SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE YEAR ENDING DECEMBER 31, 1996.

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _________________ TO _________________

Commission file number - 0-21918

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

Oregon	93-0708501
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
16505 S.W. 72nd Avenue, Portland, Oregon	97224
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: NONE

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

Title of each class of Stock	Name of each exchange on which registered
Common Stock, $0.01 par value	NASDAQ

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

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

As of March 3, 1997, the aggregate market value of the shares of voting stock of the Registrant held by non-affiliates was $81,664,225

As of March 3, 1997, there were 5,432,963 shares of the Registrant's common stock, $0.01, par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the FLIR Systems, Inc.'s Proxy Statement for the 1997 Annual Shareholders' Meeting	Part III

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PART I

Item 1. Business.

General

FLIR Systems, Inc. ("the Company" or "FSI"), founded in 1978, designs, manufactures and markets imaging systems, image analysis software and broadcast quality surveillance systems worldwide for a wide variety of applications in the government and commercial markets. Thermal imaging systems detect infrared radiation or heat, which is emitted directly by all objects and materials, enabling the user to see objects in total darkness, adverse weather, and through obscurants such as smoke and haze. FSI's night vision products for the government market are used in such diverse applications as public safety (law enforcement and drug interdiction support, search and rescue, border and maritime patrol, and environmental protection) and defense (surveillance, reconnaissance and navigational assistance).

Thermal imaging systems can also detect and measure temperature differences, which is important in a variety of industrial and commercial applications including predictive and preventative maintenance, manufacturing process control and monitoring, non-destructive testing and evaluation, and research and development. FSI's business has also expanded into the larger imaging and machine vision markets. Two FSI subsidiaries, Broadcast and Surveillance Systems, Ltd. ("BSS"), located just outside London, England, and Optimas Corporation, located in the Seattle, Washington area, play an important part in that expansion. BSS designs, manufactures and markets day and night imaging systems designed for the non-military and commercial broadcast markets. Optimas specializes in the development of computer software products that enable image analysis across a full range of applications for the industrial, biomedical and research markets.

In April 1996, the Company entered into the commercial broadcast market with the introduction of two products, the ULTRA 4000 and the UltraMedia. The ULTRA 4000 is a fully stabilized airborne camera system that couples a high-resolution infrared camera with an industry-standard broadcast camera for 24-hour-a-day news coverage. The UltraMedia is a broadcast-quality imaging system that delivers clear, crisp and jitter-free daylight images.

The Company's Government customers include local law enforcement agencies, instrumentalities of the U.S. Government, foreign governments and various aircraft manufacturers and resellers. Customers for the Company's Commercial products include various manufacturers, resellers, research and development facilities, universities, biomedical research facilities, utility companies, motion picture and entertainment companies and various commercial enterprises.

Forward-looking Statements

This business discussion and other sections of this Annual Report contain forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995 that are based on current expectations, estimates and projections about the Company's business, management's beliefs and assumptions made by management. Words such as "expect," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors, including, but not limited to, those discussed in this business section, as well as those discussed elsewhere in this Annual Report and from time to time in the Company's other Securities and Exchange Commission filings and reports. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions.

Industry Background

Infrared radiation is essentially light that is not visible because its wavelength is too long to be detected by the human eye. Unlike visible light, infrared radiation is emitted directly by all objects and materials. Thermal imaging systems are used to detect infrared radiation and convert it into an electronic signal, which is then formatted into a video scene and displayed on a monitor. Thermal imaging systems enable the operator to see objects in total darkness and through obscurants such as smoke, haze and many forms of fog. Unlike other night vision devices, such as night vision goggles, a thermal imaging system does not require any visible light to operate. Thermal imaging systems can also detect and measure temperature differences, which is important in a variety of industrial applications.

Early applications of thermal imaging primarily involved the use of very expensive high-resolution systems in military combat applications such as weapons targeting, where performance factors were far more important in the procurement decision than the system acquisition cost. A basic form of the technology was also employed in limited industrial applications such as detection of heat loss from buildings, where system price was more important than sophisticated performance. Consequently, a large group of potential users in both the public safety sector and commercial markets did not use thermal imagers, since available systems either failed to meet their performance requirements or were too expensive. The Company was among the first to bridge the gap between high-cost, high-performance and low-cost, low-performance systems by developing thermal imaging products with a combination of price and performance suited to the needs of a broad range of customers in the night vision market. In addition, commercial applications and markets began to expand as thermal imaging companies developed products with enhanced performance characteristics.

The Company expects continued growth in the thermal imaging markets due primarily to the general improvements in the price and performance characteristics of imaging systems for the government and commercial markets. The Company believes the primary factors that will contribute to the growth in the government market are the increasing use of thermal imaging in public safety applications worldwide, the increasing emphasis of governments on public safety roles and the transition of defense procurement policies worldwide to favor cost-effective commercially developed technology. The Company believes that the use of thermal imaging and broadcast systems in commercial applications will increase, and the commercial imaging market will expand significantly, as high-performance industrial systems become more affordable and industrial customers better understand the improvements in quality and productivity that can be gained by the use of these systems and the related image analysis software. The Company's commercial products and image analysis software capabilities are designed to take advantage of these opportunities.

Markets for the Company's Products

Government products

The worldwide government market consists of two segments: public safety and defense. The Company is a leader in the public safety segment, which is rapidly expanding but represents a small percentage of the total government market. The Company also sells its products for selected applications in the defense segment.

Public Safety

The Company is a worldwide leader in the emerging public safety market, which consists of products sold for a variety of uses in law enforcement and drug interdiction, search and rescue, border and maritime patrol, and environmental protection. The Company has been instrumental in the development of this market worldwide, with systems operating in over 47 countries. During the last three years, the Company has sold into this market over 400 systems with a dollar value in excess of $112 million. While no consistent data is available as to the size of this market, the Company believes this represents only a small percentage of the existing and potential global market.

Customers in the public safety market demand systems that are both affordable and capable of performing a variety of tasks requiring high resolution and image quality. The Company's products are well positioned to meet these customers' requirements for performance and affordability. Additionally, the Company's broad product range is well suited to the principal customer groups in the public safety market, each of which require different product configurations. The Company's products meet customer needs for systems that can be mounted on a variety of aircraft and ships, operate in different climatic conditions and accommodate changes in methods of operations. Installations for the Company's systems have been certified by the Federal Aviation Administration and equivalent authorities in foreign countries for most of the aircraft used in the market.

Law Enforcement and Drug Interdiction: Thermal imaging systems enable law enforcement agencies to expand their capabilities in activities ranging from routine patrol and surveillance to suspect apprehension and drug interdiction. There is a trend in law enforcement toward the use of aircraft, which have advantages over traditional ground operations in these activities. Airborne enforcement has historically been limited by an inability to perform effectively at night or under conditions of limited visibility -- precisely the conditions under which significant criminal activity occurs. By providing night vision capability, thermal imaging systems significantly enhance the performance capabilities of airborne law enforcement.

The Company believes that law enforcement is an emerging market for its systems and that a relatively small percentage of law enforcement aircraft worldwide are presently equipped with thermal imaging systems. As various law enforcement agencies have gained familiarity with the uses and capabilities of these systems, the Company has expanded the applications for its products to meet the needs of a broader customer base. Over the past three years, demand for the Company's products has continued to be strong as a result of their effective use by customers in law enforcement and drug interdiction activities worldwide.

Law enforcement agencies are beginning to recognize the utility of thermal imaging systems in ground operations, an application in which cost, portability and image quality are key customer requirements. The Company has addressed these requirements with its Prism Camera. See "Products".

Search and Rescue: Search and rescue operations include the traditional mission of rescuing boats and vehicles in distress, offshore oil platform safety and emergency response support for missing persons or accident victims. These operations are routinely conducted in most nations by military, governmental, or local entities in both coastal waters and inland areas. The range of the Company's customers in this market has expanded from initial coast guard sales to include military agencies, private contractors, oil companies and emergency response teams. The Company believes that this market will continue to grow, primarily due to the evolving need to maintain search and rescue capability on a 24-hour basis and under adverse weather conditions.

Border and Maritime Patrol: As the frequency of regional disputes throughout the world increases and concern over the effects of illegal immigration grows in most countries, the importance of border surveillance, particularly night time surveillance, has increased. The Company was among the first to demonstrate the effectiveness of thermal imaging systems for airborne operations in this market. Maritime patrol activities are performed by military or governmental agencies charged with maintaining the territorial integrity of coastal waters, monitoring national fishing boundaries and preventing smuggling.

