

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, 2000

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

For the transition period from _____ to _____

Commission File Number: 0-23081

FARO TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

FLORIDA

59-3157093

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

125 TECHNOLOGY PARK DRIVE, LAKE MARY, FLORIDA

32746

(Address of Principal Executive Offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES 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 9, 2000: 11,020,682

FARO Technologies, Inc.
Index to Form 10-Q

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FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

| | JUNE 30, 2000 | DECEMBER 31, 1999 |
|--|----------------------|----------------------|
| | ----- (UNAUDITED) | ----- |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents (Note C) | \$ 3,997,183 | \$ 6,637,184 |
| Short term investments - at cost (Note C) | 7,194,113 | 6,494,262 |
| Accounts receivable - net of allowance | 11,924,768 | 9,812,838 |
| Income taxes refundable | 151,592 | 234,470 |
| Inventories (Note D) | 6,773,097 | 6,199,414 |
| Prepaid expenses and other assets | 491,967 | 447,894 |
| Deferred income taxes | 601,131 | 494,088 |
| | ----- | ----- |
| Total current assets | 31,133,851 | 30,320,150 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT - at cost: | | |
| Machinery and equipment | 2,727,749 | 2,895,706 |
| Furniture and fixtures | 1,218,623 | 1,094,927 |
| Leasehold improvements | 74,686 | 34,086 |
| | ----- | ----- |
| Total | 4,021,058 | 4,024,719 |
| Less accumulated depreciation | (2,288,799) | (2,356,572) |
| | ----- | ----- |
| Property and equipment, net | 1,732,259 | 1,668,147 |
| | ----- | ----- |
| INTANGIBLE ASSETS - net | 4,963,100 | 5,979,072 |
| INVESTMENTS - at cost (Note C) | 3,629,996 | 3,747,694 |
| NOTES RECEIVABLE (Note E) | 1,250,527 | 130,936 |
| DEFERRED INCOME TAXES | 258,977 | 257,913 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 42,968,710 | \$ 42,103,912 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 2,919,210 | \$ 2,200,408 |
| Accrued and other current liabilities | 3,224,770 | 2,847,076 |
| Current portion of unearned service revenues | 590,963 | 317,918 |
| Customer deposits | 76,567 | 84,904 |
| | ----- | ----- |
| Total current liabilities | 6,811,510 | 5,450,306 |
| OTHER LONG-TERM LIABILITIES | 61,968 | 54,260 |
| | ----- | ----- |
| TOTAL LIABILITIES | 6,873,478 | 5,504,566 |
| | ----- | ----- |
| 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, 11,394,014 and 11,392,842 issued; 11,020,682 and 11,019,510 outstanding, respectively | 11,061 | 11,060 |
| Additional paid-in-capital | 47,549,065 | 47,544,844 |
| Unearned compensation | (60,062) | (123,404) |
| Accumulated deficit | (9,133,823) | (9,307,651) |
| Accumulated other comprehensive income: | | |
| Cumulative translation adjustments, net of tax | (2,120,384) | (1,374,878) |
| Treasury stock | (150,625) | (150,625) |
| | ----- | ----- |
| Total shareholders' equity | 36,095,232 | 36,599,346 |
| | ----- | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 42,968,710 | \$ 42,103,912 |

=====

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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, | |
|---------------------------------------|--------------------------------|--------------|------------------------------|----------------|
| | 2000 | 1999 | 2000 | 1999 |
| Sales | \$ 10,923,279 | \$ 8,611,436 | \$ 20,773,046 | \$ 15,515,932 |
| Cost of sales | 3,996,544 | 3,447,453 | 7,936,904 | 6,186,182 |
| Gross profit | 6,926,735 | 5,163,983 | 12,836,142 | 9,329,750 |
| Operating expenses: | | | | |
| Selling | 3,401,020 | 2,750,972 | 7,031,161 | 5,295,086 |
| General and administrative | 1,348,761 | 1,199,013 | 2,643,895 | 2,506,347 |
| Depreciation and amortization | 803,316 | 863,627 | 1,441,415 | 1,728,096 |
| Research and development | 813,408 | 913,301 | 1,814,855 | 1,687,567 |
| Employee stock options | 31,671 | 42,228 | 63,342 | 84,474 |
| Total operating expenses | 6,398,176 | 5,769,141 | 12,994,668 | 11,301,570 |
| Income (loss) from operations | 528,559 | (605,158) | (158,526) | (1,971,820) |
| Interest income | 167,545 | 262,254 | 364,794 | 356,723 |
| Other income, net | 40,431 | 70,474 | 112,697 | 150,401 |
| Income (loss) before income taxes | 736,535 | (272,430) | 318,965 | (1,464,696) |
| Income tax (expense) benefit | (145,137) | 107,875 | (145,137) | 159,350 |
| Net income (loss) | \$ 591,398 | \$ (164,555) | \$ 173,828 | \$ (1,305,346) |
| NET INCOME (LOSS) PER SHARE - BASIC | \$ 0.05 | \$ (0.01) | \$ 0.02 | \$ (0.12) |
| NET INCOME (LOSS) PER SHARE - DILUTED | \$ 0.05 | \$ (0.01) | \$ 0.02 | \$ (0.12) |

See accompanying notes to condensed consolidated financial statements.

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

| | COMMON STOCK | | ADDITIONAL PAID-IN CAPITAL | UNEARNED COMPENSATION |
|---|------------------------|--|----------------------------------|--------------------------|
| | SHARES | AMOUNTS | | |
| BALANCE, DECEMBER 31, 1998 | 11,048,137 | \$ 11,048 | \$47,520,732 | \$ (292,316) |
| Net loss | | | | |
| Currency translation adjustment, net of tax | | | | |
| Comprehensive loss | | | | |
| Issuance of common stock | 11,373 | 12 | 24,112 | |
| Amortization of unearned compensation | | | | 168,912 |
| BALANCE, DECEMBER 31, 1999 | 11,059,510 | 11,060 | 47,544,844 | (123,404) |
| Net Income | | | | |
| Currency translation adjustment, net of tax | | | | |
| Comprehensive loss | | | | |
| Issuance of common stock | 1,172 | 1 | 4,221 | |
| Amortization of unearned compensation | | | | 63,342 |
| BALANCE, JUNE 30, 2000 (Unaudited) | 11,060,682 ===== | \$ 11,061 ===== | \$47,549,065 ===== | \$ (60,062) ===== |
| | ACCUMULATED DEFICIT | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | TREASURY STOCK | TOTAL |
| BALANCE, DECEMBER 31, 1998 | \$(1,912,829) | \$ 199,381 | \$ (150,625) | \$45,375,391 |
| Net loss | (7,394,822) | | | (7,394,822) |
| Currency translation adjustment, net of tax | | (1,574,259) | | (1,574,259) |
| Comprehensive loss | | | | (8,969,081) |
| Issuance of common stock | | | | 24,124 |
| Amortization of unearned compensation | | | | 168,912 |
| BALANCE, DECEMBER 31, 1999 | (9,307,651) | (1,374,878) | (150,625) | 36,599,346 |
| Net Income | 173,828 | | | 173,828 |
| Currency translation adjustment, net of tax | | (745,506) | | (745,506) |
| Comprehensive loss | | | | (571,678) |
| Issuance of common stock | | | | 4,222 |
| Amortization of unearned compensation | | | | 63,342 |
| BALANCE, JUNE 30, 2000 (Unaudited) | \$(9,133,823) ===== | \$(2,120,384) ===== | \$ (150,625) ===== | \$36,095,232 ===== |

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, | |
|--|------------------------------|---------------|
| | 2000 | 1999 |
| OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 173,828 | \$(1,305,346) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,441,415 | 1,728,096 |
| Bad debt expense, net of charge offs | 30,000 | |
| Inventory reserve | 175,000 | |
| Deferred income taxes | (108,107) | (37,439) |
| Employee stock options | 63,342 | |
| Change in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Accounts receivable | (2,369,413) | (96,070) |
| Income taxes refundable | 82,878 | (184,363) |
| Inventories | (769,634) | (1,538,123) |
| Prepaid expenses and other assets | (50,042) | (306,594) |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | 1,218,962 | 1,147,443 |
| Unearned service revenues | 288,103 | 149,168 |
| Customer deposits | (5,111) | 1,800 |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | 171,221 | (441,428) |
| | ----- | ----- |
| INVESTING ACTIVITIES: | | |
| (Payments for) proceeds from investments, net | (582,153) | 628,487 |
| Notes receivable | (1,080,487) | (743) |
| Purchases of property and equipment | (583,346) | (444,463) |
| Payments of patent costs | -- | (87,211) |
| Payments of product design costs | -- | (252,527) |
| Payments for other intangibles | (166,393) | (35,685) |
| | ----- | ----- |
| Net cash used in investing activities | (2,412,379) | (192,142) |
| | ----- | ----- |
| FINANCING ACTIVITIES: | | |
| Payments on debt | (6,846) | (330,841) |
| Proceeds from issuance of common stock, net | 4,219 | 117,332 |
| | ----- | ----- |
| Net cash used in financing activities | (2,627) | (213,509) |
| | ----- | ----- |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | (396,216) | (309,039) |
| | ----- | ----- |
| DECREASE IN CASH AND CASH EQUIVALENTS | (2,640,001) | (1,156,118) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 6,637,184 | 1,183,656 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 3,997,183 | \$ 27,538 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2000 AND 1999

(UNAUDITED)

NOTE A - DESCRIPTION OF ORGANIZATION AND BUSINESS

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

On May 15, 1998, the Company acquired CATS Computer Aided Technologies, GmbH ("CATS"), a company based in Germany that develops, markets, and supports 3-D measurement retrofit and statistical process control software. The total consideration was \$16,069,000 consisting of \$5 million in cash, 916,668 shares of common stock and the assumption of certain outstanding liabilities of CATS. The purchase price includes direct costs of the acquisition in the amount of \$674,000. In addition, 333,332 shares of common stock were placed in escrow to be issued provided CATS met certain sales performance goals within an eighteen-month period following the acquisition. These sales goals were not met by November 15, 1999. The 90-day period for registering disputes expired on February 13, 2000 with no claims. The 333,332 shares held by the escrow agent will be returned to the Company once the required documentation requirements have been met. The acquisition was treated as a purchase for accounting purposes and, accordingly, the operating results of CATS have been included in the Company's consolidated financial statements since May 15, 1998 (see Note E).

