

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the year ending December 31, 1999.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-21918

FLIR Systems, Inc.
(Exact name of Registrant as specified in its charter)

Oregon
(State or other jurisdiction of incorporation
or organization)

93-0708501
(I.R.S. Employer Identification No.)

16505 S.W. 72nd Avenue, Portland, Oregon 97224
(Address of principal executive offices)

(503) 684-3731
(Registrant's telephone number, including area code)

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

None

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

Title of each class of Stock
Common Stock, \$0.01 par value
Preferred Stock Purchase Rights

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 by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K ((S)229.405 of this chapter) is not contained herein, and
will not be contained, to the best of Registrant's knowledge, in definitive
proxy or information statements incorporated by reference in Part III of this
Form 10-K or amendment to this Form 10-K.

As of March 31, 2000, the aggregate market value of the shares of voting
stock of the Registrant held by non-affiliates was \$132,566,943.

As of March 31, 2000, there were 14,429,055 shares of the Registrant's
common stock, \$0.01, par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

The Registrant has incorporated by reference into Part III of this Form 10-K portions of its Proxy Statement for its 2000 Annual Meeting of Shareholders.

FLIR SYSTEMS, INC.

FORM 10-K

ANNUAL REPORT

TABLE OF CONTENTS

Page

PART I

ITEM 1. BUSINESS.....	1
ITEM 2. PROPERTIES.....	12
ITEM 3. LEGAL PROCEEDINGS.....	13

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS.....	13
ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.....	14
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	15
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.....	21
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.....	21
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.....	45

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.....	45
ITEM 11. EXECUTIVE COMPENSATION.....	45
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.....	45
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....	45

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8- K.....	45
SIGNATURES.....	48
FINANCIAL STATEMENT SCHEDULES.....	49

PART I

ITEM 1. BUSINESS

General

We are a world leader in the design, manufacture and marketing of thermal imaging and broadcast camera systems for a wide variety of applications in the commercial and government markets. Our products come in a variety of configurations such as handheld or ground-based systems, as well as systems mounted on ships, helicopters and airplanes. Our thermal imaging systems use advanced infrared technologies that detect infrared radiation, or heat, enabling the operator to measure minute temperature differences and to see objects in daylight or total darkness and through smoke, haze and most types of fog. Our products can also incorporate visible light cameras, image analysis software and gyrostabilized gimbal technology. An example of a gyrostabilized gimbal is the capsule-like object attached to the nose of local television news stations' helicopters that you may have seen. These capsules, or gimbals, contain broadcast quality cameras and, sometimes, thermal imaging cameras, which allow news stations to film breaking news stories.

Our products provide state-of-the-art imaging technology coupled with competitive pricing. Our product configurations and image analysis software tools increase our ability to provide products tailored to meet individual customer requirements. In addition to our continuing line of products that incorporate "cooled" detector technology, we have also developed and begun selling innovative new products utilizing advanced "uncooled" thermal imaging technology.

Industry Overview

Background

Infrared radiation is light that is not visible because its wavelength is too long to be detected by the human eye. Unlike visible light, infrared radiation is emitted directly by all objects and materials. Thermal imaging systems are used to detect infrared radiation and convert it into an electronic signal, which is then processed and formatted into a video signal and displayed on a monitor. These systems are distinguished from one another by their capability to detect and resolve infrared radiation, the clarity of the image displayed, detection range, system reliability, price and adaptability to a variety of customer requirements. Thermal imaging systems, unlike night vision goggles, enable the operator to see objects in total darkness and through obscurants such as smoke, haze and most types of fog. Advanced thermal imaging

systems can also detect and measure minute temperature differences, a critical tool for a variety of commercial applications.

Early applications of thermal imaging technology primarily involved the use of expensive high-resolution systems in military combat applications such as weapons targeting, where performance factors were far more important than price in purchasing decisions. A simpler form of the technology was also employed in limited commercial applications such as detecting heat loss from buildings or houses, where price was more important than sophisticated performance. Consequently, a large group of potential users in both the commercial and government markets did not use thermal imaging technology since available systems either failed to meet performance requirements or were too expensive.

An infrared detector, which absorbs infrared radiation and converts it into an electronic signal, is a primary component of thermal imaging systems. Until recently, thermal imaging systems relied on infrared detectors that needed to be cooled to near absolute zero in order to operate. This technology is sometimes referred to as "cooled" detector technology. The cryogenic "coolers" needed for such detectors are expensive components that consume a great amount of power and add to the weight, size and overall complexity of the system. Thermal imaging systems that use new "uncooled" detector technology do not require these cooling components but instead operate at room temperature. This feature allows for cheaper, smaller, lighter, more energy efficient, solid-state systems. These factors are expected to increase the demand for such systems in existing market segments and create demand in new market segments, such as fire fighting and machine vision. Despite the advantages of uncooled technology, cooled systems should continue to play a significant role in the

1

government market due to those systems' longer-range performance capabilities. As hardware prices decline, the sophistication of image analysis software and the incremental functionality provided by such analysis tools are expected to become a more critical component of customers' purchasing decisions.

Markets

Commercial Market. The commercial market is comprised of a broad range of thermal imaging applications. This market has evolved from the use of simple heat sensing devices to sophisticated radiometric (temperature measuring) instruments that use a variety of accessories and extensive image analysis software. The increasing emphasis on improving manufacturing efficiency and product quality, underscored by the growing importance of quality assurance programs such as International Standards Organization (ISO) 9000 and the increasing complexity of manufacturing processes, has expanded the commercial market. Uncooled thermal imaging technology has created opportunities to further penetrate existing market segments as well as to create demand in new markets that can benefit from the enhanced price and performance of such technology. The growth of the commercial market has also been driven by improvements in hardware functionality, enhanced image analysis software performance and declining hardware prices.

The commercial market primarily consists of the following market segments:

Condition Monitoring

Thermal imaging systems are used for monitoring the condition of equipment. Such monitoring allows for the detection of equipment faults so they can be repaired. This increases the equipment's productivity and avoids catastrophic failures or major equipment damage, which in turn significantly reduces operating expenses by lowering repair costs and reducing downtime. Improved functionality of image analysis software, longer battery operation and simplicity of system operation are critical factors for this market segment. Specific condition monitoring applications include locating and repairing defective power transmission components or electrical connections, predicting the end of life of bearings in rotating machinery, evaluating the

integrity or amount of insulation in a building or container and locating roof leaks and related damage.

Research and Development

Because of its non-destructive analysis capability, thermal imaging is a useful tool in a wide variety of research and development applications. Since many component and product designs involve the use or control of heat, thermal imaging can be effectively used in the research and design of the component or product. For example, thermal imaging is used in laser design to determine the power distribution of the beam, in the development of diesel engines using ceramic-coated pistons to determine proper adhesion of the ceramic to the metal piston and in the design of rubber tires to evaluate uniform heat distribution. Research and development applications typically require very high performance systems with extensive software capabilities and tools to analyze the thermal image.

Manufacturing Process Control

The ability to determine whether a manufacturing process will produce acceptable results at the earliest point in the production cycle is critical to quality assurance and cost reduction. Thermal imaging and image analysis allow for the monitoring and control of heat, which is used in virtually all industrial processes. Similarly, thermal imaging systems can identify moisture and contaminants and help identify the thickness of material as well as the integrity of the bonding of composite materials.

Thermal imaging applications for manufacturing process control are varied and extensive, including monitoring the quality of metal, plastic and glass cast parts, which are highly dependent upon the temperature distribution in the mold, monitoring the quality of paper, which is dependent upon proper and even moisture distribution during the drying process, and monitoring the quality of products such as rubber gloves, which can be thermally examined to locate abnormally warm or cool spots, indicating non-uniform thickness that may result in a quality defect.

Airborne Observation and Broadcast

The use of airborne observation and broadcast systems is becoming a standard tool for television stations and broadcast networks. This technology is also used by law enforcement agencies around the world for surveillance, suspect search and apprehension and officer support. This market segment typically requires either very high performance daylight cameras or dual imaging systems with both visible light and thermal imaging capabilities, in addition to state-of-the-art stabilization, the ability to provide jitter-free images from great distances, and the ability to downlink the information from the aircraft to the production studio or command center on a real-time basis. Applications should increase as system size and weight continue to decline, enabling the use of systems on small and weight-restricted

helicopters. In addition, law enforcement agencies have established thermal imaging as a primary support tool and should continue to take advantage of favorable prices.

New Commercial Market Opportunities

New market segments for thermal imaging are developing due to the availability, cost effectiveness and enhanced performance characteristics of uncooled thermal imaging technology. Machine vision and fire fighting are near-term market opportunities, while landing guidance, maritime navigation, security and handheld law enforcement support represent future growth opportunities. Machine vision is a manufacturing process control that allows for real-time, fully automated regulation and guidance of the assembly or manufacturing process. As system prices decline, uncooled thermal imaging technology will provide cost effective solutions for a wide variety of new commercial applications.

Government Market. The government market is also comprised of a broad range of thermal imaging applications. Although the majority of government applications require the use of cooled technology, uncooled thermal imaging systems can be used for ground-based security and handheld observation. Customers in the government market demand affordable high performance systems that can be mounted on a variety of helicopters, airplanes and ships, operate in different climatic conditions and perform a variety of tasks requiring high image resolution quality and substantial image stabilization.

The government market primarily consists of the following market segments:

Search and Rescue

Thermal imaging systems are used in traditional search and rescue missions to rescue individuals in danger or distress on boats or in vehicles, to provide offshore oil platform safety and to provide emergency or disaster response support for missing persons or accident victims.

Federal Drug Interdiction

Thermal imaging systems enable government agencies to expand their drug interdiction and support activities by allowing greater surveillance and detection capabilities.

3

Surveillance and Reconnaissance

Thermal imaging systems are used in surveillance and reconnaissance applications for the precise positioning of objects from substantial distances and for enhanced situation awareness, particularly at night or in conditions of reduced or obscured visibility.

Navigation Safety

Thermal imaging systems are used in navigation safety applications to improve missions by enabling crews piloting aircraft or ships to see terrain and objects and to detect and avoid obstacles at night and in conditions of limited visibility due to smoke, haze or fog.

Border and Maritime Patrol

Thermal imaging systems are used in airborne operations for border and maritime

surveillance, particularly at night, to monitor borders and coastal waters, to monitor national fishing boundaries and to prevent smuggling.

Environmental Monitoring

Thermal imaging systems are used in environmental monitoring applications including forest fire detection and suppression, oil spill detection and monitoring and wildlife management.

Ground-based Security

Thermal imaging systems are used for ground-based surveillance and perimeter security of government and military installations, particularly at night.

Technology

We use our expertise in diverse technologies and engineering capabilities to develop and produce sophisticated thermal imaging systems. In order to produce cost-effective products and shorten the product development cycle, we integrate the following engineering disciplines and manufacturing processes:

System Design and Radiometry

We believe that our extensive experience in systems integration allows us to effectively combine a wide variety of engineering disciplines necessary to design and manufacture thermal imaging systems. We also possess the specialized system design knowledge required to produce thermal imaging systems that can accurately measure temperature--a critical tool for many commercial applications.

Software Development

We utilize both internal and external sources to develop the software capabilities necessary to simplify complex thermal imaging systems. We have developed Windows-based image analysis software applications that solve a variety of manufacturing process and quality control problems. We also have the necessary expertise to develop embedded software control systems, communications software and testing programs for our thermal imaging systems.

Optical Design and Fabrication

We design and manufacture many of the sophisticated optics that are required to gather and transmit detected thermal images with minimum distortion, allowing us to significantly shorten the product development cycle and avoid costs and delays associated with reliance on third-party optics sources.

Electronic Design

We design signal processing circuits that interface directly with the detector arrays to convert detected infrared radiation into electronic signals and design the electronic image processing that is necessary to convert the electronic signals into standard video format. Advances in

microprocessors, electric miniaturization and image processing have made significant contributions to the performance and utility of our thermal imaging systems.

Mechanical Engineering

Our design and production of thermal imaging

systems involves highly sophisticated mechanical engineering techniques. Such sophisticated techniques are critical for the design and assembly of the supporting structures for system components such as detector arrays, coolers, scanners and optics, which must meet high-precision mechanical tolerances. Similarly, the gyrostabilized gimbal assembly for the SAFIRE, Star SAFIRE, Ultra 7000 and UltraMedia requires expertise in electro-mechanical control, gyroscopes and specialized stabilization controls.

Products

Commercial Products. In the commercial sector, we manufacture products that are sold to Industrial, Broadcast and Law Enforcement customers. For Industrial customers, we have developed infrared imaging systems that feature accurate temperature measurement, storage and analysis. These systems comprise two categories: handheld cameras and fixed installation cameras. All systems use a common-core imaging system, of which the majority use proprietary uncooled sensor technology. The handheld cameras look and function much like a standard camcorder, utilizing off-the-shelf technology for battery power, data recording and image display. The fixed installation cameras are housed in industrial enclosures and have connectivity capability with common factory automation systems. The products are evolved on an annual basis with new models being introduced to the market featuring enhancements in functionality and performance based on customer requests. This keeps the product line up to date, competitive and continuing to generate follow-on upgrade revenues.

Our strong market share position is enhanced and maintained with the offering of key post-processing software packages that are developed internally. Approximately 100 different accessories are available to customize the product to a wide range of imaging and measurement applications. Customers are supported through our "Infrared Training Center" business unit, which provides comprehensive training, certification and applications engineering from several corporate locations or at the customer's site.

In the broadcast market, we manufacture highly stabilized turret platforms (gimbals) that house broadcast quality TV cameras. The product is typically mounted to an aircraft, usually a helicopter, and operated by the use of a hand controller, which remotely directs the stabilized turret. The broadcast camera inside the turret provides the video output that is then either recorded on a video recorder or down-linked to a production studio for live broadcast. These systems are widely used by television news stations and law enforcement professionals.

In the Law Enforcement market, we manufacture a variety of stabilized gimbal systems that typically contain both infrared and visual cameras. These systems provide high-resolution imagery, day or night, for covert surveillance, public safety and search and rescue applications. The systems are typically mounted to a helicopter and greatly enhance the capabilities of the officers during night operations.

ThermaCAM PM Series

The AGEMA(R) 570, introduced in December 1997 and now known as the ThermaCAM(R) PM 595, 575, 545 and 525, was developed to meet the need for a high performance lightweight cost-effective portable thermal imager with precision temperature measurement. This product was the world's first commercially available handheld radiometric thermal imaging system incorporating uncooled IR FPA detector technology. The product, now in its second generation, is currently the only uncooled radiometric imaging system in high volume production.

measurement of objects from -40(degrees)C to +2000(degrees)C. The imager is packaged in a camcorder-like aluminum housing weighing less than five pounds. The systems features numerous automated features, offering one-hand, point and shoot operation.

The ThermaCAM 595 has applications across all commercial thermography market segments, including predictive and preventive maintenance of electrical, mechanical and building HVAC systems, locating and repairing defective power transmission components or electrical connections, predicting the end of life of bearings in rotating machinery, evaluating the integrity or amount of insulation in a building and locating roof leaks and related damage.