Environmental Protection: With the growing worldwide emphasis on protection of natural resources, the Company expects the market for its systems in environmental protection activities to expand. The Company's thermal imaging systems have been effectively used in forest fire detection and extinguishment, oil spill detection and monitoring, and wildlife management. Potential additional applications include monitoring toxic waste sites, identifying sources of environmental contamination, and gas leak detection. In many cases, proper detection cannot be accomplished without thermal imaging. For example, heavy smoke inhibits the application of flame retardant while fighting forest fires; thermal imaging systems see through smoke and allow accurate airdrops of both retardant and water. The Company has successfully begun to market its systems for environmental protection applications in the United States and Canada, but this market is in its infancy and is expected to grow as users become increasingly aware of the applications and utility of thermal imaging systems.

Defense

The defense market for thermal imagers, which consists primarily of sophisticated weapon systems, has historically constituted the largest segment of the market for night vision products. While the Company has purposely limited its participation in this market segment, due to the changing nature of defense priorities, the Company has begun to develop relationships with prime defense contractors that require cost-effective thermal sensors for inclusion in their systems.

In addition to the traditional weapons systems applications, thermal imaging systems are increasingly being employed by the military for surveillance, reconnaissance, and navigation assistance as part of a larger trend toward expansion of night operations capability. As a result, night vision systems have been identified as a critical component of a more technology-based military. The Company believes that these trends will provide selected ongoing growth opportunities for the Company in the defense market.

Commercial Products

The ability of thermal imaging systems to detect heat and measure temperature differences make them useful in a broad range of industrial applications. For example, thermal imaging systems can be used to observe the performance of heating and cooling devices, monitor the performance of electronic components or the movement of electrical current, detect water or moisture, identify leaks, locate bonding defects, detect cracks and voids in an object and determine surface uniformity. The Company believes that the increasing emphasis on improving manufacturing productivity and product quality, underscored by the growing importance of programs such as International Standards Organization (ISO) 9000 and the increasing complexity of high technology products and processes, creates an opportunity for a significant expansion of the industrial market. This market typically requires very high performance systems with extensive analytical software. The Company believes that growth of the commercial market will be further enhanced as thermal imaging systems achieve higher performance, the capabilities and benefits of thermal imaging are understood by a growing number of potential customers, the image analysis software capabilities continue to improve and systems become more affordable and easy to use.

The Company believes that its imaging systems and related software products will enable it to continue to capture market share and significantly expand applications in six principal areas: predictive and preventive maintenance, non-destructive testing and evaluation, research and development, manufacturing process control and monitoring as well as expand into the much larger machine vision market, commercial broadcast and image analysis.

Predictive and Preventive Maintenance ("PPM"): Thermal imaging systems improve productivity by allowing the location and detection of equipment faults so they can be corrected before they lead to catastrophic failure or major equipment damage. This allows companies to significantly reduce operating expenses by lowering repair costs and reducing downtime. PPM is currently the largest segment of the industrial market.

Specific PPM applications are numerous. Utility companies utilize the Company's thermal imaging products to locate and repair defective power transmission components thereby significantly improving service reliability by reducing annual power outages per customer. The bearings of rotating machinery will operate at an increasingly warmer temperature as the end of their useful life approaches; thermal imaging surveys can predict the bearing's end of life, allowing planned maintenance to be performed before experiencing a plant shut-down or severe machinery damage. Thermal imaging is used to evaluate the integrity and amount of insulation in a building or container, providing substantial energy cost savings. Thermal imaging allows roof leaks and associated specific damaged areas to be located and repaired, avoiding the major expense of replacing the entire roof.

Non-Destructive Testing and Evaluation ("NDT"): Non-destructive testing and evaluation is a market classification adopted by a broad group of users of various technologies for specialized testing. NDT in a broad sense applies to all testing and evaluation that is non-destructive in nature and is utilized in all industrial thermal imaging market segments. More specifically, the designation applies to a segment that focuses on the testing of composite materials or of products using composite materials. This is a relatively new thermal imaging market and has experienced strong growth. Many different types of products must be inspected to ensure they are properly constructed, meet acceptable quality standards, or have not been damaged. For many applications, technologies such as ultrasound and x-ray have not proven to be effective. Thermal imaging has proven to be non-destructive, effective, quick and affordable and is increasingly being used for this type of inspection.

Thermal imaging can be used to evaluate, monitor and test composite material in this process. For example, when two composite materials are bonded together, thermal imaging, unlike visual inspection, can be used to determine the quality of the bond. A similar inspection technique is used to inspect composite materials for damage after sustaining an impact. Additionally, during the production of solar cells, thermal imaging is used to verify the integrity of the bond between the various composition layers -- a factor critical to the cell's performance. Due to pressure and temperature differences experienced by an aircraft, water will collect in the internal honeycomb structure or insulation if there is a leak in the aircraft's outer skin; such leaks can be located through the use of thermal imaging.

Research and Development: Thermal imaging, due to its non-destructive analysis capability, is a new tool for use in research from automobiles to electronics. This market typically requires very high performance systems with extensive capabilities and tools to analyze the thermal image. The Company believes that this segment of the commercial market will grow as system resolution and image analysis capabilities increase.

Because many component and product designs involve the use or control of heat, thermal imaging can be effectively used in the research and design of the component or product. For example, thermal imaging is used in laser design to determine the power distribution of the beam. Once the laser is in production, thermal imaging is used as a process and product specification monitoring system. In addition, thermal imaging is used in development of diesel engines using ceramic coated pistons to determine proper adhesion of the ceramic to the metal piston. During the design of a rubber tire, uniform heat distribution can be evaluated using thermal imaging.

Manufacturing Process Control and Monitoring: The ability to determine that a manufacturing process will produce unacceptable results at the earliest point in the production cycle is critical to quality improvement and cost reduction. Thermal imaging and image analysis allows for the monitoring and control of heat, which is used in most industrial processes. Depending on the process, too much, too little, or uneven heat can result in a defective product. The Company believes that, as all phases of the manufacturing process become increasingly competitive and quality standards increase, the use of thermal imaging and image analysis software in these applications will grow.

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

Commercial broadcast: The use of stabilized broadcast and thermal imaging systems is becoming a standard feature in today's news gathering markets. This market typically requires very high performance systems with extensive capabilities including state-of-the-art stabilization, the ability to provide jitter-free images from great distances and the ability to downlink the information on a real-time basis. The Company believes that this segment of the market will grow as more and more TV stations acquire helicopters to provide reat-time reporting of news events and as system size and weight continue to decline which enable the use of such systems on small and weight restricted helicopters.

Image Analysis: The acquisition of Optimas, in early 1996, has enabled the Company to greatly expand its image analysis capabilities. Image analysis is the extraction of specific quantitative information in an objective, repeatable fashion in order that such data can be more meaningfully employed or understood and used to make informed and better decisions. Image analysis incorporates image processing (improving or otherwise modifying of the visual appearance of an image), but goes further to incorporate the identification of features of interest, extracting the desired measurements of those features and then making such measurements available for productive use.

Uses of image analysis software may include monitoring and controlling industrial processes, improving product quality, enhancing medical analysis or otherwise enabling or enhancing critical decision-making processes. For example, in the manufacture of laser and ink jet printers, the precise alignment of thousands of tiny dots of ink and a minimization of scatter or excess ink spots in printing are critical quality concerns. Printer manufacturers examine a test sheet from each printer using the Company's image analysis software. The software can rapidly examine a digital scan of those pages and provide analysis of whether the printer is functioning within tolerances.

Products

The following is a listing of the Company's main products and a brief description of such products:

Series 2000. The Series 2000(TM), first introduced in 1983, is a real-time analog TV-compatible thermal imaging system for use in applications such as military surveillance, narcotics interdiction, crime fighting, search and rescue and environmental protection.

SAFIRE. The SAFIRE(TM), first introduced in the second quarter of 1992, is a high-resolution digital thermal imaging system featuring gyro stabilization and image processing. SAFIRE systems are currently fielded by all branches of the U.S. military and are manufactured to meet the rigors of diverse missions from airborne and naval surveillance to search and rescue.

ULTRA 3000. The ULTRA 3000(TM), first introduced in the fourth quarter of 1994, is one of the smallest and lightest airborne thermal imaging systems available on the market today. A variety of system features and options make the ULTRA 3000 a truly versatile thermal imaging system for use in day and night surveillance, search and rescue, and environmental protection.

Prism SP. The Prism SP(TM), first introduced in the second quarter of 1994, is a high resolution, battery powered, handheld infrared camera. The Prism SP combines compact size, high quality imaging and temperature measurement capabilities which make it ideal for a broad range of industrial applications, including predictive and preventative maintenance, research and development, process control, and other types of non-destructive evaluation.

