional CMMs provide manufacturers with very precise measurement capabilities and cost up to $2 million per unit. However, they are not responsive to manufacturers' increasing need for cost-effective

intermediate precision measurement capabilities. The Company believes that a greater percentage of components requires intermediate precision measurements (between one- and twenty-thousandths of an inch). In the absence of intermediate precision measuring systems, manufacturers often are unable to make appropriate measurements or part-to-CAD comparisons during the manufacturing process, resulting in decreased productivity, poor product quality and unacceptable levels of product rework and scrap. Manufacturers increasingly require more rapid design, greater control of the manufacturing process, tools to compare components to their CAD specifications and the ability to measure precisely components that cannot be measured or inspected by conventional CMMs. Moreover, they increasingly require measurement capabilities to be integrated into the manufacturing process and to be available on the factory floor.

FARO'S BUSINESS

The Company designs, develops, markets and supports portable, software-driven, 3-D measurement systems that are used in a broad range of manufacturing and industrial applications. The Company's principal products are the FAROArm(R) articulated measuring device and its companion AnthroCam(R) software. Together, these products integrate the measurement and quality inspection function with CAD, CAM and computer-aided engineering ("CAE") technology to improve productivity, enhance product quality and decrease rework and scrap in the manufacturing process. The Company's products bring precision measurement, quality inspection and specification conformance capabilities, integrated with leading CAD software, to the factory floor. The Company is a pioneer in the development and marketing of 3-D measurement technology in manufacturing and industrial applications and currently holds or has pending 17 patents in the United States, 12 of which also are held or pending in other jurisdictions. The Company's products have been purchased by more than 600 customers worldwide, ranging from small machine shops to such large manufacturing and industrial companies as General Motors, Chrysler, Ford, Boeing, Lockheed Martin, General Electric, Westinghouse Electric, Caterpillar and Komatsu Dresser.

FARO PRODUCTS

THE FAROARM(R). The FAROArm(R) is a portable, six-axis, instrumented, articulated device that approximates the range of motion and dexterity of the human arm. Each articulated arm is comprised of three major joints, each of which may consist of one, two or three axes of motion. The FAROArm(R) is available in a variety of sizes, configurations and precision levels that are suitable for a broad range of applications. To take a measurement, the operator simply touches the object to be measured with a probe at the end of the arm and presses a button. Data can be captured as either individual points or a series of points. Digital rotational transducers located at each of the joints of the arm measure the angles at those joints. This rotational measurement data is transmitted to an on-board controller that converts the arm angles to precise locations in 3-D space using "xyz" position coordinates and "ijk" orientation coordinates.

The FAROArm(R) has been designed as an open architecture system. The communications parameters of the on-board processors have the ability to combine advanced sensing probes, integrate with conventional CMM software and communicate with different CAD software packages and a variety of computer operating systems. This open architecture is designed to provide for easy integration of the FAROArm(R) into the manufacturing environment. The customer's ability to use an installed base of computing hardware and software further reduces the cost of installation and training while initiating the transition to the Company's preferred group of CAD-based products. To encourage integration of the FAROArm(R) into the manufacturing environment, the Company provides a group of seamless interface drivers for leading CAD/CAM packages, including AutoCAD(R), CADKey(R) and SURFCAM(R). The Company also provides a full serial communication command protocol to the FAROArm(R) for customers who write their own interfaces.

The Company offers several models of the FAROArm(R) under two product lines: the Silver Series and the Bronze Series.

SILVER SERIES. The Silver Series models are the Company's higher precision (P.003 to P.007 inches) measuring devices and are available in six, eight and twelve foot measurement diameters. These models are most frequently used for factory floor inspection and fit-checking applications. Depending on the size, configuration and precision level, the Silver Series models are priced between $50,000 and $70,000 when sold as a turnkey system including hardware and AnthroCam(R) software and between $30,000 and $60,000 without AnthroCam(R) software.

BRONZE SERIES. The Bronze Series models are the Company's medium precision (P.012 to P.016 inches) measuring devices and are available in six, eight and ten foot measurement diameters. These models are most frequently used for applications that do not require high-level precision, such as 3-D modeling, mold production and reverse-engineering applications. Depending on the size, configuration and precision level, the Bronze Series models are priced between $30,000 and $50,000 when bundled with AnthroCam(R) software and between $14,000 and $23,000 without AnthroCam(R) software.

ANTHROCAM(R). AnthroCam(R) is the Company's proprietary measurement software. It is built on the AutoCAD/AutoSurf software development platform, which allows users to benefit from extensive hardware, software, interfacing and product support libraries and teaching products. AnthroCam(R) software is offered with the FAROArm(R) and is also offered as an unbundled product. When unbundled from the FAROArm(R), AnthroCam(R) sells for $15,000.

AnthroCam(R) is the Company's software-based bridge to CAD and CAM; it allows users to compare measurements of manufactured components with complex CAD data. In conventional design applications, curved or ergonomic shapes are typically modeled physically and then converted into data for manufacturing. AnthroCam(R) provides an alternative to the time and expense of this physical modeling process with a digital solution. For older parts without data files, AnthroCam(R) enables pre-existing parts to be measured in order to adapt them to current manufacturing technologies.