ThermaCAM SC Series

The ThermaCAM SC series cameras are similar to the PM series cameras except they typically incorporate high-definition cooled FPA sensors that offer an increased level of sensitivity, image quality and accuracy. The SC series cameras are designed primarily for high-end research and development applications. These systems, originally introduced in the spring of 1996 now comprise three models: SC1000, SC2000 and SC3000. The SC1000 utilizes a cooled Platinum Silicide detector and is well suited for applications in the glass, plastics and petroleum refining industries. The SC2000 utilizes an uncooled microbolometer detector and is well suited for general R&D applications such as product thermal testing or PC board inspections. The SC3000 is the world's first production Quantum Well Infrared Photodetector (QWIP) based camera and features extremely high sensitivity (0.03(degrees)C) and longwave operation. This camera is well suited for non-destructive testing applications and certain medical research applications.

ThermaCAM Tracer

The ThermaCAM Tracer(R), introduced in the first quarter of 1997 as "Tracer Plus", is the first industrial imaging system capable of recording and analyzing high-speed thermal events on a conventional Windows-based PC. The ThermaCAM Tracer combines a high-resolution thermal imaging camera, such as the ThermaCAM 595, with a Pentium PC, digital recording system and Windows-based image analysis software for research and development applications such as in laser design to determine the power distribution of the beam or in the development of diesel engines using ceramic-coated pistons to determine proper adhesion of the ceramic to the metal piston.

ThermoVision IRMV

The ThermoVision IRMV(R), introduced in early 1998, is an uncooled thermal imaging camera for manufacturing process control and machine vision applications. "IRMV", or Infrared Machine Vision, is being rapidly accepted as an alternate means for factory automation in applications where heat is a factor. Operating as a remote controlled "smart" sensor in supervised operation or integrated into a complete control system, the ThermoVision IRMV sensor transmits data on a continuous real-time basis to factory automation equipment. Using built-in intelligence, the ThermoVision can process multiple areas of interest, trigger alarms or transmit control data. A variety of flexible, high-speed and reliable digital cable, fiber-optic and wireless transmission

allow for flexible system integration with controllers, computers and vision systems. Examples of ThermoVision applications include monitoring and controlling the manufacture of metal, plastic or glass parts, where thermal properties are critical to the final product. ThermoVision IRMV sensors are used to provide the real-time feedback to assure consistent product quality.

ThermaCAM Reporter Suite

The ThermaCAM Reporter Suite (formerly AGEMA Report software), the latest release of which was introduced at the end of 1999, allows for review, analysis and processing of captured thermal images and measurement data. The software is a Windows-based program that is easy to use and affordable. The software suite comprises three basic products: A wizard driven report writer, an Explorer style image viewer and a stand-alone report viewer. The software is typically packaged with the ThermaCAM PM or SC series cameras, though it is capable of operating with data gathered from other imaging products as well.

UltraMedia I & II

The UltraMedia, introduced in the first quarter of 1996, is a compact stabilized airborne broadcast system that delivers high-quality TV images from an aircraft platform. Featuring a magnification capability of 72:1 and a lightweight, 5-axis gyrostabilized package, the UltraMedia products are ideally suited for airborne broadcast teams. The products were developed for television stations and entertainment networks to cover live news and sporting events. The UltraMedia is also used by law enforcement agencies around the world for surveillance, suspect search and apprehension, and officer support.

UltraMedia-RS

The UltraMedia-RS, introduced in the first quarter of 1997, combines many of the features of the larger UltraMedia systems in a compact 35-pound configuration. The UltraMedia-RS allows small and weight restricted aircraft to gather high quality video footage from long distances, delivering a maximum magnification capability of 40:1.

UltraMedia LE

The UltraMedia LE, introduced in the fourth quarter of 1998, is a compact digital lowlight surveillance system that delivers similar performance to the UltraMedia II systems, but also adds extreme low-light imaging capability and a 30% increase in magnification providing covert surveillance capabilities at night. The product was developed to meet the needs of federal, state and local law enforcement agencies desiring covert observation capabilities at extreme standoff distances.

UltraVision

The UltraVision, introduced in the fourth quarter of 1998, is the newest member of the Ultra family of broadcast camera products. Designed to serve the low-end of the airborne broadcast market, its small size and weight allows it to be mounted on lower cost aircraft

platforms. The UltraVision is a turnkey broadcast system, incorporating a high-performance digital (DV) camera, recorder and handheld controller. The product is designed to suit the needs of tour operators, sightseeing helicopters and regional broadcasters.

FireFLIR

The FireFLIR, introduced in the first quarter of 1999, is a lightweight, hands-free, helmet-mounted thermal imaging system for fire fighting applications. Weighing about 4 pounds, the FireFLIR incorporates an

7

uncooled microbolometer detector that delivers crisp, high-resolution monochrome and color images. The system's unique design allows it to be used as a hands-free helmet mounted system or as a hand held imaging system. The system features automated capabilities for locating hot spots in walls and determining the temperature of objects in the scene. An optional microwave transmitter sends the video signal to a remote location for other crewmembers to view.

Ultra 7000/Mark III Quantum

The Ultra 7000, also known as the Mark III Quantum, introduced in the third quarter of 1998, is an airborne gimbal-mounted, dual imaging system incorporating a state-of-the-art Indium Antimonide infrared imaging detector and a color CCD TV camera. At 9" in diameter and 26 pounds, the Mark III Quantum is the smallest and lightest high performance dual system available. Industry-leading features include a continuous zoom IR lens, built-in auto-tracking capability, GPS annotation and ergonomic hand controller. The system is designed primarily for law enforcement applications where the continuous zoom and auto-tracker aid in keeping suspects in the field of view. The system's small size and light weight make it attractive for use on smaller, less-expensive helicopters. The system is also available with a reduced size electronics set for use in unmanned aircraft applications.

UltraForce

The UltraForce, introduced in the second quarter of 1999, is a low cost dual sensor gyrostabilized gimbal system. The system incorporates an uncooled infrared imaging sensor together with a CCD TV camera capable of imaging in moderately low light conditions. Features include dual IR fields of view, instant-on capability and low operating costs. Targeted at the law enforcement community, the UltraForce is an entry-level product offering good quality IR and Visual imaging, 4-axis stabilization and video recording capabilities.

Government Products. In the government sector, we manufacture products that are sold to airborne, ground and maritime applications. For airborne applications, we have developed highly stabilized turrets (gimbals), which typically contain one or more of the following: an infrared imaging system, a visual camera, a laser range finder, a laser illuminator and a spotter scope. The systems typically have sophisticated embedded software providing tracking, GPS and aircraft information. For ground applications, we manufacture two types of products: handheld products and platform mounted products. All ground systems have a high performance infrared camera coupled with an IR lens system.

Some units have visual cameras on-board and an integrated pan and tilt capability. Platform mounted units are typically housed in a weather-tight enclosure and feature remote control capabilities. Handheld ground products typically look like militarized camcorders and utilize commercial battery and viewfinder components, but are highly ruggedized. For maritime applications, we manufacture a mix of airborne and shipborne products. The products are similar to inverted airborne gimbals, but have a high level of customization for the marine environment. Enhancements include hermetic sealing, on-board heaters and wipes and corrosion resistant coatings. Maritime units typically incorporate infrared cameras, visual cameras and laser range finders.

Star SAFIRE

First introduced in June 1998, is the Star SAFIRE(R), a 3-axis gyrostabilized, 360 field of view thermal imaging system incorporating third generation focal plane array detector technology. Manufactured to military standards and using three fields of view, the system provides extended detection range capability and visually advanced imagery. The system permits multiple optical payloads in addition to the infrared detector, including a TV camera with a zoom lens for daylight

8

operations, laser rangefinder, laser illuminator or laser designator. Examples of Star SAFIRE applications include the detection of vehicles, ships or planes transporting illegal narcotics, and search and rescue for individuals in danger or distress, maritime patrol and reconnaissance missions.

Star SAFIRE II

Introduced in April of 1999, the Star SAFIRE II(R) is an enhanced evolution on the Star SAFIRE I. The system features improved performance through the use of a military qualified 5-axis gyrostabilized, gimbal and a micro-scanned Indium Antimonide third generation focal plane array detector. Featuring a 30% increase in IR magnification, the system provides an extended detection range capability offering greater mission safety and effectiveness. The system also permits multiple optical payloads in addition to the infrared detector, including a TV camera with a zoom lens for daylight operations, laser rangefinder, laser illuminator or laser designator. Examples of Star SAFIRE applications include search and rescue, maritime patrol, unmanned air vehicles (UAV), reconnaissance missions, border and coastal surveillance and target identification and designation.

SAFIRE

The SAFIRE(R) system, first introduced in the second quarter of 1992, is a digital airborne system with a high-performance scanned infrared camera. The unit's 3-axis gyrostabilized gimbal configuration has been certified to operate at airspeeds in excess of 400 knots, ensuring that the SAFIRE can operate and produce, a stable, high-resolution image when mounted on most aircraft designed for subsonic operations. The SAFIRE has a digital microprocessor, which permits optional features such as auto-tracking, auto-scanning, laser illumination, laser rangefinder, use of a TV camera,

navigation interfaces, digital image filters and freeze frame. Examples of SAFIRE applications include navigation assistance at night and in adverse weather, search and rescue operations and border patrol missions.

ThermoVision 1000

The ground-based ThermoVision(R) 1000 (formerly AGEMA 1000), first introduced in 1992, is a fixed or tripod mounted thermal imaging system that can detect small objects up to several kilometers away under extreme environmental conditions, day or night. The system features mission specific optical configurations and a highly ruggedized enclosure. Capable of remote operation, the system has on-board image processing capabilities, which enhance target detection and identification. The ThermoVision 1000 can also be integrated into a gimbal for airborne applications. Examples of ThermoVision 1000 applications include perimeter security of military bases and sensitive government installations or buildings. The system is currently deployed worldwide under the US Government TASS program.

ThermoVision Sentry

The ground-based ThermoVision Sentry, first introduced in the fourth quarter of 1998, is the first fixed or tripod mounted thermal imaging system featuring uncooled detector technology. Using this technology, this system can operate unattended for very long periods of time without maintenance. The system incorporates a sophisticated pan and tilt mechanism that has highly accurate, high speed pointing capability and

automated scanning functions. Designed for automated perimeter or facility surveillance, the system has on-board image alarm functions and bi-directional remote communication capabilities. Examples of ThermoVision Sentry applications include perimeter security of high value or high security environments, shipboard navigation and coastal surveillance applications.

Sea FLIR

The Sea FLIR, developed under the US Navy "MarFLIR" contract and introduced in the second quarter of 1999, is an inverted stabilized 9" gimbal infrared imaging system designed specifically for the marine environment. Able to withstand significant shock, vibration, and sea-spray, the Maritime FLIR is hermetically sealed and contains an on-board de-icing system. The system incorporates a high performance Indium Antimonide IR FPA sensor with a 10x continuous zoom lens, a laser range finder and an auto-tracker. This system is designed to be mounted on a mast, wheelhouse or a weapons platform. Examples of Maritime FLIR applications include, foul weather navigation, anti-piracy, search and rescue, mine detection and collision avoidance.

MilCAM

The MilCAM, introduced in the first quarter of 1997, is a high performance hand held infrared imaging system designed for tactical use by military, paramilitary and law enforcement agencies engaged in long range surveillance,

target observation, artillery observation/fire correction, perimeter security and border surveillance. The system offers high-resolution imaging in total darkness, through smoke, haze and other obscurants. Small and lightweight, the system uses off-the-shelf batteries and weighs less than 5 pounds. Currently available in three models: MilCAM LE, XP and Ranger versions, the MilCAM leads the market in small size, low power and long range capabilities. The MilCAM LE features a cooled Platinum Silicide detector and is designed for law enforcement applications. The MilCAM XP features a high performance Indium Antimonide detector offering detection beyond 5 kilometers. The MilCAM Ranger is a fixed installation or tripod mounted product that offers very long-range performance and remote control capabilities. Examples of MilCAM applications include: Perimeter security, coastal surveillance, special operations, police surveillance and search and rescue.

Customers

The primary customers for our products include domestic and foreign government agencies, including military, paramilitary and police forces, original equipment manufacturers, commercial manufacturers, research and development facilities, universities, utility companies, news-gathering agencies and various commercial enterprises.

A substantial portion of our revenue is derived from sales to agencies and instrumentalities of the U.S. Government, which aggregated more than 17.1% of our revenues in each of the last three years. For the year ended December 31, 1999, such sales represented 17.8% of our total revenue. With the exception of the continuing sales to agencies and instrumentalities of the U.S. Government, we do not typically have continuing customers whose purchases constitute more than 10% of revenues on a year-to-year basis. At any given time, however, we may have purchase commitments from customers that, if completed, would constitute more than 10% of revenues in any given year. The failure of any such customer to complete such purchases or the loss of the agencies and instrumentalities of the U.S. Government as a customer could have a material adverse effect on our business, financial position and results of operations.

10

Sales, Distribution and Customer Service

We believe that our sales and marketing organization is the largest in the industry and effectively covers the world with a combination of direct sales, independent representatives and distributors, application engineers and service centers. The process of selling and marketing our products involves extensive product promotion, technical selling and after-sales support. Our commercial and government products are highly technical and have distinct characteristics and functionality. Our sales and service personnel undergo a comprehensive training program to educate them as to the technical aspects of the products as well as familiarize them with individual customer requirements. We also continuously update our training programs to incorporate technological and competitive shifts and changes.

We have distinct sales channels for commercial, airborne observation and broadcast and government customers. We sell our commercial thermal imaging products worldwide through a direct sales staff of more than 120 people and a network of 75 distributors (many with multiple offices) and representatives, each with an exclusive right to sell our products in a defined geographic area. We sell our airborne observation and broadcast products through a seven person direct sales staff. We sell our government products through a 53 person direct sales staff and 50 independent representatives and distributors covering all major markets worldwide. Included in this total are technical and customer support staff in the United States and Europe who provide application development, technical training, operational assistance, installation design and support, and software assistance to direct and indirect sales personnel as well as to customers. Additionally, we maintain service facilities at our

factories in Portland, Oregon; Stockholm, Sweden; and West Malling, U.K. and at our subsidiary locations in Brussels, Belgium; Frankfurt, Germany; Toronto, Canada; Paris, France; and Milan, Italy. Each of our service facilities has the capability to perform the complex calibrations required to service commercial thermal imaging systems. We employ more than 30 people worldwide in our service organizations. We also maintain limited service capability in three additional foreign locations under the direction of our independent representatives or distributors. Our product marketing involves Internet promotion, advertising, direct mail, press tours, technical articles for publications and participation in approximately 100 trade shows per year.

Backlog

At December 31, 1999 we had an order backlog of \$55 million. Backlog may not be indicative of revenue for any future periods because our sales to commercial customers are generally made pursuant to purchase orders rather than long term contracts and, accordingly, the backlog at any given time is for immediate shipments. In addition, the backlog for the government business is heavily dependent upon the timing of receipt of government contracts that may have multiple year delivery schedules. Furthermore, delivery schedules are frequently revised to accommodate changes in customer needs. Although orders received by us are generally subject to cancellation, in the case of most orders included in backlog, the customer is obligated to pay certain costs and/or penalties for cancellation. We do not include future options under contracts in backlog until funded delivery orders are issued against those options.

Manufacturing

We manufacture many of the critical components for our products, including gimbals, optics, certain detectors and high speed motors, which minimizes lead times, facilitates prompt delivery of our products, controls costs and ensures that these components satisfy our quality standards. We purchase other parts pre-assembled, including detectors, coolers, circuit boards, cables and wiring harnesses. We purchase certain key components from sole or limited source suppliers. Accordingly, we could experience occasional late deliveries or a scarcity in the supply of some of these components.