Prism DS. The Prism DS(TM), which was introduced in the first quarter of 1995, is a high-resolution, battery powered, handheld infrared camera with the added capabilities of digital storage and image processing. The Prism DS features an on-board 486 microprocessor which enables digital capture of images onto Windows(TM) based PC cards. The Prism DS is ideally suited for industrial applications where post analysis in the area of predictive and preventative maintenance, research and development, process control, and other types of non-destructive evaluation are crucial.

Tracer. The Tracer(TM), introduced in the first quarter of 1997, is the first industrial imaging system capable of recording and analyzing long thermal event sequences at real-time frame rates on a Windows(TM) based PC. Tracer combines a high-resolution thermal imaging camera with a Pentium(R) PC, digital recording system, and Windows-based analysis software.

SeekIR. The SeekIR(TM), introduced in the third quarter of 1996, is a handheld infrared camera system that uses "uncooled" detector technology. Silent operation, "instant on" imaging, compact size, portability and a long-life battery make the SeekIR a strong tool for gathering evidence and conducting "night vision" surveillance or monitoring.

ULTRA 4000. The ULTRA 4000(TM), introduced in the third quarter of 1994, is a fully stabilized aerial camera system that couples a high-resolution infrared camera for low light or no light situations with an industry-standard broadcast camera for daylight coverage. The ULTRA 4000 provides the capability for long range airborne surveillance and broadcast video transmission in law enforcement, news gathering, and similar applications.

UltraMedia. The UltraMedia(TM), introduced in the first quarter of 1996, is a compact daylight broadcast system that delivers a maximum of 72:1 magnification in a lightweight, low-profile package which is ideally suited for airborne broadcast teams. The UltraMedia breaks new ground by giving airborne broadcast teams hardware that delivers high-resolution images without high payload concerns.

UltraMedia RS. The UltraMedia RS(TM), introduced in the first quarter of 1997, combines many of the features of the larger UltraMedia system in a compact 35 pound configuration. The UltraMedia RS provides small and weight restricted aircraft the ability to gather high quality video footage from long distances.

AnalyzIR. AnalyzIR(TM) Software, introduced in the second quarter of 1995, allows for review, analysis and processing of captured images and data. AnalyzIR software is a Windows based program which provides for an ease of use and affordability that is unmatched in the industry. AnalyzIR software is typically packaged with the Prism systems, though it is capable of operating with data gathered from other imaging modalities as well.

OPTIMAS. OPTIMAS(TM) software, introduced in the first quarter of 1989, is a Windows based application designed to meet the needs of the advanced scientific and engineering markets. The OPTIMAS software package includes custom user interface tools which enable both novice and highly skilled users to efficiently and effectively solve their image analysis problems.

Xcaliper. Xcaliper(TM) software, introduced in the second quarter of 1995, is a high precision software product addressing certain industrial machine vision tasks such as gauging, part-presence or absence, edge detection and part alignment. Xcaliper software combines high speed with easy development using Visual Basic programming.

Sentinel. Sentinel(TM) software, introduced in the fourth quarter of 1995, is an image pattern and industrial OCR software application using neural network-based technology to perform fast pattern recognition on personal computers. Applications include form reading, package label identification, part orientation and inspection. Sentinel software employs a simple drag and drop interface to train patterns and build applications.

Library. Library(TM) software, introduced in the fourth quarter of 1995, is a flexible, multi-user image database with internal image management capabilities. Library software provides support for network and removable media and seamless links to OPTIMAS for one step archiving of images from OPTIMAS. Images can be retrieved and batch-analyzed using internal search features and automated field updates of analysis results. Library software utilizes a drag and drop interface to enable custom database and report development.

Customers

The primary customers for the Company's products include instrumentalities of domestic and foreign governments, original equipment manufacturers, commercial manufacturers, research and development facilities, universities, utility companies, news gathering agencies and various commercial enterprises.

A substantial portion of the Company's revenues is derived from sales to agencies and instrumentalities of the U.S. Government, which aggregated more than 10% of the Company's revenues in each of the last three years. For the year ended December 31, 1996, such sales represented 40.1% of the Company's total revenue. Of this amount approximately $22.8 million, or 34.5% of the Company's 1996 revenues, consisted of sales to the U.S. Marine Corps of additional SAFIRE systems for their fleet of UH-1N "Huey" helicopters. With the exception of the continuing sales to agencies and instrumentalities of the U.S. Government, the Company does not typically have continuing customers whose purchases constitute more than 10% of revenues on a year to year basis. At any given time, however, the Company may have purchase commitments from customers which, if completed, would constitute more than 10% of revenues in any given year. The failure of any such customer to complete such purchases or the loss of the agencies and instrumentalities of the U.S. Government as a customer could have a material adverse effect on the Company's business, financial position and results of operations.

Sales, Distribution and Customer Service

The Company markets its night vision products for the government market in the United States directly through a 17-person direct sales staff, and internationally through 12 independent representatives covering all major markets worldwide.

The Company sells its commercial products worldwide through a 24-person direct sales staff and a network of 35 distributors and representatives, each with an exclusive right to sell the Company's products in a defined geographic area. All distributors and representatives report to one of five regional sales managers employed by the Company. The Company sells its software products primarily through 56 authorized dealers, 30 of whom are located within the U.S. and Canada. Many of these dealers, particularly internationally, maintain their own network of subsidiary agents.

In support of both direct and distribution sales activities, the Company has a technical support group that provides installation, technical training and repair services. The Company maintains service facilities at its factory in Portland, Oregon and at its subsidiaries in the United Kingdom and Seattle, Washington. The Company also maintains limited service capability in three foreign locations under the direction of its independent representatives.

Manufacturing

The Company manufactures most critical components of its products, including detectors, optics and high speed motors. This allows the Company to minimize lead times, facilitate prompt delivery of its products, control costs and ensure that these components satisfy its quality standards. The Company purchases other parts pre-assembled, including coolers, circuit boards, cables and wiring harnesses. The interruption of certain sources of supply or the failure of suppliers of key components to adapt their products to the Company's changing technological requirements could disrupt the Company's ability to manufacture products or cause the Company to incur costs associated with the development of alternative sources, either of which could have an adverse effect on the Company's business, financial condition and financial results of operations. The Company has experienced delays in production due to its inability to timely obtain a necessary component from third-party supplier. No assurance can be given that similar delays will not be experienced in the future.

Certain critical components, such as detectors and optical systems, are made with special minerals, compounds or materials. The Company believes that all such materials are readily available and will continue to be available in the foreseeable future at costs that are not prohibitive or that would materially affect the Company's ability to manufacture such components.

The Company's manufacturing operations have been audited by its OEM customers, which include several major aircraft manufacturers, and were certified as meeting their quality standards. In addition, the Company has been certified for inclusion of its products in government systems after government audits of its manufacturing facilities.

Competition

The Company's competitors are different in each market segment. In the public safety market, the Company competes with a variety of companies on a limited basis. For example, the Company competes with Agema Infrared Systems and Inframetrics in the law enforcement segment and GEC and Wescan Ltd. in other public safety segments. In the commercial markets, the Company's principal competitors are Agema, Inframetrics and Avio and Wescam Ltd. in the commercial broadcast markets. In the technical image analysis software market, the Company competes with Media Cybernectics and Noesis Vision, and to a lesser extent Data Translation, Jandel Scientific and Matrox Electronics Systems. In the industrial machine vision imaging markets, the Company competes with Adept, Allen-Bradley Company, Cognex and Robotic Vision Systems. Competition in the defense market is more intense, and includes companies such as Lockheed Martin, Boeing, Thompson, GEC and Thorn EMI. As the markets for the Company's products expand, the Company expects that additional competition will emerge and that existing competitors may commit more resources to the markets addressed by the Company. Most of the Company's competitors have substantially greater financial, technical and marketing resources than the Company. In addition, the Company's products compete indirectly with numerous other products, such as image intensifiers and low-light cameras, for limited military and governmental funds.

The Company believes that the principal competitive factors in its market are performance, cost, customer service, product reputation, and effectiveness of marketing and sales efforts. In addition, the Company believes that the speed with which companies can identify applications for thermal imaging, develop products to meet those needs and supply commercial quantities to the market are important competitive factors. The Company believes that it competes favorably with respect to each of these factors.

Proprietary Rights

The Company relies on intellectual property rights to protect its proprietary technology. The Company enters into confidentiality agreements with its employees and consultants and limits access to and distribution of its documentation and other proprietary information. There can be no assurance that the steps taken by the Company in this regard will be adequate to deter misappropriation of its technology or independent third-party development of competing technologies.

Employees

As of December 31, 1996, the Company had 363 employees of whom 43 were in administration, 127 were in engineering, 5 were in quality assurance, 108 were in manufacturing, assembly and testing and 80 were in marketing and sales. The Company has been successful in attracting and retaining highly skilled technical, marketing and management personnel to date. None of the Company's employees are represented by a union or other bargaining group. The Company believes its relationship with its employees is good.