AnthroCam(R) has been designed as an open architecture system, allowing for efficient integration into the manufacturing environment. The Company provides a full serial communication command protocol to the AnthroCam(R) software for customers who write interfaces to their own software. The Company also provides comprehensive training and support for AnthroCam(R) and offers this product in a number of international versions.

AnthroCam(R) is a Windows-based, 32-bit application written for the most recent PC-based technology. AnthroCam(R) has been entirely designed and programmed by the Company utilizing field input and industry wide beta site installations. AnthroCam(R) is written as an AutoCAD runtime extension (ARX) that is the AutoCAD(R) Application Programming Interface (API). The software is written in the C++ development language using Microsoft Foundation Class (MFC) standards. The software fully implements UNICODE standards for worldwide translation allowing the Company to create foreign language versions to enter international markets more effectively.

SPECIALTY PRODUCTS. The Company licenses and supports certain specialty products based on its articulated arm technology that are used in medical and multimedia applications. License and support fees from these products do not represent a significant portion of the Company's revenues and the Company does not intend to actively market these products.

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

INTEGRATION WITH CAD TECHNOLOGY. The Company's products provide a bridge between the virtual 3-D world of the CAD process and the physical 3-D world of the factory floor. The interface to CAD allows manufacturers to integrate design, production and measurement and quality inspection processes on a common software platform. The Company believes that this integration creates significant savings by reducing the need for test fixtures and improves productivity by reducing production set-up times. Finally, the Company's integration with CAD technology significantly enhances product quality by maximizing the opportunities to make precise measurements based on engineering specifications within the manufacturing process.

SIX-AXIS ARTICULATING ARM. The FAROArm(R) incorporates a six-axis instrumented, articulating device that approximates the range of motion and dexterity of the human arm. The flexibility of the FAROArm(R) enables the user to measure complex shapes and ergonomic structures and to reach behind, underneath and into previously inaccessible spaces, such as interior surfaces of aircraft or automobiles. The flexibility of the FAROArm(R) allows customers to measure more accurately and efficiently than previously possible.

PORTABILITY AND ADAPTABILITY. The FAROArm(R) is lightweight, portable and designed for operation in the often harsh environments typical of manufacturing facilities. The FAROArm(R) can be moved to multiple locations on the factory floor to measure large parts and assemblies that cannot be easily moved to a conventional CMM. This portability extends 3-D measurement to previously inaccessible areas of the factory floor and eliminates the travel time to and from quality inspection departments.

LEVELS OF PRECISION RESPONSIVE TO INDUSTRY NEEDS. The Company's products respond to manufacturers' need for intermediate levels of measurement precision. Although high levels of precision (less than one-thousandth of an inch) are required for certain manufacturing applications, the FAROArm(R) satisfies the greater demand for measurements that require intermediate precision (one- to twenty-thousandths of an inch). The Company's products meet the precision measurement requirements of a substantial portion of products in the manufacturing process and address the underserved market for intermediate precision measurement systems.

BROAD AFFORDABILITY. The Company offers various models of the FAROArm(R) ranging in price from $14,000 to $70,000, while conventional CMMs range in price from $20,000 to $2 million. The relatively low cost of the Company's products compared to conventional CMMs has afforded manufacturers the opportunity to introduce cost-effective measurement and quality inspection functions throughout the manufacturing process. Manufacturers are able to purchase multiple units to be used at different locations within a single manufacturing facility and to introduce measurement and quality inspection at additional points in the manufacturing process.

EASE OF USE. The Company's software products have been specifically designed to be used by production line personnel with minimal prior computer or CAD experience. The bundled hardware and software system is designed to require minimal training for production line personnel to reach proficiency with the product. To take a measurement, the operator simply touches the object to be measured with a probe at the end of the arm and presses a button. The FAROArm(R) is also ergonomically designed to facilitate use in typical factory floor applications.

PAPERLESS DATA COLLECTION. The FAROArm(R) allows for paperless data collection by a connected computer hosting related CAD application software. This function responds to current trends toward automated statistical process controls for facilitating data analysis. Paperless data collection improves productivity and eliminates the risk of error in transcribing the collected information.

OPEN ARCHITECTURE. The FAROArm(R) and AnthroCam(R) have been designed as an open architecture system, allowing the user to unbundle the hardware and software to interface the FAROArm(R) with other CAD-based software packages and to interface AnthroCam(R) with other 3-D measurement devices. In addition, the Company's software and hardware are built in accordance with computer and communications industry standards so that these products may be integrated with a broad range of application software packages.

CUSTOMERS

The Company's products have been purchased by more than 600 customers ranging from small machine shops to large manufacturing and industrial companies. The Company's ten largest customers by revenue represented an aggregate of 15% of the Company's total revenues in 1997. No customer represented 10.0% or more of the Company's sales in 1997. The following table illustrates, by vertical market, the Company's diverse customer base:

AEROSPACE	APPAREL AND FOOTWEAR	AUTOMOTIVE
Boeing	Nike	AO Smith
GE Aircraft Engines	Reebok	Chrysler
Lockheed Martin		Ford
Nordam Repair Division		General Motors
Northrop Grumman		Honda
Orbital Sciences		Hyundai
Dee Howard		Johnson Controls
		Lear Corporation
		Mercedes Benz
		Porsche
		Samsung Motors
		Toyota
		Vehma International
BUSINESS AND CONSUMER MACHINES	ELECTRIC UTILITIES AND MANUFACTURERS	FARM/LAWN EQUIPMENT
Corning Asahi	General Electric	New Holland North America
Xerox	Southern California Edison	Toro
	Tennessee Valley Authority	
	Westinghouse Electric	
HEAVY EQUIPMENT MANUFACTURERS	PERSONAL ROAD/ WATER/SNOW CRAFT	PLASTICS
Caterpillar	Harley Davidson	Able Design Plastics
Komatsu Dresser	Polaris Industries	Paramount Plastics
Champion Road Machinery		Thermoform Plastics
Texas Steel		