Our manufacturing operations are, from time to time, audited by certain of our OEM customers, which include several major aircraft manufacturers, and have been certified as meeting their quality standards. Our

11

facilities in Stockholm, Sweden and West Malling, U.K. are ISO 9000 certified. We are in the process of obtaining ISO 9000 certification in Portland and will proceed with the certification process with our Boston facility.

Competition

Competition in the market for thermal imaging equipment is significant. We believe that the principal competitive factors in our market are performance, cost, customer service, product reputation and effective marketing and sales efforts. Our competitors are different in each market segment. In the commercial market, principal competitors include Raytheon Company, Cincinnati Electronics Corp., Nippon Avionics Co., Ltd.; and Wescam Ltd.. In the government market, we compete with British Aerospace, Wescam Ltd., Lockheed Martin Corp., The Boeing Company, Daimler-Benz Aerospace AG and Thompson-CSF. Many of these competitors have substantially greater financial, technical and marketing resources than we do.

Proprietary Rights

Our ability to compete successfully and achieve future revenue growth will depend in part on our ability to protect our proprietary technology and operate without infringing the rights of others. We rely on a combination of patent, trademark and trade secret laws, confidentiality agreements and contractual provisions to protect our proprietary rights. But we believe that our historical success has been primarily a function of other competitive advantages such as the skill and experience of our employees, our worldwide, multi-channel sales, distribution and servicing network and our name recognition and quality products. Because intellectual property protection does not necessarily represent a barrier to entry into the thermal imaging industry, we cannot be certain or give any assurance that we can maintain this

competitive advantage or that competitors will not develop similar or superior capabilities.

Employees

As of December 31, 1999, we had 640 employees in the United States and 250 employees outside of the United States. We have been generally successful in attracting highly skilled technical, marketing and management personnel to date. None of our employees in the United States are represented by a union or other bargaining group. Employees in Sweden and Italy are represented by unions. We believe our relationships with our employees and unions are good.

ITEM 2. PROPERTIES

We lease facilities under various operating leases that expire in 2000 through 2006. The leases calls for fixed monthly payments over their term. The following summarized our primary leased facilities:

Location -----	Lease Expiration Date -----	Square Feet -----
FLIR Systems, Inc.--Portland, Oregon.....	2005	96,000
FLIR Systems AB--Danderyd, Sweden.....	2004	63,000
FLIR Systems--Boston, Inc.--N. Billerica, Massachusetts.....	2005	102,000
FSI Automation, Inc.--Bothell, Washington...	2000	9,600
FLIR Systems International Ltd.--West Malling, United Kingdom.....	2006	14,300
FLIR Systems Ltd.--Toronto, Canada.....	2000	4,200
FLIR Systems S.A.R.L.--Paris, France.....	2000	2,900
FLIR Systems GmbH--Frankfurt, Germany.....	2003	2,200
FLIR Systems s.r.l.--Milan, Italy.....	2004	2,200

ITEM 3. LEGAL PROCEEDINGS

Beginning on or about March 13, 2000, four complaints alleging violations of the federal securities laws have been filed against the Company and against J. Kenneth Stringer III and J. Mark Samper in the United States District Court for the District of Oregon. Each complaint has been filed as a purported class action by individuals who allege that they purchased the Company's Common Stock during the purported class periods, which vary but extend from April 22, 1999 at the earliest to March 6, 2000 at the latest. The complaints allege that the defendants violated the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by intentionally issuing false and/or misleading statements regarding the Company's financial results in the Company's SEC filings and in press releases and other public statements. The complaints do not specify the amount of damages that plaintiffs seek. The Company currently expects that the lawsuits described above will be consolidated into one action within the next several months. The Company intends to contest the litigation vigorously.

The Company was involved in other litigation, investigations of a routine nature and various legal matters during 1999 that are being defended and handled in the ordinary course of business.

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

No information is required to be reported pursuant to this item.

PART II

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

The common stock of FLIR Systems, Inc. has been traded on the Nasdaq National Market System since June 22, 1993, under the symbol "FLIR". The following table sets forth, for the quarters indicated, the high and low sales price for Common Stock reported on the Nasdaq National Market System.

	1999		1998	
	High	Low	High	Low
First Quarter.....	23.53	17.13	20.63	16.75
Second Quarter.....	18.81	11.75	21.63	17.25
Third Quarter.....	18.00	12.63	18.13	10.50
Fourth Quarter.....	17.00	11.00	23.75	10.50

At December 31, 1999, there were approximately 400 holders of record of our common stock and 14,388,600 shares outstanding. We have never paid cash dividends on our Common Stock. We intend to retain earnings for use in our business and, therefore, do not anticipate paying cash dividends in the foreseeable future.

During the quarter ended December 31, 1999, we sold securities without registration under the Securities Act of 1933, as amended (the "Securities Act") upon the exercise of certain stock options granted under our 1984 Stock Incentive Plan. An aggregate of 2,400 shares of Common Stock were issued at exercise prices ranging from \$1.625 to \$5.225. These transactions were effected in reliance upon the exemption from registration under the Securities Act provided by Rule 701 promulgated by the Securities and Exchange Commission pursuant to authority granted under Section 3(b) of the Securities Act.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The financial data in the table below as of and for fiscal 1998 and working capital and total shareholders' equity for 1997 has been restated. See Note 17 to the Consolidated Financial Statements and Quarterly Financial Data for information concerning the Company's restatement of its financial statements. In addition, all financial data in the table for the years 1995 through 1998 has been restated for the merger with Inframetrics, Inc., which was accounted for as a pooling of interests. See Note 15 to the Consolidated Financial Statements.

	Year Ended December 31,				
	1999(1)	1998	1997(2)	1996	1995
	(In thousands, except per share data)				
	(Restated) (Restated) (Restated) (Restated)				
Statement of Operations					
Data					
Revenue:					
Commercial.....	\$120,555	\$137,977	\$ 86,656	\$ 54,447	\$40,262
Government.....	65,893	58,888	58,278	57,338	40,397
	-----	-----	-----	-----	-----
Total revenue.....	186,448	196,865	144,934	111,785	80,659
Cost of goods sold.....	123,666	92,260	86,835	57,864	40,233
	-----	-----	-----	-----	-----
Gross profit.....	62,782	104,605	58,099	53,921	40,426
Operating expenses:					
Research and development.....	29,006	26,958	17,607	13,574	11,212
Selling and other operating costs.....	71,046	61,541	41,225	29,989	23,008
Combination costs.....	9,301	--	36,450	--	--
	-----	-----	-----	-----	-----
Total operating costs..	109,353	88,499	95,282	43,563	34,220
Earnings (loss) from operations.....	(46,571)	16,106	(37,183)	10,358	6,206
Interest income.....	480	728	540	1,258	700
Interest expense and					

other.....	(6,251)	(5,199)	(4,093)	(1,470)	(2,402)
	-----	-----	-----	-----	-----
Earnings (loss) before income taxes.....	(52,342)	11,635	(40,736)	10,146	4,504
Income tax provision (benefit).....	2,295	1,806	(11,548)	2,723	549
	-----	-----	-----	-----	-----
Net earnings (loss) from continuing operations.....	(54,637)	9,829	(29,188)	7,423	3,955
Discontinued operations, net of taxes.....	--	--	--	(830)	--
	-----	-----	-----	-----	-----
Net earnings (loss)...	\$ (54,637)	\$ 9,829	\$ (29,188)	\$ 6,593	\$ 3,955
	=====	=====	=====	=====	=====
Net earnings (loss) per share:					
Basic.....	\$ (3.83)	\$ 0.76	\$ (3.69)	\$ 0.89	\$ 0.54
	=====	=====	=====	=====	=====
Diluted.....	\$ (3.83)	\$ 0.73	\$ (3.69)	\$ 0.86	\$ 0.52
	=====	=====	=====	=====	=====
Balance Sheet Data:					
Working capital.....	\$ 11,105	\$ 76,346	\$ 47,852	\$ 58,596	\$50,829
Total assets.....	195,060	236,511	185,278	104,860	82,202
Short-term debt.....	82,331	42,638	32,706	8,529	2,491
Long-term debt, excluding current portion.....	1,497	19,296	20,634	24,106	13,482
Total shareholders' equity.....	\$ 62,202	\$116,113	\$ 73,033	\$ 49,456	\$47,150

-
- (1) In connection with the merger with Inframetrics, Inc., which was effective on March 30, 1999, we recorded one-time charges of \$34.6 million. The charges consisted of \$25.3 million of inventories, which is included in cost of goods sold, due to the elimination of duplicative product lines, and \$9.3 million of transaction related costs, which are included in combination costs, a separate line in operating expenses.
- (2) In connection with the acquisition of AGEMA Infrared Systems AB, which was effective on December 1, 1997, we recorded a one-time charge of \$52.5 million. The charge consisted of \$36.4 million of in-process research and development and merger-related costs, which are included as a separate line in operating expenses, and \$16.1 million of inventories due to the creation of duplicative product lines, which is included in cost of goods sold.

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

Forward Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are based on current expectations, estimates and projections about the Company's business, management's beliefs, and assumptions made by management. Words such as "expects," "anticipates," "intends," "plans," "believes," "sees," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors, including, but not limited to, those discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Annual Report as well as those discussed from time to time in our other Securities and Exchange Commission filings and reports. In addition, such statements could be affected by general industry and market conditions. Such forward-looking statements speak only as of the date on which they were made and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Annual Report. If we update or

correct one or more forward-looking statement, investors and others should not conclude that we will make additional updates or corrections with respect to other forward-looking statements.

Overview

FLIR Systems was founded in 1978 and has become a world leader in the design, manufacture and marketing of thermal imaging and broadcast camera systems for a wide variety of commercial and government applications. Our business is organized around two principal markets, commercial and government. Historically, a majority of our revenue was derived from government sales. However, we have shifted our product mix in favor of commercial applications, which accounted for 64.7% and 70.1%, respectively, of our revenue for the years ended December 31, 1999 and 1998. We continue to enhance our state-of-the-art products within existing commercial and government markets, as well as develop products for new market applications that use advanced thermal imaging technology such as new "uncooled" detector technology that operates at room temperature, allowing for systems that are cheaper, smaller, lighter, and more energy efficient. Additionally, we have developed higher-margin image analysis software tools that enhance the capability and customization of our commercial hand-held products. As hardware prices decline, the sophistication of image analysis software and the incremental functionality provided by such analysis tools are expected to become a more critical component of the commercial segment.

On March 30, 1999, we completed our merger with Inframetrics, Inc., a privately held thermal imaging company headquartered in Billerica, Massachusetts, by issuing approximately 2.3 million shares of our Common Stock in exchange for all the outstanding stock of Inframetrics. As a result of the merger with Inframetrics, which was accounted for as a pooling of interests (see Note 15 to the Consolidated Financial Statements), the Consolidated Financial Statements and all amounts included in this Management's Discussion and Analysis of Financial Condition and Results of Operations for all periods presented have been restated to reflect the combined operations and financial position for all such periods.

Effective December 1, 1997, we acquired AGEMA Infrared Systems AB, headquartered in Stockholm, Sweden. AGEMA was the world leader in the design, manufacture and marketing of handheld infrared cameras for detecting and measuring temperature differences for a wide variety of commercial and research applications. Because the acquisition was accounted for as a purchase, our Consolidated Statement of Operations for the year ended December 31, 1997 includes AGEMA's results only for the month of December 1997.

International revenue accounted for approximately 52.7%, 45.9% and 39.6% of our revenue in 1999, 1998 and 1997, respectively. We anticipate that international sales will continue to account for a significant portion

of revenue. With the acquisition of AGEMA contributing a significant volume of sales denominated in foreign currencies, we have increased exposure to foreign exchange fluctuations and changing dynamics of foreign competitiveness based on variations in the value of the U.S. dollar relative to other currencies.

The Company typically experiences longer payment cycles on its international sales, which can have an adverse impact upon the Company's liquidity. In addition, substantial portions of the Company's operations are conducted outside the United States, particularly in Sweden. International sales and operations may be subject to risks such as the imposition of governmental controls, export license requirements, restrictions on the export of critical technology, political and economic instability, trade restrictions, labor union activities, changes in tariffs and taxes, difficulties in staffing and managing international operations, and general economic conditions.

The Company experiences fluctuations in orders and sales due to seasonal fluctuations and customer sales cycles. With the exception of 1998 and 1999, revenue in the fourth quarter of each year generally has been significantly higher than any other quarter in that year and the first and, in some cases, the second quarter of the following year, due to the seasonal pattern of contracting by the U.S. and certain foreign governments, the frequent requirement by international customers to take delivery of equipment prior to the end of December due to funding considerations, and the tendency of commercial enterprises to fully utilize yearly capital budgets prior to

expiration. In addition, a significant portion of the Company's quarterly sales have historically occurred in the last month of each quarter, with sales frequently concentrated in the last week or days of the quarter. Such events are likely to continue to result in substantial fluctuations in quarterly results in the future. As a result of such quarterly fluctuations in operating results, the Company believes that quarter-to-quarter comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indicators of future performance.

Restatement of Financial Statements

In March 2000 the Company determined that it was necessary to revise its 1998 financial statements and its interim 1999 financial statements. The restatement was required because of incorrect consolidation of the Company's subsidiary information, inaccurate inventory valuation, insufficient accruals of commission expense and the inadequate accumulation and misclassification of certain subsidiary costs. As a result of these matters, certain costs and allowances were either not accrued or not recorded correctly during the appropriate periods.

In addition, in December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101), which among other guidance clarifies certain conditions to be met in order to recognize revenue. In April 2000, in connection with the audit of the Company's financial statements and in light of the focus on revenue recognition issues resulting from the issuance of SAB 101, the Company re-examined its historical application of generally accepted accounting principles relating to revenue recognition and the terms underlying certain transactions in which title and the risks of ownership had transferred to the buyer, but physical delivery to the buyer had not occurred (bill and hold transactions). As a result of this review, the Company modified its historical revenue recognition policy with respect to those bill and hold transactions.

In view of the cumulative effect of the unrecorded adjustments for costs and allowances, and the bill and hold revenue matters, the Company restated its beginning retained earnings for 1997 as a result of the revenue recognition matters, its annual and fourth quarter consolidated financial statements for 1998 and its quarterly consolidated financial statements for the first three quarters of 1999. The financial statements and related notes set forth in this Annual Report reflect all such restatements, including changes to the tax provision for all periods presented.

As a result of the restatement, total revenues for the year ended December 31, 1998 were reduced by \$11.7 million from \$208.6 million as originally reported to \$196.9 million. Earnings were reduced by \$7.0 million from \$16.8 million as originally reported to \$9.8 million for the same period. As a result of prior period adjustments for revenue recognition from bill and hold transactions, beginning retained earnings for 1997 was reduced by \$2.9 million.

16

The Company's quarterly financial results for the first three quarters of 1999 and the fourth quarter of 1998 have also been restated. As a result of the restatement, total revenues for the first three quarters of 1999 were increased from amounts previously reported by \$7.0 million from \$131.3 million as originally reported to \$138.3 million. Earnings were reduced by \$12.1 million from the net loss of \$7.7 million originally reported to a net loss of \$19.8 million for the same period. For the fourth quarter of 1998, revenues were reduced by \$11.7 million from \$63.1 million originally reported to \$51.4 million. Earnings were reduced by \$6.9 million from \$7.8 million originally reported to \$0.9 million for the same period.