Item 2. Properties.

The Company leases approximately 85,000 square feet of office, manufacturing, and laboratory space in Portland, Oregon, under a lease which expires in 2000. The lease calls for fixed monthly payments over its term. The Company also leases approximately 12,500 square feet of office and manufacturing space in the United Kingdom, under a lease that expires in 2000 and leases approximately 9600 square feet of office and manufacturing space in Bothell, Washington, under a lease that expires in 2000.

Item 3. Legal Proceedings.

In the normal course of business, the Company is and has been involved in certain litigation, however, the Company is not the subject of or a party to any material legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of the security holders during the fourth quarter of the year covered by this report.

PART II

Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters.

The common stock of FLIR Systems, Inc. has been traded on the Nasdaq National

Market System since June 22, 1993, under the symbol FLIR. The following table sets forth, for the quarters indicated, the high and low sales price for Common Stock reported on the Nasdaq National Market System.

	1996		1995	
	High	Low	High	Low
First Quarter....	14.38	10.00	16.75	12.50
Second Quarter...	16.25	10.50	15.25	12.44
Third Quarter....	15.25	11.75	14.50	12.25
Fourth Quarter...	14.50	12.75	13.50	12.25

At December 31, 1996, there were approximately 350 holders of record of the Company's common stock and 5,387,483 shares outstanding. The Company has never paid cash dividends on its common stock. The Company intends to retain earnings for use in its business and, therefore, does not anticipate paying cash dividends in the foreseeable future.

During 1996, the Company sold securities without registration under the Securities Act of 1933, as amended (the ' Securities Act") upon the exersice of certain stock options granted under the Company's 1984 stock incentive plan. An aggregate of the 14,526 shares of Common Stock were issued at exercise prices ranging from $1.625 to $5.225. These transactions were effected in reliance upon the exemption from registration under the Securities Act provided by Rule 701 prommulgated by the Securities and Exchange Commission pursuant to authority granted under Section 3(b) of the Securities Act.

Item 6. Selected Financial Data.

	Year Ended December 31,				
	1996	1995	1994	1993	1992
	(In thousands, except per share data)				
Statement of Operations Data					
Revenues:					
Government..........................	$42,958	$33,575	$35,805	$31,051	$25,761
Industrial imaging systems..........	23,059	16,550	13,172	9,082	6,789
Total revenues.....................	66,017	50,125	48,977	40,133	32,550
Cost of goods sold..................	30,415	22,724	23,813	19,103	15,648
Gross profit.......................	35,602	27,401	25,164	21,030	16,902
Operating expenses:					
Research and development...........	9,485	7,786	7,588	7,044	5,304
Selling and other operating costs...	17,739	14,601	11,903	10,332	8,910
Allowance for doubtful accounts.....	1,260	55	450	26	443
Total operating costs.............	28,484	22,442	19,941	17,402	14,657
Earnings from operations..........	7,118	4,959	5,223	3,628	2,245
Interest income......................	44	226	705	138	5
Interest expense and other...........	(819)	(795)	(172)	(170)	(205)
Earnings before income taxes......	6,343	4,390	5,756	3,596	2,045
Provision for income taxes...........	1,251	523	570	405	265
Net earnings.........................	$ 5,092	$ 3,867	$ 5,186	$ 3,191	$ 1,780
Net earnings per share..............	$ 0.91	$ 0.70	$ 0.95	$ 0.66	$ 0.42
Weighted average number of common shares and equivalents					

outstanding........................	5,624	5,523	5,436	4,828	4,233

Balance Sheet Data:

Working capital.....................	$44,190	$37,884	$35,573	$31,610	$18,233
Total assets........................	75,104	56,918	49,269	40,385	26,391
Long-term debt, excluding current portion....................	5,173	1,175	1,209	1,167	1,099
Total shareholders' equity..........	$49,971	$43,470	$39,162	$33,046	$19,909

Item 7. Management's Discussion and Analysis of Financial Condition and ResultS of Operations.

Overview

FLIR Systems, Inc. ("FSI" or the "Company"), founded in 1978, designs, manufactures, and markets imaging systems worldwide for a wide variety of applications in the government and commercial markets. Thermal imaging systems detect the infrared radiation, or heat, emitted directly by all objects and materials and enable the operator to see objects in total darkness, in adverse weather conditions and through obscurants such as smoke and haze. Government applications include public safety (law enforcement and drug interdiction, search and rescue, border patrol and maritime patrol, and environmental protection) and defense (surveillance, reconnaissance and navigation assistance). Commercial applications include commercial broadcast imaging, predictive and preventive maintenance, non-destructive testing and evaluation, research and development, manufacturing process control and monitoring, and machine vision and image analysis.

The Company was profitable in the year ended December 31, 1988 and has reported profitable results for each succeeding year. In June 1993, the Company completed an initial public offering of its stock, which is traded on the Nasdaq National Market System.

In January 1996, the Company continued to expand the market potential for the growing commercial product line as well as government products by acquiring Optimas Corporation ("Optimas") in Seattle, Washington. Optimas specializes in the development of image analysis software for a wide range of applications for the industrial, biomedical, research and machine vision markets.

In April 1996, the Company entered into the commercial broadcast market with the introduction of two products, the ULTRA 4000 and the UltraMedia. The ULTRA 4000 is a fully stabilized airborne camera system that couples a high-resolution infrared camera with an industry-standard broadcast camera for 24-hour-a-day news coverage. The UltraMedia is a broadcast-quality imaging system that delivers clear, crisp and jitter-free daylight images.

During 1996, the Company continued the significant investment in the infrastructure of the Company. This included significant investments in expanding the operations of both of the Company's subsidiaries, Broadcast and Surveillance Systems, Ltd. ("BSS") and Optimas; continued emphasis on corrective action related to production issues with the Prism product line; restructuring the marketing channels to a more direct sales force from a predominately representative-based network; and the continued investment in research and development related to new products and enhancement of existing products. The Company is now beginning to benefit from this investment as evidenced by the introduction of the two new aerial broadcast products in 1996, profitable operations of BSS, the continued enhancement to existing products, and in early 1997, the introduction of the extremely lightweight UltraMedia-RS and the Tracer, the first industrial imager capable of recording and analyzing long sequences of thermal activity on a real-time basis.

Results of Operations

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

	Year Ended December 31,		
	1996	1995	1994
Revenues:			
Government	65.1%	67.0%	73.1%
Commercial imaging systems	34.9	33.0	26.9
Total revenues	100.0	100.0	100.0
Cost of goods sold	46.1	45.3	48.6
Gross profit	53.9	54.7	51.4
Operating expenses:			
Research and development	14.4	15.5	15.5
Selling and other operating costs	26.9	29.2	24.3
Allowance for doubtful accounts	1.9	0.1	0.9
Total operating expenses	43.2	44.8	40.7
Earnings from operations	10.7	9.9	10.7
Interest income	0.1	0.5	1.4
Interest expense and other	(1.2)	(1.6)	(0.3)
Earnings before income taxes	9.6	8.8	11.8
Provision for income taxes	1.9	1.0	1.2
Net earnings	7.7%	7.8%	10.6%

Years ended December 31, 1996, 1995 and 1994

Overall. The Company's revenues increased 31.7%, from $50.1 million in 1995 to $66.0 million in 1996. Net earnings increased 31.7%, from $3.9 million (or $0.70 per share) in 1995 to $5.1 million (or $0.91 per share) in 1996. The increase in overall revenue and net income was primarily due to the inclusion of revenue from the sale of the Company's two aerial broadcast products, the ULTRA 4000 and the UltraMedia, for the broadcast market, as well as to increased deliveries of SAFIRE night vision system to the Federal Government, particularly to the U.S. Marine Corps and the U.S. Air Force. Further, the increase in revenue and net income was due to the fact that 1995 government revenues were constrained due to delays in the finalization of several international and domestic contracts and the inclusion, in 1995, of the significant one-time transaction costs associated with the Optimas acquisition. These increases were sufficient to offset several items that had a dilutive impact on 1996 net earnings including the $1.2 million fourth quarter increase in the allowance for doubtful accounts related to one long-outstanding international receivable, the increase in interest expense related to increased short and long-term borrowings and the increase in the effective tax rate.

During 1995, the Company's overall revenues increased 2.3%, from $49.0 million in 1994 to $50.1 million in 1995. Net earnings decreased 25.4%, from $5.2 million (or $0.95 per share) in 1994 to $3.9 million (or $0.70 per share) in 1995. The slight increase in overall revenues, despite the decline in revenues experienced by the Company's government division, was primarily due to increased sales of the Prism family of products, principally the Prism DS and increased sales at BSS. The decline in net earnings was primarily due to the significant one-time costs associated with the Optimas acquisition, and the reduction in interest income earned on cash balances.

