

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 8-K

**CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): April 24, 2018

FLIR SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

OREGON

(State or other jurisdiction of
incorporation)

0-21918

(Commission File Number)

93-0708501

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

**27700 SW Parkway Avenue
Wilsonville, Oregon 97070
(503) 498-3547**

(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On April 25, 2018, FLIR Systems, Inc. (the "Company") issued a news release announcing (i) its financial results for the quarter ended March 31, 2018, (ii) a revision of expectations of revenue and earnings per share for the year ending December 31, 2018, (iii) the approval by the Company's Board of Directors of the extension of the employment agreement with James J. Cannon, Chief Executive Officer, and (iv) the declaration of a quarterly dividend.

The news release issued April 25, 2018 is furnished herewith as Exhibit 99.1 to this Report and shall not be deemed to be filed for purposes of Section 18 of the Exchange Act.

Item 5.02 DEPARTURE OF DIRECTORS OR CERTAIN OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF CERTAIN OFFICERS; COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS

The Company announced today that the Company and James J. Cannon had entered into an amendment to Mr. Cannon's existing employment agreement extending his employment as the Company's Chief Executive Officer through April 24, 2022. Pursuant to an Amended and Restated Employment Agreement (the "Amended Employment Agreement") between the Company and Mr. Cannon dated as of April 24, 2018 (the "Effective Date"), Mr. Cannon will be paid an annualized base salary of \$850,000, and will be eligible for annual incentive compensation for 2018 as determined by the Company's compensation committee of the Board (the "Compensation Committee") in accordance with the Company's Amended and Restated 2012 Executive Bonus Plan, as in effect from time to time. Mr. Cannon will have an initial annual incentive payment target of 110% of his base salary. The Amended Employment Agreement may be further extended by mutual agreement of the Company and Mr. Cannon.

In connection with the Company's 2018 LTIP program, Mr. Cannon will receive an equity grant having a grant date fair market value of at least \$3,850,000, as determined by the Compensation Committee. The first fifty percent (50%) of the equity grant will consist of time-based restricted stock units ("RSUs"), vesting ratably over three (3) years from the grant date. The remaining fifty percent (50%) of the equity grant will consist of performance-based restricted stock units ("PSUs"), cliff vesting on April 30, 2021 provided that the performance conditions are met and Mr. Cannon remains employed with the Company. In addition, in recognition of Mr. Cannon's leadership performance to date, the Board determined to reward Mr. Cannon and secure his continued employment with the Company through, among other things, a one-time, special grant of equity (the "Special Grant"). The Special Grant will have a total grant date fair market value of \$2,000,000, composed of one-hundred percent (100%) performance-based RSUs. Provided that the performance conditions are met and further provided that that Mr. Cannon remains employed by the Company on the vesting date(s) fifty percent (50%) of the Special Grant shall vest on the fourth (4th) anniversary of the grant date, and fifty percent (50%) of the Special Grant shall vest on the fifth (5th) anniversary of the grant date.

Pursuant to the Amended Employment Agreement, if the Amended Employment Agreement is not renewed by the Company or the Company terminates the employment of Mr. Cannon without Cause or if Mr. Cannon terminates his employment for Good Reason (as such capitalized terms are defined in the Amended Employment Agreement), he will be entitled to receive: (i) continued payments of his base salary in effect at the time of such termination for a period of 24 months, (ii) payment or reimbursement for the premiums cost of any continued health coverage elected by Mr. Cannon under COBRA for a period of up to 12 months following the termination date, (iii) an annual bonus of not less than 110% of Mr. Cannon's base salary for the year in which such termination occurs prorated from the termination date through the end of the year in which termination occurs, and (iv) immediate vesting acceleration of all time-based equity awards and any performance-based equity awards subject to post-performance vesting that have achieved the applicable performance measures as of the date of termination, provided that performance-based equity awards for any measurement period that has not yet closed shall vest subject to proration as to the percentage of the awards that has achieved the performance measures as of the termination date. If Mr. Cannon's employment terminates because of his death or disability, Mr. Cannon's estate or designated beneficiary will be entitled to an amount equal to his annual base salary.

The Amended Employment Agreement also provides that Mr. Cannon will be subject to customary non-compete and other restrictive covenants.

In addition, Mr. Cannon will be reimbursed for the cost of any relocation, including temporary living expenses and any loss of sale of Mr. Cannon's current residence and a monthly car allowance of \$1,500.

The foregoing description of the Amended Employment Agreement does not purport to be complete and is qualified in its entirety by its full text, which is filed as Exhibit 10.1 hereto and is incorporated herein by reference.

Item 7.01 REGULATION FD DISCLOSURE

On April 24, 2018, the Company entered into a Consent Agreement with the U.S. Department of State's Directorate of Defense Trade Controls Office of Defense Trade Controls Compliance ("DDTC") to resolve various alleged violations of the International Traffic in Arms Regulations ("ITAR") relating to the unauthorized export of defense articles, including technical data, the unauthorized provision of defense services to dual and third country nationals, violation of the terms of provisos or other limitations of license authorizations, and other alleged violations that resulted from voluntary and directed disclosures the Company filed with DTCC over a ten-year period. The Consent Agreement has a four-year term and provides for: (i) a civil penalty of \$30,000,000 with \$15,000,000 of this amount suspended on the condition that the funds have or will be used for Department-approved Consent Agreement remedial compliance measures, (ii) the appointment of an external Special Compliance Official to oversee compliance with the Consent Agreement and ITAR; (iii) two external audits of the Company's ITAR compliance program; and (iv) continued implementation of ongoing remedial compliance measures and additional remedial compliance measures related to automated systems and ITAR compliance policies, procedures, and training. The Company expects that the \$15,000,000 suspension amount will be satisfied by the Company's past and future compliance program remediation expenditures.

As part of the Consent Agreement, DDTC acknowledged that the Company voluntarily disclosed certain alleged Arms Export Control Act and ITAR violations, which are resolved pursuant to the Consent Agreement, and cooperated in, and instituted compliance program improvements during, DDTC's review.

The foregoing description of the Consent Agreement does not purport to be complete and is qualified in its entirety by its full text, which is filed as Exhibit 99.2 hereto and is incorporated herein by reference.

Item 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits.

10.1 [Amended and Restated Employment Agreement between FLIR Systems, Inc. and James J. Cannon dated as of April 24, 2018.](#)
99.1 [News release issued by FLIR Systems, Inc. dated April 25, 2018.](#)
99.2 [Consent Agreement dated April 24, 2018.](#)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on April 25, 2018.

FLIR SYSTEMS, INC.
(Registrant)

By /s/ Carol P. Lowe

P. Lowe
Executive Vice President and Chief Financial Officer

Carol

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

PARTIES: FLIR Systems, Inc. (the “Company”)
27700 SW Parkway Avenue
Wilsonville, OR 97070

James J. Cannon (“Executive”)
12077 Proper Pass
Fishers, IN 46037

EFFECTIVE DATE: April 24, 2018 (the “Effective Date”)

RECITALS:

WHEREAS, the Company wishes to continue to employ Executive as its Chief Executive Officer, and Executive desires to hold such position, subject to and upon the terms and conditions contained herein;

WHEREAS, the Company and Executive have previously entered into an Employment Agreement, dated June 19, 2017 (the “Prior Employment Agreement”); and

WHEREAS, the parties desire to enter into this Amended and Restated Employment Agreement (this “Agreement”) as the successor and replacement employment agreement between the parties, reflecting the longer term employment arrangements between Executive and the Company, and further reflecting the adroitness of the Executive in the execution of his responsibilities under the Prior Employment Agreement.

NOW, THEREFORE, in consideration of the mutual promises and agreements contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

1.1 “**Base Salary**” means regular cash compensation paid on a periodic basis exclusive of benefits, bonuses or incentive payments.

1.2 “**Board**” means the Board of Directors of the Company.

1.3 “**Cause**” means Executive committed any one or more of the following, whether before, on or after the effective date of this Agreement: (i) willful misconduct or gross negligence in the performance of any material duties under this Agreement that results in material damage to the Company or is reasonably expected to cause material damage to the Company, and if such misconduct is susceptible of cure, the failure to effect such cure within thirty (30) calendar days after written notice from the Board of such misconduct is given to Executive; (ii) use of alcohol or illegal drugs which interferes with the performance of Executive’s duties hereunder; (iii) theft, embezzlement, fraud, misappropriation of funds, other willful acts of dishonesty or a violation of any material law, ethical rule or fiduciary duty relating to Executive’s employment by the Company

that the Board determines materially damages the Company; (iv) conviction of (or a plea of guilty or nolo contendere with respect to) a felony or a crime involving moral turpitude; (v) the willful and material violation of any confidentiality or proprietary rights agreement between Executive and the Company that materially damages the Company; or (vi) the willful and material violation of Company policy or procedure, or breach of any material provision of this Agreement, that materially damages the Company, and if such violation or breach is susceptible of cure, the failure to effect such cure within thirty (30) calendar days after written notice from the Board of such violation or breach is given to Executive.

1.4 “**Disability**” means for purposes of Section 4.5, the inability of Executive to perform his duties under this Agreement, with or without reasonable accommodation, because of physical or mental incapacity for a continuous period of five (5) months, as determined by the Board. For purposes of Section 3.4, Disability means total and permanent disability as defined in Internal Revenue Code Section 22(e)(3).

1.5 “**FLIR**” shall mean FLIR Systems, Inc., and its wholly owned subsidiaries.

1.6 “**Good Reason**” shall exist if (i) the Company, without Executive’s written consent, (a) materially reduces Executive’s authority, duties or responsibilities, (b) materially reduces Executive’s then-current Base Salary, or (c) commits a material breach of this Agreement; (ii) Executive provides written notice to the Company of any such action within ninety (90) calendar days of the date on which such action first occurs, and provides the Company within thirty (30) calendar days to remedy such action (the “Cure Period”); (iii) the Company fails to remedy such action within the Cure Period; and (iv) Executive provides notice of resignation within thirty (30) calendar days after the expiration of the Cure Period and Executive terminates employment within sixty (60) calendar days after the expiration of the Cure Period.