The Company has three wholly-owned subsidiaries, FARO Worldwide, Inc., Faro Europe GmbH and Co. KG, a German company, and Antares LDA, a Portuguese company. In connection with a restructuring of legal entities in Europe, effective January 1, 1999, CATS was consolidated under the name of Faro Europe GmbH and Co. KG.

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 generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated financial position and operating results for the interim periods have been included. The consolidated results of operations for the six months ended June 30, 2000 are not necessarily indicative of results that may be expected for the year ending December 31, 2000. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company as of December 31, 1999 and 1998, and for each of the three years in the period ended December 31, 1999 included in the Company's Annual Report to Stockholders included by reference within the Company's Annual Report on Form 10-K.

NOTE C - CASH 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 included in cash and cash equivalents and classified as trading securities, which are carried at their fair value based upon the quoted market prices of those investments.

INVESTMENTS - Short-term investments and Investments ordinarily consist of debt securities acquired with cash not immediately needed in operations. Short-term investments have maturities of less than one year. Investments have maturities of at least one year (none have maturities exceeding two years).

At June 30, 2000 and December 31, 1999, cash and investments consisted of the following:

| | JUNE 30, 2000 | DECEMBER 31, 1999 |
|----------------------------|------------------|----------------------|
| | ----- | ----- |
| Cash and cash equivalents | \$ 3,997,183 | \$ 6,637,184 |
| Short-term investments | 7,194,113 | 6,494,262 |
| Investments | 3,629,996 | 3,747,694 |
| | ----- | ----- |
| Total cash and investments | \$14,821,292 | \$16,879,140 |
| | ===== | ===== |

NOTE D - INVENTORIES

At June 30, 2000 and December 31, 1999, inventories consist of the following:

| | JUNE 30, 2000 | DECEMBER 31, 1999 |
|---------------------|------------------|----------------------|
| | ----- | ----- |
| Raw materials | \$ 2,328,847 | \$ 1,914,543 |
| Finished goods | 1,692,530 | 1,191,977 |
| Sales demonstration | 2,751,720 | 3,092,894 |
| | ----- | ----- |
| Total inventories | \$ 6,773,097 | \$ 6,199,414 |
| | ===== | ===== |

NOTE E - NOTES RECEIVABLE

The CATS acquisition agreement provided that the Company would provide a loan to the two former shareholders of CATS to fund their tax liability in connection with the shares of FARO common stock that they received in the acquisition. The 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 has agreed to loan to the former CATS shareholders an amount equal to their tax obligation to the German tax authorities in connection with the acquisition of CATS. The maximum aggregate amount of the loans is estimated to be approximately \$2 million. The Company was not obligated to provide the loans until the German tax authorities issue an assessment of the tax to the former CATS shareholders and the ultimate amount of the loans depends on the issuance by such authorities of a final tax assessment. Moreover, the loan commitment would cease if the Company's share price rises to \$11.34 per share (the price establishing the tax liability) for five or more consecutive days.

In June 2000, the German tax authorities issued a preliminary tax assessment to 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 initial loans to the former CATS shareholders in the aggregate amount of \$1.1 million ("the Initial Loans"). The Initial Loans, recorded net of an unamortized discount of \$68,000, 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, each of the former CATS shareholders has pledged to the Company the number of shares of Company common stock equal to the amount of the Initial Loan divided by \$6.375. If the maximum amount of the loans is granted pursuant to the loan agreements, as amended and restated, the loans will be secured by 313,725 shares. All loans granted will be 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, | | | |
|-------------------------------|-----------------------------|------------------|------------|------------------|
| | 2000 | | 1999 | |
| | SHARES | PER-SHARE AMOUNT | SHARES | PER-SHARE AMOUNT |
| Basic EPS | 11,020,682 | \$.05 | 11,012,619 | \$ (.01) |
| Effect of dilutive securities | 58,716 | | -- | |
| Diluted EPS | 11,079,398 | \$.05 | 11,012,619 | \$ (.01) |

| | SIX MONTHS ENDED JUNE 30, | | | |
|-------------------------------|---------------------------|------------------|------------|------------------|
| | 2000 | | 1999 | |
| | SHARES | PER-SHARE AMOUNT | SHARES | PER-SHARE AMOUNT |
| Basic EPS | 11,020,252 | \$.02 | 11,011,943 | \$ (.12) |
| Effect of dilutive securities | 52,511 | | -- | |
| Diluted EPS | 11,072,763 | \$.02 | 11,011,943 | \$ (.12) |

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, | |
|---------------------------------|--------------------------------|---------------------|------------------------------|----------------------|
| | 2000 | 1999 | 2000 | 1999 |
| SALES: | | | | |
| United States | \$ 5,595,201 | \$ 4,532,282 | \$10,252,584 | \$ 8,151,822 |
| Germany | 2,723,563 | 1,927,535 | 4,789,515 | 3,250,581 |
| United Kingdom | 629,596 | 760,721 | 1,581,438 | 1,341,374 |
| France | 668,732 | 333,925 | 1,416,928 | 475,691 |
| Other foreign | 1,306,187 | 1,056,973 | 2,732,581 | 2,296,464 |
| Total | \$10,923,279 | \$ 8,611,436 | \$20,773,046 | \$15,515,932 |
| | ===== | ===== | ===== | ===== |
| | | | JUNE 30, 2000 | DECEMBER 31, 1999 |
| | | | ----- | ----- |
| LONG-LIVED ASSETS (NET): | | | | |
| United States | | | \$ 2,592,459 | \$ 2,522,654 |
| Germany | | | 4,064,653 | 5,083,420 |
| Other foreign | | | 38,247 | 41,145 |
| Total | | | \$ 6,695,359 | \$ 7,647,219 |
| | | | ===== | ===== |

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, 1999.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2000 COMPARED TO THREE MONTHS ENDED JUNE 30, 1999

SALES. Sales increased \$2.3 million, or 26.8%, from \$8.6 million for the three months ended June 30, 1999 to \$10.9 million for three months ended June 30, 2000. The increase primarily resulted from increases in product unit sales in all geographic regions, partially offset by the effect of the stronger U.S. dollar in the second quarter of 2000 (\$340,000).

GROSS PROFIT. Gross profit increased \$1.8 million, or 34.1%, from \$5.2 million for the three months ended June 30, 1999 to \$6.9 million for the three months ended June 30, 2000. Gross margin increased, to 63.4% for the three months ended June 30, 2000 from 60.0% for the three months ended June 30, 1999. The increase in gross margin was primarily a result of cost reductions for computer hardware and software products in the three months ended June 30, 2000, partially offset by the effect of the stronger U.S. dollar.

SELLING EXPENSES. Selling expenses increased \$650,000, or 23.6%, from \$2.8 million for the three months ended June 30, 1999 to \$3.4 million for the three months ended June 30, 2000. This increase was primarily a result of higher selling expenses in Europe (\$400,000), principally composed of higher compensation and marketing expenses, and in the United States (\$325,000), offset in part by the effect of the stronger U.S. dollar in 2000 (approximately \$75,000).

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased \$150,000, or 12.5%, from \$1.2 million for the three months ended June 30, 1999 to \$1.3 million for the three months ended June 30, 2000. The increase was due to increases across many categories related to the Company's expansion in the United States and Europe. The Company's European operations accounted for \$68,000 of the increase, offset in part by the effect of the stronger U.S. dollar in 2000 (\$15,000).

DEPRECIATION AND AMORTIZATION EXPENSES. Depreciation and amortization expenses decreased \$60,000, or 7.0%, from \$864,000 for the three months ended June 30, 1999 to \$803,000 for the three months ended June 30, 2000. This decrease was primarily due to the \$3,073,000 impairment loss on acquired intangibles at the end of 1999, which reduced the amount of remaining acquired intangibles to be amortized, offset in part by depreciation on assets added in the second half of 1999.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses decreased \$100,000, or 10.9%, from \$913,000 for the three months ended June 30, 1999 to \$813,000 million for the three months ended June 30, 2000. The decrease was due to decreases across many categories in Europe (\$62,000), and in the United States (\$38,000).

INTEREST INCOME. Interest income decreased \$95,000, or 36.1%, from \$262,000 for the three months ended June 30, 1999, to \$168,000 for the three months ended June 30, 2000. The decrease was primarily attributable to a decrease in the average amount of interest-earning cash, cash equivalents, and investments held through the second quarter of 2000 (see Liquidity and Capital Resources below).

INCOME TAX EXPENSE. Income tax expense increased \$253,000 from a benefit of \$108,000 for the three months ended June 30, 1999, to expense of \$145,000 for the three months ended June 30, 2000. The

income tax provision for the three months ended June 30, 2000 resulted from the generation of earnings before income taxes during the second quarter of 2000.

NET INCOME. Net income increased \$756,000 from a net loss of \$165,000 for the three months ended June 30, 1999 to net income of \$591,000 for the three months ended June 30, 2000 due to the factors stated above.

SIX MONTHS ENDED JUNE 30, 2000 COMPARED TO SIX MONTHS ENDED JUNE 30, 1999

SALES. Sales increased \$5.3 million, or 33.9%, from \$15.5 million for the six months ended June 30, 1999 to \$20.8 million for six months ended June 30, 2000. The increase primarily resulted from increases in product unit sales in all geographic regions, partially offset by the effect of the stronger U.S. dollar in the first half of 2000 (approximately \$600,000).

GROSS PROFIT. Gross profit increased \$3.5 million, or 37.6%, from \$9.3 million for the six months ended June 30, 1999 to \$12.8 million for the six months ended June 30, 2000. Gross margin increased to 61.8% for the six months ended June 30, 2000 from 60.1% for the six months ended June 30, 1999. The increase in gross margin was primarily a result of cost reductions for computer hardware and software products in the six months ended June 30, 2000, partially offset by the effect of the stronger U.S. dollar.

SELLING EXPENSES. Selling expenses increased \$1.7 million, or 32.8%, from \$5.3 million for the six months ended June 30, 1999 to \$7.0 million for the six months ended June 30, 2000. This increase was primarily a result of higher selling expenses in the United States (\$1.0 million), principally composed of higher compensation and marketing, and in Europe (\$861,000), offset in part by the effect of the stronger U.S. dollar in 2000 (approximately \$145,000).