Revenues. Revenues from the sale of government systems increased 27.9%, from $33.6 million in 1995 to $43.0 million in 1996. This increase was primarily attributable to increased sales of the SAFIRE night vision system from $23.9 million in 1995 to $29.9 million in 1996, principally to the U.S. Government, particularly the U.S. Marine Corps and the U.S. Air Force. Additionally, revenues from the sale of BSS products increased during 1996. Commercial imaging systems revenues increased 39.3%, from $16.6 million in 1995 to $23.1 million in 1996. This improvement was principally attributable to the inclusion of revenues from sales of the Company's two aerial broadcast products, the UltraMedia and the ULTRA 4000, which were introduced in the first quarter of 1996 and aggregated $10.4 million in 1996. This increase was partially offset by reduced sales of the Prism Family of products due to supplier-related production constraints experienced in 1996. The Company continues to make improvements in its production capacity for the Prism products by working with existing suppliers to improve performance and also by identifying alternative sources of detector components that utilize a different electronic design. The Company is now producing prism cameras that utilize these new components and the Company is now is the process of ramping up production utilizing both existing and new supplier components. While the results of this effort have been positive, the Prism revenues for 1996 reflect that full production had not been achieved.

Revenues in 1995 from the sale of government systems decreased 6.2%, from $35.8 million in 1994 to $33.6 million in 1995. This slight decrease was primarily due to delays in the finalization of several international and domestic contracts, which resulted in revenues from these contracts being postponed from the latter half of 1995 into 1996 and 1997. Revenues from the sale of commercial imaging systems increased 25.6%, from $13.2 million in 1994 to $16.6 million in 1995. This improvement was principally attributable to increased sales of the Prism family of products, particularly the Prism DS, which was introduced in the first quarter of 1995. Sales of the Prism family of products aggregated $7.8 million in 1995 compared with $5.2 million in 1994.

The Company has continued to benefit from its significant investment to develop worldwide sales and distribution channels. The majority of the Company's revenue outside the United States was from Europe. However, during 1996, international revenues decreased slightly from $23.1 million in 1995 to $21.2 million in 1996. Sales outside the United States accounted for approximately 32.0% of the Company's revenue in 1996. This represents a decrease from the 46.0% experienced in 1995 and the 42.3% experienced in 1994. The decrease, in 1996, in absolute dollars and as a percentage of revenue was primarily due to increased shipments under the terms of existing domestic contracts, primarily to the U.S. Marine Corps. The Company anticipates that revenues from international sales as a percentage of total revenue will continue to comprise a significant percentage of revenues but may vary modestly from year to year.

Gross profit. As a percentage of revenue, gross profit decreased slightly from 54.7% in 1995 to 53.9% in 1996. This decrease was primarily due to the decrease in higher margin international sales and the increase in sales to the U.S. Government which aggregated $26.5 million in 1996 compared to $15.7 million in 1995. The decrease was mitigated by the increased sales of the Company's commercial broadcast products, which typically have a slightly higher margin than other commercial products, and to higher margin software sales from Optimas.

Gross profit increased as a percentage of revenue from 51.4% in 1994 to 54.7% in 1995, primarily due to the higher percentage of higher margin international sales in 1995.

Gross profit percentages are affected by a variety of factors, including the mix of domestic and international government and commercial imaging sales, the more competitive nature of the commercial imaging market, and the impact of competitive bids for significant government contracts.

Research and development. Research and development expense increased 21.8%, from $7.8 million in 1995 to $9.5 million in 1996, and increased 2.6%, from $7.6 million in 1994 to $7.8 million in 1995. As a percentage of revenue, research and development expense decreased from 15.5% in 1995 to 14.4% in 1996 and remained consistent at 15.5% for 1995 and 1994. The increase in research and development expense, in absolute dollar terms, was attributable to increased research and development activities related to introduction of the UltraMedia, ULTRA 4000, UltraMedia-RS and the Tracer, as well as to on-going product enhancements. Research and development expense was also impacted by the classification of development costs directly associated with engineering revenues as cost of goods sold rather than research and development expenses. Such costs amounted to $200,000, $425,000 and $306,000 in 1996, 1995 and 1994, respectively. Without these reclassifications, research and development expense as a percentage of revenue would have been 14.7%, 16.4% and 16.1% in 1996, 1995 and 1994 respectively, reflecting the fact that a large percentage of research and development expense is fixed in nature.

The general trend in research and development expense reflects the Company's continuing emphasis on product development and new product introductions. The Company expects that research and development expenses will continue to increase in absolute dollars but, as the Company's revenues increase and given the large percentage of research and development expense that is fixed in nature, such expenses should continue to decline as a percentage of revenue.

Selling and other operating costs. Selling and other operating costs increased 21.5%, from $14.6 million in 1995 to $17.7 million in 1996 and increased 22.7%, from $11.9 million in 1994 to $14.6 million in 1995, primarily due to costs associated with increased revenues, expenses related to the expanded operations of BSS and Optimas, and to increased personnel. Further, the Company has continued to expand and strengthen the direct sales and marketing staffs at both FSI and Optimas. Selling and other operating costs decreased as a percentage of revenue from 29.2% in 1995 to 26.9% in 1996, and increased from 24.3% in 1994 to 29.2% in 1995. The Company expects that selling and other operating costs will continue to grow in absolute terms in 1997 as a result of further planned increases in sales and marketing personnel and anticipated increased marketing efforts and related expenses.

Allowance for doubtful accounts. In 1996, the Company increased the reserve for doubtful accounts by $1.3 million, primarily related to the possible uncollectibility of a receivable from an international customer located in Genoa, Italy. The Company had previously established a partial reserve for the possible uncollectibility of this receivable but determined that the continued delays in the restructuring of the company by the Italian Government necessitated a one-hundred-percent reserve.

Interest income and Interest expense and other. Interest income consists of amounts earned on cash balances and short-term investments. The decrease from $705,000 in 1994 to $226,000 in 1995 and to $44,000 in 1996 reflects the decline in cash balances during 1995 and 1996 due to increased working capital needs, primarily inventories and accounts receivable as well as expanded operations of BSS and Optimas. Additionally, 1994 interest income reflects the inclusion of interest on certain long-term receivables.

Interest expense and other includes costs related to short-term and long-term debt, capital lease obligations and miscellaneous bank charges and expenses. The increase from $795,000 in 1995 ($195,000 exclusive of the one-time costs associated with the acquisition of Optimas) to $819,000 in 1996 was primarily due to increased short-term and long-term debt as a result of increased working capital needs discussed above. The increase from $172,000 in 1994 to $795,000 in 1995 was due to the one-time costs associated with the acquisition of Optimas, which aggregated approximately $600,000.

Income taxes. The Company's effective income tax rates for 1996, 1995 and 1994 were 19.7%, 11.9% and 9.9%, respectively. The effective tax rates were substantially below the statutory rate as the Company was able to realize the benefits of a portion of its net operating loss carryforwards and existing tax credits. The Company recognized a net deferred tax benefit of $400,000, $950,000 and $850,000 in 1996, 1995 and 1994, respectively, under the recognition criteria of Statement of Financial Accounting standard no. 109 (SFAS 109), "Accounting for Income Taxes." The current portion of income tax expense consists of state and federal income taxes, as the utilization of net operating loss carryforwards and existing tax credits was limited. As a result of the Company's initial public offering in 1993, the Company experienced a cumulative change in ownership of more than 50% within a three-year period, which resulted in the imposition of a limitation on the utilization of net operating losses and existing tax credits of $2.6 million per year.

At December 31, 1996, the Company had utilized all its net operating loss carryforwards, however, in connection with the acquisition of Optimas, the Company acquired net operating loss carryforwards aggregating $5.5 million which expire in the years 1997 through 2010. Utilization of these carryforwards is limited to future earnings of Optimas and further limited to approximately $350,000 per year, as Optimas experienced a cumulative change in ownership of more than 50% within a three-year period. Additionally, the Company has various tax credits available aggregating $771,000 which expire in the years 1999 through 2011.

Liquidity and Capital Resources

At December 31, 1996, the Company had cash and cash equivalents on hand of $775,000 compared with $1.2 million at December 31, 1995. Additionally, at December 31, 1996, the Company had $6.4 million drawn on its line of credit. Working capital increased to $44.2 million at December 31, 1996, from $37.9 million at December 31, 1995. The decrease in cash balances and increased working capital was primarily due to the increases in inventories and accounts receivable discussed below, as well as to the cash required for the expanded operations of BSS and Optimas.