SALES AND MARKETING

The Company directs its sales and marketing efforts from its headquarters in Lake Mary, Florida. At December 31, 1997, the Company employed 34 sales professionals who operate from the Company's headquarters, five domestic regional sales offices located in Chicago, Dallas, Detroit, Los Angeles and Seattle, and three international sales offices located in Coventry, United Kingdom, St. Jean de Braye, France, and Ulm, Germany. The Company also utilizes three domestic and 12 international distributors in territories where the Company does not have regional sales offices. See Footnote 10 to the Notes to Consolidated Financial Statements incorporated by reference from the Company's 1997 Annual Report to Stockholders for financial information about the Company's foreign and domestic operations and export sales required by this Item.

The Company uses a process of integrated lead qualification and sales demonstration. Once a customer opportunity is identified, the Company employs a team-based sales approach involving inside and outside sales personnel who are supported by application engineers.

The Company employs a variety of marketing techniques, including direct mail, trade shows, and advertising in trade journals, and proactively seeks publicity opportunities for customer testimonials. Management believes that word-of-mouth advertising from the Company's existing customers provides an important marketing advantage. The Company also has a computerized sales and marketing software system with telemarketing, lead tracking and analysis, as well as customer support capabilities. Each of the Company's sales offices is linked electronically to the Company's headquarters.

In June 1996, the Company entered into an OEM agreement with Mitutoyo Corporation ("Mitutoyo"), a Japanese company that is the world's largest manufacturer of metrology tools. Mitutoyo markets the FAROArm(R)

in Japan under the name SPINARM(R). The agreement, which grants Mitutoyo a non-exclusive right to sales in Japan, expires in June 1999 and is renewable for successive one year terms.

RESEARCH AND DEVELOPMENT

The Company believes that its future success depends on its ability to achieve technological leadership, which will require ongoing enhancements of its products and the development of new applications and products that provide 3-D measurement solutions. Accordingly, the Company intends to continue to make substantial investments in the development of new technologies, the commercialization of new products that build on the Company's existing technological base and the enhancement and development of additional applications for its products.

The Company's research and development efforts are directed primarily at enhancing the technology of its current products and developing new and innovative products that respond to specific requirements of the emerging market for 3-D measurement systems. The Company's research and development efforts have been devoted primarily to mechanical hardware, electronics and software. The Company's engineering development efforts will continue to focus on the FAROArm(R) and AnthroCam(R) products. Significant efforts are also being directed toward the development of new measurement technologies and additional features for existing products. See "Technology."

At December 31, 1997, the Company employed 14 scientists and technicians in its research and development efforts. Research and development expenses were $1,076,000 in 1997. Research and development activities, especially with respect to new products and technologies, are subject to significant risks, and there can be no assurance that any of the Company's research and development activities will be completed successfully or on schedule, or, if so completed, will be commercially accepted.

TECHNOLOGY

The primary measurement function of the FAROArm(R) is to provide orientation and position information with respect to the probe at the end of the FAROArm(R). This information is processed by software and can be compared to the desired dimensions of the CAD data of a production part or assembly to determine whether the measured data conforms to meet dimensional specifications.

To accomplish this measurement function, the FAROArm(R) is designed as an articulated arm with six or seven joints. The arm consists of aluminum links and rotating joints that are combined in different lengths and configurations, resulting in human arm-like characteristics. Each joint is instrumented with a rotational transducer, a device used to measure rotation, which is based on optical digital technology. The position and orientation of the probe in three dimensions is determined by applying trigonometric calculations at each joint. The position of the end of a link of the arm can be determined by using the angle measured and the known length of the link. Through a complex summation of these calculations at each joint, the position and orientation of the probe is determined.

The Company's products are the result of a successful integration of state-of-the-art developments in mechanical and electronic hardware and applications software. The unique nature of the Company's technical developments is evidenced by the Company's numerous U.S. and international patents. The Company maintains low cost product design processes by retaining development responsibilities for all electronics, hardware and software.

MECHANICAL HARDWARE. The FAROArm(R) is designed to function in diverse environments and under rigorous physical conditions. The arm monitors its temperature to adjust for environments ranging from -10 degrees to +50 degrees Celsius. The arm is constructed of pre-stressed precision bearings to resist shock loads. Low production costs are attained by the proprietary combination of reasonably priced electromechanical components accompanied by the optimization and on-board storage of calibration data. Many of the Company's innovations relate to the environmental adaptability of its products. Significant features include integrated counter-balancing, configuration convertibility and temperature compensation.

ELECTRONICS. The rotational information for each joint is processed by an on-board computer that is designed to handle complex analyses of joint data as well as communications with a variety of host computers. The Company's electronics are based on digital signal processing and surface mount technologies. The Company's products meet all mandatory electronic safety requirements. Advanced circuit board development, surface mount production and automated testing methods are used to ensure low cost and high reliability.