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased \$137,000, or 5.5%, from \$2.5 million for the six months ended June 30, 1999 to \$2.6 million for the six months ended June 30, 2000. The increase was due to increases across many categories related to the company's expansion in the United States (\$158,000), offset in part by the effect of the stronger U.S. dollar in 2000 (approximately \$45,000).

DEPRECIATION AND AMORTIZATION EXPENSES. Depreciation and amortization expenses decreased \$287,000, or 16.6%, from \$1.7 million for the six months ended June 30, 1999 to \$1.4 million for the six months ended June 30, 2000. This decrease was almost entirely due to the \$3,073,000 impairment loss on acquired intangibles at the end of 1999, which reduced the amount of remaining acquired intangibles to be amortized.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased \$127,000, or 7.5%, from \$1.7 million for the six months ended June 30, 1999 to \$1.8 million for the six months ended June 30, 2000. The change was due to increase in expenses in the United States (\$131,000), primarily compensation, and expenses in Europe (\$40,000), offset in part by the effect of the stronger U.S. dollar in 2000 (\$44,000).

INTEREST INCOME. Interest income increased \$8,000, or 2.2%, from \$357,000 for the six months ended June 30, 1999, to \$365,000 for the six months ended June 30, 2000. The increase was primarily attributable to higher average yields of interest-earning cash, cash equivalents, and investments held through the first half of 2000, offset in part by a decrease in the average amount of interest-earning cash, cash equivalents, and investments held through the second quarter of 2000 (see Liquidity and Capital Resources below).

INCOME TAX EXPENSE. Income tax expense increased \$304,000 from a benefit of \$159,000 for the six months ended June 30, 1999, to expense of \$145,000 for the six months ended June 30, 2000. The income tax provision for the six months ended June 30, 2000 resulted from the generation of earnings before income taxes during the second quarter of 2000.

NET INCOME. Net income increased \$1.5 million from a loss of \$1.3 million for the six months ended June 30, 1999 to net income of \$174,000 for the six months ended June 30, 2000 due to the factors stated above.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended June 30, 2000, net cash provided by operating activities was \$171,000 compared to cash used in operating activities of \$441,000 for the six months ended June 30, 1999. The increase was principally due to improved earnings, offset in part by a net increase in operating assets, in 2000. Net cash used in investing activities was \$2.4 million for the six months ended June 30, 2000, compared to net cash used of \$192,000 for the six months ended June 30, 1999. The increase in net cash used in investing activities is primarily attributable a loan granted to each of two former shareholders of CATS pursuant to the CATS acquisition agreement (\$1.1 million), purchases of property and equipment (\$583,000) and a net increase in investments (\$582,000). Net cash used in financing activities for the six months ended June 30, 2000 decreased to \$3,000, compared to net cash used of \$214,000 for the six months ended June 30, 1999.

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. There were no outstanding borrowings under this loan agreement, which has been renewed annually, at June 30, 2000.

The Company's principal commitments at June 30, 2000 were leases on its headquarters and regional offices and a loan commitment, to the two former shareholders of CATS, in the maximum amount of \$2.0 million (of which \$1.1 million has been loaned at June 30, 2000). There were no material commitments for capital expenditures at that date. The Company believes that its cash, investments, cash flows from operations and funds available from its credit facilities will be sufficient to satisfy its working capital, loan commitment and capital expenditure needs at least through 2000.

FOREIGN EXCHANGE EXPOSURE

Sales outside the United States represent 51% of the Company's total revenues. Fluctuations in exchange rates between the U.S. dollar and the currencies where the Company conducts such business may have a material adverse effect on the Company's business, results of operation and financial condition, particularly its operating margins, and could also result in exchange losses. The impact of future exchange rate fluctuations on the results of the Company's operations cannot be accurately predicted. To the extent that the percentage of the Company's non-U.S. dollar revenues derived from international sales increases in the future, the risks associated with fluctuations in foreign exchange rates will increase. Historically, the Company has not managed the risks associated with fluctuations in exchange rates but may undertake transactions to manage such risks in the future using forward foreign exchange contracts, foreign currency options or other instruments to hedge these risks.

YEAR 2000

During fiscal 1999, the Company completed a company-wide program to prepare the Company's computer systems for year 2000 compliance. The year 2000 issue relates to computer systems that use the last two digits rather than all four to define a year and whether such systems would properly and accurately process information when the year changed to 2000. No significant information system projects were deferred to accommodate the year 2000 issues.

At the date of this report, the Company had not experienced any material problems related to the year 2000 nor has it become aware of any significant year 2000 issues affecting the Company's major customers or suppliers. The Company also has not received any material complaints regarding any year 2000 issues related to its products.

Year 2000 related costs through June 30, 2000 were limited to employees' time and were expensed as incurred. The remaining estimated cost to address any additional year 2000 problems is deemed immaterial.

EFFECTS OF INFLATION

Inflation generally affects the Company by increasing the cost of labor, equipment and raw materials. The Company does not believe that inflation has had any material effect on the Company's business over the last six years.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is incorporated by reference herein from the section of this report in Part I, Item 2, under the caption "Foreign Exchange Exposure."

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On June 5, 2000 the Company accepted the resignation of Stuart W. Jones as Chief Financial Officer. Mr. Jones was initially hired by the Company in August 1999.

On June 9, 2000 the Company accepted the resignation of Phillip R. Colley, 61, as Director. Mr. Colley had been on the Company's Board of Directors since 1984. Pursuant to the Company's By-laws, on June 21, 2000 the Company appointed Stephen R. Cole to replace Mr. Colley on the Board of Directors. Mr. Cole, 48, is a Fellow of the Institute of Chartered Accountants of Ontario, Canada, and since 1975 the president of Cole & Partners, a Toronto, Canada based mergers and acquisition and corporate finance advisory service company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a.) Exhibits

| EXHIBIT NO. | DESCRIPTION |
|-------------|--|
| ----- | ----- |
| 27.1 | Financial Data Schedule (FOR SEC USE ONLY) |
| 99.1 | Amended and Restated Loan Agreement dated June 20, 2000 between FARO Technologies, Inc. and Wendelin Karl Johannes Scharbach |
| 99.2 | Amended and Restated Loan Agreement dated June 20, 2000 between FARO Technologies, Inc. and Siegfried Kurt Buss |

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 14, 2000

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)

EXHIBIT INDEX

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6-MOS

DEC-31-2000

JAN-01-2000

JUN-30-2000

3,997,183

7,194,113

12,279,871

(355,103)

6,773,097

31,133,851

4,021,058

(2,288,799)

42,968,710

6,811,510

0

0

0

11,061

36,084,171

42,968,710

20,773,046

20,773,046

7,936,904

12,994,668

0

0

0

318,965

(145,137)

173,828

0

0

0

173,828

0.02

0.02

AMENDED AND RESTATED LOAN AGREEMENT

THIS AMENDED AND RESTATED LOAN AGREEMENT (the "Agreement") is dated and entered into as of June 20, 2000, by and between FARO TECHNOLOGIES, INC., a Florida corporation ("Lender"), whose current mailing address is 125 Technology Park, Lake Mary, Florida 32746, and WENDELIN KARL JOHANNES SCHARBACH, an individual resident of the Federal Republic of Germany ("Borrower"), whose current mailing address is Schwarzwaldstrasse 94, 68163 Mannheim, Germany.

WHEREAS, on May 15, 1998, Lender acquired CATS computer aided technologies, Computeranwendungen in der Fertigungssteuerung GmbH, a limited liability company under the laws of the Federal Republic of Germany ("CATS"). Borrower was a holder of Quotas in CATS.

WHEREAS, pursuant to a Loan Agreement dated August 2, 1999 between Lender and Borrower (the "Original Loan Agreement"), Lender has agreed to loan to Borrower an amount equal to his tax obligation to the German tax authority in connection with the acquisition of CATS. The maximum amount of the loans is estimated to be approximately \$2 million.

WHEREAS, the German tax authority have indicated to Borrower that they would be willing to issue a preliminary tax assessment for fiscal year 1998 based on a value of U.S. \$4.875 per share of Common Stock of Lender (using an exchange rate of U.S. Dollars to Deutsche Marks ("DM") of 1:1.8403 for May 1999).

WHEREAS, Borrower received 458,334 shares of Lender common stock as part of the purchase price for the acquisition of CATS. Using a price of \$4.875 per share of Lender common stock, the value of the shares of Lender common stock received by Borrower would equal DM 4,111,926. The tax payable with respect to such shares based on such value would equal DM 1,154,400.14.

WHEREAS, based on a stock price per share of Lender common stock on May 15, 1998 of U.S. \$11.125, the value of the shares of Lender common stock received by Borrower would equal DM 9,048,634 (using an exchange rate of U.S. Dollars to DM of 1:1.7746 for May 1998). The tax payable with respect to such shares based on such value would equal DM 2,540,854.82.

WHEREAS, because the tax assessment received by Borrower is only preliminary, the German tax authority could at any time revise the tax assessment based on the price per share of Lender common stock on May 15, 1998.

WHEREAS, the parties wish to amend the Original Loan Agreement to provide that Lender will loan to Borrower an initial amount of DM 1,154,400.14 resulting from the preliminary tax assessment as provided for in the Original Loan Agreement, and that Lender will pay an additional amount of DM 1,386,454.68 (DM 2,540,854.82 less DM 1,154,400.14) into an escrow account to cover possible additional taxes payable because of a higher value of the 458,334 shares of Lender common stock issued to Borrower in connection with the

acquisition of CATS. The amount paid into escrow would increase the amount of the Loan under this Agreement if distributed to pay additional taxes.

WHEREAS, once the German tax authority have issued a final tax assessment, the amount in the escrow account will be used to pay such amount of additional tax or, to the extent the amount in the escrow account is not needed to pay additional taxes, will be repaid to Lender. To the extent the amount in the escrow account is used to pay additional taxes, such amount would be evidenced by a new promissory note issued by Borrower to Lender and such note would be secured by shares of common stock of Lender.

WHEREAS, this Agreement amends and restates the Original Loan Agreement.