Results of Operations (1)

The following table sets forth for the indicated periods certain items as a percentage of revenue:

Year Ended December		
31,		

1999(2)	1998	1997(3)

	-----	-----	-----
Revenue:			
Commercial.....	64.7 %	70.1 %	59.8 %
Government.....	35.3	29.9	40.2
	-----	-----	-----
Total revenue.....	100.0	100.0	100.0
Cost of goods sold.....	66.3	46.9	59.9
	-----	-----	-----
Gross profit.....	33.7	53.1	40.1
Operating expenses:			
Research and development.....	15.6	13.7	12.1
Selling and other operating costs.....	38.1	31.3	28.5
Combination costs.....	5.0	--	25.1
	-----	-----	-----
Total operating expenses.....	58.7	45.0	65.8
Earnings (loss) from operations.....	(25.0)	8.1	(25.7)
Interest income.....	0.3	0.4	0.4
Interest expense and other.....	(3.4)	(2.6)	(2.8)
	-----	-----	-----
Earnings (loss) before income taxes.....	(28.1)	5.9	(28.1)
Income tax provision (benefit).....	1.2	0.9	(8.0)
	-----	-----	-----
Net earnings (loss).....	(29.3)%	5.0%	(20.1)%
	=====	=====	=====

-
- (1) Financial data presented in the table above for fiscal 1998 and 1997 has been restated. See Notes 1, 15 and 17 to the Consolidated Financial Statements for information concerning the Company's restatement of its financial statements.
 - (2) Excluding the one-time charges of \$34.6 million in connection with the acquisition of Inframetrics, cost of goods sold, gross profit, earnings from operations and net earnings in 1999 would have been 52.8%, 47.2%, (6.4)% and (6.4)%, respectively.
 - (3) Excluding the one-time charge of \$52.5 million in connection with the acquisition of AGEMA, costs of goods sold, gross profit, earnings from operations and net earnings in 1997 would have been 48.8%, 51.2%, 10.6% and 5.7% , respectively.

Years ended December 31, 1999, 1998 and 1997

Revenue. Revenue decreased 5.3%, from \$196.9 million in 1998 to \$186.4 million in 1999. Commercial revenue decreased 12.6%, from \$138.0 in 1998 to \$120.6 million in 1999. The decrease was attributable to a reduction in sales of commercial airborne systems and certain commercial products sold to industrial customers. Revenue from the sale of government products rose 11.9%, from \$58.9 million in 1998 to \$65.9 million in 1999. The increase was attributable to higher deliveries of the SAFIRE family of airborne products, particularly the Star SAFIRE system that began significant shipments in 1999. Higher deliveries of the MilCAM, a hand held surveillance product, also added to the increase of government sales compared to 1998 .

17

Revenue increased 35.8%, from \$144.9 million in 1997 to \$196.9 million in 1998. Commercial revenue increased 59.2%, from \$86.7 million in 1997 to \$138.0 million in 1998. The increase was primarily attributable to the inclusion of a full year of AGEMA's operations compared to one month of operations in 1997. Revenue from the sale of government products rose 1.0%, to \$58.9 million in 1998 from \$58.3 million in 1997. The increase was primarily attributable to the inclusion of a full year of AGEMA's ground based products compared to one month of operations in 1997.

International sales contribute a significant portion of overall revenue with Europe and Japan the most consistent source of sales. International revenue in 1999 was \$98.3 million, representing 52.7% of overall revenue. This compared to 1998 international revenue of \$90.4 million, or 45.9% of total revenue, and 1997 international revenue of \$57.3 million, or 39.6% of total revenue.

Gross profit. As a percentage of revenue, gross profit declined to 33.7% in 1999 compared to 53.1% in 1998. The decline was primarily a result of the

write-off of \$25.3 million of duplicative inventory and products that were determined to have reached the end of life, both created by overlapping product lines as a result of the merger with Inframetrics. The write-off was included in cost of goods sold. Exclusive of this write-off, 1999 gross profit was 47.2%. Gross profit for 1999 was negatively affected by lower than expected production and delivery volumes resulting in excess manufacturing costs that were not fully absorbed into the products. These excess manufacturing costs were expensed in 1999.

As a percentage of revenue, gross profit increased from 40.1% in 1997 to 53.1% in 1998, primarily due to the \$16.1 million write-off of duplicative inventories related to the AGEMA acquisition that was included in cost of goods sold in 1997. Exclusive of this write-off, gross margin increased from 51.2% for 1997 to 53.1% for 1998. The improvement in 1998 was primarily attributable to a higher percentage of sales using uncooled technology, which has a more favorable cost structure compared to older technology.

Research and development. Research and development expense increased 7.6%, from \$27.0 million in 1998 to \$29.0 million in 1999. Research and development expense increased in 1999 to facilitate the introduction of new products including the ThermaCAM 595, SC3000, MarFLIR, FireFLIR, Ultra7000, UltraMedia III, Star SAFIRE and Star SAFIRE II. Research and development expense increased 53.1%, from \$17.6 million in 1997 to \$27.0 million in 1998. The increase was primarily attributable to the inclusion of a full year of AGEMA's research and development expense compared to one month of expense in 1997.

Selling and other operating costs. Selling and other operating costs increased 15.4%, from \$61.5 million in 1998 to \$71.0 million in 1999, and increased 49.3% in 1998 from \$41.2 million in 1997. As a percentage of revenue, selling and other operating costs were 38.1%, 31.3%, and 28.5% in 1999, 1998, and 1997, respectively. The increase in selling and other operating costs in 1999 reflect a variety of factors including expense increases due to anticipated higher volumes of business that were not fully realized, implementation costs for an Enterprise Resource Planning System, higher commission expense, increased bad debt expense, higher costs from our UK operations and certain year-end audit adjustments.

The increase in selling and other operating costs in 1998 in absolute dollar terms was primarily due to the inclusion of a full year of AGEMA's operations in 1998 compared to only one month in 1997, costs associated with increased revenue, particularly the increase in international sales, expenses related to the expanded operations of our international operations and to increased personnel.

Interest expense and other. Interest expense and other includes costs related to short-term and long-term debt, capital lease obligations, miscellaneous bank charges and expenses and foreign currency transaction gains and losses. Interest expense and other was \$6.3, \$5.2, and \$4.1 million for the years ended 1999, 1998, and 1997, respectively. The increase in expense was primarily due to the increased short-term debt as a result of the loss incurred in 1999 and increased working capital needs during each year.

Income taxes. The Company's effective tax rate for 1999, 1998 and 1997 was 4.4%, 15.5% and (28.3)%, respectively. The Company's effective tax rate has been substantially below the US statutory rate for a number

of reasons, including recognition of a greater or lesser valuation allowance on its deferred tax asset, utilization of research and development tax credits, and benefits obtained from utilization of a foreign sales corporation and state income taxes. Statement of Financial Accounting Standards No. 109 allows the recognition of deferred tax assets when it is more likely than not that such assets will be utilized. Historically the Company has recorded some valuation allowance for its gross deferred tax assets. In 1998, the valuation allowance was reduced because of the impact of the Company's enhanced profitability at its international subsidiaries. The valuation allowance was then increased in 1999 due to the reduced profitability in that year. The Company recognized a net tax provision in 1999, despite a consolidated pre-tax loss, because it did generate pre-tax profits in certain jurisdictions.

At December 31, 1999, the Company had net operating loss carryforwards aggregating approximately \$63.2 million, which expire in the years 2005 through 2014. Utilization of the Company's acquired net operating loss carryforwards

from FSI Automation (formerly known as "Optimas Corporation") is limited to future earnings of FSI Automation and further limited to approximately \$350,000 per year, as FSI Automation experienced a cumulative change in ownership of more than 50% within a three-year period. Additionally, the Company has various tax credits available aggregating \$3.4 million which expire in the years 2007 through 2013. Finally, the Company has a \$11.8 million deferred tax asset related to acquired in-process research and development. The realization of this deferred tax asset is dependent upon the ability of foreign subsidiaries to remit earnings to the US parent and is further limited to realization over a 15-year period.

Liquidity and Capital Resources

At December 31, 1999, the Company had short-term borrowings net of cash on hand of \$77.0 million compared to \$35.2 million at December 31, 1998. The increase in short-term borrowings during the year was principally caused by the requirement to finance operations during the year, capital expenditures during the year and due to the repayment of Inframetrics' existing long-term debt, which aggregated \$18.3 million at December 31, 1998.

At December 31, 1999, the Company had inventories on hand of \$63.3 million compared to \$71.4 million at December 31, 1998. The decrease is primarily attributable to the write-off of \$25.3 of duplicative inventory and products as a result of the merger with Inframetrics. Excluding the write-off, inventories rose \$17.2 million during the year. The rise is the result of lower than anticipated delivery of products during the year, particularly at year-end. Based on year-end values the Company experienced 1.5 turns of inventory during the year, exclusive of the write-off of duplicative inventory.

At December 31, 1999, the Company had accounts receivable in the amount of \$57.8 million compared to \$84.4 million at December 31, 1998. The decrease in the level of accounts receivable was primarily due to the lower volume of sales experienced in the last quarter of 1999 compared to the same period in 1998. The reduction also reflects a much shorter collection cycle at the end of 1999. Days sales outstanding decreased from 162 at December 31, 1998 to 112 at December 31, 1999. The Company has improved its collection process and reduced the extension of terms beyond 30 days.

The Company's investing activities have consisted primarily of expenditures for fixed assets, which totaled \$7.5 million and \$13.2 million for the years ended December 31, 1999 and 1998, respectively. The majority of expenditures in 1998 and a significant amount expended in 1999 relate to the Company's investment in new productivity tools. The two primary investments of this nature were for an Enterprise Resource Planning (ERP) system and for a sales force automation system. The investment in ERP was also necessary to be compliant for year 2000 software issues. The Company expects to spend approximately \$1 million to expand the ERP system in 2000 to make its Boston operations compatible with the rest of the organization. The sales force automation system will assist management in assessing future business prospects and planning production.

The Company entered into a Credit Agreement with a number of banks as of December 16, 1999. The Credit Agreement provides the Company with a \$100 million revolving line of credit with interest at a

fluctuating rate generally equal to the higher of the Federal Funds Rate plus 0.50% or the prime rate of the primary lender for domestic borrowings, and LIBOR for offshore borrowings. The interest rates on borrowings under the agreement increase as the Company's consolidated debt level increases. The weighted average interest rate on borrowings at December 31, 1999 was 7.86%. The Credit Agreement allows the Company to elect, any time prior to December 1, 2002, to convert the entire principal balance under the Credit Agreement into a term loan that would be payable in 24 subsequent equal monthly payments plus interest.

The Credit Agreement includes several negative covenants that, among other things, restrict the Company's ability to incur new indebtedness. The Credit Agreement is collateralized by substantially all the assets of the Company and includes certain financial covenants such as Consolidated Tangible Net Worth, Interest Coverage Ratio, Leverage Ratio and Maximum Accounts Payable Days. As of December 31, 1999 and for the year then ended, the Company was in violation of certain of the covenants. The lenders have waived all such covenant

violations as of December 31, 1999 and into 2000 and have modified the covenants for 2000, including the addition of covenants with respect to minimum levels of revenue and EBITDA. The lenders have also increased the interest rates applicable to offshore borrowings under the agreement by 0.35%.

Additionally, the Company, through one of its subsidiaries, has a 50,000,000 Swedish Kronar (approximately \$5.9 million) line of credit at 3.65% at December 31, 1999. At December 31, 1999, the Company had \$81.3 million outstanding on these lines.

The Company believes that its existing cash and available credit facilities, financing available from other sources, continuing efforts to control costs, improved the collection of accounts receivable and management of inventory levels will be sufficient to meet its cash requirements for the foreseeable future.

Impact of the Year 2000

The Company conducted a comprehensive review of its computer systems to identify the systems that could be affected by the Year 2000 issue. The Company identified that the internal manufacturing system acquired by the Company in connection with the acquisition of AGEMA was not Year 2000 compliant, and installed a new enterprise resource planning system, both hardware and software, to correct this deficiency. The Company's existing product line was tested and reviewed to ensure Year 2000 compliance, and the Company's products under development were designed to be Year 2000 compliant. Additionally, the Company evaluated Year 2000 compliance on products from its suppliers and partners. A contingency plan for dealing with the most reasonably likely worst-case scenario was developed.

Both internal and external resources were employed to identify, correct or reprogram, and test the systems for Year 2000 compliance. The total cost of the project was approximately \$7 million and was funded through existing cash resources.

To date, the Company has not encountered any material Year 2000 problems with respect to products, internal systems or any third party products or systems.

In Process Research and Development

In connection with the acquisition of AGEMA in December 1997, the Company expensed \$33.6 million representing purchased in process research and development ("IPR&D") that had not yet reached technological feasibility and had no alternative future use. These expenditures were recognized as a period expense in accordance with Statement of Financial Accounting Standards No. 2 and Financial Accounting Standards Board Interpretation No. 4. See Note 16 of the notes to the financial statements for a further discussion of the AGEMA acquisition.

The \$33.6 million value assigned to IPR&D was assigned to three separate technological projects: 570 series uncooled products (\$13.7 million), uncooled technology (\$12.1 million) and QWIP technology (\$7.8 million). The nature of the efforts required to develop these projects into commercially viable products

20

includes the completion of all planning, designing, prototyping, verification and testing activities that are necessary to establish that the product can be produced to meet its design specifications, including functions, features and technical performance requirements. At the date of acquisition, the estimated total cost to be incurred to develop the IPR&D into commercially viable products was approximately \$25.5 million in the aggregate through the year 2002.

The value assigned to the IPR&D was determined by an independent appraiser using a discounted cash flow method. This involved estimating the costs to develop the purchased in process technology into commercially viable products, estimating the resulting net cash flow from such projects and discounting the net cash flows back to their present values. The discount rate used was 25%, which included a factor that is intended to take into account the uncertainty surrounding the successful development of the purchased in process technology. The resulting net cash flows were based on management's estimates of revenue

over a five-year period, cost of sales, research and development expenses, selling, general and administrative expense and income taxes from such projects, which were consistent with historical rates.

There can be no assurance that the Company will be able to complete the required work in order to develop these projects into commercially viable products. If the IPR&D projects discussed above are not successfully developed, the revenue and profitability of the Company may be adversely affected in future periods.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates relates primarily to its short-term and long-term debt obligations. The Company currently hedges interest rate exposure through the use of long-term interest rate swaps. The Company believes that its net income or cash flow exposure relating to rate changes for short-term and long-term debt obligations are immaterial. Interest expense is affected by the general level of U.S. interest rates and/or LIBOR.

The foreign subsidiaries of the Company generally use their local currency as the functional currency. The Company does not currently enter into any foreign exchange forward contracts to hedge certain balance sheet exposures and inter-company balances against future movements in foreign exchange rates. To date, such exposure has been immaterial. The Company does maintain small cash balances denominated in currencies other than the U.S. Dollar. If foreign exchange rates were to weaken against the U.S. Dollar, the Company believes that the fair value of these foreign currency amounts would decline by an immaterial amount.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

This item includes the following financial information:

Statement -----	Page ----
Report of PricewaterhouseCoopers LLP, Independent Accountants.....	22
Consolidated Statement of Operations for the Years Ended December 31, 1999, 1998 and 1997.....	23
Consolidated Balance Sheet as of December 31, 1999 and 1998.....	24
Consolidated Statement of Shareholders' Equity for the Years Ended December 31, 1999, 1998 and 1997.....	25
Consolidated Statement of Cash Flows for the Years Ended December 31, 1999, 1998 and 1997.....	26
Notes to the Consolidated Financial Statements.....	27
Quarterly Financial Data (Unaudited).....	44

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareholders of FLIR Systems, Inc.