SOFTWARE. AnthroCam(R) is a Windows-based, 32-bit application written for the most recent PC-based technology. AnthroCam(R) has been entirely designed and programmed by the Company utilizing field input and industry wide beta site installations. AnthroCam(R) is written as an AutoCAD runtime extension (ARX) that is the AutoCAD(R) Application Programming Interface (API). The software is written in the C++ development language using Microsoft Foundation Class (MFC) standards. The software fully implements UNICODE standards for worldwide translation allowing the Company to create foreign language versions to enter international markets more effectively. The software is developed with the cooperation of diverse user beta sites and a well developed system for tracking and implementing market demands.

INTELLECTUAL PROPERTY

The Company holds or has pending 17 patents in the United States, 12 of which also are held or pending in other jurisdictions. The Company also has 16 registered trademarks in the United States and 12 trademark applications pending in the United States and the European Union.

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

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

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

MANUFACTURING AND ASSEMBLY

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

"Quality" has rapidly emerged as a new emphasis in commerce and industry, and is a significant factor in international trade. Various national and multinational standards have been developed in the quality systems arena for commercial and industrial use. The ISO 9000 series of quality assurance standards ("ISO 9000"), which is administered by the American National Standards Institute, was developed to bring together existing multinational standards and to provide consistence in quality and terminology. ISO 9000 Certification demonstrates that a company has implemented an adequate quality system for products and services it offers. By this, better internal commitment, as well as enhanced purchaser confidence, may be achieved. The Company's facilities and operations are in the process of completing requirements for ISO 9000 registration, and management anticipates that the Company's ISO 9000 certification will be completed in 1998.

COMPETITION

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

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

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

BACKLOG

At December 31, 1997, the Company had orders representing $1.7 million in sales. All outstanding orders at December 31, 1997, were shipped by February 28, 1998. The Company affords its customers the right to cancel any order at any time before the product is shipped. Historically, the number of canceled orders has been negligible. Nonetheless, there can be no assurance that all orders in backlog will be shipped, and backlog may not be indicative of future sales.

EMPLOYEES

At December 31, 1997, the Company had 111 full time employees, consisting of 34 sales/application engineering staff, 32 production staff, 14 research and development staff, 18 administrative staff, and 13 customer service specialists. None of the Company's employees is represented by a labor organization, and the Company is not a party to any collective bargaining agreements. The Company believes its employee relations are good. Management believes that its future growth and success will depend in part on its ability to retain and continue to attract highly skilled personnel. The Company anticipates that it will obtain the additional personnel required to satisfy the staffing requirements caused by its planned expansion over the next 18 months.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Principal Position
Executive Officers:		
Simon Raab.....	44	Chairman of the Board, Chief Executive Officer, and President
Gregory A. Fraser.....	42	Chief Financial Officer, Executive Vice President, Secretary, and Treasurer
Key Employees:		
Daniel T. Buckles.....	42	Vice President--Sales
Ali S. Sajedi.....	37	Chief Engineer

SIMON RAAB, PH.D., a co-founder of the Company, has served as the Chairman of the Board, Chief Executive Officer and a director of the Company since its inception in 1982 and as President since 1986. Mr. Raab holds a Ph.D. in Mechanical Engineering from McGill University, Montreal, Canada, a Masters of Engineering Physics from Cornell University and a Bachelor of Science in Physics with a minor in Biophysics from the University of Waterloo, Canada.

GREGORY A. FRASER, PH.D., a co-founder of the Company, has served as Chief Financial Officer and Executive Vice President since May 1997 and as Secretary, Treasurer and a director of the Company since its inception in 1982. Mr. Fraser holds a Ph.D. in Mechanical Engineering from McGill University, Montreal, Canada, a Masters of Theoretical and Applied Mechanics from Northwestern University and a Bachelor of Science and Bachelor of Mechanical Engineering from Northwestern University.

DANIEL T. BUCKLES has been Vice President--Sales for the Company since May 1997. From 1993 to May 1997, he served as the Director of Marketing for the Company's Industrial Products Group. From 1991 to 1993, Mr. Buckles was the Manager of Product Assurance Technical Operations for the Aerospace and Naval Division of Martin Marietta Corporation. From 1987 to 1991, Mr. Buckles held program management positions for a variety of advanced development and manufacturing programs at Martin Marietta Corporation. From 1976 to 1987, Mr. Buckles held various program management and manufacturing positions at the Submarine Signal Division of Raytheon Company. Mr. Buckles holds a Bachelor of Arts in Theoretical and Quantitative Economics and a Masters of Business Administration from the University of Massachusetts--Dartmouth.

ALI S. SAJEDI has been Chief Engineer for the Company since its inception in 1982. Mr. Sajedi has been responsible for implementation of research and development plans and for production oversight of the Company's self-managed production team. Mr. Sajedi holds a Bachelor of Mechanical Engineering from McGill University.

ITEM 2. PROPERTIES.

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

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

ITEM 3. LEGAL PROCEEDINGS.

From time to time the Company may be involved in litigation incidental to its business. Currently, the Company is not a party to any litigation, and is not aware of any pending or threatened litigation, that is expected to have a material adverse effect on the Company or its business.

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

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

PART II

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

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

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

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

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

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

ITEM 6. SELECTED FINANCIAL DATA.