In consideration of the loan described below and the mutual covenants and agreements contained herein, Borrower and Lender agree as follows:

1. LOANS.

A. INITIAL LOAN.

i. Lender hereby agrees to make a loan to Borrower in the principal amount of DM 1,154,400.14 (the "Initial Loan").

ii. The amount of the Initial Loan is equal to the tax payable by Borrower (based on the preliminary tax assessment issued to Borrower by the German tax authority for fiscal year 1998, which used a value of U.S. \$4.875 per share of Lender common stock, and based on an exchange rate of U.S. Dollars to DM of 1:1.8403 for May 1999) with respect to Borrower's receipt of 458,334 shares of Lender common stock in connection with Lender's acquisition of CATS.

iii. To evidence his obligation to repay the Initial Loan, and to otherwise induce Lender to make the Initial Loan, Borrower shall execute and deliver to Lender a Promissory Note, Stock Pledge Agreement, Affidavit and Indemnity Agreement, Stock Power and UCC-1 Financing Statement in the forms attached hereto as EXHIBITS A, B, C, D and E, respectively (together, the "Loan Documents") with respect to the Initial Loan at such time that the Initial Loan is made.

iv. Lender will be obligated to make the Initial Loan to Borrower within three (3) business days after Borrower presents written evidence to Lender that the German tax authority has requested payment of the tax obligations described in Section 4 of this Agreement.

B. ADDITIONAL LOAN.

i. Lender hereby agrees to make an additional loan to Borrower in the principal amount of up to DM 1,386,454.68 (the "Additional Loan"), as is

necessary to enable Borrower to satisfy his tax obligations to the German tax authority as a result of Borrower's receipt of 458,334 shares of Lender common stock of the Lender that Borrower received in connection with Lender's acquisition of CATS. Lender will be obligated to make the Additional Loan only if the German tax authority issues a final tax assessment that assesses a greater tax obligation on Borrower than the preliminary tax assessment issued to Borrower by the German tax authority for fiscal year 1998 with respect to Borrower's receipt of 458,334 shares of Lender common stock in connection with Lender's acquisition of CATS.

ii. The maximum amount of the Additional Loan is equal to (i) DM 2,540,854.82, which is the tax payable by Borrower (based on a stock price per share of Lender common stock on May 15, 1998 of U.S. \$11.125 and using an exchange rate of U.S. Dollars to DM of 1:1.7746 for May 1998) with respect to Borrower's receipt of 458,334 shares of Lender common stock in connection with Lender's acquisition of CATS, LESS (ii) the amount of the Initial Loan.

iii. To evidence his obligation to repay the Additional Loan, and to otherwise induce Lender to make the Additional Loan, Borrower shall execute and deliver to Lender the Loan Documents with respect to the Additional Loan at such time as the Additional Loan is made.

iv. To secure Lender's obligation pursuant to this Agreement to make the Additional Loan to Borrower, Lender shall deposit U.S. \$676,319.36 (DM 1,386,454.68 divided by 2.05, the exchange rate of U.S. Dollars to DM on June 9, 2000) in an escrow account (the "Escrow Account") with Firststar Bank Milwaukee, N.A. (the "Escrow Agent") pursuant to an Escrow Agreement dated on or about the date of this Agreement among Lender, Borrower, and the Escrow Agent, a copy of which is attached as EXHIBIT F to this Agreement. Any interest on the funds in the Escrow Account shall be paid to the Lender.

v. All funds shall remain in the Escrow Account until the earlier of (i) July 1, 2004 or (ii) the date that Borrower presents written evidence to Lender and the Escrow Agent that the German tax authority has requested payment of the final tax assessment with respect to the tax obligations for the 458,334 shares of Lender common stock that Borrower received in connection with Lender's acquisition of CATS. Lender will be obligated to make the Additional Loan, and funds from the Escrow Account shall be paid to Borrower to fund the Additional Loan, within three (3) business days after Borrower presents written evidence to Lender that the German tax authority has requested payment of the tax obligations described in Section 4 of this Agreement.

vi. The Escrow Agent is obligated to pay to the Borrower funds from the Escrow Account (without permission of the Lender) as are necessary to enable Borrower to satisfy his tax obligations to the German tax authority as described

in Section 4 of this Agreement upon presentation by Borrower to the Escrow Agent of (i) copies of the Loan Documents for the Additional Loan executed by Borrower and delivered to Lender, and (ii) written evidence to Lender that the German tax authority has requested payment of the tax obligations described in Section 4 of this Agreement.

vii. Any funds remaining in the Escrow Account after July 1, 2004 or any funds not needed to pay the final tax assessment with respect to the tax obligations for the 458,334 shares of Lender common stock that Borrower received in connection with Lender's acquisition of CATS shall be returned immediately to Lender.

C. DEFINITION OF THE LOANS. The Initial Loan and the Additional Loan are each referred to as a "Loan" and collectively are referred to as the "Loans."

2. LENDER'S COMMITMENT. Lender's obligation to extend the Loans to Borrower is a valid, legal, irrevocable and binding corporate obligation which shall not be rescinded or withdrawn in the event of a change of Lender's present management or ownership.

3. TERMS AND CONDITIONS OF LOAN. The Loans shall be governed by the following terms and conditions in addition to all terms and conditions set forth in the Loan Documents.

A. PAYMENT.

i. Notwithstanding any contrary provision set forth herein or in any document related hereto, Borrower shall be obligated to pay all outstanding principal, together with all then accrued and unpaid interest under each Loan, on or before the earlier of (a) the end of the three year period that commences on the date the Borrower executes and delivers the Loan Documents to Lender with respect to each Loan, or (b) that date when the preceding five (5) trading days of the Lender's common stock yields an average closing price of \$11.34 per share (each such date hereinafter referred to as the "Maturity Date"). On such Maturity Date as defined in Section 3A(i)(b), it shall be within Borrower's discretion to repay the Loans either in cash, or, in lieu thereof, with shares of the common stock of Lender at an agreed upon price of \$11.34 per share. For the purpose of repaying the Loans with shares of the Lender's common stock as provided for in this Section 3A(i), Borrower shall be required to utilize that portion of the Collateral (as defined in Section 3E below) which is equal in value to the amount of Loans being repaid.

ii. Notwithstanding the foregoing, in the event a Loan is still outstanding at end of the three year period that commences on the date Borrower executes and delivers the Loan Documents to the Lender with respect to such Loan, Borrower shall have the option of either: (a) requiring Lender to renew or

extend the Loan for an additional term of three (3) years or (b) canceling the Loan, effective as of the three year anniversary date, by providing Lender with written notice in accordance with the provisions of Section 10 below, and in exchange for such cancellation Borrower shall irrevocably authorize Lender to dispose of the Collateral in accordance with the terms and conditions of Section 9 below. The parties hereby agree that the three year anniversary date shall be the date which coincides with the end of the three year period that commences on the date Borrower executes and delivers the Loan Documents to the Lender with respect to a Loan, and if Borrower elects to cancel such Loan effective as of such date, the date shall hereinafter be referred to as the "Anniversary Cancellation Date." If on the Anniversary Cancellation Date, the value of the Collateral is less than the sum of: (i) the outstanding principal balance of the Loan; (ii) any accrued but unpaid interest on the Loan; (iii) any fees authorized and due and owing to Lender pursuant to the Promissory Note with respect to the Loan; and (iv) any costs and expenses authorized and due and owing to Lender pursuant to the Promissory Note with respect to the Loan, Borrower shall not be required to pay to Lender the amount by which the sum of items (i) through (iv) exceeds the value of the Collateral. On the other hand, if on the Anniversary Cancellation Date, the value of the Collateral exceeds the sum of items (i) through (iv), Lender shall be required to release and return to Borrower, free and clear of all liens and encumbrances, the portion of the Collateral which exceeds the sum of items (i) through (iv). For purposes of determining the value of the Collateral on the Anniversary Cancellation Date, the parties shall utilize the closing price of the shares of Lender's common stock (as traded on the NASDAQ National Market) on that particular date, or, if that date is not a trading day on the NASDAQ National Market, the immediately preceding trading day.

iii. All Shares used by Borrower to repay the Loan pursuant to the provisions of Section 3A(i) above, as well as all Shares comprising the Collateral used by Borrower to compensate Lender for the cancellation of the Loan pursuant to the provisions of Section 3A(ii) above, shall be subject to sale by Lender on Borrower's behalf in accordance with the terms and conditions of Section 9 below, and Borrower shall cooperate with Lender in effecting any such sale.

B. INTEREST.

i. Except as otherwise provided in Section 5 of the Promissory Note, interest shall accrue on the outstanding principal balance of each Loan at a rate that is equal to the sum of (a) the EURIBOR rate that was in effect at 10:00 A.M. on August 2, 1999 (and which is applicable to loans with a maturity date of one year); and (b) 1.57%. Interest on the outstanding principal balance of the Loans shall be paid annually, on the last business day in December of each year, until the entire principal is paid.

ii. Interest shall be calculated on the basis of a 360 day year based upon the actual number of days elapsed. No interest shall accrue on a Loan until the Loan is made to Borrower, and no interest shall accrue after the Maturity Date (as defined in Section 3A(i) above), the Anniversary Cancellation Date (as defined in Section 3A(ii) above), or the Cancellation Date (as defined in Section 8 below).

iii. The total liability of Borrower under the Loans for payment of interest shall not exceed any limitations imposed on the payment of interest by applicable usury laws. If any interest is received or charged in excess of that amount, Borrower shall be entitled to a refund of the excess.

iv. Upon the occurrence of an Event of Default under a Promissory Note, interest shall accrue at the Default Rate thereunder set forth notwithstanding the provisions of this section.

C. PREPAYMENT. The Borrower shall be entitled to prepay the Loans in whole or in part at any time without penalty.

D. APPLICATION OF PAYMENTS. All payments under the Promissory Note shall be applied first to the Lender's costs and expenses, then to fees authorized thereunder, then to interest and then to principal.

E. GRANT OF SECURITY INTEREST. To secure the due and punctual payment of the Loans and all of his other liabilities to Lender arising in connection with the Loans, and all reasonable costs and expenses incurred by Lender in connection with enforcement or collection of the Loans or any liability of Borrower in connection therewith (including reasonable legal fees and expenses incurred in trial, appellate, bankruptcy, and judgment-execution proceedings) and all reasonable costs and expenses incurred in connection with realizing on the value of the Collateral (including appraisal fees, broker-dealer fees, and legal fees incurred in trial, appellate, bankruptcy, and judgment-execution proceedings), Borrower shall pledge, hypothecate, assign, convey and grant to Lender a first lien and security interest (collectively, the "Security Interest") in the following:

i. Such number of shares of Lender common stock (the "Shares") which is arrived at as a result of dividing (i) the original principal sum of the Note (stated in U.S. dollars) by (ii) US \$6.375; the denominator of US \$6.375 being the closing price of each share of Lender's common stock (as traded on the NASDAQ National Market) on March 31, 1999.

ii. All dividends, additional shares or other property or securities that are receivable or otherwise distributable at any time and from time to time in respect of, or in exchange or substitution for, the Shares and all profits therefrom; and

iii. All proceeds of the foregoing.