At December 31, 1996, the Company had $28.3 million in accounts receivable outstanding compared to $24.9 million at December 31, 1995. The increase in accounts receivable was primarily due to the 31.7% increase in revenue. Days sales outstanding declined from 181 days at December 31, 1995 to 157 days at December 31, 1996. The Company generally experiences long collection cycles due to a variety of factors, including payment terms required by foreign governmental customers, as well as payment terms for companies that integrate the Company's products into aircraft for sale to ultimate users. The Company believes that days sales outstanding will continue to decline as revenue increases and the commercial imaging systems revenue, which generally has a short collection cycle, continues to become a larger percentage of overall revenue.

At December 31, 1996, the Company had inventories on hand aggregating $33.5 million compared to $23.7 million at December 31, 1995. The increase in the inventory level was principally due to the build up of components due to the production constraints related to the Prism DS, an increase in components related to anticipated deliveries of SAFIRE systems to the U.S. Government and international customers, and an increase in inventories to support deliveries of new products including the UltraMedia, UltraMedia-RS, the Tracer and the Company's new uncooled product, the SeekIR. Additionally, inventory levels at BSS continue to increase in anticipation of future deliveries under existing contracts. Because of the extremely long lead times for many of the most expensive components, it is necessary to have inventory on hand to meet required delivery schedules of existing contracts. The Company maintains levels of inventory sufficient to satisfy backlog which the Company considers to be firm, and to respond to short-term delivery requirements for a majority of its products. Management believes that the Company's ability to provide prompt deliveries give it a competitive advantage for certain sales. It is expected that current inventory levels will be maintained or decrease slightly as the production constraints related to the Prism DS are resolved.

The Company has available a $10.0 million line of credit which bears interest at the prime rate, is collateralized by all receivables and inventories and requires the Company to maintain working capital in excess of $40.0 million and net tangible worth of $40.0 million. At December 31, 1996, the Company had a balance of $6.4 million drawn on this line of credit compared to a $2.1 million balance on this line at December 31, 1995.

The Company believes that its existing cash, cash generated from operations, and available credit facilities together with scheduled payments on existing receivable balances will be sufficient to meet its cash requirements for the foreseeable future.

Forward-looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Annual Report contain forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995 that are based on current expectations, estimates and projections about the Company's business, management's beliefs and assumptions made by management. Words such as "expect," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially form from what is expressed or forecasted in such forward-looking statements due to numerous factors, including, but not limited to, those discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as those discussed elsewhere in this Annual Report and from time to time in the Company's other Securities and Exchange Commission filings and reports. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions.

Item 8. Financial Statements and Supplementary Data.

This item includes the following financial information:

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of shareholders' equity, and of cash flows present fairly, in all material respects, the financial position of FLIR Systems, Inc. and its subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

Portland, Oregon
February 25, 1997

FLIR SYSTEMS, INC.

CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended December 31,		
	1996	1995	1994

Revenues:			
Government	$42,958	$33,575	$35,805
Commercial imaging systems	23,059	16,550	13,172
	66,017	50,125	48,977
Cost of goods sold	30,415	22,724	23,813
Research and development	9,485	7,786	7,588
Selling and other operating costs	17,739	14,601	11,903
Allowance for doubtful accounts	1,260	55	450
	58,899	45,166	43,754
Earnings from operations	7,118	4,959	5,223
Interest income	44	226	705
Interest expense and other	(819)	(795)	(172)
Earnings before income taxes	6,343	4,390	5,756
Provision for income taxes	1,251	523	570
Net earnings	$ 5,092	$ 3,867	$ 5,186
Net earnings per share	$ 0.91	$ 0.70	$ 0.95
Weighted average number of common shares and equivalents outstanding	5,624	5,523	5,436

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

FLIR SYSTEMS, INC.

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

ASSETS	December 31,	
	1996	1995
Current assets:		
Cash and cash equivalents	$ 775	$ 1,154
Accounts receivable	28,311	24,898
Inventories	33,513	23,666
Prepaid expenses	1,551	439
Total current assets	64,150	50,157
Property and equipment	7,137	4,003
Software development costs	799	469
Deferred income taxes	2,200	1,800
Other assets	818	489
	$75,104	$56,918
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 6,365	$ 2,056
Accounts payable	7,628	5,477

	1996	1995
Accounts payable to related parties	128	273
Accrued payroll and other liabilities	1,907	1,631
Accrued warranty reserve	936	893
Accrued commissions	546	923
Accrued income taxes	1,073	585
Current portion of long-term debt	1,377	435
Total current liabilities	19,960	12,273
Long-term debt	5,173	1,175
Commitments and contingencies	--	--
Shareholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized; no shares issued at December 31, 1996 or 1995	--	--
Common stock, $0.01 par value, 30,000,000 shares authorized, 5,387,483 and 5,283,365 shares issued at December 31, 1996 and 1995, respectively	54	53
Additional paid-in capital	41,833	40,252
Retained earnings	8,257	3,165
Cumulative foreign translation adjustment	(173)	--
Total shareholders' equity	49,971	43,470
	$75,104	$56,918

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

FLIR SYSTEMS, INC.

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

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Cumulative Foreign Translation Adjustment	Total
	Shares	Amount	Shares	Amount				
Authorized	10,000,000	$0.01 par value	30,000,000	$0.01 par value				
Balance December 31, 1993	--	$ --	4,964,668	$ 50	$38,884	$(5,888)	$ --	$33,046
Net earnings for the year	--	--	--	--	--	5,186		5,186
Common stock options exercised	--	--	176,152	2	491	--	--	493
Common shares issued	--	--	46,984	--	437	--	--	437
Balance December 31, 1994	--	--	5,187,804	52	39,812	(702)	--	39,162
Net earnings for the year	--	--	--	--	--	3,867	--	3,867
Common stock options exercised	--	--	79,275	1	363	--	--	364
Common shares issued	--	--	16,286	--	77	--	--	77
Balance December 31, 1995	--	--	5,283,365	53	40,252	3,165	--	43,470
Net earnings for the year	--	--	--	--	--	5,092	--	5,092
Common stock options exercised	--	--	70,788	1	587	--	--	588
Common shares issued pursuant to stock option plans	--	--	33,330	--	398	--	--	398
Income tax benefit from stock options exercised	--	--	--	--	596	--	--	596
Foreign translation adjustment	--	--	--	--	--	--	(173)	(173)
Balance December 31, 1996	--	$ --	5,387,483	$ 54	$41,833	$ 8,257	$(173)	$49,971

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

FLIR SYSTEMS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	1996	1995	1994

Cash (used) provided by operations:			
Net earnings	$ 5,092	$ 3,867	$ 5,186
Income charges not affecting cash:			
Depreciation	1,972	1,854	1,532
Amortization	481	506	198
Disposal and write-offs of property and equipment	239	104	110
Deferred income taxes	(400)	(950)	(850)
Changes in certain working capital components:			
Increase in accounts receivable	(3,413)	(3,847)	(12,573)
Increase in inventories	(9,847)	(6,762)	(2,353)
(Increase) decrease in prepaid expenses	(1,112)	(106)	53
(Increase) decrease in other assets	(329)	109	(514)
Increase in accounts payable	2,151	1,843	1,147
(Decrease) increase in accounts payable to related parties	(145)	(51)	119
Increase (decrease) in accrued payroll and other liabilities	276	(647)	371
Increase in accrued warranty reserve	43	73	191
(Decrease) increase in accrued commissions	(377)	(30)	346
Increase in accrued income taxes	488	133	452
Cash (used) by operations	(4,881)	(3,904)	(6,585)
Cash used by investing activities:			
Additions to property and equipment	(5,526)	(2,987)	(2,367)
Software development costs	(630)	(599)	(304)
Cash used by investing activities	(6,156)	(3,586)	(2,671)
Cash provided by financing activities:			
Net increase in notes payable	4,309	2,056	--
Proceeds from long-term debt	5,817	572	572
Repayments of long-term debt including current portion	(877)	(608)	(430)
Common stock issued	--	77	437
Proceeds from exercise of stock options and shares issued pursuant to incentive stock option plans, including tax benefit	1,582	364	493
Cash provided by financing activities	10,831	2,461	1,072
Effect of exchange rate changes on cash	(173)	--	--
Net decrease in cash	(379)	(5,029)	(8,184)
Cash and cash equivalents, beginning of year	1,154	6,183	14,367
Cash and cash equivalents, end of year	$ 775	$ 1,154	$ 6,183

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

FLIR SYSTEMS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES:

The Company designs, manufactures, and markets imaging systems worldwide for a wide variety of applications in the government and commercial markets. Thermal imaging systems detect the infrared radiation, or heat, emitted directly by all objects and materials and enable the operator to see objects in total darkness, in adverse weather conditions and through obscurants such as smoke and haze. Government applications include public safety (law enforcement and drug interdiction, search and rescue, border patrol and maritime patrol, and environmental protection) and defense (surveillance, reconnaissance and navigation assistance). Commercial applications include commercial broadcast imaging, predictive and preventive maintenance, non-destructive testing and evaluation, research and development, manufacturing process control and monitoring, and machine vision and image analysis.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the

Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Recognition of revenues
- -----------------------

Revenue is recognized when products are shipped or when services are performed, except for certain long-term contracts, which are recorded on the percentage-of-completion method. The percentage-of-completion method is used for research and development contracts and for production contracts that require significant amounts of initial engineering and development costs. The percentage-of-completion is determined by relating the actual costs incurred to date to the total costs to complete the respective contract.