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

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

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

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

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of FARO Technologies, Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of FARO Technologies, Inc. and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

Jacksonville, Florida
February 13, 1998

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31	
	1997	1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$28,815,069	$ 263,342
Accounts receivable - net of allowance	6,159,173	2,992,681
Inventories	4,275,376	3,298,744
Prepaid expenses	109,649	40,871
Deferred taxes	126,572	102,500
Total current assets	39,485,839	6,698,138
PROPERTY AND EQUIPMENT - At cost:		
Leasehold improvements		14,938
Machinery and equipment	1,014,309	700,799
Furniture and fixtures	605,913	453,892
Total	1,620,222	1,169,629
Less accumulated depreciation	792,442	568,279
Property and equipment - net	827,780	601,350
PATENTS AND LICENSES - net of accumulated amortization of $321,261 and $270,925, respectively	639,693	486,480
PRODUCT DESIGN COSTS	108,286	
DEFERRED TAXES	130,735	29,700
TOTAL ASSETS	$41,192,333	$7,815,668
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$	$ 611,111
Accounts payable and accrued liabilities	1,196,967	1,710,814
Income taxes payable	413,167	128,216
Current portion unearned service revenues	476,802	185,180
Customer deposits	121,358	230,393
Total current liabilities	2,208,294	2,865,714
UNEARNED SERVICE REVENUES - less current portion	44,628	286,099
LONG-TERM DEBT - less current portion		890,156
COMMITMENTS (Note 7)		
SHAREHOLDERS' EQUITY:		
Class A preferred stock - par value $.001, 10,000,000 shares authorized, no shares issued and outstanding		
Common stock - par value $.001, 20,000,000 shares authorized, 9,919,000 and 7,000,000 issued and outstanding, respectively	9,919	7,000
Additional paid-in capital	36,502,004	3,961,564
Retained earnings (accumulated deficit)	3,018,265	(188,365)
Unearned compensation	(464,480)	(6,500)
Cumulative translation adjustments	(126,297)	
Total shareholders' equity	38,939,411	3,773,699
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$41,192,333	$7,815,668

See notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

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

See notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (ACCUMULATED DEFICIT)	UNEARNED COMPENSATION	CUMULATIVE TRANSLATION ADJUSTMENT	TOTAL
	SHARE	AMOUNTS					
BALANCE, JANUARY 1, 1995	7,000,000	$ 7,000	$ 3,825,264	$ (3,194,684)			$ 637,580
Granting of employee and director stock options			146,500		$ (39,800)		106,700
Net income				1,599,657			1,599,657
BALANCE, DECEMBER 31, 1995	7,000,000	7,000	3,971,764	(1,595,027)	(39,800)		2,343,937
Employee stock options, forfeitures and amortization of unearned compensation			(10,200)		33,300		23,100
Net income				1,406,662			1,406,662
BALANCE, DECEMBER 31, 1996	7,000,000	7,000	3,961,564	(188,365)	6,500		3,773,699
Granting of employee and director stock options			866,793		(501,834)		364,959
Amortization of unearned compensation					43,854		43,854
Issuance of common stock	2,919,000	2,919	31,673,647				31,676,566
Currency translation adjustment						$ (126,297)	(126,297)
Net income				3,206,630			3,206,630
BALANCE, DECEMBER 31, 1997	9,919,000	$ 9,919	$36,502,004	$ 3,018,265	$ (464,480)	$ (126,297)	$38,939,411

See notes to consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS - FARO Technologies, Inc. (the "Company") develops, manufactures, markets and supports portable, software-driven, 3-D measurement systems that are used in a broad range of manufacturing and industrial applications. The Company has two wholly-owned subsidiaries, FARO Worldwide, Inc. and FARO FRANCE, s.a.s., which distribute the Company's 3-D measurement equipment throughout Europe through three primary offices located in France, Germany and the United Kingdom, Faro France, s.a.s. commenced operations in July 1996.

PRINCIPLES OF CONSOLIDATION - The Company has one foreign subsidiary located in France. The financial statements of this subsidiary are translated from French francs into US dollars using exchange rates in effect at period end for assets and liabilities and average exchange rates during each reporting period for results of operations. Adjustments resulting from translation of financial statements are reflected as a separate component of shareholders equity.

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

REVENUE RECOGNITION, PRODUCT WARRANTY AND EXTENDED MAINTENANCE CONTRACTS - Revenue related to the Company's 3-D measurement equipment is recognized upon shipments as the Company considers the earnings process substantially complete as of the shipping date. Revenue from sales of software only is not recognized unless remaining obligations under the sales agreement are insignificant. Revenues resulting from sales of comprehensive support, training and technology consulting services are recognized as such services are performed. Extended maintenance plan revenues are recognized proportionately as maintenance costs are projected to be incurred. Prior to November 1, 1997 such revenues were recognized ratable over the contract term. The change in estimate with respect to the recognition of such revenues more accurately matches revenues with costs incurred. The Company warrants its products against defects in design, materials and workmanship for one year. A provision for estimated future costs relating to warranty expenses is recorded when products are shipped. Costs relating to extended maintenance plans are recognized as incurred.