As used herein, the term "Collateral" refers to all the property described in this Section 3E, as well as any portion or any interest in it.

4. PURPOSE OF LOAN. The purpose of the Loan will be to enable Borrower to timely satisfy his obligation to pay certain taxes in the Federal Republic of Germany in connection with Borrower's sale on May 15, 1998 of his Quotas in CATS. As part of the consideration (the "Consideration") paid to Borrower in connection with his sale on May 15, 1998 of his Quotas in CATS, Borrower received 458,334 shares of Lender common stock. The purpose of the Loans is to pay the amount of taxes that Borrower is required to pay to the German tax authority in connection with and as a result of the 458,334 shares of Lender common stock received by Borrower on May 15, 1998 in connection with the acquisition of CATS.

5. REPRESENTATIONS AND WARRANTIES. Borrower hereby represents and warrants to lender as follows:

A. AUTHORITY AND COMPLIANCE. Borrower has full power and authority to execute and deliver this Agreement and the Loan Documents and to incur and perform the obligations provided for therein. No consent or approval of any public authority or other third party is required as a condition to the validity of this Agreement or any of the Loan Documents, and Borrower is in compliance with all laws and regulatory requirements to which they are subject.

B. BINDING AGREEMENT. This Agreement and the Loan Documents executed by Borrower constitute valid and legally binding obligations of Borrower, enforceable in accordance with their terms.

C. LITIGATION. There is no proceeding involving Borrower pending or, to the knowledge of Borrower, threatened before any court or governmental authority, agency or arbitration authority, except as disclosed to Lender in writing and acknowledged by Lender prior to the date of this Agreement.

D. NO CONFLICTING AGREEMENTS. There is no charter, bylaw, stock provision, partnership agreement or other document pertaining to the power or authority of Borrower and no provision of any existing agreement, mortgage, indenture or contract binding on Borrower or affecting his property, which would conflict with or in any way prevent the execution, delivery or carrying out of the terms of this Agreement and the Loan Documents.

E. OWNERSHIP OF COLLATERAL. Borrower has good title to the collateral that will secure the Loans, and the collateral is, and will be kept, free and clear of liens, except those to be granted to Lender pursuant to the Stock Pledge Agreement attached hereto in the form of EXHIBIT B. ----- -

6. DEFAULT. Borrower shall be in default under this Agreement and under each of the Loan Documents if he shall default in the payment of any amounts due and owing to Lender pursuant to the Loan Documents or should he fail to timely and properly observe, keep

or perform any term, covenant, agreement or condition in any Loan Document or in any other loan agreement, promissory note, security agreement, deed of trust, deed to secure debt, mortgage, assignment or other contract securing or evidencing payment of any indebtedness of Borrower to Lender or any affiliate or subsidiary of Lender.

7. REMEDIES UPON DEFAULT. If an event of default shall occur, Lender shall have all rights, powers and remedies available under each of the Loan Documents as well as all rights and remedies available at law or in equity.

8. BORROWER'S OPTION TO CANCEL LOAN. Notwithstanding anything to the contrary in any document or agreement between Borrower and Lender, Borrower shall have the option, in his sole discretion, at anytime, to cancel the Loans, and in exchange for such cancellation Borrower shall irrevocably authorize Lender to dispose of the Collateral in accordance with the terms and conditions of Section 9 below. For purposes of this Section 8, the "Date of Cancellation" shall be the date on which Lender receives a written notice from Borrower to cancel a Loan. The written notice shall be furnished in accordance with the notice provisions of Section 10 below. PROVIDED, HOWEVER, that if on the Date of Cancellation, the value of the Collateral is less than the sum of (i) the outstanding principal balance of such Loan; (ii) any accrued but unpaid interest on such Loan; (iii) any fees authorized and due and owing to Lender pursuant to the Promissory Note; and (iv) any costs and expenses authorized and due and owing to Lender pursuant to the Promissory Note, Borrower shall be required to pay to Lender the amount by which the sum of items (i) through (iv) listed in this Section 8 exceeds the value of the Collateral. Borrower shall have the option of making the payment herein provided for to Lender in either additional cash or additional shares of Lender's issued and outstanding common stock. If on the Date of Cancellation, the value of the Collateral exceeds the sum of items (i) through (iv) listed in this Section 8, Lender shall be required to release and return to Borrower, free and clear of all liens and encumbrances, the portion of the Collateral which exceeds the sum of items (i) through (iv) of this Section 8. For purposes of determining the value of the Collateral and additional shares on the Date of Cancellation, the parties shall utilize the closing price of the shares of Lender's common stock (as traded on the NASDAQ National Market) on the Date of Cancellation. Any Shares used by Borrower to compensate Lender in consideration for the cancellation of the Loan pursuant to the provisions of this Section 8 shall be subject to sale by Lender on Borrower's behalf pursuant to the terms and conditions of Section 9 below, and Borrower shall cooperate with Lender in effecting any such sale.

9. MECHANISM FOR SALE OF SHARES. The Shares to be pledged by Borrower to Lender pursuant to the Stock Pledge Agreement will, in part, consist of a portion of the 343,750 shares of Lender common stock registered with the United States Securities and Exchange Commission (the "SEC") pursuant to that certain S-1 Registration Statement dated and filed with the SEC on June 22, 1998 (the "Registered Shares"). The balance of the Shares to be pledged to Lender by Borrower pursuant to the Stock Pledge Agreement shall consist of shares of Lender's common stock that have not been registered with the SEC (the "Non-registered Shares"). It is also contemplated that if Borrower is required to utilize additional shares to compensate Lender pursuant to the provisions of Section 8 above or under any of the

Loan Documents, Borrower will utilize Registered Shares and/or Non-registered Shares. If, in order to satisfy any of Borrower's obligations or commitments pursuant to any Loan Document, a sale must be made of any or all of the Registered Shares or Non-registered Shares pledged or otherwise delivered by Borrower to Lender, Borrower shall authorize Lender to make such sale as an agent of Borrower and on Borrower's behalf. Any sale of Registered Shares as provided for in this Section 9 shall be made pursuant to the S-1 Registration Statement, and shall be deemed to be a sale by Borrower through his duly appointed and authorized agent. Any sale of Non-Registered Shares as provided for in this Section 9 shall be made pursuant to and in satisfaction of the requirements of Rule 144 promulgated by the SEC under the Securities Act of 1933, as amended, and shall be deemed to be a sale by Borrower through his duly appointed and authorized agent. Lender shall have the right to keep and maintain custody of any and all proceeds of any sale of Registered Shares or Non-registered Shares in satisfaction of any sum due and owing to Lender pursuant to the Loan transaction. Borrower's appointment of Lender as his agent for purposes of this Section 9, and the authorization to be granted to Lender to sell Registered Shares and/or Non-registered Shares on behalf of Borrower, shall be set forth in the Promissory Note, Stock Pledge Agreement and Stock Power delivered to Lender along with the pledged Shares (and in the Stock Power alone, in the case of any additional shares delivered to Borrower). Further, Borrower shall covenant and agree to make all such reasonable arrangements, do and perform all such reasonable acts and things, execute and deliver all such certificates, documents and other instruments, and to take such further reasonable actions as Lender may deem necessary or advisable to effect the sale of Registered Shares pursuant to the S-1 Registration Statement, or Non-registered Shares in compliance with the requirements of Rule 144, as the case may be, as Borrower's agent and on Borrower's behalf.

10. NOTICES. All notices, requests or demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing, and may be by means of facsimile transmission, delivered to the other party at the following address:

If to Lender:

FARO Technologies, Inc.
125 Technology Park
Lake Mary, Florida 32746
Telecopy: (407) 333-4181

Attention: Gregory A. Fraser

With a copy to:

Foley & Lardner
100 North Tampa St., Suite 2700
Tampa, Florida 33602
Telecopy: (813) 221-4210

Attention: Martin A. Traber

If to Borrower:

Wendelin Karl Johannes Scharbach
Schwarzwaldstrasse 94
68163 Mannheim
Germany

Telecopy: 001-49-711-2222-444

With a copy to:

Hasche Eschenlohr Peltzer Riesenkampff Fischotter
Neidenau 68
60325 Frankfurt/Main
Germany
Telecopy: 011-49-69-71-701-230

Attention: Thomas Link

or to such other address as any party may designate by written notice to the other party. Each such notice, request and demand shall be deemed given or made as follows: (i) if sent by mail, upon the earlier of the date of receipt or five (5) days after deposit in the U.S. Mail, first class postage prepaid; (ii) if electronically transmitted, the next business day after transmission (and the sender shall bear the burden of proof of delivery), or (iii) if sent by any other means, upon delivery.

11. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Lender immediately upon demand the full amount of all costs and expenses, including reasonable attorneys' fees (to include outside counsel fees) incurred by Lender in connection with Lender's enforcement of its rights hereunder or under the Loan Documents.

12. MISCELLANEOUS. Borrower and Lender further covenant and agree as follows, without limiting any requirement of any of the Loan Documents:

A. CUMULATIVE RIGHTS AND NO WAIVER. Each and every right granted to Lender under any Loan Document, or allowed it by law or equity shall be cumulative of each other and may be exercised in addition to any and all other rights of Lender, and no delay in

exercising any right shall operate as a waiver thereof, nor shall any single or partial exercise by Lender of any right preclude any other or future exercise thereof or the exercise of any other right. Borrower expressly waives any presentment, demand, protest or other notice of any kind, including but not limited to notice of intent to accelerate and notice of acceleration. No notice to or demand on Borrower in any case shall, of itself, entitle Borrower to any other or future notice or demand in similar or other circumstances.