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheet and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of FLIR Systems, Inc. and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial

statements of Inframetrics Inc., a wholly-owned subsidiary, which statements reflect total assets of \$34,160,000 as of December 31, 1998, and total revenues of \$54,690,000 and \$53,163,000 for each of the two years in the period ended December 31, 1998. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Inframetrics, Inc., is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for the opinion expressed above.

As described in Note 17, the financial statements as of and for the year ended December 31, 1998 have been restated.

/s/ PricewaterhouseCoopers LLP

Portland, Oregon
April 14, 2000

FLIR SYSTEMS, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31,		
	1999	1998	1997
	(in thousands, except per share amounts) (Restated) (Restated)		
Revenue:			
Commercial.....	\$120,555	\$137,977	\$ 86,656
Government.....	65,893	58,888	58,278
	-----	-----	-----
Total revenue.....	186,448	196,865	144,934
Cost of goods sold.....	123,666	92,260	86,835
Research and development.....	29,006	26,958	17,607
Selling and other operating costs.....	71,046	61,541	41,225
Combination costs.....	9,301	--	36,450
	-----	-----	-----
	233,019	180,759	182,117
Earnings (loss) from operations.....	(46,571)	16,106	(37,183)
Interest income.....	480	728	540
Interest expense and other.....	(6,251)	(5,199)	(4,093)
	-----	-----	-----
Earnings (loss) before income taxes.....	(52,342)	11,635	(40,736)
Income tax provision (benefit).....	2,295	1,806	(11,548)
	-----	-----	-----
Net earnings (loss).....	\$ (54,637)	\$ 9,829	\$ (29,188)
	=====	=====	=====
Net earnings (loss) per share:			
Basic.....	\$ (3.83)	\$ 0.76	\$ (3.69)
	=====	=====	=====
Diluted.....	\$ (3.83)	\$ 0.73	\$ (3.69)
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

FLIR SYSTEMS, INC.

CONSOLIDATED BALANCE SHEET
(in thousands, except for share data)

	December 31,	
	1999	1998
		(Restated)
ASSETS		

Current assets:		
Cash and cash equivalents.....	\$ 4,255	\$ 4,793
Accounts receivable, net.....	57,777	84,442
Inventories.....	63,299	71,416
Prepaid expenses.....	6,040	6,061
Deferred income taxes.....	7,216	6,776
	-----	-----
Total current assets.....	138,587	173,488
Property and equipment, net.....	20,213	26,775
Deferred income taxes.....	16,499	15,927
Intangible assets, net.....	14,791	15,936
Other assets.....	4,970	4,385
	-----	-----
	\$195,060	\$236,511
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

Current liabilities:		
Notes payable.....	\$ 81,247	\$ 39,958
Accounts payable.....	22,128	24,031
Accrued payroll and other liabilities.....	19,816	26,580
Accrued income taxes.....	3,207	3,893
Current portion of long-term debt.....	1,084	2,680
	-----	-----
Total current liabilities.....	127,482	97,142
Long-term debt.....	1,497	19,296
Pension liability.....	3,879	3,960
Commitments and contingencies.....	--	--
Shareholders' equity:		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized; no shares issued at December 31, 1999 or 1998.....	--	--
Common stock, \$0.01 par value, 30,000,000 shares authorized, 14,388,600 and 14,133,403 shares issued at December 31, 1999 and 1998, respectively.....	144	141
Additional paid-in capital.....	143,318	142,169
Accumulated deficit.....	(78,761)	(24,124)
Accumulated other comprehensive income.....	(2,499)	(2,073)
	-----	-----
Total shareholders' equity.....	62,202	116,113
	-----	-----
	\$195,060	\$236,511
	=====	=====

The accompanying notes are an integral part of these financial statements.

FLIR SYSTEMS, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands, except for share data)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total	Annual Comprehensive Income
	Shares	Amount	Shares	Amount					
Authorized.....	10,000,000	\$0.01*	30,000,000	\$0.01*					
Balance, December 31, 1996.....	--	\$ --	7,466,290	\$ 75	\$ 51,427	\$ (4,765)	\$ (203)	\$ 46,534	\$ --
Net (loss) for the year.....	--	--	--	--	--	(29,188)	--	(29,188)	(29,188)
Common stock options exercised.....	--	--	206,975	2	1,460	--	--	1,462	--
Common stock for acquisition.....	--	--	4,162,000	42	54,064	--	--	54,106	--
Income tax benefit from stock options exercised.....	--	--	--	--	327	--	--	327	--
Translation adjustment.....	--	--	--	--	--	--	(208)	(208)	(208)
Balance, December 31, 1997.....	--	--	11,835,265	119	107,278	(33,953)	(411)	73,033	
Comprehensive loss, year ended December 31, 1997.....									\$ (29,396)
Net income for the year.....	--	--	--	--	--	9,829	--	9,829	9,829
Common stock options exercised.....	--	--	188,508	1	1,681	--	--	1,682	--
Common stock issued pursuant to stock option plans.....	--	--	111,130	1	1,181	--	--	1,182	--
Common stock issued..	--	--	1,998,500	20	32,656	--	--	32,676	--
Cost of stock issuance.....	--	--	--	--	(627)	--	--	(627)	--
Translation adjustment.....	--	--	--	--	--	--	(1,662)	(1,662)	(1,662)
Balance, December 31, 1998.....	--	--	14,133,403	141	142,169	(24,124)	(2,073)	116,113	
Comprehensive income, year ended December 31, 1998.....									\$ 8,167
Net loss for the year.....	--	--	--	--	--	(54,637)	--	(54,637)	(54,637)
Common stock options exercised.....	--	--	237,528	3	950	--	--	953	--
Common stock issued pursuant to stock compensation plans...	--	--	17,669	--	199	--	--	199	--
Translation adjustment.....	--	--	--	--	--	--	(426)	(426)	(426)
Balance, December 31, 1999.....	--	\$ --	14,388,600	\$ 144	\$143,318	\$ (78,761)	\$ (2,499)	\$ 62,202	
Comprehensive loss, year ended December 31, 1999.....									\$ (55,063)

* Par value

The accompanying notes are an integral part of these financial statements.

FLIR SYSTEMS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	1999	1998	1997
	(Restated)		
CASH USED BY OPERATING ACTIVITIES:			
Net earnings (loss).....	\$ (54,637)	\$ 9,829	\$ (29,188)
Income charges not affecting cash:			
In-process research and development write-off..	--	--	33,600
Depreciation.....	6,944	6,065	3,485
Amortization.....	2,952	2,412	680
Disposal and write-offs of property and equipment.....	5,748	446	333
Deferred income taxes.....	(1,012)	(4,231)	(14,073)
Changes in certain working capital components:			
Decrease (increase) in accounts receivable.....	26,665	(17,443)	(18,288)
Decrease (increase) in inventories.....	8,117	(22,402)	6,739
Decrease (increase) in prepaid expenses.....	21	(2,451)	73
(Increase) decrease in other assets.....	(1,052)	(80)	1,324
(Decrease) increase in accounts payable.....	(1,903)	2,720	4,588
(Decrease) increase in accounts payable to related parties.....	--	(6,228)	976
(Decrease) increase in accrued payroll and other liabilities.....	(6,764)	623	5,383
(Decrease) increase in accrued income taxes....	(686)	2,453	(1,037)
Cash used by operating activities.....	(15,607)	(28,287)	(5,405)
CASH USED BY INVESTING ACTIVITIES:			
Additions to property and equipment.....	(7,470)	(13,182)	(11,905)
Net cash acquired with AGEMA.....	--	--	805
Increase in intangible assets.....	--	(2,880)	--
Software development costs.....	--	(239)	(703)
Cash used by investing activities.....	(7,470)	(16,301)	(11,803)
CASH PROVIDED BY FINANCING ACTIVITIES:			
Net increase in notes payable.....	41,289	13,400	19,971
Proceeds from long-term debt.....	1,538	1,570	1,893
Repayments of long-term debt including current portion.....	(20,933)	(6,376)	(1,381)
Reduction of pension liability.....	(81)	(9)	(107)
Common stock issued.....	--	32,676	--
Cost of common stock issuance.....	--	(627)	--
Proceeds from exercise of stock options and shares issued pursuant to incentive stock option plans, including tax benefit.....	1,152	2,864	1,789
Cash provided by financing activities.....	22,965	43,498	22,165
Effect of exchange rate changes on cash.....	(426)	(1,662)	(208)
Net (decrease) increase in cash.....	(538)	(2,752)	4,749
Cash and cash equivalents, beginning of year....	4,793	7,545	2,796
Cash and cash equivalents, end of year.....	\$ 4,255	\$ 4,793	\$ 7,545

The accompanying notes are an integral part of these financial statements.

FLIR Systems, Inc. (the "Company") is a world leader in the design, manufacture and marketing of thermal imaging and broadcast camera systems for a wide variety of applications in commercial and government markets. The Company's thermal imaging systems use advanced infrared technologies that detect infrared radiation, or heat, enabling the operator to measure minute temperature differences and to see objects in daylight or total darkness and through obscuring agents such as smoke, haze and most types of fog. The Company's products can also incorporate visible light cameras, proprietary image analysis software and gyro-stabilized gimbal technology. The Company's products come in a variety of configurations such as handheld or ground-based systems, or can be mounted on ships, helicopters or fixed-wing aircraft. The Company's products provide state-of-the-art imaging technology coupled with competitive price performance characteristics for existing commercial and government applications, including condition monitoring, research and development, manufacturing process control, airborne observation and broadcast, search and rescue, federal drug interdiction, surveillance and reconnaissance, navigation safety, border and maritime patrol, environmental monitoring and ground-based security. The Company has also developed innovative new products utilizing advanced "uncooled" thermal imaging technology, which allows for less-expensive, smaller, lighter, solid-state systems that require less power to operate. In addition, the Company's product configurations and image analysis software tools increase the Company's ability to provide products tailored to meet individual customer requirements.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Recognition of revenue

Revenue is recognized upon shipment of product to the end customer. Revenues from development contracts are recognized on a percentage of completion basis. Provisions for estimated losses on sales or related receivables are recorded when identified.

Cash and cash equivalents

The Company considers short-term investments that are highly liquid, readily convertible into cash and have original maturities of less than three months to be cash equivalents for purposes of the statement of cash flows. The Company generally invests its excess cash in investment grade, short-term commercial paper that is held to maturity. At December 31, 1999, the Company did not hold any short-term investments.

Inventories

Inventories are stated at the lower of average cost or market.

Property and equipment

Property and equipment are stated at cost and are depreciated using a straight-line methodology over their estimated useful lives. Such lives range from three to ten years.

Repairs and maintenance are charged to operations as incurred.

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 1. Nature of Business and Significant Accounting Policies--(Continued)

Earnings per share

Earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during the periods, computed using the treasury stock method for stock options. The following table sets forth the reconciliation of the denominator utilized in the computation of

basic and diluted earnings (loss) per share (in thousands):

	December 31,		
	-----	-----	-----
	1999	1998	1997
	-----	-----	-----
Weighted average number of common shares outstanding.....	14,252	12,983	7,920
Assumed exercise of stock options net of shares assumed reacquired under the treasury stock method.....	--	527	--
	-----	-----	-----
Diluted shares outstanding.....	14,252	13,510	7,920
	=====	=====	=====

The effect of stock options for the years ended December 31, 1999 and 1997 that aggregated 269,000 and 604,000 shares, respectively, have been excluded for purposes of diluted earnings per share since the effect would have been anti-dilutive.

Reclassifications

Certain reclassifications have been made to prior years' data to conform to the current year's presentation. These reclassifications had no impact on previously reported results of operations or shareholders' equity.

Restatement

The Company's Consolidated Financial Statements as of December 31, 1998 and 1997 and for the years then ended have been restated. See Notes 15 and 17 to the Consolidated Financial Statements for a description of the restatements.

Statement of cash flows

Cash paid for interest and income taxes amounted to the following (in thousands):

	Year ended December		
	31,		
	-----	-----	-----
	1999	1998	1997
	-----	-----	-----
Cash paid for:			
Interest.....	\$5,013	\$3,930	\$2,273
Taxes.....	\$2,941	\$3,812	\$3,332

The non-cash portion of the AGEMA acquisition in December 1997 was excluded from the 1997 statement of cash flows (see Note 16).

Fair value of financial assets and liabilities

The Company estimates the fair value of its monetary assets and liabilities based upon comparison of such assets and liabilities to the current market values for instruments of a similar nature and degree of risk. The Company estimates that the recorded value of all of its monetary assets and liabilities approximates fair value as of December 31, 1999.

The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 allows companies to choose whether to account for stock-based compensation under the method prescribed in Accounting Principles Board Opinion No. 25 (APB 25) or use the fair value method described in SFAS No. 123. The Company follows the provisions of APB 25 (see Note 13).

Concentration of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of trade receivables. Concentration of credit risk with respect to trade receivables is limited because a relatively large number of geographically diverse customers make up the Company's customer base, thus diversifying the trade credit risk. The Company controls credit risk through credit approvals, credit limits and monitoring procedures. The Company performs credit evaluations for all new customers and requires letters of credit, bank guarantees and advanced payments, if deemed necessary.

Certain risks and uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant estimates and judgments made by management of the Company include matters such as collectibility of accounts receivable, realizability of inventories and recoverability of deferred tax assets. Actual results could differ from those estimates.

Comprehensive income

The cumulative translation adjustment represents the Company's only other comprehensive income item. The translation adjustment represents unrealized gains/losses resulting from the translation of the financial statements of the Company's subsidiaries in accordance with SFAS No. 52, "Foreign Currency Translation." The Company has no intention of liquidating the assets of the foreign subsidiaries in the foreseeable future.

Recent accounting pronouncements

In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Investments and Hedging Activities." The Company plans to adopt SFAS No. 133 in 2001, however, management believes that the impact of adoption will not have a significant effect on the Company's financial position or results of operations.

Note 2. Other Operating Costs

Selling and other operating costs consist of the following (in thousands):

	Year ended December 31,		
	1999	1998	1997
	-----	-----	-----
Representative commissions.....	\$ 8,788	\$ 8,297	\$ 4,331
Other selling, general and Administrative expenses.....	62,258	53,244	36,894
	-----	-----	-----
	\$71,046	\$61,541	\$41,225
	=====	=====	=====

Note 3. Income Taxes

SFAS No. 109, "Accounting for Income Taxes," requires the Company to recognize deferred tax liabilities and assets for the expected future tax consequences of events and basis differences that have been recognized in the Company's financial statements and tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amount and the tax basis of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse.