In June 1996, the Company entered into an OEM agreement with Mitutoyo Corporation, a Japanese company which manufactures and markets metrology tools. Under the agreement, Mitutoyo sells the Company's products under the name SPINARM. The agreement, which grants Mitutoyo a nonexclusive right to sales in Japan expires in June 1999, and is renewable for successive one year terms.

One customer accounted for approximately 10% for total sales for the year ended December 31, 1996.

CASH AND CASH EQUIVALENTS - The Company considers cash on hand and amount on deposit with financial institutions which have original maturities of three months or less to be cash.

INVENTORIES - Inventories are stated at the lower of average cost or market value. For 1996, inventories are stated at the lower of cost (determined on the first-in, first-out method) or market value. The change from the first-in, first-out method to the average cost method of inventory valuation did not have a material effect on the Company's consolidated financial statements Such change was made due to potentially significant price variances that result from factors such as rush orders and technological

improvements relating to components. Accordingly, the Company believes average cost more accurately reflect the value of its inventory. In order to achieve a better matching of production costs with the revenues generated in production, certain fixed overhead costs and certain general and administrative costs that are related to production are capitalized into inventory when they are incurred and are charged to cost of sales as product costs at the time of sale. Such amounts are not material to the consolidated financial statements.

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

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

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

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

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

PRODUCT DESIGN COSTS - Costs incurred in the development of products after technological feasibility is attained are capitalized and amortized using the straight-line method over the estimated economic lives of the related products, not to exceed three years. The Company considers technological feasibility to be established when the Company has completed all planning, designing, coding, and testing activities that are necessary to establish that a product's software and hardware components can be produced to meet design specifications including function, features, and technical performance requirements. Capitalization of Product Design Costs ceases and amortization of such costs begins when the product is available for general release to customers. During 1996 and 1995 the Company's products had an economic life of less than one year due to the rate of technological development. As a result, $531,186 of unamortized product design costs at January 1, 1995 were charged to cost of sales in 1995.

INCOME TAXES - The Company utilizes the asset and liability method to measure and record deferred income tax assets and liabilities. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

EARNINGS PER SHARE - During the year ended December 31, 1997, the Company adopted SFAS No. 128, "Earnings per Share" (SFAS 128). This Statement establishes standards for computing and presenting earnings per share ("EPS") and applies to all entities with publicity held common stock or potential common stock. This Statement replaces the presentation of primary EPS and fully diluted EPS with a presentation of basic EPS and diluted EPS, respectively. Basic EPS excludes dilution and is computed by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding for the period. Similar to fully diluted EPS, diluted EPS reflects the potential dilution of securities that could share in the earnings. All EPS data presented has been restated to conform with the requirements of SFAS 128. A reconciliation of the number of common shares used in calculation of basic and diluted EPS is presented below:

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

Earnings per share for the years ended December 31, 1995 and 1996 were computed as follows: (1) 7,000,000 common shares issued and outstanding each year, plus (ii) 149,690 common shares issuable under the 1997 stock option grants based on the treasury stock method assuming an initial public offering price of $11.00 per share, plus (iii) common shares issuable under the 1995 stock options granted under the 1993 stock option plan of 17,050 in 1995 and 199,352 in 1996, respectively, based on the treasury stock method assuming an initial public offering price of $11.00 per share.

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

CONCENTRATION OF CREDIT RICK - Financial instruments which potentially expose the Company to concentrations of credit risk consist principally of operating demand deposit accounts. The Company's policy is to place its operating demand deposit accounts with high credit quality financial institutions.

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

On June 30, 1997, the FASB issued SFAS No. 131, "Disclosure About Segments of Enterprise and Related Information." This statement establishes additional standards for segment reporting in the financial statements and is effective for fiscal years beginning after December 15, 1997. Management has not determined the effect of this statement on its financial statement disclosure.

On October 27, 1997 the American Institute of Certified Public Accountants issued Statement of Position 97-2, Software Revenue Recognition (SOP 97-2). SOP 97-2 provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions and is effective for transactions entered into in fiscal years beginning after December 15, 1997. Management does not believe the adoption of SOP 97-2 will have a material effect on the Company's consolidated financial statements.

2. ACCOUNTS AND NOTES RECEIVABLE

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

3. INVENTORIES

Inventories consist of the following:

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

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

4. LONG-TERM DEBT

The company has a loan agreement (the "Agreement") in the form of a term note and a line of credit. The Agreement combines the equivalent of three successive one-year term loans, each equal to that portion of the loan that will be fully amortized in the ensuing year with a line of credit equal to that portion of the loan that will not be amortized in the ensuing year. The Company has available borrowings under the Agreement totaling approximately $2 million as of December 31, 1997. Interest accrues at the 30-day commercial paper rate plus 2.7% and is payable monthly. Borrowings under the Agreement are collateralized by the Company's accounts and notes receivable, inventory, property and equipment, intangible assets, and deposits. The Agreement contains restrictive covenants, including the maintenance of certain amounts of working capital and tangible net worth and limits on loans to related parties, and prohibits the Company from declaring dividends. No borrowings were outstanding under this line of credit as of December 31, 1997.

In April 1997, the Company obtained a one-year unsecured $1.0 million line of credit which bears interest at the 30-day commercial paper rate plus 2.65% per annum. No borrowings were outstanding under this line of credit as of December 31, 1997.