B. LEGAL MATTERS. The validity, construction, enforcement, and interpretation of this Agreement shall be governed by the laws of the State of Florida and the United States of America, without regard to principles of conflict of laws. Each party to this Agreement (a) consents to the personal jurisdiction of the state and federal courts having jurisdiction in Seminole County, Florida, (b) stipulates that the proper, exclusive, and convenient venue for any legal proceeding arising out of this Agreement is Seminole County, Florida, for state court proceedings, and the Middle District of Florida, Orlando Division, for federal district court proceedings, and (c) waives any defense, whether asserted by a motion or pleading, that Seminole County, Florida, or the Middle District of Florida, Orlando Division, is an improper or inconvenient venue. In any mediation, arbitration, or legal proceeding arising out of this Agreement, the losing party shall reimburse the prevailing party, on demand, for all costs incurred by the prevailing party in enforcing, defending, or prosecuting any claim arising out of this Agreement, including all fees, costs, and expenses of experts, attorneys, witnesses, collection agents, and supersedeas bonds, whether incurred before or after demand or commencement of legal proceedings, and whether incurred pursuant to trial, appellate, mediation, arbitration, bankruptcy, administrative, or judgment-execution proceedings.

C. LOAN TO BE DEEMED REPAYED. A Loan shall be deemed to have been repaid effective as of the earliest of: (i) the date on which Borrower prepays such Loan (as allowed under Section 3C above); (ii) the Maturity Date (as defined in Section 3A(i) above); (iii) the Anniversary Cancellation Date (as defined in Section 3A(ii) above); or (iv) the Cancellation Date (as defined in Section 8 above), so long as by the particular date Lender has received from Borrower any combination of cash and/or shares of Lender's stock sufficient to cover the then outstanding Loan obligations in accordance with the provisions of this Agreement. From and after the repayment date, Borrower shall have no obligations to Lender with respect to a Loan pursuant to or under this Agreement or the Loan Documents, except for Borrower's obligation to cooperate with lender in disposing of the Collateral Shares (and any additional shares delivered to Lender) pursuant to the provisions of Section 9 above.

D. AMENDMENT. No modification, consent, amendment or waiver of any provision of this Agreement, nor consent to any departure by Borrower therefrom, shall be effective unless the same shall be in writing and signed by an officer of Lender, and then shall be effective only in the specified instance and for the purpose for which given. This Agreement is binding upon Borrower, his heirs, successors and assigns, and inures to the benefit of Lender, its successors and assigns; however, no assignment or other transfer of Borrower's rights or obligations hereunder shall be made or be effective without Lender's

prior written consent, nor shall it relieve Borrower of any obligations hereunder. There is no third party beneficiary of this Agreement.

E. PARTIAL INVALIDITY. The unenforceability or invalidity of any provision of this Agreement shall not affect the enforceability or validity of any other provision herein and the invalidity or unenforceability of any provision of any Loan Document to any person or circumstance shall not affect the enforceability or validity of such provision as it may apply to other persons or circumstances.

F. This Agreement amends and restates the Original Loan Agreement in its entirety, and the Original Loan Agreement is no longer in effect.

13. NO ORAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

To the extent permitted by law, the Borrower agrees to and does hereby waive trial by jury in any action, proceeding, or counterclaim brought by either the Borrower or the Lender on any matters whatsoever arising out of or in any way connected with this Agreement or any claim of damage resulting from any act or omission of the Borrower or Lender or either of them in any way connected with this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed under seal by their duly authorized representatives as of the date first above written.

LENDER

FARO Technologies, Inc.

By: _____

Name: _____

Title: _____

BORROWER

Wendelin Karl Johannes Scharbach

AMENDED AND RESTATED LOAN AGREEMENT

THIS AMENDED AND RESTATED LOAN AGREEMENT (the "Agreement") is dated and entered into as of June 20, 2000, by and between FARO TECHNOLOGIES, INC., a Florida corporation ("Lender"), whose current mailing address is 125 Technology Park, Lake Mary, Florida 32746, and SIEGFRIED KURT BUSS, an individual resident of the Federal Republic of Germany ("Borrower"), whose current mailing address is Erich Kaestner Strasse 73, Ditzingen, Hirschlanden 71254.

WHEREAS, on May 15, 1998, Lender acquired CATS computer aided technologies, Computeranwendungen in der Fertigungssteuerung GmbH, a limited liability company under the laws of the Federal Republic of Germany ("CATS"). Borrower was a holder of Quotas in CATS.

WHEREAS, pursuant to a Loan Agreement dated August 2, 1999 between Lender and Borrower (the "Original Loan Agreement"), Lender has agreed to loan to Borrower an amount equal to his tax obligation to the German tax authority in connection with the acquisition of CATS. The maximum amount of the loans is estimated to be approximately \$2 million.

WHEREAS, the German tax authority have indicated to Borrower that they would be willing to issue a preliminary tax assessment for fiscal year 1998 based on a value of U.S. \$4.875 per share of Common Stock of Lender (using an exchange rate of U.S. Dollars to Deutsche Marks ("DM") of 1:1.8403 for May 1999).

WHEREAS, Borrower received 458,334 shares of Lender common stock as part of the purchase price for the acquisition of CATS. Using a price of \$4.875 per share of Lender common stock, the value of the shares of Lender common stock received by Borrower would equal DM 4,111,926. The tax payable with respect to such shares based on such value would equal DM 1,159,733.36.

WHEREAS, based on a stock price per share of Lender common stock on May 15, 1998 of U.S. \$11.125, the value of the shares of Lender common stock received by Borrower would equal DM 9,048,634 (using an exchange rate of U.S. Dollars to DM of 1:1.7746 for May 1998). The tax payable with respect to such shares based on such value would equal DM 2,552,683.73.

WHEREAS, because the tax assessment received by Borrower is only preliminary, the German tax authority could at any time revise the tax assessment based on the price per share of Lender common stock on May 15, 1998.

WHEREAS, the parties wish to amend the Original Loan Agreement to provide that Lender will loan to Borrower an initial amount of DM 1,159,733.36 resulting from the preliminary tax assessment as provided for in the Original Loan Agreement, and that Lender will pay an additional amount of DM 1,392,950.37 (DM 2,552,683.73 less DM 1,159,733.36) into an escrow account to cover possible additional taxes payable because of a higher value of the 458,334 shares of Lender common stock issued to Borrower in connection with the

acquisition of CATS. The amount paid into escrow would increase the amount of the Loan under this Agreement if distributed to pay additional taxes.

WHEREAS, once the German tax authority have issued a final tax assessment, the amount in the escrow account will be used to pay such amount of additional tax or, to the extent the amount in the escrow account is not needed to pay additional taxes, will be repaid to Lender. To the extent the amount in the escrow account is used to pay additional taxes, such amount would be evidenced by a new promissory note issued by Borrower to Lender and such note would be secured by shares of common stock of Lender.

WHEREAS, this Agreement amends and restates the Original Loan Agreement.

In consideration of the loan described below and the mutual covenants and agreements contained herein, Borrower and Lender agree as follows:

1. LOANS.

A. INITIAL LOAN.

i. Lender hereby agrees to make a loan to Borrower in the principal amount of DM 1,159,733.36 (the "Initial Loan").

ii. The amount of the Initial Loan is equal to the tax payable by Borrower (based on the preliminary tax assessment issued to Borrower by the German tax authority for fiscal year 1998, which used a value of U.S. \$4.875 per share of Lender common stock, and based on an exchange rate of U.S. Dollars to DM of 1:1.8403 for May 1999) with respect to Borrower's receipt of 458,334 shares of Lender common stock in connection with Lender's acquisition of CATS.

iii. To evidence his obligation to repay the Initial Loan, and to otherwise induce Lender to make the Initial Loan, Borrower shall execute and deliver to Lender a Promissory Note, Stock Pledge Agreement, Affidavit and Indemnity Agreement, Stock Power and UCC-1 Financing Statement in the forms attached hereto as EXHIBITS A, B, C, D and E, respectively (together, the "Loan Documents") with respect to the Initial Loan at such time that the Initial Loan is made.

iv. Lender will be obligated to make the Initial Loan to Borrower within three (3) business days after Borrower presents written evidence to Lender that the German tax authority has requested payment of the tax obligations described in Section 4 of this Agreement.

B. ADDITIONAL LOAN.

i. Lender hereby agrees to make an additional loan to Borrower in the principal amount of up to DM 1,392,950.37 (the "Additional Loan"), as is

necessary to enable Borrower to satisfy his tax obligations to the German tax authority as a result of Borrower's receipt of 458,334 shares of Lender common stock of the Lender that Borrower received in connection with Lender's acquisition of CATS. Lender will be obligated to make the Additional Loan only if the German tax authority issues a final tax assessment that assesses a greater tax obligation on Borrower than the preliminary tax assessment issued to Borrower by the German tax authority for fiscal year 1998 with respect to Borrower's receipt of 458,334 shares of Lender common stock in connection with Lender's acquisition of CATS.

ii. The maximum amount of the Additional Loan is equal to (i) DM 2,552,683.73, which is the tax payable by Borrower (based on a stock price per share of Lender common stock on May 15, 1998 of U.S. \$11.125 and using an exchange rate of U.S. Dollars to DM of 1:1.7746 for May 1998) with respect to Borrower's receipt of 458,334 shares of Lender common stock in connection with Lender's acquisition of CATS, LESS (ii) the amount of the Initial Loan.

iii. To evidence his obligation to repay the Additional Loan, and to otherwise induce Lender to make the Additional Loan, Borrower shall execute and deliver to Lender the Loan Documents with respect to the Additional Loan at such time as the Additional Loan is made.

iv. To secure Lender's obligation pursuant to this Agreement to make the Additional Loan to Borrower, Lender shall deposit U.S. \$679,487.99 (DM 1,392,950.37 divided by 2.05, the exchange rate of U.S. Dollars to DM on June 9, 2000) in an escrow account (the "Escrow Account") with Firststar Bank Milwaukee, N.A. (the "Escrow Agent") pursuant to an Escrow Agreement dated on or about the date of this Agreement among Lender, Borrower, and the Escrow Agent, a copy of which is attached as EXHIBIT F to this Agreement. Any interest on the funds in the Escrow Account shall be paid to the Lender.

v. All funds shall remain in the Escrow Account until the earlier of (i) July 1, 2004 or (ii) the date that Borrower presents written evidence to Lender and the Escrow Agent that the German tax authority has requested payment of the final tax assessment with respect to the tax obligations for the 458,334 shares of Lender common stock that Borrower received in connection with Lender's acquisition of CATS. Lender will be obligated to make the Additional Loan, and funds from the Escrow Account shall be paid to Borrower to fund the Additional Loan, within three (3) business days after Borrower presents written evidence to Lender that the German tax authority has requested payment of the tax obligations described in Section 4 of this Agreement.

vi. The Escrow Agent is obligated to pay to the Borrower funds from the Escrow Account (without permission of the Lender) as are necessary to enable Borrower to satisfy his tax obligations to the German tax authority as described

in Section 4 of this Agreement upon presentation by Borrower to the Escrow Agent of (i) copies of the Loan Documents for the Additional Loan executed by Borrower and delivered to Lender, and (ii) written evidence to Lender that the German tax authority has requested payment of the tax obligations described in Section 4 of this Agreement.

vii. Any funds remaining in the Escrow Account after July 1, 2004 or any funds not needed to pay the final tax assessment with respect to the tax obligations for the 458,334 shares of Lender common stock that Borrower received in connection with Lender's acquisition of CATS shall be returned immediately to Lender.