ARTICLE II

EMPLOYMENT, DUTIES AND TERM

2.1 **Employment.** Upon the terms and conditions set forth in this Agreement, the Company hereby employs Executive as President and Chief Executive Officer.

2.2 **Duties.** Executive shall devote his full time and best efforts to the Company and to fulfilling the duties of President and Chief Executive Officer, which shall include such duties as may from time to time be assigned him by the Board, provided that such duties are reasonably consistent with Executive’s education, experience and background. Executive shall comply with the Company’s policies and procedures to the extent they are not inconsistent with this Agreement in which case the provisions of this Agreement prevail. Executive shall also be permitted to serve on outside boards, commissions and partnerships to the extent such service does not conflict with the provisions of this Agreement.

2.3 **Term.** The term of this Agreement shall commence on the Effective Date and continue through midnight on April 24, 2022, unless earlier terminated in accordance with Article IV. This Agreement may be extended by mutual agreement of the parties in writing. No later than forty-five (45) days before the fourth (4th) anniversary of the Effective Date, the Company shall notify Executive whether or not the Company will extend his employment beyond the term of this Agreement. In the event the Company declines to extend Executive's employment, upon the actual termination of this Agreement (whether by its expiration or by the Company without Cause), Executive shall receive the compensation and benefits outlined in Section 4.3 as though the Company had terminated Executive's employment without Cause. For the avoidance of doubt, in the event Executive declines to extend this Agreement other than for Good Reason (as defined in Section 1.6 and as provided for in Section 4.4), he shall not be entitled to receive the compensation and benefits outlined in Section 4.3.

ARTICLE III **COMPENSATION AND EXPENSES**

3.1 **Base Salary.** For all services rendered under this Agreement during the term of Executive's employment, the Company shall pay Executive an annual Base Salary of \$850,000 for 2018. Executive's Base Salary shall be reviewed annually by the Board, or a committee of the Board, and may be increased in the sole discretion of the Board, or such committee of the Board.

3.2 **Annual Bonus.** During the term of this Agreement, Executive shall be eligible for an annual incentive bonus (the "Annual Bonus") with a target award of no less than one hundred ten percent (110%) of the then-current Base Salary, such target award and Annual Bonus amount to be determined at the sole discretion of the Compensation Committee of the Board (the "Committee") in accordance with the Annual Incentive Plan Metrics in effect for such performance year. For the 2018 performance year, Executive shall be eligible for an Annual Bonus with a target award of one hundred ten percent (110%), such Annual Bonus amount to be determined at the sole discretion of the Committee in accordance with the 2018 Annual Incentive Plan Metrics.

3.3 **Equity Grants.**

(a) **2018 LTIP Equity Grant.** Subject to the approval of the Committee, the Company shall grant Executive an equity grant with economic value of at least \$3,850,000, the actual amount of which shall be set by the Committee. The first fifty percent (50%) of such equity grant shall be composed of time-based restricted stock units ("RSUs"), which shall vest ratably over three (3) years from the grant date. The remaining fifty percent (50%) of such equity grant shall be composed of performance-based restricted stock units ("PSUs"), which shall cliff vest three (3) years from the grant date provided that the performance conditions are met and further provided that Executive remains employed by the Company on the vesting date (except as otherwise provided

in Section 4.3 or Section 4.4 below). The performance criteria for the PSUs shall be set forth in the Company's 2018 long-term incentive program ("LTIP").

(b) **Special Incentive and Leadership Grant.** Subject to the approval of the Board and the Committee, and in recognition of Executive's excellent leadership performance to date, the Board wishes to reward Executive and secure his continued employment with the Company through, among other things, a one-time, special grant of equity (the "Special Grant"). The Special Grant shall have a total grant date economic value of \$2,000,000, and shall be composed of one-hundred percent (100%) performance-based RSUs of the same design and performance metrics as the PSUs referenced in Section 3.3(a) above. Provided that the performance conditions are met and further provided that that Executive remains employed by the Company on the vesting date(s) (except as otherwise provided in Section 4.3 or Section 4.4), fifty percent (50%) of the Special Grant shall vest on the four (4) year anniversary of the grant date, and fifty percent (50%) of the Special Grant shall vest on the five (5) year anniversary of the grant date.

(c) **Additional Equity Grants.** Subject to the approval of the Board and the Committee, the Company may grant Executive additional equity grants, based upon achievement of objectives and for such amount in each instance as determined by the Board and the Committee.

All equity grants, including all past and future grants, shall be subject to the terms and conditions set forth in the applicable equity plan and grant agreements between Executive and the Company associated with each such grant. In the event of any inconsistency between this Agreement and a grant agreement, the terms and conditions of the grant agreements shall take precedence.

3.4 **Personal Time Off.** Executive shall earn personal time off during the term of his employment in accordance with the Company's policies regarding paid time off that are applicable to the Company's executive officers.

3.5 **Benefits.** Executive shall be eligible to participate in all Company sponsored health and welfare benefit plans made available to other executives of the Company for so long as he is employed by the Company. In addition, Executive shall receive a monthly car allowance of \$1,500 per month for each month that this Agreement is in effect.

3.6 **Relocation Expenses.** Given the Company's business being conducted across various geographic locations, Executive shall not be required to relocate his primary residence. Should Executive choose, in his sole discretion, to relocate his primary residence to a location where the Company does business (the "Location"), Executive shall be entitled to reimbursement of expenses reasonably incurred during such relocation, including the cost of the rental of an apartment or use of a hotel room; the cost of travel to and from his home to the Location; expenses related to the search for a permanent residence in the Location; and the actual costs of moving his family and tangible possessions to the Location. In addition, the Company shall cover any loss to Executive

on the actual paid price versus the realized received price for the sale of his house in Indiana, provided that the Company shall control the timing of such sale in consultation with Executive.

3.7 **Business Expenses.** The Company shall, in accordance with, and to the extent of, its policies in effect from time to time, bear all ordinary and necessary business expenses reasonably incurred by Executive in performing his duties as an employee of the Company, including, but not limited to, reasonable and ordinary course travel expenses from his home in Indiana to any Company location, provided that Executive accounts promptly for such expenses to the Company in the manner prescribed from time to time by the Company.

3.8 **Taxes and Withholding.** All amounts payable to Executive under this Agreement shall be net of amounts required to be withheld by law.

ARTICLE IV **EARLY TERMINATION**

4.1 **Early Termination.** This Article sets forth the terms for early termination of Executive's employment with the Company.

4.2 **Termination for Cause.** The Company may terminate Executive's employment for Cause immediately upon written notice from the Board to Executive. In the event of termination for Cause pursuant to this Section 4.2, Executive shall be paid Executive's Base Salary through the date of termination at the rate then in effect, and (without regard to any language that may be inconsistent in any option grant) for any option granted on or after the date of this Agreement Executive shall have the lesser of three (3) months from such termination or the remaining option term in which to exercise his vested stock options.

4.3 **Termination Without Cause.** Either Executive or the Company may terminate Executive's employment without Cause on no less than thirty (30) calendar days written notice from or to the Board. In the event Executive terminates his employment without Cause pursuant to this Section 4.3, and not for Good Reason pursuant to Section 4.4, Executive shall be paid his then-current Base Salary through the date of termination. In the event the Company terminates the Executive's employment without Cause pursuant to this Section 4.3, then: (i) the Company shall pay to Executive continuation of Executive's Base Salary in effect at the time of termination for a period of twenty-four (24) months, in accordance with the Company's regular payroll practices; (ii) Executive automatically shall become vested in one hundred percent (100%) of outstanding time-based equity awards; (iii) Executive shall become vested in any performance-based equity awards subject to post-performance vesting that have achieved the applicable performance measures as of the date of termination, provided that performance-based equity awards for any measurement period that has not yet closed shall vest subject to proration as to the percentage of the awards that has achieved the performance measures as of the termination date; (iv) Executive shall automatically become vested in "premium options," if any have been granted to Executive, that have equaled or

exceeded the premium hurdle as of the date of the termination; (v) if Executive elects to continue his health coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (“COBRA”), the Company shall pay or reimburse Executive for the COBRA premiums payable on behalf of Executive for a period of twelve (12) months following the effective date of the termination and (vi) Executive shall be entitled to an Annual Bonus (in lieu of any Annual Bonus for the year of termination otherwise set forth in Section 3.2) in an amount of one-hundred and ten percent (110%) of one (1) year’s then-current Base Salary, but subject to proration for the current performance year through the date of termination, which amount shall be paid promptly at termination subject to Section 4.6 below.

4.4 **Termination for Good Reason.** Executive may terminate Executive’s employment for Good Reason upon written notice to the Board. In the event of a termination by Executive for Good Reason, Executive shall receive the compensation and benefits outlined in Section 4.3 as though the Company had terminated Executive’s employment without Cause.

4.5 **Termination in the Event of Death or Disability.** In the event Executive’s employment terminates as a result of the death or Disability of Executive, the following provisions shall apply:

(a) In the event of Executive’s death, the Company shall pay all accrued wages owing through the date of termination, plus an amount equal to one year’s Base Salary. Such amount shall be paid (1) to the beneficiary or beneficiaries designated in writing to the Company by Executive, (2) in the absence of such designation, to the surviving spouse, or (3) if there is no surviving spouse, or such surviving spouse disclaims all or any part, then the full amount, or such disclaimed portion, shall be paid to the executor, administrator or other personal representative of Executive’s estate. The amount shall be paid as a lump sum as soon as practicable following the Company’s receipt of notice of Executive’s death, but in no event later than December 31 of the year of death if Executive dies between January 1 and October 31. If Executive dies in November or December, such payment shall be made in January of the year following the year of death.

(b) In the event of Disability, Base Salary shall be paid through the final day of the twelfth (12th) month referenced in the definition of “Disability.”