Cash and cash equivalents
- -------------------------

The Company considers short term investments which are highly liquid, readily convertible into cash and having original maturities of less than three months to be cash equivalents for purposes of the statement of cash flows. The Company generally invests its excess cash in investment grade, short-term commercial paper which is held to maturity. In 1994, the Company adopted Statement of Financial Accounting Standard No. 115 "Accounting for Certain Investments in Debt and Equity Securities." The adoption did not have a material effect on the financial statements. At December 31, 1996, the Company did not hold any short term investments.

Inventories
- -----------

Inventories are stated at the lower of cost or market. The Company uses the first-in, first-out (FIFO) method to determine cost.

Property and equipment
- ----------------------

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

Repairs and maintenance are charged to operations as incurred.

Software development costs
- --------------------------

The Company capitalizes software development costs when a project reaches technological feasibility and ceases when the related product is ready for release. Research and development costs related to software development that has not reached technological feasibility are expensed as incurred. Software development costs are amortized at the greater of (a) the ratio of number of units shipped to the current and anticipated future units to be shipped or (b) the straight-line method over the remaining estimated economic life of the product. Generally, the estimated economic life is three years.

Income taxes
- ------------

The Company utilizes the liability method as set forth in Statement of Financial Accounting Standard No. 109 (SFAS 109), "Accounting for Income Taxes" (see Note 3).

Earnings per share
- ------------------

Earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during the periods, computed using the treasury stock method for stock options.

Reclassifications

- -----------------

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

Statement of Cash Flows
- -----------------------

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

	Year ended December 31,		
	1996	1995	1994
Cash paid for:			
Interest.....................	$782	$ 133	$ 90
Taxes........................	$763	$1,340	$604

Fair value of financial assets and liabilities
- --

The Company estimates the fair value of its monetary assets and liabilities based upon the existing interest rates related to such assets and liabilities compared to the current market rates of interest for instruments of a similar nature and degree of risk. The Company estimates that the recorded value of all of its monetary assets and liabilities approximate fair value as of December 31, 1996, except for the patent note described in Note 9. Interest has been imputed on the patent note at 14% which exceeds the current market rate for this type of note. Therefore, the fair value of this note is estimated to be approximately $30,000 in excess of its recorded value at December 31, 1996.

Stock-based compensation
- ------------------------

The Company adopted the disclosure only provisions of Statement of Financial Accounting Standards Number 123 (SFAS 123) "Accounting for Stock-Based Compensation", effective January 1, 1996. SFAS 123 was issued by the Financial Accounting Standards Board in October 1995, and allows companies to choose whether to account for stock-based compensation under the current method as prescribed in Accounting Principles Board Opinion Number 25 (APB 25) or use the fair value method described in SFAS 123. The Company elected to continue to follow the provisions of APB 25 (See Note 12).

Concentration of credit risk
- ----------------------------

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

Certain risks and uncertainties
- -------------------------------

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

Actual results could differ from these estimates.

NOTE 2 - OTHER OPERATING COSTS:

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

	Year ended December 31,		
	1996	1995	1994
Representative commissions..................	$ 1,587	$ 2,390	$ 1,669
Other selling, general and administrative expenses..................	16,152	12,211	10,234
	$17,739	$14,601	$11,903

NOTE 3 - INCOME TAXES:

SFAS 109 requires the Company to recognize deferred tax liabilities and assets for the expected future tax consequences of events and basis differences that have been recognized in the Company's financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amount and the tax basis of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse.

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

	Year ended December 31,		
	1996	1995	1994
Current tax expense:			
Federal..	$ 1,361	$ 1,210	$ 1,097
State..	290	263	323
	1,651	1,473	1,420
Deferred tax expense (benefit):			
Federal..	675	(146)	600
State..	144	(15)	(49)
	819	(161)	551
(Decrease) in valuation allowance...................	(1,219)	(789)	(1,401)
Total provision....................................	$ 1,251	$ 523	$ 570

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

	December 31,	
	1996	1995
Allowance for doubtful accounts.................................	$ 679	$ 300
Warranty reserve..	347	327

Inventory basis differences	665	521
Vacation accrual	324	251
Depreciation	75	223
Software development costs	(325)	(159)
Net operating loss carryforwards	1,870	1,870
Credit carryforwards	771	2,253
Other	577	216
Gross deferred tax asset	4,983	5,802
Deferred tax asset valuation allowance	(2,783)	(4,002)
	$ 2,200	$ 1,800

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

	Year ended December 31,		
	1996	1995	1994
Statutory federal tax rate	34.0%	34.0%	34.0%
Increase (decrease) in rates resulting from:			
State taxes	4.5	6.0	5.6
Utilization of net operating loss carryforwards	--	(15.0)	(15.5)
Foreign sales corporation benefit	(3.2)	(7.6)	(5.2)
Utilization of research and development credits	(11.3)	(0.8)	(5.2)
Recognition of deferred tax asset	(6.3)	(21.6)	(14.8)
Alternative minimum tax	--	16.1	7.4
Other	2.0	0.8	3.6
Effective tax rate	19.7%	11.9%	9.9%

As of December 31, 1996, the Company's acquired net operating loss carryforwards aggregating $5,500,000 expire in the years 1997 through 2010. Utilization of these carryforwards is limited to future earnings of Optimas and further limited to approximately $350,000 per year, as Optimas has experienced a cumulative change in ownership of more than 50% within a three-year period. In addition, the Company has various tax credits available aggregating $771,000 at December 31, 1996, which expire in the years 1999 through 2011.

NOTE 4 - ACCOUNTS RECEIVABLE:

Accounts receivable are net of an allowance for doubtful accounts of $1,671,000 and $743,000 at December 31, 1996 and 1995, respectively.

NOTE 5 - INVENTORIES:

Inventories consist of the following (in thousands):

	December 31,	
	1996	1995
Raw material and subassemblies	$23,855	$16,151

Work-in-progress	8,171	6,057
Finished goods	1,494	1,580
	33,520	23,788
Less progress payments received from customers	(7)	(122)
	$33,513	$23,666

NOTE 6 - PROPERTY AND EQUIPMENT:

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

	December 31, 1996	December 31, 1995
Machinery and equipment	$ 8,445	$ 6,276
Office equipment and other	5,382	3,366
	13,827	9,642
Less - accumulated depreciation	(6,690)	(5,639)
	$ 7,137	$ 4,003

Property and equipment include the cost of equipment held by the Company under capital lease agreements. Such cost and related accumulated depreciation aggregated $2,724,000 and $1,336,000, respectively, at December 31, 1996, and $2,419,000 and $1,377,000, respectively, at December 31, 1995.

NOTE 7 - SOFTWARE DEVELOPMENT COSTS:

Software development costs are summarized as follows (in thousands):

	December 31, 1996	December 31, 1995
Software development costs	$1,533	$ 903
Less accumulated amortization	(734)	(434)
	$ 799	$ 469

Amortization of capitalized software costs aggregated $300,000, $393,000 and $41,000 for the years ended December 31, 1996, 1995 and 1994, respectively.

NOTE 8 - NOTES PAYABLE:

The Company has a $10.0 million line of credit bearing interest at the prime rate (8.25% at December 31, 1996), collateralized by all receivables and inventories and it requires the Company to maintain working capital in excess of $40.0 million and net tangible worth of $40.0 million. Additionally, the Company, through one of its subsidiaries, has a $250,000 line of credit at prime plus 2.0% (10.25% at December 31, 1996), secured by all the inventories, furniture and equipment of the subsidiary. At December 31, 1996 and 1995, the Company had $6,365,000 and $2,056,000, respectively, outstanding against these lines.