5. RELATED PARTY TRANSACTIONS

LEASES - The Company leases its plant and office building from Xenon Research, Inc. ("Xenon"), a 27.9% shareholder. The lease expires on February 28, 2001, and the Company has two five-year renewal options. The base rent during renewal periods will reflect changes in the U.S. Bureau of Labor Statistics, Consumer Price Index for all Urban Consumers. Rent expense under this lease was approximately $150,000 for both 1997 and 1996, and $148,000 for 1995.

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

NOTES - Xenon Research, Inc. - Revolving line of credit, which was repaid and terminated in 1996. Interest was at prime plus 5% (13.5% at December 31, 1995) and amounted to $355,468 in 1995 and $185,585 in 1996.

6. INCOME TAXES

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

	1997	1996	1995
Current:			
Federal	$1,945,035	$ 721,700	$ 23,000
State	294,702	161,392	
	2,239,737	883,092	23,000
Deferred:			
Federal	(108,646)	221,100	(334,000)
State	(16,461)	11,700	(31,000)
	(125,107)	232,800	(365,000)
	$2,114,630	$1,115,892	$(342,000)

Income taxes for the years ended December 31, 1997 and 1996 differ from the amount computed by applying the federal statutory corporate rate to income before income taxes. The differences are reconciled as follows:

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

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

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

7. COMMITMENTS

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

YEAR ENDING DECEMBER 31,	AMOUNT
1998	$ 395,000
1999	342,500
2000	337,600
2001	55,300
Total future minimum lease payments	$1,130,400

8. STOCK OPTION PLANS

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

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

On May 1, 1997, as consideration for his serving on the Board of Directors, a director was granted options for 52,732 shares of common stock at $0.36 per share. Such options became exercisable upon completion of the Company's initial public offering, in September 1997; consequently, the associated compensation expense has been recorded during the year ended December 31, 1997.

In July 1997, the Company adopted the 1997 Employee Stock Option Plan (the "1997 Plan") that provides for the grant to key employees of the Company of incentive or nonqualified stock options. An aggregate of 750,000 shares of common stock are reserved for issuance pursuant to the 1997 Plan. The 1997 Plan is administered by the Compensation committee of the Board of Directors, which has broad discretion in the granting of awards. The exercise price of all options granted under the 1997 Plan must be at least equal to the fair market value of the common stock on the date of grant. During the year ended December 31, 1997, Simon Raab, President and Chief Executive Officer and Gregory A. Fraser, Chief Financial Officer were granted 80,000 and 60,000 options respectively under the 1997 Plan. Also, 74

other employees were granted options to purchase a total of 188,000 shares of common stock at the exercise price of $12.00 per share which represented the fair value of such shares (except for options granted at an exercise price of $13.20 per share to qualify for treatment as incentive stock options). All options issued under the 1997 Plan will become exercisable in one-third increments on each anniversary of the date of grant, commencing in 1998.

In July 1997, the Company adopted the 1997 Non-Employee Director Stock Option Plan (the "Non-employee Director Plan") which provides for the grant of nonqualified stock options to members of the Board of Directors who are not employees of the Company. Although adopted in July 1997, the Non-Employee Director Plan was not effective until September 18, 1997, upon completion of the Company's initial public offering. An aggregate of 250,000 shares of Common Stock of the Company have been reserved for issuance under the Non-Employee Director Plan. Under the Non-Employee Director Plan, each nonemployee director shall automatically be granted options to purchase 3,000 shares of the Company's common stock (i) on the effective date of the Non-Employee Director Plan if serving on the Board as of such date, or (ii) on the date on which he or she is first elected or appointed, if he or she is subsequently elected or appointed to the Board. Additionally, the Non-Employee Director Plan provides that each nonemployee director shall automatically be granted options to purchase 3,000 shares of common stock of the Company on the day following the annual meeting of shareholders at which he or she is reelected to the Board. Formula grants under the Non-Employee Director Plan become exercisable in one-third increments on the first, second and third anniversary of the date of grant. The exercise price of options granted under the Non-Employee Director Plan is equal to the fair market value of the Company's common stock as defined in the Plan. Options granted under the Non-Employee Director Plan, other than pursuant to the above formula, may only be granted upon specific approval of each grant by the Board, which has the discretion to establish a vesting schedule different than the established vesting schedule of formula options.

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

Compensation cost charged to operations associated with the Company's stock option plans was $408,000, $23,100 and $106,700 in 1997, 1996 and 1995, respectively. Compensation cost was based on the difference between the value of the stock and its exercise price, multiplied by the number of shares vested in each year.

SFAS NO. 123 REQUIRED DISCLOSURE

If compensation cost for stock options was determined based on the fair value at the grant dates for 1997, 1996, and 1995 consistent with the method prescribed by SFAS No. 123, the Company's net income and income per share would have been adjusted to the pro forma amounts indicated below:

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

Under SFAS No. 123, the fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for options granted in 1997 and 1995; dividend yield of 0 percent, expected volatility of 46.33% and 90% for 1997 and 1995 respectively, risk-free interest rate of 5.63%, and expected life ranging from 3 to 10 years. There were no stock options granted in 1996.