The provision (benefit) for income taxes is as follows (in thousands):

	Year ended December 31,		
	1999	1998	1997
Current tax expense:			
Federal.....	\$ 510	\$ 2,209	\$ 1,640
State.....	12	68	350
Foreign.....	2,785	1,931	538
	-----	-----	-----
	3,307	4,208	2,528
	-----	-----	-----
Deferred tax expense (benefit):			
Federal.....	(14,444)	321	(16,802)
State.....	(2,347)	8	(1,858)
Foreign.....	10	--	478
	-----	-----	-----
	(16,781)	329	(18,182)
	-----	-----	-----
Increase (decrease) in valuation allowance...	15,769	(2,731)	4,106
	-----	-----	-----
Total provision (benefit).....	\$ 2,295	\$ 1,806	\$(11,548)
	=====	=====	=====

Deferred tax assets (liabilities) are composed of the following components (in thousands):

	December 31,	
	1999	1998
Allowance for doubtful accounts.....	\$ 1,536	\$ 1,095
Warranty reserve.....	389	577
Inventory basis differences.....	4,149	2,521
Accrued liabilities.....	1,142	2,503
Other.....	--	80
	-----	-----
Net current deferred tax assets.....	\$ 7,216	\$ 6,776
	=====	=====
Acquired in-process research and development.....	\$ 10,995	\$11,846
Net operating loss carryforwards.....	22,043	7,584
Credit carryforwards.....	3,367	2,673
Depreciation.....	110	(6)
Software development costs.....	--	(185)
Intangible assets.....	--	(1,003)
Unremitted foreign earnings.....	(1,515)	(824)
Merger costs capitalized for tax purposes.....	1,414	--
Other.....	12	--
	-----	-----
Gross long-term deferred tax asset.....	36,426	20,085
Deferred tax asset valuation allowance.....	(19,927)	(4,158)
	-----	-----
Net long-term deferred tax asset.....	\$ 16,499	\$15,927

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 3. Income Taxes--(Continued)

The provision for income taxes differs from the amount of tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as a result of the following differences:

	Year ended December 31,		
	1999	1998	1997
Statutory federal tax rate.....	(34.0)%	34.0%	(34.0)%
Increase (decrease) in rates resulting from:			
State taxes.....	(4.5)	3.5	(4.0)
Foreign sales corporation benefit.....	4.6	(3.0)	(2.8)
Utilization of research and development credits.....	(1.3)	(10.5)	(0.5)
(Decrease) increase in valuation allowance..	30.1	(23.5)	10.1
Non-deductible expenses.....	2.5	17.0	1.4
Other.....	7.0	(2.0)	1.5
Effective tax rate.....	4.4%	15.5%	(28.3)%

As of December 31, 1999, the Company had net operating loss carryforwards that aggregated approximately \$63,200,000 and expire in the years 2005 through 2014. Utilization of the Company's acquired net operating loss carryforwards from FSI Automation (formerly known as "Optimas Corporation") is limited to future earnings of FSI Automation and is further limited to approximately \$350,000 per year. In addition, the Company has various tax credits available aggregating \$3,367,000 as of December 31, 1999, which expire in the years 2007 through 2013.

U.S. and foreign withholding taxes are provided on the earnings of foreign subsidiaries. The Company is required to remit earnings of foreign subsidiaries in order to realize the benefit of the acquired in-process research and development deferred tax assets. Such assets are realizable over a 15-year period. The valuation allowance related to long-term deferred tax assets was decreased in 1998 due to the effects that foreign subsidiaries profitability had on management's assessment of the amount of deferred tax asset that is more likely than not to be realized in the future. The valuation allowance was increased in 1999 due to reduced profitability that reduced management's assessment of the amount of deferred tax asset that is likely to be realized in the future.

Note 4. Accounts Receivable

Accounts receivable are net of an allowance for doubtful accounts of \$4,772,000 and \$3,216,000 at December 31, 1999 and 1998, respectively.

Note 5. Inventories

Inventories consist of the following (in thousands):

December 31,	
1999	1998

Raw material and subassemblies.....	\$32,452	\$37,419
Work-in-progress.....	15,261	12,527
Finished goods.....	17,244	22,330
	-----	-----
	64,957	72,276
Less progress payments received from customers.....	(1,658)	(860)
	-----	-----
	\$63,299	\$71,416
	=====	=====

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 6. Property and Equipment

Property and equipment are summarized as follows (in thousands):

	December 31,	
	1999	1998
	-----	-----
Machinery and equipment.....	\$ 29,900	\$ 31,953
Office equipment and other.....	28,124	17,250
	-----	-----
	58,024	49,203
Less accumulated depreciation.....	(37,811)	(22,428)
	-----	-----
	\$ 20,213	\$ 26,775
	=====	=====

Property and equipment includes the cost of equipment held by the Company under capital lease agreements. Such cost and related accumulated depreciation aggregated \$2,923,000 and \$2,441,000, respectively, at December 31, 1999, and \$2,938,000 and \$2,078,000 respectively, at December 31, 1998.

Note 7. Notes Payable

The Company entered into a Credit Agreement with a number of banks as of December 16, 1999. The Credit Agreement provides the Company with a \$100 million revolving line of credit with interest at a fluctuating rate generally equal to the higher of the Federal Funds Rate plus 0.50% or the prime rate of the primary lender for domestic borrowings, and LIBOR for offshore borrowings. The interest rates on borrowings under the agreement increase as the Company's consolidated debt level increases. The weighted average interest rate on borrowings at December 31, 1999 was 7.86%. The Credit Agreement allows the Company to elect, any time prior to December 1, 2002, to convert the entire principal balance under the Credit Agreement into a term loan that would be payable in 24 subsequent equal monthly payments plus interest.

The Credit Agreement includes several negative covenants that, among other things, restrict the Company's ability to incur new indebtedness. The Credit Agreement is collateralized by substantially all the assets of the Company and includes certain financial covenants such as Consolidated Tangible Net Worth, Interest Coverage Ratio, Leverage Ratio and Maximum Accounts Payable Days. As of December 31, 1999 and for the year then ended, the Company was in violation of certain of the covenants. The lenders have waived all such covenant violations as of December 31, 1999 and into 2000 and have modified the covenants for 2000, including the addition of covenants with respect to minimum levels of revenue and EBITDA. The lenders have also increased the interest rates applicable to offshore borrowings under the agreement by 0.35%.

At December 31, 1999, the Company had \$81 million outstanding under this facility.

Additionally, the Company, through one of its subsidiaries, has a 50,000,000 Swedish Krona (approximately \$5,882,000) line of credit at 3.65% at December 31, 1999. At December 31, 1999, the Company had \$247,000 outstanding against this line.

Standby letters of credit were outstanding at December 31, 1999, totaling \$1,393,000.

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 8. Long-Term Debt

Long-term debt is summarized as follows (in thousands):

	December 31,	
	1999	1998
	-----	-----
Note payable--patent.....	\$ --	\$ 109
Note payable--Elbit Ltd. (paid in full in March 1999)...	--	11,000
Interest on note payable to Elbit Ltd. (paid in full in March 1999)	--	2,087
Note payable to bank (paid in full in March 1999).....	--	6,837
Capital leases.....	2,581	1,943
	-----	-----
	2,581	21,976
Less current portion.....	(1,084)	(2,680)
	-----	-----
	\$1,497	\$19,296
	=====	=====

The Company had a subordinated promissory note for \$11 million to Elbit Ltd. The note bears interest at 8% and was paid in full on March 30, 1999 in conjunction with the closing of the Inframetrics merger. At December 31, 1998, accrued interest of \$2,087,000 on this note is included in the long-term debt on the accompanying balance sheet.

In 1996, the Company, through one of its subsidiaries, entered into a term loan agreement with a commercial bank consisting of a note payable of \$8.5 million. The interest rate on the note payable ranged from 7.1% to 7.4% at December 31, 1998. This note payable was paid-off and closed in connection with the completion of the Inframetrics transaction. At December 31, 1998, the note payable balance of \$6,837,000 is included in long-term debt.

Note 9. Pension Plans

The Company offers most of the employees outside the United States participation in defined benefit pension plans. A summary of the components of the net periodic pension expense for the defined benefit plans for substantially all employees outside the United States follows (in thousands):

	1999	1998
	-----	-----
Change in benefit obligation:		
Projected benefit obligation at beginning of the period.....	\$3,595	\$3,421
Service costs.....	--	--
Interest costs.....	162	278
Actuarial loss.....	42	241
Benefits paid.....	(54)	(57)

Foreign currency exchange changes.....	(118)	(288)
	-----	-----
Projected benefit obligation at December 31.....	3,627	3,595
	-----	-----
Fair value of plan assets at January 1.....	\$ --	\$ --
Funded status.....	3,627	3,595
Unrecognized net (loss) gain.....	(110)	(73)
Unrecognized transition obligation.....	362	438
	-----	-----
Pension liability recognized.....	\$3,879	\$3,960
	=====	=====

33

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 9. Pension Plans--(Continued)

Assumptions used for the defined benefit pension plans were as follows:

	1999	1998
	----	----
Weighted average discount rate.....	5.5%	5.0%
Rates of increase in compensation levels.....	3.0%	2.5%
Inflation rate.....	2.0%	1.5%

Components of net periodic benefit cost are as follows (in thousands):

	1999	1998
	----	----
Interest costs.....	\$162	\$278
Amortization of transition costs.....	(34)	(35)
	-----	-----
Net periodic pension costs.....	\$128	\$243
	=====	=====

Note 10. Commitments and Contingencies

The Company leases its primary facilities under various operating leases that expire in 2000 through 2005. Total rent expense for the years ended December 31, 1999, 1998 and 1997 amounted to \$4,224,000, \$3,629,000 and \$2,379,000, respectively.

Minimum rental payments required under all non-cancelable leases for equipment and facilities at December 31, 1999 are as follows (in thousands):

	Capital leases	Operating leases
	-----	-----
2000.....	\$1,277	\$ 3,761
2001.....	1,029	3,672
2002.....	599	3,419
2003.....		3,243
2004.....		2,897
Thereafter.....		2,012
	-----	-----
Total minimum lease payments.....	2,905	\$19,004

Less amount representing interest.....	(324)	=====

Present value of lease payments.....	\$2,581	=====

The Company has a 401(k) Savings and Retirement Plan (the "Plan") to provide for voluntary salary deferral contributions on a pre-tax basis for employees within the United States in accordance with Section 401(k) of the Internal Revenue Code of 1986, as amended. The Plan allows for contributions by the Company. The Company made and expensed matching contributions of \$1,142,000, \$1,120,000 and \$933,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

Note 11. Litigation

Beginning on or about March 13, 2000, four complaints alleging violations of the federal securities laws have been filed against the Company and against J. Kenneth Stringer III and J. Mark Samper in the United States District Court for the District of Oregon. Each complaint has been filed as a purported class action by individuals who allege that they purchased the Company's Common Stock during the purported class periods,

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 11. Litigation--(Continued)

which vary but extend from April 22, 1999 at the earliest to March 6, 2000 at the latest. The complaints allege that the defendants violated the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by intentionally issuing false and/or misleading statements regarding the Company's financial results in the Company's SEC filings and in press releases and other public statements. The complaints do not specify the amount of damages that plaintiffs seek. The Company currently expects that the lawsuits described above will be consolidated into one action within the next several months. The Company intends to contest the litigation vigorously.

The Company was involved in other litigation, investigations of a routine nature and various legal matters during 1999 that are being defended and handled in the ordinary course of business.

While the ultimate results of the matters described above cannot presently be determined, management does not expect that they will have a material adverse effect on the Company's results of operations or financial position. Therefore, no adjustments have been made to the accompanying financial statements relative to these matters.

Note 12. Capital Stock

In 1998, the Company increased the number of shares of common stock reserved for future issuance pursuant to its incentive stock plans to 4,269,400. Under the plans, restricted stock, incentive stock options or non-qualified stock options may be granted to employees, consultants or non-employee directors of the Company with an exercise price of not less than the fair market value of the stock on the date of grant. Options granted pursuant to the plans expire ten years from date of grant and the plan terminates in 2003.

Under the 1992 incentive stock plan, 430,000 shares of common stock were reserved for restricted stock awards. Shares awarded are earned ratably over the term of the restricted stock agreement, based upon achievement of specified performance goals. Shares granted in 1999 and 1998 aggregated 26,500 and 133,500 shares, respectively. Of the shares granted, 17,668 and 53,630 shares were earned in 1999 and 1998, respectively, based upon achievement of specified performance goals. Shares granted which are not issued lapse and cease to be subject to the award. Compensation expense related to these awards in the amounts of \$358,000, \$1,050,000 and \$1,747,000 was recorded in 1999, 1998 and 1997, respectively, and is included in selling and other operating costs. At December 31, 1999, there were 55,000 shares available for future awards.

On July 6, 1998, the Company completed a secondary public offering of 2,399,130 shares of common stock, including 1,638,630 shares of common stock issued and sold by the Company. Additionally, on July 24, 1998, the underwriters exercised the over-allotment option related to the secondary offering and the Company issued and sold an additional 359,870 shares of common stock. The net proceeds of \$32,049,000 were utilized to repay in full a payable to a related party, which aggregated approximately \$4,985,000, and to reduce amounts outstanding under the Company's lines of credit.

On June 2, 1999, the Board of Directors approved a Shareholder Rights Plan that provides for the issuance of one right for each share of outstanding common stock. The rights will become exercisable only in the event that an acquiring party acquires beneficial ownership of 15% or more of the Company's outstanding common stock or announces a tender or exchange offer, the consummation of which would result in beneficial ownership by that party of 15% or more of the Company's outstanding common stock. Each right entitles the holder to purchase one one-hundredth of a share of the Company's A Junior Participating Preferred Stock with economic terms similar to that of one share of the Company's common stock at a purchase price of \$65.00, subject to adjustment. The Company will generally be entitled to redeem the rights at \$0.01 per right at any

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 12. Capital Stock--(Continued)

time on or prior to the tenth day after an acquiring person has acquired beneficial ownership of 15% or more of the Company's common stock. If an acquiring person or group acquires beneficial ownership of 15% or more of the Company's outstanding common stock and the Company does not redeem or exchange the rights, each right not beneficially owned by the acquiring person or group will entitle its holder to purchase, at the rights' then current exercise price, that number of shares of common stock having a value equal to two times the exercise price. The rights expire on June 2, 2009 if not previously redeemed, exchanged or exercised.

Note 13. Stock Options

The Company has elected to account for its stock-based compensation under APB 25; however, as required by SFAS No. 123, the Company has computed for pro forma disclosure purposes the value of options granted during 1999, 1998 and 1997 using the Black-Scholes option pricing model. The weighted average assumptions used for stock option grants for 1999, 1998 and 1997 were a risk-free interest rate of 5.5%, 5.7% and 6.0%, respectively; an expected dividend yield of 0%; an expected life of three years; and an expected volatility of 49.5%, 48.4% and 40.2%, respectively.

Options were assumed to be exercised upon vesting for purposes of this valuation. Adjustments are made for options forfeited prior to vesting. For the years ended December 31, 1999, 1998 and 1997, the total value of the options granted was computed to be \$3,383,000, \$2,440,000 and \$1,879,000, respectively, which would be amortized on a straight-line basis over the vesting period of the options.