C. DEFINITION OF THE LOANS. The Initial Loan and the Additional Loan are each referred to as a "Loan" and collectively are referred to as the "Loans."

2. LENDER'S COMMITMENT. Lender's obligation to extend the Loans to Borrower is a valid, legal, irrevocable and binding corporate obligation which shall not be rescinded or withdrawn in the event of a change of Lender's present management or ownership.

3. TERMS AND CONDITIONS OF LOAN. The Loans shall be governed by the following terms and conditions in addition to all terms and conditions set forth in the Loan Documents.

A. PAYMENT.

i. Notwithstanding any contrary provision set forth herein or in any document related hereto, Borrower shall be obligated to pay all outstanding principal, together with all then accrued and unpaid interest under each Loan, on or before the earlier of (a) the end of the three year period that commences on the date the Borrower executes and delivers the Loan Documents to Lender with respect to each Loan, or (b) that date when the preceding five (5) trading days of the Lender's common stock yields an average closing price of \$11.34 per share (each such date hereinafter referred to as the "Maturity Date"). On such Maturity Date as defined in Section 3A(i)(b), it shall be within Borrower's discretion to repay the Loans either in cash, or, in lieu thereof, with shares of the common stock of Lender at an agreed upon price of \$11.34 per share. For the purpose of repaying the Loans with shares of the Lender's common stock as provided for in this Section 3A(i), Borrower shall be required to utilize that portion of the Collateral (as defined in Section 3E below) which is equal in value to the amount of Loans being repaid.

ii. Notwithstanding the foregoing, in the event a Loan is still outstanding at end of the three year period that commences on the date Borrower executes and delivers the Loan Documents to the Lender with respect to such Loan, Borrower shall have the option of either: (a) requiring Lender to renew or

extend the Loan for an additional term of three (3) years or (b) canceling the Loan, effective as of the three year anniversary date, by providing Lender with written notice in accordance with the provisions of Section 10 below, and in exchange for such cancellation Borrower shall irrevocably authorize Lender to dispose of the Collateral in accordance with the terms and conditions of Section 9 below. The parties hereby agree that the three year anniversary date shall be the date which coincides with the end of the three year period that commences on the date Borrower executes and delivers the Loan Documents to the Lender with respect to a Loan, and if Borrower elects to cancel such Loan effective as of such date, the date shall hereinafter be referred to as the "Anniversary Cancellation Date." If on the Anniversary Cancellation Date, the value of the Collateral is less than the sum of: (i) the outstanding principal balance of the Loan; (ii) any accrued but unpaid interest on the Loan; (iii) any fees authorized and due and owing to Lender pursuant to the Promissory Note with respect to the Loan; and (iv) any costs and expenses authorized and due and owing to Lender pursuant to the Promissory Note with respect to the Loan, Borrower shall not be required to pay to Lender the amount by which the sum of items (i) through (iv) exceeds the value of the Collateral. On the other hand, if on the Anniversary Cancellation Date, the value of the Collateral exceeds the sum of items (i) through (iv), Lender shall be required to release and return to Borrower, free and clear of all liens and encumbrances, the portion of the Collateral which exceeds the sum of items (i) through (iv). For purposes of determining the value of the Collateral on the Anniversary Cancellation Date, the parties shall utilize the closing price of the shares of Lender's common stock (as traded on the NASDAQ National Market) on that particular date, or, if that date is not a trading day on the NASDAQ National Market, the immediately preceding trading day.

iii. All Shares used by Borrower to repay the Loan pursuant to the provisions of Section 3A(i) above, as well as all Shares comprising the Collateral used by Borrower to compensate Lender for the cancellation of the Loan pursuant to the provisions of Section 3A(ii) above, shall be subject to sale by Lender on Borrower's behalf in accordance with the terms and conditions of Section 9 below, and Borrower shall cooperate with Lender in effecting any such sale.

B. INTEREST.

i. Except as otherwise provided in Section 5 of the Promissory Note, interest shall accrue on the outstanding principal balance of each Loan at a rate that is equal to the sum of (a) the EURIBOR rate that was in effect at 10:00 A.M. on August 2, 1999 (and which is applicable to loans with a maturity date of one year); and (b) 1.57%. Interest on the outstanding principal balance of the Loans shall be paid annually, on the last business day in December of each year, until the entire principal is paid.

ii. Interest shall be calculated on the basis of a 360 day year based upon the actual number of days elapsed. No interest shall accrue on a Loan until the Loan is made to Borrower, and no interest shall accrue after the Maturity Date (as defined in Section 3A(i) above), the Anniversary Cancellation Date (as defined in Section 3A(ii) above), or the Cancellation Date (as defined in Section 8 below).

iii. The total liability of Borrower under the Loans for payment of interest shall not exceed any limitations imposed on the payment of interest by applicable usury laws. If any interest is received or charged in excess of that amount, Borrower shall be entitled to a refund of the excess.

iv. Upon the occurrence of an Event of Default under a Promissory Note, interest shall accrue at the Default Rate thereunder set forth notwithstanding the provisions of this section.

C. PREPAYMENT. The Borrower shall be entitled to prepay the Loans in whole or in part at any time without penalty.

D. APPLICATION OF PAYMENTS. All payments under the Promissory Note shall be applied first to the Lender's costs and expenses, then to fees authorized thereunder, then to interest and then to principal.

E. GRANT OF SECURITY INTEREST. To secure the due and punctual payment of the Loans and all of his other liabilities to Lender arising in connection with the Loans, and all reasonable costs and expenses incurred by Lender in connection with enforcement or collection of the Loans or any liability of Borrower in connection therewith (including reasonable legal fees and expenses incurred in trial, appellate, bankruptcy, and judgment-execution proceedings) and all reasonable costs and expenses incurred in connection with realizing on the value of the Collateral (including appraisal fees, broker-dealer fees, and legal fees incurred in trial, appellate, bankruptcy, and judgment-execution proceedings), Borrower shall pledge, hypothecate, assign, convey and grant to Lender a first lien and security interest (collectively, the "Security Interest") in the following:

i. Such number of shares of Lender common stock (the "Shares") which is arrived at as a result of dividing (i) the original principal sum of the Note (stated in U.S. dollars) by (ii) US \$6.375; the denominator of US \$6.375 being the closing price of each share of Lender's common stock (as traded on the NASDAQ National Market) on March 31, 1999.

ii. All dividends, additional shares or other property or securities that are receivable or otherwise distributable at any time and from time to time in respect of, or in exchange or substitution for, the Shares and all profits therefrom; and

iii. All proceeds of the foregoing.

As used herein, the term "Collateral" refers to all the property described in this Section 3E, as well as any portion or any interest in it.

4. PURPOSE OF LOAN. The purpose of the Loan will be to enable Borrower to timely satisfy his obligation to pay certain taxes in the Federal Republic of Germany in connection with Borrower's sale on May 15, 1998 of his Quotas in CATS. As part of the consideration (the "Consideration") paid to Borrower in connection with his sale on May 15, 1998 of his Quotas in CATS, Borrower received 458,334 shares of Lender common stock. The purpose of the Loans is to pay the amount of taxes that Borrower is required to pay to the German tax authority in connection with and as a result of the 458,334 shares of Lender common stock received by Borrower on May 15, 1998 in connection with the acquisition of CATS.

5. REPRESENTATIONS AND WARRANTIES. Borrower hereby represents and warrants to lender as follows:

A. AUTHORITY AND COMPLIANCE. Borrower has full power and authority to execute and deliver this Agreement and the Loan Documents and to incur and perform the obligations provided for therein. No consent or approval of any public authority or other third party is required as a condition to the validity of this Agreement or any of the Loan Documents, and Borrower is in compliance with all laws and regulatory requirements to which they are subject.

B. BINDING AGREEMENT. This Agreement and the Loan Documents executed by Borrower constitute valid and legally binding obligations of Borrower, enforceable in accordance with their terms.

C. LITIGATION. There is no proceeding involving Borrower pending or, to the knowledge of Borrower, threatened before any court or governmental authority, agency or arbitration authority, except as disclosed to Lender in writing and acknowledged by Lender prior to the date of this Agreement.

D. NO CONFLICTING AGREEMENTS. There is no charter, bylaw, stock provision, partnership agreement or other document pertaining to the power or authority of Borrower and no provision of any existing agreement, mortgage, indenture or contract binding on Borrower or affecting his property, which would conflict with or in any way prevent the execution, delivery or carrying out of the terms of this Agreement and the Loan Documents.

E. OWNERSHIP OF COLLATERAL. Borrower has good title to the collateral that will secure the Loans, and the collateral is, and will be kept, free and clear of liens, except those to be granted to Lender pursuant to the Stock Pledge Agreement attached hereto in the form of EXHIBIT B.

6. DEFAULT. Borrower shall be in default under this Agreement and under each of the Loan Documents if he shall default in the payment of any amounts due and owing to Lender pursuant to the Loan Documents or should he fail to timely and properly observe, keep

or perform any term, covenant, agreement or condition in any Loan Document or in any other loan agreement, promissory note, security agreement, deed of trust, deed to secure debt, mortgage, assignment or other contract securing or evidencing payment of any indebtedness of Borrower to Lender or any affiliate or subsidiary of Lender.

7. REMEDIES UPON DEFAULT. If an event of default shall occur, Lender shall have all rights, powers and remedies available under each of the Loan Documents as well as all rights and remedies available at law or in equity.