4.6 **Separation Agreement Conditions.** The Company shall not be obligated to provide Executive any payment, benefit and/or vesting described in Section 4.3 or Section 4.4 unless and until Executive has executed without revocation a separation agreement in a form acceptable to the Company, which must be signed by Executive, returned to the Company and be enforceable and irrevocable no later than sixty (60) days following Executive’s separation from service (the “Review Period”), and which shall include, at a minimum, a complete general release of claims against the Company and its affiliated entities and each of their officers, directors, employees. If Executive executes and does not revoke such agreement within the Review Period, then provision of payments,

benefits and/or vesting shall commence on the first (1st) day following the Review Period, provided that if the last day of the Review Period occurs in the calendar year following the year of termination, then the payment shall not commence until January 2 of such subsequent calendar year, and provided that, as applied to Section 4.3(i), 4.3(v), and 4.3(vi), the first payments/benefits shall include in a lump sum all amounts that were otherwise payable to Executive from the date of Executive's separation from service occurred through such first payment.

4.7 **Entire Termination Payment.** The compensation provided for in this Article IV shall constitute Executive's sole remedy for early termination of Executive's employment. Executive shall not be entitled to any other termination or severance payment which may be payable to Executive under any other agreement between Executive and the Company or under any policy in effect at, preceding or following the date of termination except that, in the event that Executive's employment terminates for any reason, the vested benefits accrued under tax-qualified retirement plans, if any, will be paid as such plans are ordinarily payable upon a termination of employment.

ARTICLE V
CONFLICT OF INTEREST

5.1 During the term of employment with the Company, Executive will engage in no activity or employment which may conflict with the interests of the Company, and will comply with the Company's policies and guidelines pertaining to business conduct and ethics.

ARTICLE VI
EXECUTIVE COVENANTS

6.1 **Restricted Activities.** In connection with Executive's role as President and Chief Executive Officer of the Company and in consideration of the extension of his employment by this Agreement, Executive agrees that certain restrictions on his activities during and after his employment are necessary to protect the goodwill, confidential information and other legitimate interests of the Company and its affiliates:

(a) While Executive is employed by the Company, and for a period of twenty-four (24) months following the date of termination of such employment, Executive shall not, directly or indirectly, whether as owner, partner, investor, consultant, agent, employee, co-venturer or otherwise, compete with the business of the Company or any of its affiliates anywhere in the world where the Company or any of its affiliates is doing business or undertake any planning for competition with the Company or any of its affiliates. Specifically, but without limiting the foregoing, Executive agrees not to engage in any manner in any activity that is directly or indirectly competitive or potentially competitive with the business of the Company or any of its affiliates as conducted or under consideration at any time during Executive's employment or to provide services in any capacity to a competitor of the Company or any of its affiliates. The business of the Company and its affiliates is the business of the Products. The foregoing condition, however, shall not fail to

be met solely due to Executive's passive ownership of less than 3% of the equity securities of any publicly traded company. For purposes of this Agreement, "**Products**" means all products planned, researched, developed, tested, manufactured, sold, licensed, leased or otherwise distributed or put into use by the Company or any of its affiliates, together with all services provided or planned by the Company or any of its affiliates, during Executive's employment.

(b) Executive agrees that, while he is employed by the Company, and for a period of twenty-four (24) months following the date of termination of such employment, and excluding any activities undertaken on behalf of the Company or any of its affiliates in the course of his duties, he will not directly or indirectly solicit or encourage any customer of the Company or any of its affiliates to terminate or diminish its relationship with the Company or any of its affiliates; or directly or indirectly solicit or encourage any customer or potential customer of the Company or any of its affiliates to conduct with any person any business or activity which such customer or potential customer conducts or could conduct with the Company or any of its affiliates.

(c) Executive agrees that, while he is employed by the Company, and for a period of twenty-four (24) months following the date of termination of such employment, and excluding any activities undertaken on behalf of the Company or any of its affiliates in the course of his duties, he will not directly or indirectly hire or otherwise engage the services of any employee, independent contractor or other agent providing services to the Company or any of its affiliates or solicit any such employee, independent contractor or agent to terminate or diminish his/her/its relationship with the Company or any of its affiliates; provided that this Section shall not restrict Executive's right to solicit prospective employees, independent contractors or agents pursuant to a general advertisement not specifically directed at such persons and to hire any persons (other than any person who was a direct report of Executive during his employment) who respond thereto and (2) that the solicitation or hiring of any independent contractor that is not an individual and provides services to multiple clients shall not be a violation of this Section so long as such solicitation or hiring does not cause the independent contractor to terminate or diminish its relationship with the Company or any of its affiliates.

(d) Executive agrees that during his employment by the Company and thereafter he shall not disparage the Company or any of its affiliates, their management or their business or the Products.

6.2 **Enforcement of Covenants.** Executive acknowledges that he has carefully read and considered all the terms and conditions of this Agreement, including the restraints imposed upon him pursuant to this Section 6. Executive agrees that those restraints are necessary for the reasonable and proper protection of the Company and its affiliates and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area. Executive further acknowledges that, were he to breach any of the covenants contained in this Section 6, the damage to the Company and its affiliates would be irreparable. Executive therefore agrees that the Company,

in addition to any other remedies available to it, shall be entitled to preliminary and permanent injunctive relief against any breach or threatened breach by Executive of any of said covenants, without having to post bond. The parties further agree that, in the event that any provision of this Section 6 shall be determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, such provision shall be deemed to be modified to permit its enforcement to the maximum extent permitted by law.

6.3 **Confidentiality and Proprietary Information Agreements.** The restrictions and covenants set forth in this Section 6 shall be in addition to, and not in lieu of, any confidentiality, proprietary information, inventions or other agreements which Executive has entered into, or hereafter enters into, in connection with his employment or service as a director of the Company.

ARTICLE VII

GENERAL PROVISIONS

7.1 **Successors and Assigns.** Except as otherwise provided in Article VI, this Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns, administrators, executors, legatees, and heirs. In that this Agreement is a personal services contract, it shall not be assigned by Executive.

7.2 **Notices.** All notices, requests and demands given to or made pursuant hereto shall, except as otherwise specified herein, be in writing and be delivered or mailed to the Company at its address as set forth at the beginning of this Agreement (to the attention of the General Counsel), or to the Executive at his address on record at the time of the notice. Either party may change its address, by notice to the other party given in the manner set forth in this Section. Any notice, if mailed properly addressed, postage prepaid, registered or certified mail, shall be deemed dispatched on the registered date or that stamped on the certified mail receipt, and shall be deemed received within the third (3rd) business day thereafter or when it is actually received, whichever is sooner.

7.3 **Caption.** The various headings or captions in this Agreement are for convenience only and shall not affect the meaning or interpretation of this Agreement.

7.4 **Governing Law and Jurisdiction.** The validity, construction and performance of this Agreement shall be governed by the laws of the State of Indiana, without regard to its choice of laws provisions.

7.5 **Mediation.** In the case of any dispute arising under this Agreement which cannot be settled by reasonable discussion, the parties agree that, prior to commencing any proceeding, they will first engage the services of a professional mediator agreed upon by the parties and attempt in good faith to resolve the dispute through confidential nonbinding mediation. Each party shall bear one-half (1/2) of the mediator's fees and expenses and shall pay all of its own attorneys' fees

and expenses related to the mediation. This Section 7.5 shall not apply to any action to enforce Executive's obligations under Section 6.1 or under a confidentiality or proprietary rights agreement.

7.6 **Indemnification.** If Executive is made a party or identified as a witness to any threatened or pending action, suit, or proceeding (whether civil, criminal, administrative or investigative) in any matter concerning or relating to Executive's service to or actions or omissions on behalf of the Company as an employee or agent thereof, then the Company shall, to the maximum extent permitted by law, and in addition to any such right granted to or available to Executive under the Company's Charter, By-Laws or standing or other resolutions or agreements, defend, indemnify and hold Executive harmless against all expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement. The Company shall, upon Executive's request, promptly advance or pay any amounts for reasonable costs, charges, or expenses (including any legal fees and expenses incurred by Executive) subject to indemnification hereunder or in furtherance of such right, subject to a later determination as to Executive's ultimate right to receive indemnification.

Executive's right to indemnification will survive until the expiration of all applicable statutes of limitations, without regard to the earlier cessation of Executive's employment or any termination or expiration of this Agreement.

7.7 **Attorney Fees.** In the event of any suit, action or arbitration to interpret or enforce this Agreement, the prevailing party shall be entitled to recover its attorney fees, costs and out-of-pocket expenses at trial and on appeal.

7.8 **Construction.** Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Agreement.

7.9 **Waivers.** No failure on the part of either party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy granted hereby or by any related document or by law.

7.10 **Modification.** This Agreement may not be and shall not be modified or amended except by written instrument signed by the parties hereto.

7.11 **Section 409A.** Any reimbursement of expenses under this Agreement (including, for example, under Section 3.7) shall occur not later than March 15 of the year following the year in which the expense was incurred. Any amount of expenses eligible for reimbursement, or in-kind benefit provided, during a calendar year shall not affect the amount of expenses eligible for reimbursement, or in-kind benefit to be provided, during any other calendar year. The right to any

reimbursement or in-kind benefit pursuant to this Agreement shall not be subject to liquidation or exchange for any other benefit. In the event Executive is a “specified employee” within the meaning of Section 409A of the Internal Revenue Code (“Code Section 409A”) at the time of the termination of Executive’s employment, any payments on termination due hereunder (other than accrued salary and vacation pay) which are considered nonqualified deferred compensation and are payable during the six (6) month period beginning on Executive’s termination will be deferred and paid, together with interest at eight percent (8%), in a lump sum six (6) months and one (1) day after the date of termination (or, if earlier, upon Executive’s death).

A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment that are considered “nonqualified deferred compensation” under Code Section 409A unless such termination is also a “separation from service” within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean “separation from service.”