If the Company had accounted for these plans in accordance with SFAS No. 123, the Company's net earnings and pro forma net earnings per share would have been as follows (in thousands, except per share data):

	Year Ended December 31,		

	1999	1998	1997

Net (loss) earnings--as reported.....	\$(54,637)	\$9,829	\$(29,188)
Net (loss) earnings--pro forma.....	\$(57,000)	\$8,482	\$(29,969)
(Loss) earnings per share:			
Basic--as reported.....	\$ (3.83)	\$ 0.76	\$ (3.69)

Diluted--as reported.....	\$ (3.83)	\$ 0.73	\$ (3.69)
(Loss) earnings per share:			
Basic--pro forma.....	\$ (4.00)	\$ 0.65	\$ (3.78)
Diluted--pro forma.....	\$ (4.00)	\$ 0.63	\$ (3.78)

The effects of applying SFAS No. 123 for providing pro forma disclosure for 1999, 1998 and 1997 are not likely to be representative of the effects on reported net earnings and earnings per share for future years, since options vest over several years and additional awards may be made.

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 13. Stock Options--(Continued)

The table below summarizes the Company's stock option activity:

	Shares	Weighted Average Exercise Price
	-----	-----
Balance at December 31, 1996.....	1,061,026	\$ 9.94
Granted.....	580,085	9.73
Exercised.....	(206,975)	7.97
Terminated.....	(94,608)	11.13
	-----	-----
Balance at December 31, 1997.....	1,339,528	10.09
Granted.....	386,309	16.67
Exercised.....	(188,508)	8.92
Terminated.....	(116,935)	12.47
	-----	-----
Balance at December 31, 1998.....	1,420,394	11.84
Granted.....	511,600	17.14
Exercised.....	(237,528)	4.12
Terminated.....	(199,976)	17.28
	-----	-----
Balance at December 31, 1999.....	1,494,490	\$14.15
	=====	=====

The following table sets forth the exercise price range, number of shares, weighted average exercise price, and the remaining contractual lives by group of similar price and grant dates:

Exercise Price Range	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
-----	-----	-----	-----
\$0.38	38,880	\$ 0.38	7.5
\$3.18	6,729	3.18	8.1
\$5.23	100,649	5.23	1.6
\$ 9.13 - \$13.69	344,782	11.53	5.2
\$13.75 - \$20.63	978,450	16.44	8.3
\$20.88 - \$22.88	25,000	21.16	8.6
	-----	-----	---
	1,494,490	\$14.15	7.1
	=====	=====	===

Options exercisable at December 31, 1999, totaled 800,891 shares at a weighted average exercise price of \$11.79. Options available for grant at December 31, 1999 totaled 1,571,958 shares.

Note 14. Segment Information

The Company has determined its operating segments to be the commercial and government market segments. The commercial segment comprises thermal imaging applications including condition monitoring, research and development, manufacturing process control and airborne observation and broadcast. The government segment comprises thermal imaging applications including search and rescue, federal drug interdiction, surveillance and reconnaissance, navigation safety, border and maritime patrol, environment monitoring, and ground-based security.

The accounting policies of the segments are the same as those described in Note 1. The Company evaluates performance based upon revenue and gross profit for each segment and does not evaluate segment performance on any other income measurement.

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 14. Segment Information--(Continued)

Operating segment information including revenue and gross profit are as follows (in thousands):

	Year ended December 31,					
	1999		1998		1997	
	Revenue	Gross Profit	Revenue	Gross Profit	Revenue	Gross Profit
Commercial.....	\$120,555	\$51,274	\$137,977	\$ 76,427	\$ 86,656	\$26,403
Government.....	65,893	11,508	58,888	28,178	58,278	31,696
Total.....	\$186,448	\$62,782	\$196,865	\$104,605	\$144,934	\$58,099

Information related to revenue by significant geographical location is as follows (in thousands):

	Year ended December 31,		
	1999	1998	1997
United States.....	\$ 88,112	\$106,448	\$ 87,606
Europe.....	55,112	41,469	30,372
Other foreign.....	43,224	48,948	26,956
	\$186,448	\$196,865	\$144,934

Major customers:

U.S. government.....	\$ 33,242	\$ 35,422	\$ 27,123
----------------------	-----------	-----------	-----------

All longed-lived assets are generally located in the United States with the exception of property and equipment. At December 31, property and equipment is located in the following geographic areas (in thousands):

	1999	1998
	-----	-----
United States.....	\$16,385	\$18,577
Europe.....	3,828	8,198
	-----	-----
	\$20,213	\$26,775
	=====	=====

Note 15. Inframetrics Merger

Pursuant to the terms of the Agreement and Plan of Merger (the "Merger Agreement") dated as of March 19, 1999 by and among the Company, IRABU Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of the Company ("Merger Sub"), Inframetrics, Inc., a Delaware corporation ("Inframetrics") and the stockholders of Inframetrics, Merger Sub was merged with and into Inframetrics as of March 30, 1999 (the "Effective Time").

The shares of capital stock of Inframetrics outstanding immediately prior to the effective time were converted into and exchanged for a total of 2,107,552 shares of the Company's common stock (including 210,755 shares of the Company's common stock held in escrow to secure the indemnification obligations of the stockholders of Inframetrics until September 26, 1999). In addition, all employee stock options to purchase Inframetrics common stock that were outstanding immediately prior to the effective time were assumed by the Company. A total of 192,439 shares of the Company's common stock are issuable upon the exercise of the stock options assumed by the Company in the Merger.

38

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 15. Inframetrics Merger--(Continued)

The transaction was accounted for as a pooling of interests and, therefore, financial statements for all periods presented have been restated to reflect combined operations and financial position for all such periods. Such restatement had no effect on previously reported separate results of operations or shareholders' equity.

In conjunction with the merger, on March 31, 1999 the Company recorded a one-time charge of \$23.8 million consisting of a reserve for duplicative inventories of \$20.1 million, transaction related costs of \$3.2 million and cost to exit activities of \$0.5 million. During the course of the year the Company recorded additional costs related to the merger including an increase to the reserve for duplicative inventories of \$5.2 million and an increase of costs to exit activities of \$5.6 million.

The inventory reserve relates to duplicative product lines created by the merger and is included in cost of goods sold. The Company wrote-off and disposed of \$15.0 million of the related inventories as of December 31, 1999. The transaction related costs consisted of investment advisor fees, legal and accounting fees and other direct transaction costs. Such costs are included in combination costs, a separate line item in operating expenses. The cost to exit activities amount relates to estimated shut down costs related to duplicative sales offices in the United Kingdom, Germany and France. As of December 31, 1999, the Company has paid \$8.1 million of the transaction related costs and cost to exit activities.

The following reconciles revenue and net earnings (loss) previously reported to the restated information presented in the consolidated financial statements:

	1998	1997
	-----	-----
Revenues:		
Previously reported.....	\$142,175	\$ 91,771

Inframetrics.....	54,690	53,163
	-----	-----
Restated.....	\$196,865	\$144,934
	=====	=====
Net earnings (loss):		
Previously reported.....	\$ 9,307	\$(30,588)
Inframetrics.....	522	1,400
	-----	-----
Restated.....	\$ 9,829	\$(29,188)
	=====	=====

Note 16. Agema Acquisition

Effective December 1, 1997, the Company acquired all of the outstanding shares of AGEMA Infrared Systems AB, a corporation organized under the laws of Sweden, AGEMA Infrared Systems Limited, a corporation organized under the laws of the United Kingdom, AGEMA Infrared Systems Ltd., a corporation organized under the laws of Canada and AGEMA Infrared Systems, Inc., a Delaware corporation ("AGEMA") in exchange for 4,162,000 shares of the Company's common stock with a value of \$54,106,000. An additional \$1,559,000 of direct acquisition costs were also incurred and included in the purchase price. AGEMA designs, manufactures and markets handheld infrared imaging systems for the commercial market. The results of AGEMA's operations have been combined with those of the Company since the date of acquisition.

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 16. Agema Acquisition--(Continued)

The acquisition was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the net assets acquired based upon their estimated fair values as follows (in thousands):

	Balance at December 1, 1997

Current assets.....	\$ 23,413
Property and equipment.....	3,590
Other long-term assets.....	1,599
In-process research and development.....	33,600
Intangibles.....	3,600
Excess of purchase price over net assets acquired.....	14,092
Current liabilities.....	(20,153)
Long-term liabilities.....	(4,076)

	\$ 55,665
	=====

Included in current liabilities acquired was \$2,000,000 of estimated costs to shut down certain identified AGEMA facilities. Such estimated costs included the cost to involuntarily terminate or relocate employees, sell or relocate certain assets, terminate operating leases and otherwise wind up operations (collectively "the shutdown") at certain facilities formerly operated by AGEMA. The shutdown was substantially completed prior to December 1, 1998. Actual costs to accomplish the shutdown exceeded the costs originally estimated by approximately \$2,880,000. Excess shutdown costs were recorded as an adjustment to the purchase price of AGEMA and resulted in an increase in the excess of purchase price over net assets acquired. Total shutdown costs incurred are summarized as follows (in thousands):

Salaries and personnel related..... \$ 2,466

Plant shutdown costs.....	1,263
Relocation costs.....	1,151

	\$ 4,880
	=====

Intangible assets acquired and the excess of purchase price over net assets acquired are being amortized on a straight-line basis over 15 years. Related amortization expense aggregated \$1,406,000, \$1,179,000 and \$79,000 for 1999, 1998 and 1997, respectively, and is included in selling and other operating costs.

The consolidated, unaudited results of operations, on a pro forma basis, are presented as though the acquisition of AGEMA had occurred on January 1, 1997, excluding one-time charges for acquired in-process research and development, acquisition related costs and duplicative inventories (in thousands, except per share data).

	1997

	(unaudited)
Revenue.....	\$187,988
Net earnings.....	\$ 8,522
Earnings per share:	
Basic.....	\$ 1.08
Diluted.....	\$ 1.00

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 16. Agema Acquisition--(Continued)

These unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments, such as additional amortization expense of the excess of purchase price over net assets acquired and other intangible assets. They do not purport to be indicative of the results of operations which actually would have resulted had the combination been in effect on January 1, 1997, or of future results of operations of the consolidated entities.

For the purposes of this pro-forma presentation, amounts were translated at an average rate of 7.60 Swedish Kronor to the U.S. dollar for 1997.

In conjunction with the acquisition, during the quarter ended December 31, 1997, the Company recognized a one-time charge of \$52,549,000. The write-off consisted of \$36,450,000 of acquired in-process research and development and acquisition-related costs, which are included as a separate line in operating expense, and \$16,099,000 of inventories due to the creation of duplicative product lines, which is included in cost of goods sold.

Note 17. Restatement

In March 2000 the Company determined that it was necessary to revise its 1998 financial statements and its interim 1999 financial statements. The restatement was required because of incorrect consolidation of the Company's subsidiary information, inaccurate inventory valuation, insufficient accruals of commission expense and the inadequate accumulation and misclassification of certain subsidiary costs. As a result of these matters, certain costs and allowances were either not accrued or not recorded correctly during the appropriate periods.

In addition, in December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101), which among other guidance clarifies certain conditions to be met in order to recognize revenue. In April 2000, in connection with the audit of the

Company's financial statements and in light of the focus on revenue recognition issues resulting from the issuance of SAB 101, the Company re-examined its historical application of generally accepted accounting principles relating to revenue recognition and the terms underlying certain transactions in which title and the risks of ownership had transferred to the buyer, but physical delivery to the buyer had not occurred (bill and hold transactions). As a result of this review, the Company modified its historical revenue recognition policy with respect to those bill and hold transactions.

In view of the cumulative effect of the unrecorded adjustments for costs and allowances, and the bill and hold revenue matters, the Company restated its beginning retained earnings for 1997 as a result of the revenue recognition matters, its annual and fourth quarter consolidated financial statements for 1998 and its quarterly consolidated financial statements for the first three quarters of 1999. The financial statements and related notes set forth in this Annual Report reflect all such restatements, including changes to the tax provision for all periods presented.

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 17. Restatement--(Continued)

The annual consolidated financial statements have been restated as follows:

	Year Ended December 31, 1998	
	----- As Reported	As Restated -----
Revenue:		
Commercial.....	\$138,397	\$137,977
Government.....	70,225	58,888
	-----	-----
Total revenue.....	208,622	196,865
Cost of goods sold.....	95,329	92,260
Research and development.....	26,958	26,958
Selling and other operating costs.....	58,933	61,541
	-----	-----
	181,220	180,759
Earnings from operations.....	27,402	16,106
Interest income.....	728	728
Interest expense and other.....	(5,199)	(5,199)
	-----	-----
Earnings before income taxes.....	22,931	11,635
Income tax provision.....	6,155	1,806
	-----	-----
Net earnings.....	\$ 16,776	\$ 9,829
	=====	=====
Net earnings per share:		
Basic.....	\$ 1.29	\$ 0.76
	=====	=====
Diluted.....	\$ 1.24	\$ 0.73
	=====	=====

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 17. Restatement--(Continued)

	December 31, 1998	
	As Reported	As Restated
ASSETS		

Current assets:		
Cash and cash equivalents.....	\$ 4,793	\$ 4,793
Accounts receivable, net.....	91,202	84,442
Inventories.....	70,312	71,416
Prepaid expenses.....	6,061	6,061
Deferred income taxes.....	6,776	6,776
	-----	-----
Total current assets.....	179,144	173,488
Property and equipment, net.....	26,775	26,775
Deferred income taxes.....	9,749	15,927
Intangible assets, net.....	15,936	15,936
Other assets.....	4,385	4,385
	-----	-----
	\$235,989	\$236,511
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Notes payable.....	\$ 39,958	\$ 39,958
Accounts payable.....	24,031	24,031
Accrued payroll and other liabilities.....	16,189	26,580
Accrued income taxes.....	3,893	3,893
Current portion of long-term debt.....	2,680	2,680
	-----	-----
Total current liabilities.....	86,751	97,142
Long-term debt.....	19,296	19,296
Pension liability.....	3,960	3,960
Shareholders' equity:		
Preferred.....	--	--
Common stock.....	141	141
Additional paid-in capital.....	142,169	142,169
Accumulated deficit.....	(14,255)	(24,124)
Accumulated other comprehensive income.....	(2,073)	(2,073)
	-----	-----
Total shareholders' equity.....	125,982	116,113
	-----	-----
	\$235,989	\$236,511
	=====	=====

In addition to the restatement for 1998, beginning retained earnings for 1997 was restated as a result of the revenue recognition matters. The previously reported accumulated deficit of \$1,843,000 was increased by \$2,922,000 to \$4,765,000.

QUARTERLY FINANCIAL DATA (UNAUDITED)

FLIR SYSTEMS, INC.

Q1		Q2		Q3		
As Reported	As Restated	As Reported	As Restated	As Reported	As Restated	Q4
-----	-----	-----	-----	-----	-----	-----

1999

Revenue:

Commercial.....	\$ 27,636	\$ 27,986	\$28,652	\$27,245	\$36,191	\$35,624	\$ 29,700
Government.....	6,802	10,835	13,550	19,071	18,515	17,515	18,472
	-----	-----	-----	-----	-----	-----	-----
Total revenue.....	34,438	38,821	42,202	46,316	54,706	53,139	48,172
Gross profit.....	1,084	(6)	25,500	24,745	33,735	29,769	8,274
Net earnings (loss).....	(19,083)	(26,902)	2,845	930	8,544	6,179	(34,844)
Net earnings (loss) per share:							
Basic.....	\$ (1.35)	\$ (1.90)	\$ 0.20	\$ 0.07	\$ 0.60	\$ 0.43	\$ (2.43)
Diluted.....	\$ (1.35)	\$ (1.90)	\$ 0.20	\$ 0.06	\$ 0.59	\$ 0.43	\$ (2.43)

Q4

				As	As
				Reported	Restated
	Q1	Q2	Q3	-----	-----
	-----	-----	-----	-----	-----

1998

Revenue:

Commercial.....	\$28,043	\$33,604	\$37,627	\$39,123	\$38,703
Government.....	12,061	15,793	18,386	23,985	12,648
	-----	-----	-----	-----	-----
Total revenue.....	40,104	49,397	56,013	63,108	51,351
Gross profit.....	20,502	27,198	29,308	36,285	27,597
Net earnings (loss).....	(195)	3,433	5,731	7,807	860
Net earnings (loss) per share:					
Basic.....	\$ (0.02)	\$ 0.29	\$ 0.41	\$ 0.55	\$ 0.06
Diluted.....	\$ (0.02)	\$ 0.27	\$ 0.40	\$ 0.53	\$ 0.06

See Note 17 to the Consolidated Financial Statements regarding the cause of the above restatement.