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

	1997		1996		1995	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	190,512	$0.36	210,902	$0.36		
Granted	797,001	9.90			210,902	$0.36
Forfeited	(31,790)	9.67	(20,390)	0.36		
Outstanding at end of year	955,723	8.00	190,512	0.36	210,902	0.36
Grants exercisable at year-end	498,680					
Weighted-average fair value of options granted during the year	$ 4.82					$1.00

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

EXERCISE PRICE	OPTIONS OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	OPTIONS EXERCISABLE
$ 0.36	243,244	4.75	238,680
3.57	131,479	6.75	
12.00	481,000	9.75	160,000
13.20	100,000	4.75	100,000
	955,723		498,680

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

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

9. BENEFIT PLAN

During 1996, the Company established a defined contribution retirement plan (401(k)) for its employees, which provides benefits for all employees meeting certain age and service requirements. The Company may make a discretionary contribution each Plan year as determined by its Board of Directors. Discretionary contributions or employer matches can be made to the participant's account but cannot exceed 4% of compensation. The Company made no contribution to the Plan in 1996 or 1997.

10. SEGMENT INFORMATION AND EXPORT SALES

Sales to unaffiliated customers, loss from operations and identifiable assets relating to the Company's French subsidiary totaled $3,267,690, $(275,864), and $2,992,832, respectively. Such amounts were not material for the years ended December 31, 1996 and 1995.

The following table includes export sales according to the country in which the customer is located.

	UNITED STATES	ASIA	EUROPE	CANADA	OTHER FOREIGN	TOTAL
Year ended December 31, 1997	$15,599,150	$2,201,848	$4,135,982	$560,872	$1,018,533	$23,516,385
Year ended December 31, 1996	10,829,543	1,606,916	1,292,592	715,728	211,558	14,656,337
Year ended December 31, 1995	7,727,400	385,361	625,730	850,271	273,480	9,862,242

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

11. QUARTERLY RESULTS OF OPERATION (UNAUDITED)

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

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

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

None.

PART III

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

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

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

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

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

ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

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

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

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

(1) FINANCIAL STATEMENTS. Included in Part II, Item 8 is an index to the Consolidated Financial Statements of FARO Technologies, Inc. and Report of Deloitte & Touche LLP, Independent Certified Public Accountants filed as part of this Form 10-K/A

(2) FINANCIAL STATEMENT SCHEDULES. Schedules not listed in the index to the Consolidated Financial Statements included in Part II, Item 8, have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

(3) EXHIBITS.

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

11.1	Statement re Computation of Per Share Earnings (Incorporated by reference from page 1 to the Registrant's 1997 Annual Report to Stockholders previously filed as Exhibit 13.1)
13.1	Annual Report to Stockholders for the year ended December 31, 1997 (To be deemed previously filed only to the extent required by the instructions to exhibits for reports on Form 10-K)
18.1	Letter re changes in accounting principales (Filed herewith)
21.1	List of Subsidiaries (Previously filed)
23.1	Consent of Deloitte & Touche LLP (Filed herewith)
24.1	Power of Attorney (Included on Page 14 of this Report)
27.1	Financial Data Schedule for the year ended December 31, 1997 (Previously filed for SEC filing purposes only)
27.2	Financial Data Schedule for the nine months ended September 30, 1996 (Previously filed for SEC filing purposes only)
27.3	Financial Data Schedule for the six months ended June 30, 1996 (Previously filed for SEC filing purposes only)
27.4	Financial Data Schedule for the year ended December 31, 1996 (Previously filed for SEC filing purposes only)

(B) REPORTS ON FORM 8-K

None.

SIGNATURES

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

FARO TECHNOLOGIES, INC.

Date: June 11, 1998

By: /s/ Gregory A. Fraser
GREGORY A. FRASER, Ph.D.
Executive Vice President, Secretary, Treasurer, and Chief Financial Officer

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

Signature	Title	Date
/s/ Simon Raab Simon Raab	Chairman of the Board, President, Chief Executive Officer (Principal Executive Officer), and Director	June 11, 1998
/s/ Gregory A. Fraser Gregory A. Fraser	Executive Vice President, Secretary, Treasurer, Chief Financial Officer (Principal Financial and Accounting Officer), and Director	June 11, 1998
/s/ Gregory A. Fraser, attorney-in-fact Hubert d'Amours	Director	June 11, 1998
/s/ *Gregory A. Fraser, attorney-in-fact Philip Colley	Director	June 11, 1998
/s/ *Gregory A. Fraser, attorney-in-fact Alexandre Raab	Director	June 11, 1998
/s/ *Gregory A. Fraser, attorney-in-fact Norman H. Schipper	Director	June 11, 1998
/s/ *Gregory A. Fraser, attorney-in-fact Andre Julien	Director	June 11, 1998

FARO Technologies, Inc.
125 Technology Park
Lake Mary, Florida 32746

Dear Sirs:

We have audited the consolidated financial statements of FARO Technologies, Inc. as of December 31, 1997 and 1996, and for each of the three years in the period ended December 31, 1997, included in your Annual Report on Form 10-K to the Securities and Exchange Commission and have issued our report thereon dated February 13, 1998. Note 1 to such financial statements contains a description of your adoption during the year ended December 31, 1997 of a change in the method of valuing inventories from the lower of cost (determined on the first-in, first-out method) or market value to the lower of average cost or market value. In our judgment, such change is to an alternative accounting principle that is preferable under the circumstances.

Yours truly,

DELOITTE & TOUCHE LLP

Jacksonville, Florida
May 15, 1998

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

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

Deloitte & Touche LLP

Jacksonville, Florida
June 11, 1998