It is the intention of the parties that no payment or entitlement pursuant to this Agreement will give rise to any adverse tax consequences to Executive under Code Section 409A and any guidance issued thereunder. Notwithstanding any provision of this Agreement to the contrary, this Agreement shall be interpreted, applied and (to the minimum extent necessary) amended so that it does not fail to meet, and is operated in accordance with, the requirements of that Section. Any reference in this Agreement to Code Section 409A shall also include any proposed, temporary or final regulations, or any other guidance, promulgated with respect to that Section by the U.S. Department of the Treasury or the Internal Revenue Service.

7.12 **Entire Agreement.** This Agreement constitutes the entire agreement between the parties and supersedes all prior or contemporaneous oral or written understandings, statements, representations or promises with respect to its subject matter, including but not limited to the Prior Employment Agreement, which is amended and restated hereby in its entirety. This Agreement was the subject of negotiation between the parties and, therefore, the parties agree that the rule of construction requiring that the agreement be construed against the drafter shall not apply to the interpretation of this Agreement.

7.13 **Counterparts.** This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

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Signed this 24th day of April, 2018.

JAMES J. CANNON FLIR SYSTEMS, INC.

/s/James J. Cannon By: /s/Earl R. Lewis
Title: Chairman of the Board



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Exhibit 99.1

FLIR Systems Announces First Quarter 2018 Financial Results

First Quarter Revenue Growth of 8% Over Prior Year; Organic Revenue Growth of 13% Over Prior Year

GAAP EPS of \$0.28; Adjusted EPS of \$0.48, Up 33% Over Prior Year

Gross Margins Improve 260 Basis Points Over Prior Year

WILSONVILLE, OR, April 25, 2018 – FLIR Systems, Inc. (NASDAQ: FLIR) today announced financial results for the first quarter ended March 31, 2018. Commenting on these results, Jim Cannon, President and Chief Executive Officer, said “With these record first quarter results, we are off to a great start to 2018. Our top line grew 13% organically while our adjusted earnings per share grew 33%. All three of our business units had double-digit organic revenue growth and we saw significant operating leverage with this growth.”

Mr. Cannon continued, “We have an improved outlook for the year as we commit to innovating around our customer’s needs while we fuel, feed, and focus our businesses. Our teams continue their hard work to deploy The FLIR Method initiatives and tools for disciplined continuous improvement to drive value for our shareholders and our customers. And our repurchase of 1.7 million shares in the quarter is further demonstration of how we create value for our shareholders.”

First Quarter 2018

First quarter 2018 revenue was \$439.6 million, up 8% over first quarter 2017 revenue of \$406.8 million. Organic revenue growth was 13%, which excludes the first quarter results in 2017 and 2018 of the previously disclosed divested portion of the Security division that closed on February 6, 2018.

GAAP Earnings Results

GAAP gross profit in the first quarter increased 14% to \$217.9 million, or 49.6% of revenue, compared to \$191.3 million, or 47.0% of revenue in the first quarter of 2017. GAAP operating income in the first quarter decreased 6% to \$55.5 million, compared to \$59.1 million in the prior year. First quarter 2018 GAAP results were negatively impacted by a \$10 million pre-tax loss on the divested Security businesses and a \$15 million charge related to a U.S. Department of State Directorate of Defense Trade Controls (DDTC) penalty of \$30 million, with \$15 million suspended



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based on verifiable past and future expenditures for remedial compliance measures, in connection with a consent agreement executed yesterday to resolve various alleged violations of the International Traffic in Arms Regulation (ITAR) referred to in FLIR's 2017 10-K filing.

First quarter 2018 GAAP net earnings were \$39.2 million, or \$0.28 per diluted share, compared with GAAP net earnings of \$42.6 million, or \$0.31 per diluted share in the first quarter a year ago.

Cash provided by operations was \$43.2 million in the first quarter of 2018, compared to \$75.1 million in the first quarter of the prior year. The decline compared to the prior year was due primarily to U.S. repatriation tax payments and timing of other tax payments. Approximately 1.7 million shares were repurchased in the quarter at an average price of \$49.34.

Non-GAAP Earnings Results

Adjusted gross profit was \$222.0 million in the first quarter, representing 50.5% of revenue and increasing 13% over adjusted gross profit of \$196.9 million in the first quarter of 2017. Adjusted operating income was \$87.8 million in the first quarter, which was 26% higher than adjusted operating income of \$69.6 million in the first quarter of 2017. Adjusted operating margin increased 290 basis points to 20.0%, compared with 17.1% in the first quarter of 2017.

Adjusted net earnings in the first quarter were \$68.2 million, or \$0.48 per diluted share, which was 33% higher than adjusted earnings per diluted share of \$0.36 in the first quarter of 2017.

Business Unit Results

Revenue from the Industrial Business Unit was \$170.7 million, an increase of 10% over the first quarter results of last year, due to increased handheld thermal imager and camera core sales. The Government and Defense Business Unit contributed \$159.3 million of revenue during the first quarter, up 15% over the prior year, and was driven by international deliveries. The Commercial Business Unit recorded revenue of \$109.6 million in the first quarter, down 4% from the prior year, but up 12% excluding revenue related to the divested portion of the Security division. Strong results in the Raymarine and ITS businesses contributed to the organic growth.

Revenue and Earnings Outlook for 2018

Based on financial results for the first quarter of the year and the outlook for the remainder of the year, FLIR now expects revenue in 2018 to be in the range of \$1.760 billion to \$1.790 billion, increased from the previous \$1.730 billion to \$1.760 billion amount. Adjusted net earnings per diluted share is now expected to be in the range of \$2.11 to \$2.16 per diluted share, up from the previous outlook of \$2.05 to \$2.10 per diluted share.



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CEO Contract Extension

FLIR also announced today that its Board of Directors has approved the extension of Jim Cannon's employment agreement through April 2022. "We are delighted that Jim has agreed to extend his contract," said Earl Lewis, FLIR's Chairman of the Board. "This extension recognizes the significant impact Jim has had on the business since he's joined the team and signifies the Board of Director's conviction in his leadership capabilities, his commitment to our customers, and his long term strategy."

Dividend Declaration

FLIR's Board of Directors has declared a quarterly cash dividend of \$0.16 per share on FLIR common stock, payable June 8, 2018, to shareholders of record as of close of business on May 25, 2018.

Conference Call

FLIR has scheduled a conference call at 9:00 a.m. ET (6:00 a.m. PT) today to discuss its results for the quarter. A simultaneous webcast of the conference call and the accompanying summary presentation can be accessed online from a link in the Events & Presentations section of www.FLIR.com/investor. A replay will be available after 12:00 p.m. ET (9:00 a.m. PT) at this same internet address. Summary first quarter and historical financial data may be accessed online from the Financial Info Database link under the Filings & Financials section at www.FLIR.com/investor.

About FLIR Systems

Founded in 1978 and headquartered in Wilsonville, Oregon, FLIR Systems is a world-leading maker of sensor systems that enhance perception and heighten awareness, helping to save lives, improve productivity, and protect the environment. Through its nearly 3,500 employees, FLIR's vision is to be "The World's Sixth Sense" by leveraging thermal imaging and adjacent technologies to provide innovative, intelligent solutions for security and surveillance, environmental and condition monitoring, outdoor recreation, machine vision, navigation, and advanced threat detection. For more information, please visit www.flir.com and follow @flir.

Definitions and Financial Measures

Organic revenue growth is defined as total revenue growth less the sales of companies acquired and divested in the past twelve months. Operating margin is defined as operating income as a percentage of revenue. Management uses operating income and operating margin as key measures to assess the performance of the Company as a whole, as well as the related measures at the segment level.

Non-GAAP Financial Measures: In addition to financial measures prepared in accordance with generally accepted accounting principles (GAAP), this earnings release makes reference to non-GAAP measures. With respect to the outlook for the full year 2018, certain items that affect GAAP net earnings per diluted share are out of the Company's control and/or cannot be reasonably predicted. Consequently, the Company is unable to provide a reasonable estimate of GAAP net earnings per



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diluted share or a corresponding reconciliation to GAAP net earnings per diluted share for the full year. Additional information regarding the reasons the Company uses non-GAAP measures, a reconciliation of these measures to the most directly comparable GAAP measures, and other information relating to these measures are included below, following the GAAP financial information.

Forward-Looking Statements

Statements in this release by Jim Cannon and Earl Lewis, the statements in "GAAP Earnings Results" that are not historical facts, and the statements in the section captioned "Revenue and Earnings Outlook for 2018" above are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements that are not statements of historical fact (including statements containing the words "believes," "plans," "anticipates," "expects," "estimates," or similar expressions) should be considered to be forward looking statements. Such statements are based on current expectations, estimates, and projections about FLIR's business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks and uncertainties 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 the following: changes in demand for FLIR's products, product mix, the timing of customer orders and deliveries, the impact of competitive products and pricing, the timing or impact of self-imposed or government ordered remediation efforts related to FLIR's compliance with U.S. export control laws and regulations and similar laws and regulations, the timely receipt of any necessary export licenses, constraints on supplies of critical components, excess or shortage of production capacity, the ability to manufacture and ship the products in the time period required, actual purchases under agreements, the continuing eligibility of FLIR to act as a federal contractor, the amount and availability of appropriated government procurement funds and other risks discussed from time to time in filings and reports filed with the Securities and Exchange Commission. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions. Such forward-looking statements speak only as of the date on which they are made and FLIR does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this release, or for changes made to this document by wire services or internet service providers.