8. BORROWER'S OPTION TO CANCEL LOAN. Notwithstanding anything to the contrary in any document or agreement between Borrower and Lender, Borrower shall have the option, in his sole discretion, at anytime, to cancel the Loans, and in exchange for such cancellation Borrower shall irrevocably authorize Lender to dispose of the Collateral in accordance with the terms and conditions of Section 9 below. For purposes of this Section 8, the "Date of Cancellation" shall be the date on which Lender receives a written notice from Borrower to cancel a Loan. The written notice shall be furnished in accordance with the notice provisions of Section 10 below. PROVIDED, HOWEVER, that if on the Date of Cancellation, the value of the Collateral is less than the sum of (i) the outstanding principal balance of such Loan; (ii) any accrued but unpaid interest on such Loan; (iii) any fees authorized and due and owing to Lender pursuant to the Promissory Note; and (iv) any costs and expenses authorized and due and owing to Lender pursuant to the Promissory Note, Borrower shall be required to pay to Lender the amount by which the sum of items (i) through (iv) listed in this Section 8 exceeds the value of the Collateral. Borrower shall have the option of making the payment herein provided for to Lender in either additional cash or additional shares of Lender's issued and outstanding common stock. If on the Date of Cancellation, the value of the Collateral exceeds the sum of items (i) through (iv) listed in this Section 8, Lender shall be required to release and return to Borrower, free and clear of all liens and encumbrances, the portion of the Collateral which exceeds the sum of items (i) through (iv) of this Section 8. For purposes of determining the value of the Collateral and additional shares on the Date of Cancellation, the parties shall utilize the closing price of the shares of Lender's common stock (as traded on the NASDAQ National Market) on the Date of Cancellation. Any Shares used by Borrower to compensate Lender in consideration for the cancellation of the Loan pursuant to the provisions of this Section 8 shall be subject to sale by Lender on Borrower's behalf pursuant to the terms and conditions of Section 9 below, and Borrower shall cooperate with Lender in effecting any such sale.

9. MECHANISM FOR SALE OF SHARES. The Shares to be pledged by Borrower to Lender pursuant to the Stock Pledge Agreement will, in part, consist of a portion of the 343,750 shares of Lender common stock registered with the United States Securities and Exchange Commission (the "SEC") pursuant to that certain S-1 Registration Statement dated and filed with the SEC on June 22, 1998 (the "Registered Shares"). The balance of the Shares to be pledged to Lender by Borrower pursuant to the Stock Pledge Agreement shall consist of shares of Lender's common stock that have not been registered with the SEC (the "Non-registered Shares"). It is also contemplated that if Borrower is required to utilize additional shares to compensate Lender pursuant to the provisions of Section 8 above or under any of the

Loan Documents, Borrower will utilize Registered Shares and/or Non-registered Shares. If, in order to satisfy any of Borrower's obligations or commitments pursuant to any Loan Document, a sale must be made of any or all of the Registered Shares or Non-registered Shares pledged or otherwise delivered by Borrower to Lender, Borrower shall authorize Lender to make such sale as an agent of Borrower and on Borrower's behalf. Any sale of Registered Shares as provided for in this Section 9 shall be made pursuant to the S-1 Registration Statement, and shall be deemed to be a sale by Borrower through his duly appointed and authorized agent. Any sale of Non-Registered Shares as provided for in this Section 9 shall be made pursuant to and in satisfaction of the requirements of Rule 144 promulgated by the SEC under the Securities Act of 1933, as amended, and shall be deemed to be a sale by Borrower through his duly appointed and authorized agent. Lender shall have the right to keep and maintain custody of any and all proceeds of any sale of Registered Shares or Non-registered Shares in satisfaction of any sum due and owing to Lender pursuant to the Loan transaction. Borrower's appointment of Lender as his agent for purposes of this Section 9, and the authorization to be granted to Lender to sell Registered Shares and/or Non-registered Shares on behalf of Borrower, shall be set forth in the Promissory Note, Stock Pledge Agreement and Stock Power delivered to Lender along with the pledged Shares (and in the Stock Power alone, in the case of any additional shares delivered to Borrower). Further, Borrower shall covenant and agree to make all such reasonable arrangements, do and perform all such reasonable acts and things, execute and deliver all such certificates, documents and other instruments, and to take such further reasonable actions as Lender may deem necessary or advisable to effect the sale of Registered Shares pursuant to the S-1 Registration Statement, or Non-registered Shares in compliance with the requirements of Rule 144, as the case may be, as Borrower's agent and on Borrower's behalf.

10. NOTICES. All notices, requests or demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing, and may be by means of facsimile transmission, delivered to the other party at the following address:

If to Lender:

FARO Technologies, Inc.
125 Technology Park
Lake Mary, Florida 32746
Telecopy: (407) 333-4181

Attention: Gregory A. Fraser

With a copy to:

Foley & Lardner
100 North Tampa St., Suite 2700
Tampa, Florida 33602
Telecopy: (813) 221-4210

Attention: Martin A. Traber

If to Borrower:

Siegfried Kurt Buss
Erich Kaestner Strasse 73,
Ditzingen, Hirschlanden 71254
Telecopy: 011-49-711-2222-444

With a copy to:

Hasche Eschenlohr Peltzer Riesenkampff Fischotter
Neidenau 68
60325 Frankfurt/Main
Germany
Telecopy: 011-49-69-71-701-230

Attention: Thomas Link

or to such other address as any party may designate by written notice to the other party. Each such notice, request and demand shall be deemed given or made as follows: (i) if sent by mail, upon the earlier of the date of receipt or five (5) days after deposit in the U.S. Mail, first class postage prepaid; (ii) if electronically transmitted, the next business day after transmission (and the sender shall bear the burden of proof of delivery), or (iii) if sent by any other means, upon delivery.

11. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Lender immediately upon demand the full amount of all costs and expenses, including reasonable attorneys' fees (to include outside counsel fees) incurred by Lender in connection with Lender's enforcement of its rights hereunder or under the Loan Documents.

12. MISCELLANEOUS. Borrower and Lender further covenant and agree as follows, without limiting any requirement of any of the Loan Documents:

A. CUMULATIVE RIGHTS AND NO WAIVER. Each and every right granted to Lender under any Loan Document, or allowed it by law or equity shall be cumulative of each other and may be exercised in addition to any and all other rights of Lender, and no delay in exercising any right shall operate as a waiver thereof, nor shall any single or partial exercise

by Lender of any right preclude any other or future exercise thereof or the exercise of any other right. Borrower expressly waives any presentment, demand, protest or other notice of any kind, including but not limited to notice of intent to accelerate and notice of acceleration. No notice to or demand on Borrower in any case shall, of itself, entitle Borrower to any other or future notice or demand in similar or other circumstances.

B. LEGAL MATTERS. The validity, construction, enforcement, and interpretation of this Agreement shall be governed by the laws of the State of Florida and the United States of America, without regard to principles of conflict of laws. Each party to this Agreement (a) consents to the personal jurisdiction of the state and federal courts having jurisdiction in Seminole County, Florida, (b) stipulates that the proper, exclusive, and convenient venue for any legal proceeding arising out of this Agreement is Seminole County, Florida, for state court proceedings, and the Middle District of Florida, Orlando Division, for federal district court proceedings, and (c) waives any defense, whether asserted by a motion or pleading, that Seminole County, Florida, or the Middle District of Florida, Orlando Division, is an improper or inconvenient venue. In any mediation, arbitration, or legal proceeding arising out of this Agreement, the losing party shall reimburse the prevailing party, on demand, for all costs incurred by the prevailing party in enforcing, defending, or prosecuting any claim arising out of this Agreement, including all fees, costs, and expenses of experts, attorneys, witnesses, collection agents, and supersedeas bonds, whether incurred before or after demand or commencement of legal proceedings, and whether incurred pursuant to trial, appellate, mediation, arbitration, bankruptcy, administrative, or judgment-execution proceedings.

C. LOAN TO BE DEEMED REPAYED. A Loan shall be deemed to have been repaid effective as of the earliest of: (i) the date on which Borrower prepays such Loan (as allowed under Section 3C above); (ii) the Maturity Date (as defined in Section 3A(i) above); (iii) the Anniversary Cancellation Date (as defined in Section 3A(ii) above); or (iv) the Cancellation Date (as defined in Section 8 above), so long as by the particular date Lender has received from Borrower any combination of cash and/or shares of Lender's stock sufficient to cover the then outstanding Loan obligations in accordance with the provisions of this Agreement. From and after the repayment date, Borrower shall have no obligations to Lender with respect to a Loan pursuant to or under this Agreement or the Loan Documents, except for Borrower's obligation to cooperate with lender in disposing of the Collateral Shares (and any additional shares delivered to Lender) pursuant to the provisions of Section 9 above.

D. AMENDMENT. No modification, consent, amendment or waiver of any provision of this Agreement, nor consent to any departure by Borrower therefrom, shall be effective unless the same shall be in writing and signed by an officer of Lender, and then shall be effective only in the specified instance and for the purpose for which given. This Agreement is binding upon Borrower, his heirs, successors and assigns, and inures to the benefit of Lender, its successors and assigns; however, no assignment or other transfer of Borrower's rights or obligations hereunder shall be made or be effective without Lender's prior written consent, nor shall it relieve Borrower of any obligations hereunder. There is no third party beneficiary of this Agreement.

E. PARTIAL INVALIDITY. The unenforceability or invalidity of any provision of this Agreement shall not affect the enforceability or validity of any other provision herein and the invalidity or unenforceability of any provision of any Loan Document to any person or circumstance shall not affect the enforceability or validity of such provision as it may apply to other persons or circumstances.

F. This Agreement amends and restates the Original Loan Agreement in its entirety, and the Original Loan Agreement is no longer in effect.

13. NO ORAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

To the extent permitted by law, the Borrower agrees to and does hereby waive trial by jury in any action, proceeding, or counterclaim brought by either the Borrower or the Lender on any matters whatsoever arising out of or in any way connected with this Agreement or any claim of damage resulting from any act or omission of the Borrower or Lender or either of them in any way connected with this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed under seal by their duly authorized representatives as of the date first above written.

LENDER

FARO Technologies, Inc.

By: _____

Name: _____

Title: _____

BORROWER

Siegfried Kurt Buss