The sum of the quarterly earnings (loss) per share does not equal the annual loss per share as a result of the computation of quarterly versus annual average shares outstanding.

ITEM 9. CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not Applicable

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information with respect to directors and executive officers of the Company is included under "Election of Directors," Management--Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement for its 2000 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation is included under "Executive Compensation" in the Company's definitive proxy statement for its 2000 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to security ownership of certain beneficial owners and management is included under "Stock Owned by Management and Principal Shareholders" in the Company's definitive proxy statement for its 2000 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES

(a) (1) Financial Statements

The financial statements are included in Item 8 above.

(a) (2) Financial Statement Schedules

The following schedule is filed as part of this Report:

Schedule II--Valuation and Qualifying Accounts

Report of Independent Accountants on Financial Statement Schedule

No other schedules are included because the required information is inapplicable, not required or are presented in the financial statements or the related notes thereto.

(a) (3) Exhibits

Number -----	Description -----
2.1	Merger Agreement dated as of March 19, 1999 by and among FLIR Systems, Inc., Inframetrics, Inc., Irabu Acquisition Corporation and the shareholders of Inframetrics, Inc. (incorporated by reference to Current Report on Form 8-K filed on April 14, 1999).
3.1	Second Restated Articles of Incorporation of the FLIR Systems, Inc. (incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-1 (File No. 33-62582))

45

Number -----	Description -----
3.2	First Amendment to Second Restated Articles of Incorporation of FLIR Systems, Inc. (incorporated by reference to Exhibit 1.1 to Registration Statement on Form 8-A filed on June 11, 1999)
3.3	First Restated Bylaws of the FLIR Systems, Inc. (incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-1 (File No. 33-62582))
4.1	Rights Agreement dated as of June 2, 1999 (incorporated by reference to Exhibit 1.1 to the Registration Statement on Form 8-A filed on June 11, 1999)
10.1	Form of Indemnity Agreement between the FLIR Systems, Inc. and each member of its Board of Directors (incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-1 (File No. 33-62582))

- 10.2 1984 Incentive Stock Option Plan and Amendments (incorporated by reference to Exhibit 10.2 to Registration Statement on Form S-1 (File No. 33-62582))
- 10.3 1992 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to Registration Statement on Form S-1 (File No. 33-62582))
- 10.4 1993 Stock Option Plan for Non-employee Directors (incorporated by reference to Exhibit 10.4 to Registration Statement on Form S-1 (File No. 33-62582))
- 10.5 Lease Dated February 11, 1985, as amended, by and among the FLIR Systems, Inc. and Pacific Realty Association, L.P. (incorporated by reference to Exhibit 10.6 to Registration Statement on Form S-1 (File No. 33-62582))
- 10.6 Business Loan Agreement with Bank of America NT & SA (incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1998)
- 10.7 Amendment No. 1 to Business Loan Agreement with Bank of America NT & SA (incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1998)
- 10.8 Combination Agreement, Dated October 6, 1997, Among FLIR Systems, Inc., Spectra-Physics AB, Spectra-Physics Holding S.A., Spectra-Physics Holdings GmbH, Spectra-Physics Holdings PLC, and Pharos Holdings, Inc. (incorporated by reference to Exhibit 2.0 to Current Report on Form 8-K filed on October 24, 1997)
- 10.9 Form of Executive Employment Agreement dated as of May 5, 1997 (Robert P. Daltry and J. Kenneth Stringer III) (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on October 24, 1997)
- 10.10 Form of Executive Employment Agreement dated as of May 5, 1997 (James A. Fitzhenry, J. Mark Samper, William N. Martin and Steven R. Palmquist) (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on October 24, 1997)
- 10.11 Form of Agreement amending Executive Employment Agreement dated as of December 1, 1997 for Robert P. Daltry, J. Kenneth Stringer III, James A. Fitzhenry, J. Mark Samper, William N. Martin and Steven R. Palmquist (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on December 15, 1997)
- 10.12 Form of Agreement Amending Executive Employment Agreement dated as of January 20, 1999 amending Executive Employment Agreement of Robert P. Daltry, J. Kenneth Stringer III, James A. Fitzhenry, J. Mark Samper, William N. Martin, Arne Almerfors and David Smith (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed on August 16, 1999)
- 10.13 Registration Rights Agreement dated as of December 1, 1997 by and among FLIR Systems, Inc., Spectra-Physics AB, Spectra-Physics Holdings PLC and Pharos Holdings (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on December 15, 1997)
- 10.14 Contract for the Supply of Uncooled Imaging Modules, dated January 15, 1997* (incorporated by reference to Exhibit 10.1 to Form 10-Q/A filed May 28, 1998)

Number -----	Description -----
10.15	Contract for the Supply of Uncooled Imaging Modules, dated March 4, 1998* (incorporated by reference to Exhibit 10.1 to Form 10-Q/A filed May 28, 1998)
10.16	Inframetrics, Inc. Shareholders Agreement dated as of March 19, 1999 by and among FLIR, Inframetrics and the shareholders of Inframetrics (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on April 14, 1999)
10.17	Amendment to Inframetrics, Inc. Shareholders Agreement dated as of October 27, 1999 by and among FLIR, Inframetrics, and the former shareholders of Inframetrics (incorporated by reference to Exhibits to Registration Statement on Form S-1 (File No. 333-90717))
10.18	FLIR Systems, Inc. 1999 Employee Stock Purchase Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement dated April 30, 1999)
10.19	Contract for the Supply of Uncooled Imaging Modules, dated August 8, 1999* (incorporated by reference to Exhibit 10.1 to Form 10-Q/A filed December 2, 1999)
10.20	Form of Credit Agreement among FLIR Systems, Inc. and Bank of America N.A. and certain other financial institutions dated as of December 16, 1999 (incorporated by reference to Exhibits to Registration Statement on Form S-1 (File No. 333-90717))
10.21	Form of Pledge Agreement dated as of December 16, 1999 by FLIR Systems, Inc. in favor of Bank of America N.A. as Agent (incorporated by reference to Exhibits to Registration Statement on Form S-1 (File No. 333-90717))
10.22	Form of Security Agreement dated as of December 16, 1999 between FLIR Systems, Inc. and Bank of America N.A. as Agent (incorporated by reference to Exhibits to Registration Statement on Form S-1 (File No. 333-90717))
21.0	Subsidiaries of FLIR Systems, Inc.
23.0	Consent of PricewaterhouseCoopers LLP
27.1	Financial Data Schedule
27.2	Restated Financial Data Schedule
27.3	Restated Financial Data Schedule
99.0	Report of Ernst & Young, LLP

* Portions of this Exhibit have been omitted pursuant to a request for confidential treatment under 17 C.F.R. (s) 240.24b 2.

(b) During the quarter ended December 31, 1998, the Company did not file any Form 8-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 14th day of April 2000.

FLIR SYSTEMS, INC.
(Registrant)

/s/ J. Kenneth Stringer III
By: _____
J. Kenneth Stringer III
President and Chief Executive
Officer (Principal Accounting and
Financial Officer and Duly
Authorized Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated on April 14, 2000.

Signature -----	Title -----
/s/ Robert P. Daltry ----- Robert P. Daltry	Chairman of the Board of Directors
/s/ J. Kenneth Stringer III ----- J. Kenneth Stringer III	Director, President and Chief Executive Officer (Principal Executive Officer and Principal Accounting and Financial Officer)
/s/ John C. Hart ----- John C. Hart	Director
/s/ Earl R. Lewis ----- Earl R. Lewis	Director
/s/ W. Allen Reed ----- W. Allen Reed	Director
/s/ Ronald L. Turner ----- Ronald L. Turner	Director
/s/ Steven E. Wynne ----- Steven E. Wynne	Director

SCHEDULE II

FLIR SYSTEMS, INC.

VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Column A Column B Column C Column D Column E

	Additions				Balance at the End Of the Year
	Balance at Beginning of the Year	Charges to Costs and Expenses	Charged To Other Accounts-- Described	Write-offs Net of Recoveries	
Year ended December 31, 1999					
Allowance for Doubtful Accounts.....	\$3,216 =====	\$ 5,221 =====	\$ 0 ===	\$(3,665) =====	\$ 4,772 =====
Allowance for Deferred Tax Assets.....	\$4,158 =====	\$15,769 =====	\$ 0 ===	\$ 0 =====	\$19,927 =====
Year ended December 31, 1998					
Allowance for Doubtful Accounts.....	\$2,639 =====	\$ 417 =====	\$ 0 ===	\$ 160 =====	\$ 3,216 =====
Allowance for Deferred Tax Assets.....	\$6,889 =====	\$(2,731) =====	\$ 0 ===	\$ 0 =====	\$ 4,158 =====
Year ended December 31, 1997					
Allowance for Doubtful Accounts.....	\$1,744 =====	\$ 1,059 =====	\$ 0 ===	\$ (164) =====	\$ 2,639 =====
Allowance for Deferred Tax Assets.....	\$2,783 =====	\$ 4,106 =====	\$ 0 ===	\$ 0 =====	\$ 6,889 =====

49

REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of
FLIR Systems, Inc.

Our audits of the consolidated financial statements referred to in our report dated April 14, 2000 appearing in the 1999 Annual Report on Form 10-K of FLIR Systems, Inc. also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. We did not audit the financial statement schedule of Inframetrics, Inc., a wholly owned subsidiary, for the years ended December 31, 1998 or 1997. That schedule was audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Inframetrics, Inc., is based solely on the report of the other auditors. In our opinion, based on our audit and the report of other auditors, the financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Portland, Oregon
April 14, 2000

50

Subsidiaries of FLIR Systems, Inc.

- . FSI International, Inc., a Barbados Corporation
- . Hoeger Optical Co., Inc., a California Corporation
- . FLIR Systems International Ltd., a United Kingdom Corporation
- . FSI Automation, Inc., a Washington Corporation
- . FLIR Systems AB, a Swedish Corporation
- . FLIR Systems Limited., a United Kingdom Corporation
- . FLIR Systems Ltd., a Canadian Corporation
- . FLIR Systems - Boston, Inc., a Delaware Corporation

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 33-82676, 33-82194, 33-95248 and 33-65063) of FLIR Systems, Inc. of our report dated April 14, 2000 in this Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which also appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Portland, Oregon
April 14, 2000

<ARTICLE> 5
<MULTIPLIER> 1,000

<PERIOD-TYPE>	12-MOS	
<FISCAL-YEAR-END>		DEC-31-1999
<PERIOD-START>		JAN-01-1999
<PERIOD-END>		DEC-31-1999
<CASH>		4,255
<SECURITIES>		0
<RECEIVABLES>		62,549
<ALLOWANCES>		(4,772)
<INVENTORY>		63,299
<CURRENT-ASSETS>		138,587
<PP&E>		58,024
<DEPRECIATION>		37,811
<TOTAL-ASSETS>		195,060
<CURRENT-LIABILITIES>		127,482
<BONDS>		0
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		144
<OTHER-SE>		62,058
<TOTAL-LIABILITY-AND-EQUITY>		195,060
<SALES>		186,448
<TOTAL-REVENUES>		186,448
<CGS>		123,666
<TOTAL-COSTS>		123,666
<OTHER-EXPENSES>		109,353
<LOSS-PROVISION>		5,221
<INTEREST-EXPENSE>		5,771
<INCOME-PRETAX>		(52,342)
<INCOME-TAX>		2,295
<INCOME-CONTINUING>		54,637
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		(54,637)
<EPS-BASIC>		(3.83)
<EPS-DILUTED>		(3.83)

<ARTICLE> 5
<RESTATED>
<MULTIPLIER> 1,000

<PERIOD-TYPE>	12-MOS	
<FISCAL-YEAR-END>		DEC-31-1998
<PERIOD-START>		JAN-01-1998
<PERIOD-END>		DEC-31-1998
<CASH>		4,793
<SECURITIES>		0
<RECEIVABLES>		87,658
<ALLOWANCES>		(3,216)
<INVENTORY>		71,416
<CURRENT-ASSETS>		173,488
<PP&E>		49,203
<DEPRECIATION>		(22,428)
<TOTAL-ASSETS>		236,511
<CURRENT-LIABILITIES>		97,142
<BONDS>		0
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		141
<OTHER-SE>		115,972
<TOTAL-LIABILITY-AND-EQUITY>		236,511
<SALES>		196,865
<TOTAL-REVENUES>		196,865
<CGS>		92,260
<TOTAL-COSTS>		92,260
<OTHER-EXPENSES>		88,499
<LOSS-PROVISION>		417
<INTEREST-EXPENSE>		4,471
<INCOME-PRETAX>		11,635
<INCOME-TAX>		1,806
<INCOME-CONTINUING>		9,829
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		9,029
<EPS-BASIC>		0.76
<EPS-DILUTED>		0.73

<ARTICLE> 5
<RESTATED>
<MULTIPLIER> 1,000

<PERIOD-TYPE>	12-MOS	
<FISCAL-YEAR-END>		DEC-31-1997
<PERIOD-START>		JAN-01-1997
<PERIOD-END>		DEC-31-1997
<CASH>		4,140
<SECURITIES>		0
<RECEIVABLES>		72,951
<ALLOWANCES>		(2,639)
<INVENTORY>		70,312
<CURRENT-ASSETS>		179,144
<PP&E>		37,343
<DEPRECIATION>		(16,808)
<TOTAL-ASSETS>		185,278
<CURRENT-LIABILITIES>		81,798
<BONDS>		0
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		119
<OTHER-SE>		72,914
<TOTAL-LIABILITY-AND-EQUITY>		185,278
<SALES>		144,934
<TOTAL-REVENUES>		144,934
<CGS>		86,835
<TOTAL-COSTS>		86,835
<OTHER-EXPENSES>		95,282
<LOSS-PROVISION>		1,059
<INTEREST-EXPENSE>		4,363
<INCOME-PRETAX>		(40,736)
<INCOME-TAX>		(11,548)
<INCOME-CONTINUING>		(29,188)
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		(29,188)
<EPS-BASIC>		(3.69)
<EPS-DILUTED>		(3.69)

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

Board of Directors
Inframetrics, Inc.

We have audited the accompanying consolidated balance sheet of Inframetrics, Inc. and subsidiaries (the Company) as of December 31, 1998, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the two years in the period ended December 31, 1998 (not presented separately herein). Our audits also included the financial statement schedule listed in the Index at Item 14(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Inframetrics, Inc. and subsidiaries at December 31, 1998, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 1998 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 19, 1999