Investor Relations

Shane Harrison
503-498-3547
shane.harrison@flir.com



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FLIR SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF (LOSS) INCOME
(In thousands, except per share amounts)(Unaudited)

	Three Months Ended	
	March 31,	
	2018	2017
Revenue	\$ 439,618	\$ 406,814
Cost of goods sold	221,704	215,493
Gross profit	217,914	191,321
Operating expenses:		
Research and development	44,561	41,983
Selling, general and administrative	107,683	90,252
Loss on sale of business	10,178	—
Total operating expenses	162,422	132,235
Earnings from operations	55,492	59,086
Interest expense	4,052	4,453
Interest income	(956)	(271)
Other income, net	(2,219)	(660)
Earnings before income taxes	54,615	55,564
Income tax provision	15,420	12,993
Net earnings	\$ 39,195	\$ 42,571
Earnings per share:		
Basic	\$ 0.28	\$ 0.31
Diluted	\$ 0.28	\$ 0.31
Weighted average shares outstanding:		
Basic	138,504	136,359
Diluted	140,994	138,239



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FLIR SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)(Unaudited)

	March 31, 2018	December 31, 2017
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 452,138	\$ 519,090
Accounts receivable, net	329,792	346,687
Inventories	385,906	372,183
Assets held for sale, net	0	67,344
Prepaid expenses and other current assets	101,371	81,915
Total current assets	<u>1,269,207</u>	<u>1,387,219</u>
Property and equipment, net	260,200	263,996
Deferred income taxes, net	15,924	21,001
Goodwill	918,292	909,811
Intangible assets, net	163,429	168,130
Other assets	76,948	59,869
	<u>\$ 2,704,000</u>	<u>\$ 2,810,026</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 110,653	\$ 106,389
Deferred revenue	25,224	25,614
Accrued payroll and related liabilities	61,817	71,310
Accrued expenses	49,760	37,089
Accrued income taxes	38,869	64,136
Liabilities held for sale	0	39,544
Other current liabilities	52,390	50,851
Total current liabilities	<u>338,713</u>	<u>394,933</u>
Long-term debt	421,000	420,684
Deferred income taxes	15,732	12,496
Accrued income taxes	89,088	87,483
Other long-term liabilities	53,249	59,872
Commitments and contingencies		
Shareholders' equity	<u>1,786,218</u>	<u>1,834,558</u>
	<u>\$ 2,704,000</u>	<u>\$ 2,810,026</u>



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FLIR SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net earnings	\$ 39,195	\$ 42,571
Income items not affecting cash:		
Depreciation and amortization	16,446	17,031
Deferred income taxes	4,574	192
Stock-based compensation arrangements	5,931	6,246
Change in accrued income taxes	(29,435)	(4,115)
Other activity impacting operating cash flows	6,465	13,202
Cash provided by operating activities	<u>43,176</u>	<u>75,127</u>
Cash flows from investing activities:		
Additions to property and equipment, net	(7,099)	(13,594)
Proceeds from sale of business	25,920	—
Business acquisitions, net of cash acquired	(7,070)	—
Other Investments	(9,500)	—
Cash provided (used) by investing activities	<u>2,251</u>	<u>(13,594)</u>
Cash flows from financing activities:		
Repayments of credit agreement and long-term debt	—	(7,500)
Repurchase of common stock	(94,956)	—
Dividends paid	(22,232)	(20,456)
Proceeds from shares issued pursuant to stock-based compensation plans	3,497	1,002
Tax paid for net share exercises and issuance of vested restricted stock units	(265)	(1,843)
Other financing activities	(11)	(1)
Cash used by financing activities	<u>(113,967)</u>	<u>(28,798)</u>
Effect of exchange rate changes on cash	<u>1,588</u>	<u>3,352</u>
Net (decrease) increase in cash and cash equivalents	(66,952)	36,087
Cash and cash equivalents:		
Beginning of period	519,090	361,349
End of period	<u>\$ 452,138</u>	<u>\$ 397,436</u>



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FLIR SYSTEMS, INC.
OPERATING SEGMENT PERFORMANCE
(In thousands)(Unaudited)

	Three Months Ended	
	March 31,	
	2018	2017
<u>SEGMENT REVENUE</u>		
Industrial	\$ 170,658	\$ 154,785
Government and Defense	159,331	138,180
Commercial	109,629	113,849
<u>SEGMENT EARNINGS FROM OPERATIONS</u>		
Industrial	\$ 45,455	\$ 42,818
Government and Defense	46,182	33,319
Commercial	14,472	9,988
<u>SEGMENT OPERATING MARGIN</u>		
Industrial	26.6%	27.7%
Government and Defense	29.0%	24.1%
Commercial	13.2%	8.8%



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FLIR SYSTEMS, INC.

GAAP TO NON-GAAP RECONCILIATION

(In thousands, except per share amounts)(Unaudited)

	Three Months Ended	
	March 31,	
	2018	2017
Gross profit:		
GAAP gross profit	\$ 217,914	\$ 191,321
Amortization of acquired intangible assets	3,719	3,558
Purchase accounting adjustments	—	1,992
Other	348	—
Adjusted gross profit	<u>\$ 221,981</u>	<u>\$ 196,871</u>
Gross margin:		
GAAP gross margin	49.6%	47.0%
Cumulative effect of non-GAAP Adjustments	0.9%	1.4%
Adjusted gross margin	<u>50.5%</u>	<u>48.4%</u>
Earnings from operations:		
GAAP earnings from operations	\$ 55,492	\$ 59,086
Amortization of acquired intangible assets	5,987	6,736
Purchase accounting adjustments	—	1,992
Restructuring charges	(844)	88
Acquisition related expenses	737	959
Loss on sale of business	10,178	—
Executive transition costs	878	770
DDTC estimated penalty	15,000	—
Other	348	—
Adjusted earnings from operations	<u>\$ 87,776</u>	<u>\$ 69,631</u>
Operating margin:		
GAAP operating margin	12.6%	14.5%
Cumulative effect of non-GAAP Adjustments	7.3%	2.6%
Adjusted operating margin	<u>20.0%</u>	<u>17.1%</u>
Net earnings:		
GAAP net earnings	\$ 39,195	\$ 42,571
Amortization of acquired intangible assets	5,987	6,736
Purchase accounting adjustments	—	1,992
Restructuring charges	(844)	88
Acquisition related expenses	737	959
Loss on sale of business	10,178	—
Executive transition costs	878	770
DDTC estimated penalty	15,000	—
Other	348	—
Estimated tax benefit of non-GAAP adjustments	(6,941)	(2,636)
Discrete tax items, net	3,678	(898)
Adjusted net earnings	<u>\$ 68,216</u>	<u>\$ 49,582</u>
Earnings Per Diluted Share:		
GAAP earnings per diluted share	\$ 0.28	\$ 0.31
Cumulative effect of non-GAAP Adjustments	0.20	0.05
Adjusted earnings per diluted share	<u>\$ 0.48</u>	<u>\$ 0.36</u>

Weighted average diluted shares outstanding:

140,994

138,239



Explanation of Non-GAAP Financial Measures

We report our financial results in accordance with United States generally accepted accounting principles (GAAP). As a supplement to our GAAP financial results, this earnings announcement contains some or all of the following non-GAAP financial measures: (i) adjusted gross profit, (ii) adjusted gross margin (defined as adjusted gross profit divided by revenue), (iii) adjusted operating earnings/income, (iv) adjusted operating margin (defined as adjusted operating income divided by revenue), (v) adjusted net earnings/income, and (vi) adjusted earnings per diluted share (EPS). These non-GAAP measures of financial performance are not prepared in accordance with GAAP and computational methods may differ from those used by other companies. Additionally, these non-GAAP measures should not be considered a substitute for any other performance measure determined in accordance with GAAP and the Company cautions investors and potential investors to consider these measures in addition to, not as a substitute for, its consolidated financial results as presented in accordance with GAAP. Each of the non-GAAP measures is adjusted from GAAP results and are outlined in the "GAAP to Non-GAAP Reconciliation" tables included within this earnings release.

In calculating non-GAAP financial measures, we exclude certain items (including gains and losses) to facilitate a review of the comparability of our core operating performance on a period-to-period basis. The excluded items represent amortization of acquired intangible assets, purchase accounting adjustments, restructuring charges, acquisition related expenses, loss on sale of business, executive transition costs, discrete tax items, and other items we do not consider to be directly related to our core operating performance. We use non-GAAP measures internally to evaluate the core operating performance of our business, for comparison with forecasts and strategic plans, for calculating return on investment, and as a factor for determining incentive compensation for certain employees. Accordingly, supplementing GAAP financial results with these non-GAAP financial measures enables the comparison of our ongoing operating results in a manner consistent with the metrics reviewed by management. We believe that these non-GAAP measures, when read in conjunction with our GAAP financials, provide useful information to investors by facilitating:

- the comparability of our ongoing operating results over the periods presented;
- the ability to identify trends in our underlying business; and
- the comparison of our operating results against analyst financial models and operating results of other public companies that supplement their GAAP results with non-GAAP financial measures.

The following are explanations of each type of adjustment that we incorporate into non-GAAP financial measures:

- Amortization of acquired intangible assets. GAAP accounting requires that intangible assets are recorded at fair value as of the date of acquisition and amortized over their estimated useful lives. The timing and magnitude of our acquisition transactions and maturities of the businesses acquired will cause our operating results to vary from period to period, making comparison to past performance difficult for investors.
 - Purchase accounting adjustments. Included in our GAAP financial measures are purchase accounting adjustments, required by GAAP to adjust inventory balances to fair value at the time of acquisition. These non-cash charges are not reflective of our ongoing operations and can vary significantly in any given period driven by variability in our acquisition activity.
 - Acquisition related expenses. Included in our GAAP financial measures are acquisition related expenses, consisting of external expenses resulting directly from acquisition related activities, including due diligence, legal, valuation, tax and audit services. The timing and nature of our acquisition activity can vary significantly from period to period impacting comparability of operating results from one period to another. These transaction-specific costs can vary significantly in amount and timing and are not indicative of our core operating performance.
 - Restructuring charges. Included in our GAAP financial measures are restructuring charges which are primarily for employee compensation resulting from reductions in employee headcount and facilities exit and lease termination costs in connection with Company reorganization and restructuring activities. We believe that excluding these costs provides greater visibility to the underlying performance of our business operations, facilitates comparison of our results with other periods, and facilitates comparison with the results of other companies in our industry.
 - Loss on sale of business. We recognized a loss, representing the difference between the carrying value and expected sales proceeds, associated with the divestiture of the retail and SMB portion of the Security segment. We excluded this loss for purposes of calculating certain non-GAAP measures. This adjustment facilitates an alternative evaluation of our current operating performance and comparisons to past operating results consistent with the metrics reviewed by management
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- Executive transition costs. Executive transition costs primarily include costs associated with separation agreements of the Company's former CEO and COO, professional services expenses associated with the transition of the former CEO and CFO including recruitment fees, legal services and other related costs, as well as sign-on cash bonus payments to the current CEO and others reporting to the CEO, partially offset by benefits associated with stock compensation reversals for share-based awards forfeited upon the departures of the former CEO, COO and CFO.
- DDTC estimated penalty. This penalty is related to an accrual recorded during the period associated with an expected administrative agreement with the U.S. Department of State regarding various alleged violations of the International Traffic in Arms Regulation (ITAR). This accrual is based on our estimate of the net amount of expected penalty less an expected offset for past and future remedial compliance expenditures. The charge is excluded from our non-GAAP measures because we do not believe such charges are representative of our ongoing operations.
- Other. Other charges include product remediation charges associated with certain SkyWatch™ surveillance towers. We exclude other charges from our non-GAAP measures because we do not believe such costs are representative of our ongoing operations.
- Estimated tax effect of non-GAAP adjustments. This amount adjusts the provision for income taxes to reflect the effect of the previously listed non-GAAP adjustments on non-GAAP net income. We estimate the tax effect of the adjustment items by applying the Company's overall estimated effective tax rate, excluding significant discrete items, to the pretax amount.
- Discrete tax items, net. Included in our GAAP financial measures are income tax expenses and benefits related to discrete events or transactions that are not representative of the Company's estimated tax rate related to ongoing operations. These discrete tax items can vary significantly from period to period impacting the comparability of our earnings from one period to another. Discrete tax items include charges and reversals of provisions associated with certain unrecognized tax benefits, benefits associated with the reversal of previously recorded valuation allowances against certain deferred tax assets, and other discrete items not included in the annual effective tax rate associated with our ongoing operations. We exclude discrete tax items from our non-GAAP measures because we do not believe such expenses or benefits reflect the performance of our ongoing operations.

UNITED STATES DEPARTMENT OF STATE
BUREAU OF POLITICAL-MILITARY AFFAIRS
WASHINGTON, D.C. 20520

In the Matter of:

FLIR Systems, Inc.

An Oregon Corporation

Respondent

CONSENT AGREEMENT

WHEREAS, the Directorate of Defense Trade Controls, Bureau of Political-Military Affairs, U.S. Department of State ("Department") has notified FLIR Systems, Inc., including its operating divisions, subsidiaries, and business units (collectively "Respondent") of its intent to institute an administrative proceeding pursuant to section 38 of the Arms Export Control Act (AECA), 22 U.S.C. 2751 *et seq.*, and its implementing regulations, the International Traffic in Arms Regulations (ITAR), 22 C.F.R. Parts 120-130;

WHEREAS, Respondent has reviewed the Proposed Charging Letter and this Consent Agreement, fully understands these documents, and enters into this Consent Agreement voluntarily and with full knowledge of its rights;

WHEREAS, the Department acknowledges that Respondent described many of these matters in voluntary disclosures submitted to the Department, and Respondent did not voluntarily disclose certain other matters to the Department, to include violations the Department uncovered; and cooperated with the Department's review of these matters;

WHEREAS, Respondent, without admitting or denying the allegations, wishes to settle and dispose of all potential ITAR civil charges, penalties and sanctions arising from the Proposed Charging Letter, and certain facts disclosed in writing to the Department identified in Paragraph 23, by entering into this Consent Agreement;

WHEREAS, Respondent agrees that this Consent Agreement shall remain in effect for a period of four (4) years, subject to the terms and conditions set forth below;

WHEREAS, Respondent represents and assures that it shall continue the remedial measures implemented as a result of this Consent Agreement, and self-implemented prior thereto, as reasonably warranted and amended, subsequent to the completion of the term of this Consent Agreement;

WHEREAS, Respondent agrees that if the Department finds that this Consent Agreement was negotiated based on Respondent's knowingly providing materially false or misleading information to the Department, the Department may revoke this Consent Agreement and the related administrative order ("Order"), and bring additional charges against Respondent. Additionally, Respondent understands that a violation of this Consent Agreement is considered a violation of the Order; and

WHEREAS, the Department and Respondent agree to be bound by this Consent Agreement and the Order to be entered by the Principal Deputy Assistant Secretary of State for Political-Military Affairs, exercising the authorities of the Assistant Secretary of State for Political-Military Affairs.

Now, WHEREFORE, the Department and Respondent agree as follows:

Parties

(1) The Parties to this Consent Agreement are the Department and Respondent and Respondent's assignees and successors, and in the event of reorganization, corporate restructuring, or merger, the terms of this agreement shall follow and apply to all affected entities or units.

Jurisdiction

(2) The Department has jurisdiction over Respondent under the AECA and the ITAR in connection with the matters identified in the Proposed Charging Letter.

General Remedial Measures

(3) Respondent, reflecting its commitment to conduct its business in full compliance with the AECA and the ITAR, and in order to ensure, in particular, that there are no unauthorized exports, reexports, retransfers, temporary imports or brokering of ITAR-controlled defense articles, or provision of defense services and that all transactions subject to the AECA and ITAR (collectively "AECA and ITAR-regulated activities") are conducted in compliance with the law, transparently, and without misrepresentation or omission, agrees to implement the following remedial measures and such additional measures as may be mutually agreed upon by Respondent and the Director, Office of Defense Trade Controls Compliance (DTCC), and agrees further that these measures will remain in effect for four (4) years, subject to the terms and conditions below, as part of this Consent Agreement entered into with the Department.

(4) Respondent agrees that these measures shall be incorporated into any of Respondent's future business acquisitions that are involved in AECA and ITAR-regulated activities, to include manufacturing, within six (6) months of that acquisition, unless the Director, DTCC approves an exception to this requirement.

(5) If Respondent sells any of its operating divisions, subsidiaries, or business units that are involved in AECA and ITAR-regulated activities, or is a party to a corporate merger or restructuring, or is acquired by another party, Respondent agrees to notify DTCC sixty (60) days prior to such event, and further agrees to notify the purchaser or responsible party in writing, and to require the purchaser or responsible party to acknowledge in writing, prior to the event that the purchaser or responsible party shall be bound by the terms and conditions of this Consent Agreement, unless the Director, DTCC approves an exception to this requirement.

- (6) Respondent shall ensure that adequate resources are dedicated to ITAR compliance throughout the Respondent's ITAR-regulated operating divisions, subsidiaries, and business units. Respondent shall establish policies and procedures for all of Respondent's employees with responsibility for AECA and ITAR compliance to address lines of authority, staffing levels, performance evaluations, and career paths.
- (7) Within one hundred-twenty (120) days of the date of the Order, Respondent, in coordination with the Designated Official (as defined below), shall conduct an internal review of AECA and ITAR compliance resources and establish the necessary actions to ensure that sufficient resources are dedicated to compliance.

Designated Official for Consent Agreement Compliance and Oversight

(8) Respondent shall appoint, in accordance with the provisions of this Consent Agreement and in consultation with and the approval of the Director, DTCC, a qualified individual to serve as a Special Compliance Officer (SCO) or Internal Special Compliance Officer (ISCO) for the entire term that the Consent Agreement is in force. The term "Designated Official" in this Consent Agreement refers to the SCO or ISCO during the term of their appointment. The authorities, term, and responsibilities of the Designated Official are described below:

- (a) Initial Appointment: Respondent shall make a nomination for the position of SCO within sixty (60) days from the date of the Order, and the nomination shall be subject to the written approval of the Director, DTCC. Within fifteen (15) days following the date of the approval of the nomination by the Director, DTCC, Respondent shall make written appointment of the person to the position of SCO.
- (b) Authorities: Within thirty (30) days of appointment of a Designated Official, Respondent shall empower him/her with a written delegation of authority, and a statement of work approved by DTCC, to permit him/her to monitor, oversee, and promote Respondent's AECA and ITAR compliance with the terms of this Consent Agreement in a manner consistent with the purpose of this Consent Agreement and the Order, its specific terms and conditions, and other activities subject to the ITAR and the AECA. The

Designated Official shall report directly to Respondent's Chief Executive Officer ("CEO"), or CEO's designee agreed upon by DTCC, and the Director, DTCC as set forth herein. The Designated Official shall perform his/her duties in consultation with DTCC. Should the CEO wish to designate his/her duties referenced in Paragraph 8, Respondent shall nominate a designee in writing and the designation shall be subject to the written approval of the Director, DTCC.

(c) Term: A SCO shall serve as Designated Official for a minimum of three (3) years from the signing of the Order. Respondent has the option to request an ISCO replace the SCO as the Designated Official after the third anniversary of the signing of the Order. If Respondent wishes to do so, it shall provide a written request to the Director, DTCC at least sixty (60) days in advance of the end of the SCO's term and include a recommendation by the SCO. The appointment of the ISCO shall be subject to the written approval of the Director, DTCC. Any individual nominated and appointed to serve as ISCO shall be fully empowered and capable of performing all the responsibilities of Designated Official under this Consent Agreement. If for any reason a Designated Official is unable to serve the full period of his/her appointment, or temporarily is unable to carry out the responsibilities described herein for more than thirty (30) days, or if the Director, DTCC decides that the appointee shall be removed for failure to satisfactorily perform his or her duties, Respondent's CEO shall recommend a successor acceptable to the Director, DTCC. The Director, DTCC's agreement to the replacement shall be confirmed in writing to Respondent. Such recommendation shall be made at least thirty (30) days in advance of a new appointment unless a shorter period is agreed to by the Director, DTCC. If a successor is not appointed within forty-five (45) days of the termination or removal of the appointed Designated Official, this Consent Agreement shall be extended for the period of time equal to the period of time Respondent was without an approved and appointed Designated Official. Respondent will not be without a Designated Official for more than one-hundred-twenty (120) days unless the Director, DTCC grants an extension. If the

Designated Official for any reason is unable to carry out the responsibilities described herein on a temporary basis, not to exceed thirty (30) days, then Respondent's CEO or designee as approved by DTCC shall assume the duties and authorities of the Designated Official in the interim.

(d) The Designated Official may also be requested to perform additional AECA and ITAR-regulated activities oversight, monitoring and coordination of activities by mutual agreement of the Respondent and the Director, DTCC.

(e) In fulfilling the responsibilities set forth in this Consent Agreement, the Designated Official may, at his/her sole discretion, present any export compliance-related issue directly to any or all of Respondent's CEO, and the Director, DTCC.

(f) The Respondent's CEO shall brief the Board of Directors at least annually concerning any findings and recommendations by the Designated Official, Respondent's response and implementation of the same, and the status of AECA and ITAR compliance generally within Respondent.

(g) Respondent's CEO shall notify the Board of Directors of the appointment of the Designated Official. Such notification shall include a description of the powers, duties, authorities and responsibilities of the Designated Official. Respondent shall post this notice on Respondent's internal website for the duration of this Consent Agreement.

(h) With the understanding that nothing in this Consent Agreement shall be interpreted to compel waiver of applicable attorney client or work product protections, the Designated Official shall have full and complete access to all personnel, books, records, documents, audits, reports, facilities and technical information relating to this Consent Agreement, the Order, and Respondent's AECA and ITAR-regulated activities.

(i) Respondent shall cooperate with all reasonable requests of the Designated Official and shall take no action to interfere with or impede the ability of the Designated Official to monitor

Respondent's compliance with this Consent Agreement, the Order, and the AECA and the ITAR, or to carry out other responsibilities of the Designated Official set forth in this Consent Agreement. The Designated Official shall notify DTCC whenever the Designated Official encounters any difficulties in exercising the duties and responsibilities assigned under this Consent Agreement.

(j) The Designated Official shall, with the approval of the Director, DTCC and the concurrence of Respondent, have the authority to employ in a support capacity at the expense of Respondent, such assistants and other professional staff as are reasonably necessary for the Designated Official to carry out his/her duties and responsibilities.

(k) The Designated Official shall have three (3) principal areas of responsibility regarding the future conduct of Respondent:

(1) Policy and Procedure: The Designated Official shall monitor Respondent's AECA and ITAR compliance program with specific attention to the following areas:

- (i) Policies and procedures for the identification and classification of defense articles and defense services;
- (ii) Policies and procedures for the identification of technical data, to include the use of derivative drawings or derivative technical data in electronic format, and marking thereof;
- (iii) Policies and procedures for maintenance and protection of and access to technical data on Respondent's computer networks or other electronic methods of storage and transfer;
- (iv) Policies and procedures for ensuring physical security of facilities where ITAR-regulated activity occurs;
- (v) Policies and procedures for the screening and control of persons who are not authorized for access to ITAR-controlled defense articles and defense services;

- (vi) Policies and procedures for obtaining, managing, and complying with the scope of ITAR authorizations, particularly for business development;
- (vii) Policies and procedures for maintaining appropriate records;
- (viii) Policies and procedures for shipping departments responsible for exporting, reexporting, or retransferring defense articles;
- (ix) Policies and procedures for the employment and management of foreign-persons, to include persons considered dual national/third country nationals (DN/TCN) who may be engaged in ITAR-regulated activity, or have access to ITAR-regulated technical data;
- (x) Policies and procedures for compliance with Part 130 of the ITAR;
- (xi) Policies and procedures for procurement, to include using known and unknown U.S. suppliers with foreign manufacturing facilities;
- (xii) Policies and procedures for incorporating AECA and ITAR compliance into Respondent's management business plans at the senior executive level;
- (xiii) Policies and procedures for using overseas representatives who will be involved with temporary exports;
- (xiv) Policies and procedures for preventing, detecting and reporting AECA and ITAR violations;
- (xv) Policies and procedures for submitting voluntary disclosures to the Department related to ITAR-regulated activity; and
- (xvi) Meeting and maintaining adequate AECA and ITAR compliance staffing levels at all divisions and facilities that

involve ITAR-regulated activities.

- (2) Specific Duties: The Designated Official shall oversee the following specific areas:
- (i) The Respondent's implementation of the compliance measures required by this Consent Agreement;
 - (ii) Respondent's corporate oversight of ITAR compliance for performance of its responsibilities under this Consent Agreement and the Order in a timely and satisfactory manner;
 - (iii) The expenditures of the remedial compliance measures account in coordination with Respondent's Chief Financial Officer ("CFO"); and
 - (iv) Enhancing incorporation of ITAR compliance into the Respondent's management business plans at the senior executive level.
- (3) Reporting: The Designated Official is responsible for the following reporting requirements:
- (i) Tracking, evaluating and reporting on Respondent's review of ITAR violations and compliance resources;
 - (ii) Providing status reports to the CEO and the Director, DTCC concerning Respondent's compliance with this Consent Agreement and the Order, ITAR compliance program enhancements and resource levels and their impact on or benefit to ensuring ITAR compliance, and Respondent's compliance on all its AECA and ITAR-regulated activities. These reports shall include findings, conclusions and any recommendations necessary to ensure strict compliance with the ITAR, and describe the status of previous recommendations advanced by the Designated Official. These reports may, in a separate annex, also include any relevant comments or input by Respondent. Any such reports shall not affect Respondent's use of the Voluntary Disclosure procedures set forth in § 127.12 of

the ITAR and any benefits gained therefrom. The first report shall be provided six months from the date of the Order, and semiannually thereafter during the remainder of the term of the Consent Agreement; and

(iii) Ensuring the provision of the accounting report as described in Paragraph 16(c) certified as correct by the CFO of these expenditures to Respondent's CEO and the Director, DTCC.

Strengthened Compliance Policies, Procedures, Training

(9) Within twelve (12) months of the date of the Order, Respondent shall have instituted strengthened corporate compliance procedures focused principally on Respondent's business operations such that: (a) all Respondent employees engaged in ITAR-regulated activities are familiar with the AECA and the ITAR, and their own and Respondent's responsibilities thereunder; (b) all persons responsible for supervising those employees, including senior managers of those units, are knowledgeable about the underlying policies and principles of the AECA and the ITAR; and (c) there are records indicating the names of employees, trainers, and level and area of training received.

(10) Respondent shall continue with its review of the functional processes pertaining to its AECA and ITAR-regulated activities to verify that the processes (to include production, marketing, and logistics) are effective to comply with the ITAR, authorizations, and related provisos and integrated at the operational level. The review shall be conducted under the supervision of a functional/process expert who is independent from the Respondent's Global Trade Compliance Office (or equivalent) and other functional departments at Respondent with responsibility for export activities. Within sixty (60) days of the date of the Order, Respondent shall provide the Director, DTCC with the status of the verification plan for the functional processes for review and comment. Within one hundred twenty (120) days of the receipt of final comments from the Director, DTCC on the verification plan, a written report of the results of the review shall be submitted by Respondent to the Director, DTCC.

(11) Respondent shall enhance its AECA and ITAR compliance program with specific attention to the areas described in paragraphs 8(k)(1)(i) through 8(k)(1)(xvi).

Automated Export Compliance System

(12) Respondent agrees to implement a comprehensive automated export compliance system to strengthen Respondent's internal controls for ensuring compliance with the AECA and the ITAR. Respondent shall provide to DTCC an update outlining the status of Respondent's automated export compliance system. This system shall track the decision process from the initiation to conclusion of a request for export, reexport or retransfer authorization. The automated export compliance system shall improve Respondent's ability to oversee and monitor export, reexport, or retransfer activity. This system shall also cover the initial identification of all technical data and technical assistance in any form proposed to be disclosed to any foreign-persons and shall be accessible to DTCC upon request. Respondent shall ensure the use of a means of alerting users to the AECA and ITAR requirements on electronic transmissions of ITAR-controlled technical data. In order to prevent unintentional or accidental transmissions to unauthorized recipients, Respondent shall also provide training to all employees to ensure that any type of electronic transmissions of ITAR-controlled technical data are sent in accordance with Respondent's export compliance policies and procedures.

Audit

(13) Two (2) audits shall be performed during the term of the Consent Agreement. Respondent shall have the first audit conducted by an outside consultant with expertise in AECA/ITAR matters, approved by the Director, DTCC. The audit shall be conducted under the supervision of the Designated Official. The first audit shall provide a thorough assessment of the effectiveness of the Respondent's implementation of all measures set forth in this Consent Agreement with focus on those actions undertaken to address the compliance problems identified in the Proposed Charging Letter, the policies, procedures, and training established by Respondent, and such other areas as may be identified by the Designated Official or the Director, DTCC (e.g., transactional review of agreements). Additionally, the first audit shall assess Respondent's

information technology and physical security at its facilities conducting AECA and ITAR-regulated activities worldwide.

(14) Within six (6) months after the date of the Order, a draft audit plan for the first audit shall be submitted to the Director, DTCC for review and approval. Within twelve (12) months after the date of the Order, the first audit shall be completed and a written report produced containing recommendations for improvements with respect to Consent Agreement measures, or compliance with the AECA or the ITAR more generally. The report shall be submitted by Respondent to the Director, DTCC along with Respondent's plan on how it shall address those recommendations.

(15) Subsequently, Respondent shall select an outside consultant with expertise in AECA/ITAR matters, approved by the Director, DTCC to perform the second audit to confirm whether Respondent addressed the compliance recommendations from the initial audit report. The second audit shall be conducted under the supervision of the Designated Official. Within thirty (30) months after the date of the Order, a draft audit plan for the second audit shall be submitted to the Director, DTCC for review and comment. Within thirty-six (36) months after the date of the Order, the second audit shall be completed, and a written report produced confirming whether Respondent addressed the compliance recommendations from the initial audit report as well as his/her recommendations where there were deficiencies. The report shall be submitted by Respondent to the Director, DTCC along with Respondent's plan on how it shall address those recommendations.

Penalty

(16) Respondent agrees that it shall pay in fines and in remedial compliance measures an aggregate civil penalty of thirty million dollars (\$30,000,000) in complete settlement of alleged civil violations pursuant to the AECA and the ITAR, as set forth in the Proposed Charging Letter. Respondent agrees to waive its rights to raise the defense of Statute of Limitations with regard to the collection of the civil penalty imposed by this Consent Agreement, and that the Statute of Limitations shall be tolled until the last payment is made. Respondent also agrees that such civil penalty shall be a nondischargeable debt in accordance with Section

523(a)(7) of the Federal Bankruptcy Code.
The civil penalty shall be payable as follows:

- (a) Fifteen million dollars (\$15,000,000) shall be paid through installments as follows:
- 1) One million dollars (\$1,000,000) is to be paid within ten (10) days from the date of the Order.
 - 2) Three million five hundred thousand dollars (\$3,500,000) is to be paid within one year from the date of the Order and then on each of the second, third, and fourth anniversaries of the date of the Order.
 - 3) If Director, DTCC makes a determination of acceptance in accordance with Paragraph 25, any outstanding unpaid portion of the civil penalty shall be due immediately.
 - 4) The Department and Respondent agree that no interest shall accrue or be due on the unpaid portion of the civil penalty if timely payments are made as set forth in paragraphs (16)(a)(1) and (16)(a)(2) above.
- (b) The remaining penalty of fifteen million dollars (\$15,000,000) is hereby assessed for remedial compliance measures but this amount shall be suspended on the condition that this amount, as determined by DTCC as set forth in paragraph (16)(c) below: 1) has been applied by Respondent to self-initiated, pre-Consent Agreement remedial compliance measures, and/or; 2) shall be applied to Consent Agreement-authorized remedial compliance costs over the term of this Consent Agreement for the purpose of defraying a portion of the costs associated with the remedial compliance measures specified in this Consent Agreement. DTCC may suspend an amount up to, but not exceeding, five million dollars (\$5,000,000) for pre-Consent Agreement remedial compliance measures.

(c) Respondent's CFO in consultation with the Designated Official, shall conduct a review of Respondent's expenditures for the remedial compliance measures referenced in paragraph (16)(b), and provide the results of the review, no later than six (6) months from the date of the Order, certified as correct by the CFO, to DTCC. DTCC shall determine from that review if the expenditures claimed by Respondent to date were spent for self-initiated, pre-Consent Agreement remedial compliance measures or Consent Agreement-authorized remedial compliance costs. To the extent that DTCC determines that expenditures claimed or any portion thereof were utilized for self-initiated, pre-Consent Agreement remedial compliance measures or Consent Agreement-authorized remedial compliance costs, that amount shall be credited against the suspended penalty amounts outlined in paragraph (16)(b).

Respondent's CFO in consultation with the Designated Official shall provide to DTCC no later than one year from the date of this Consent Agreement, and then annually thereafter, for verification and approval an itemized accounting, certified as correct by the CFO, of all Consent Agreement-authorized remedial compliance costs, to include those expenditures claimed against suspended penalties, showing specifics of how money was used to strengthen compliance within the terms of the Consent Agreement. To the extent that DTCC determines that expenditures claimed or any portion thereof were utilized for Consent Agreement-authorized remedial compliance costs, that amount shall be credited against the suspended penalty amount outlined in paragraph (16)(b).

(d) Any remaining portion of the suspended penalty unutilized at the conclusion of the term of the Consent Agreement shall no longer be suspended and shall be paid within thirty (30) days.

(17) Respondent is precluded from applying any portion of the thirty million dollar (\$30,000,000) penalty set forth in paragraph (16) as costs in any contract with any agency of the U.S. Government or any other contract where the result would be the application of any portion of the penalty as costs in any contract with any agency of the U.S. Government. Respondent agrees and shall certify in each written accounting report that the penalty, or any portion thereof: (a) shall be

treated as expressly unallowable costs under the Federal Acquisition Regulations; (b) shall not be recovered or sought to be recovered as allowable costs, either directly or indirectly under any federal prime contract, grant or subcontract; and (c) shall not be taken as a federal tax deduction. In the event Respondent violates these prohibitions, the Department shall deem it a "failure to apply funds appropriately for the required purpose."

(18) Any failure to apply funds appropriately for the required purpose, or to provide a satisfactory accounting, shall result in a lifting of the suspension, in which case Respondent shall be required to pay immediately to the Department the amount of the suspended portion of the penalty, less any amounts the Department deems to have been properly applied and accounted for expenditures in compliance with this Consent Agreement.

Debarment

(19) Respondent has acknowledged the seriousness of the violations cited in the Proposed Charging Letter. Respondent has cooperated with the Department's review, expressed regret for these activities and taken steps to improve its compliance programs. It has also undertaken to make amends by paying a cash penalty, and agreeing to implement the significant additional remedial compliance actions specified in this Consent Agreement. For these reasons, the Department has determined not to impose an administrative debarment of Respondent based on the civil charges summarized in the Proposed Charging Letter and certain facts disclosed in writing to the Department identified in Paragraph 23. The Department reserves all rights to impose additional sanctions, including debarment under the ITAR, against Respondent if it does not fulfill the provisions of the Consent Agreement or is responsible for other compliance or law enforcement issues under the AECA, or under other statutes enumerated in § 120.27 of the ITAR.

On-site Reviews by the Department

(20) For the purpose of assessing compliance with the provisions of the AECA, the ITAR and future authorizations, Respondent agrees to arrange and facilitate, with minimum advance notice, on-site reviews by the Department while this Consent Agreement remains in effect.

Understandings:

(21) No agreement, understanding, representation or interpretation not contained in this Consent Agreement may be used to vary or otherwise affect the terms of this Consent Agreement or the Order, when entered, nor shall this Consent Agreement serve to bind, constrain, or otherwise limit any action by any other agency or department of the United States Government with respect to the facts and circumstances addressed in the Proposed Charging Letter. Respondent acknowledges and accepts that there is no understanding expressed or implied through this Consent Agreement with respect to a final decision by the Department concerning export licenses or other U.S. Government authorizations.

(22) Respondent acknowledges the nature and seriousness of the offenses charged in the Proposed Charging Letter, including the potential risk of harm to the security and foreign policy interests of the United States. If this Consent Agreement is not approved pursuant to an Order entered by the Principal Deputy Assistant Secretary for Political-Military Affairs, the Department and Respondent agree that they may not use this Consent Agreement in any administrative or judicial proceeding, and that the parties shall not be bound by the terms contained in this Consent Agreement.

(23) The Department agrees that, upon signing of the Order, this Consent Agreement resolves with respect to Respondent the civil penalties or administrative sanctions with respect to civil violations of the AECA or the ITAR arising from facts Respondent has disclosed in writing to the Department in its Voluntary and Directed Disclosures assigned DTCC Case Numbers: 08-0000654, 09-0000060, 09-0001327, 10-0000901, 11-0001569 (formerly 11-0001242), 13-0001806, 14-0000444, 14-0001076, 14-0001295, 15-0000088, 15-0000102, 15-0000784, 15-0001256, 16-0000381, 16-0000545, 16-0000888, 16-0001133, 17-0000013, and 17-0000278.

Waiver

(24) Respondent waives, upon the signing of the Order, all rights to seek any further steps in this matter, including an administrative hearing pursuant to Part 128 of the ITAR. Respondent also waives any such

rights with respect to any additional monetary penalty assessed by the Director/DTCC in connection with an alleged material violation of this Consent Agreement (any such additional monetary penalty imposed shall be limited to ten million dollars (\$10,000,000)) except as follows: In the event that the Director, DTCC determines that Respondent has materially violated this Consent Agreement and imposes such additional monetary penalty, and Respondent disputes such determination, Respondent may appeal such determination to the Assistant Secretary for Political-Military Affairs, and the decision of the Assistant Secretary for Political-Military Affairs shall be the final determination in the matter, which may not be appealed. Respondents also agree that any such additional monetary penalty shall be nondischargeable under Section 523(a)(7) of the Federal Bankruptcy Code, and subject to the conditions of paragraph seventeen (17). Respondent also waives the right to contest the validity of this Consent Agreement or the Order, including in any action that may be brought for the enforcement of any civil fine, penalty or forfeiture in connection with this Consent Agreement or Order.

Certification

(25) At any date after the third anniversary of the date of the Order and no later than three (3) months prior to the fourth anniversary of the date of the Order, Respondent shall submit to the Director, DTCC a written certification as to whether all aspects of this Consent Agreement have been implemented, and Respondent's export compliance program has been assessed, and whether Respondent's export compliance program is adequate to identify, prevent, detect, correct and report violations of the AECA and the ITAR.

Director, DTCC has the option to terminate the consent agreement prior to the four (4) year term, if Director, DTCC determines based on Respondent's written certification and other factors that all compliance measures set forth in this Consent Agreement have been implemented, and that Respondent's export compliance program appears to be adequate to identify, prevent, detect, correct and report violations of the AECA and the ITAR.

The Consent Agreement shall remain in force beyond the four (4) year term until such certification is submitted and the Director, DTCC

determines based on this certification and other factors that all compliance measures set forth in this Consent Agreement have been implemented, and that Respondent's export compliance program appears to be adequate to identify, prevent, detect, correct and report violations of the AECA and the ITAR.

Documents to be made public

(26) Respondent understands that the Department shall make this Consent Agreement, the Proposed Charging Letter and the Order, when entered, available to the public.

When Order Becomes Effective

(27) This Consent Agreement shall become binding on the Department only when the Principal Deputy Assistant Secretary for Political-Military Affairs approves it by entering the Order, which shall have the same force and effect as a decision and Order issued after a full administrative hearing on the record.

U.S. Department of State

/s/ Tina S. Kaidanow 4/24/2018

Tina S. Kaidanow Date

Principal Deputy Assistant Secretary

FLIR Systems, Inc.

/s/ Earl Lewis 4/24/2018

Earl Lewis Date

Chairman