NOTE 9 - LONG-TERM DEBT:

Long-term debt at December 31 is summarized as follows (in thousands):

	December 31, 1996	December 31, 1995
Note payable patent....................................	$ 294	$ 365
Note payable to bank; 8.77% interest rate. Payable in monthly installments of $104 due July 30, 2001, secured by inventories, furniture and equipment........	4,663	--
Notes payable to bank; prime plus 2.5% (11.25% at December 31, 1995)....................................	--	13
Note payable to bank; Prime plus 2.5%, with 11.5% minimum interest rate..........................	--	65
Capital leases..	1,593	1,167
	6,550	1,610
Less - current portion.................................	(1,377)	(435)
	$ 5,173	$1,175

The patent note calls for annual payments through 1999 of $70,000 plus an adjustment for changes in the Consumer Price Index. Because the note did not include a stated interest rate, interest has been imputed at a rate of 14%. The Consumer Price Index was estimated at an average increase of 5% per year. Payments of $115,000, $112,000 and $108,000 were made in the years ended December 31, 1996, 1995 and 1994, respectively. The related patent was capitalized based on the present value, at inception, of the patent note of $683,000. The patent was fully amortized as of December 31, 1990.

NOTE 10 - COMMITMENTS:

The Company leases its primary facilities under operating leases expiring in 1997-2000. Total rent expense for the years ended December 31, 1996, 1995 and 1994, amounted to $1,417,000, $871,000 and $838,000, respectively.

Minimum rental payments required under all non-cancelable leases for equipment and facilities at December 31, 1996, are as follows (in thousands):

	Capital leases	Operating leases
1997..................................	$ 552	$ 730
1998..................................	496	748
1999..................................	374	755
2000..................................	264	566
2001..................................	191	--
Total minimum lease payments...............	1,877	$2,799
Less amount representing interest..........	(284)	
Present value of lease payments............	$1,593	

The Company has a 401(k) Savings and Retirement Plan (the "Plan") to provide for voluntary salary deferral contributions on a pre-tax basis in accordance with Section 401(k) of the Internal Revenue Code of 1986, as amended. The Plan allows for contributions by the Company. The Company recorded matching contributions of $533,000, $0 and $355,000 for the years ended December 31, 1996, 1995 and 1994, respectively.

NOTE 11 - CAPITAL STOCK:

In 1996, the Company increased the number of shares of common stock reserved for future issuance pursuant to its incentive stock plans to 2,769,400. Under the plans, restricted stock, incentive stock options or non-qualified stock options may be granted to employees, consultants or non-employee directors of the Company with an exercise price of not less than the fair market value of the stock on the date of grant. Options granted pursuant to the plans expire ten years from date of grant and the plan terminates in 2003.

Under the 1992 incentive stock plan, 430,000 shares of common stock were reserved for restricted stock awards. Shares awarded are earned ratably over the term of the restricted stock agreement, based upon achievement of specified performance goals. Shares granted in 1996 aggregated 100,000 shares. Of the shares granted, 33,330 shares were earned in 1996 based upon achievement of specified performance goals. Shares granted which are not issued lapse and cease to be subject to the award. Compensation expense, related to these awards, in the amount of $398,000 was recorded in 1996 and is included in Selling and other operating costs. At December 31, 1996, there were 330,000 shares available for future awards.

NOTE 12 - STOCK OPTIONS:

The Company has elected to account for its stock based compensation under Accounting Principles Board Opinion No. 25; however, as required by SFAS 123, the Company has computed for pro-forma disclosure purposes the value of options granted during 1995 and 1996 using the Black-Scholes option pricing model. The weighted average assumptions used for stock option grants for 1995 and 1996 were a risk free interest rate of 7.7% and 5.2%, respectively, an expected dividend yield of 0% and 0%, respectively, an expected life of 3 years and 3 years, respectively, and an expected volatility of 23.9% and 22.7%, respectively.

Options were assumed to be exercised upon vesting for purposes of this valuation. Adjustments are made for options forfeited prior to vesting. For the years ended December 31, 1995 and 1996, the total value of the options granted was computed to be $1,200,000 and $819,000, respectively, which would be amortized on a straight line basis over the vesting period of the options.

If the Company had accounted for these plans in accordance with SFAS 123, the Company's net earnings and pro-forma net earnings per share would have been reported as follows:

	Year Ended December 31,	
	1996	1995
Net earnings--as reported	$5,092	$3,867
Net earnings--pro-forma	$4,593	$3,578
Earnings per share--as reported	$ 0.91	$ 0.70
Earnings per share--pro-forma	$ 0.82	$ 0.65

The effects of applying SFAS 123 for providing pro-forma disclosure for 1995 and 1996 are not likely to be representative of the effects on reported net earnings and earnings per share for future years since options vest over several years and additional awards may be made.

NOTE 12 STOCK OPTIONS (Continued):

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

	Shares	Weighted Average Exercise Price
Balance at December 31, 1993	751,599	$ 5.80
Granted	46,500	12.88
Exercised	(176,152)	2.80
Terminated	(10,534)	8.66
Balance at December 31, 1994	611,413	7.16
Granted	361,500	12.76
Exercised	(79,275)	5.85
Terminated	(65,067)	11.25
Balance at December 31, 1995	828,571	9.41
Granted	331,000	11.07
Exercised	(70,788)	8.41
Terminated	(27,757)	11.56
Balance at December 31, 1996	1,061,026	$ 9.94

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

Exercise Price Range	Number of Shares	Weighted Average Price	Weighted Average Remaining Contractual Life
$1.63 - $5.23	221,736	$ 4.07	3.8
$9.50 - $14.75	839,290	$11.48	8.3
	1,061,026	$ 9.94	7.3

Options exercisable at December 31, 1996 totaled 569,177 shares at a weighted average exercise price of $8.49. Options available for grant at December 31, 1996 totaled 2,439,985 shares.

NOTE 13 - LONG TERM CONTRACTS:

During 1994, the Company entered into a long-term research and development contract with a consortium of companies to develop an Autonomous Landing Guidance System for commercial and military aircraft as part of the U.S. Government's Technology Reinvestment Program. The Company's portion of this contract aggregates $650,000. In April 1995, the Company was awarded an additional $900,000 under this contract for the second phase of the development. Revenues from this contract aggregated $416,000, $896,000 and $300,000 during the years ended December 31, 1996, 1995 and 1994, respectively, and are included in revenues. Costs associated with this contract aggregated $200,000, $425,000 and $173,000 in 1996, 1995 and 1994, respectively and are included in cost of goods sold. Outstanding billings at December 31, 1996 and 1995 aggregated $35,000 and $786,000, respectively and are included in accounts receivable.

NOTE 14 - RELATED PARTY TRANSACTIONS:

The Company and Hughes Aircraft Company are related parties resulting from

Hughes' stock interest in the Company. The Company purchases inventory parts from Hughes and its subsidiaries. During the years ended December 31, 1996, 1995 and 1994, the Company purchased parts aggregating $1,670,000, $1,320,000 and $2,300,000, respectively, from Hughes and its subsidiaries. As of December 31, 1996 and 1995, the Company owed Hughes $128,000 and $265,000, respectively. Sales of the Company's products to Hughes and its affiliates amounted to $103,000, $320,000 and $90,000 for the years ended December 31, 1996, 1995 and 1994, respectively.

Also, included in accounts payable to related parties at December 31, 1995 is a note payable to a shareholder aggregating $8,000 payable on demand at a stated interest rate of 12.0%.

NOTE 15 - EXPORT SALES AND MAJOR CUSTOMERS:

Export sales and sales to major customers are as follows (in thousands):

	Year ended December 31,		
	1996	1995	1994
United States....................	$44,865	$27,062	$28,244
Europe...........................	14,883	15,872	13,103
Other foreign....................	6,269	7,191	7,630
	$66,017	$50,125	$48,977
Major Customers:			
U.S. Government.................	26,469	15,686	14,937
Danish Ministry of Defense......	620	1,837	5,264
McDonnell Douglas Corporation...	--	13	2,759

Item 9. Changes in and Disagreement with Accountants on Accounting and Financial Disclosures.

Not Applicable

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information with respect to directors and executive officers of the Company is included under "Election of Directors," "Management -- Executive Officers" and "Section 16 Reports" in the Company's definitive proxy statement dated March 31, 1997, for its 1997 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 11. Executive Compensation.

Information with respect to executive compensation is included under "Executive Compensation" in the Company's definitive proxy statement, dated March 31, 1997, for its 1997 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information with respect to security ownership of certain beneficial owners and management is included under "Stock Owned by Management and Principal Shareholders" in the Company's definitive proxy statement dated March 31, 1997, for its 1997 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The Company and Hughes Aircraft Company are related parties resulting from Hughes' stock interest in the Company. The Company purchases inventory parts from Hughes and its subsidiaries. During the years ended December 31, 1996, 1995 and 1994, the Company purchased parts aggregating $1,670,000, $1,320,000 and $2,300,000, respectively, from Hughes and its subsidiaries. As of December 31, 1996 and 1995, the Company owed Hughes $128,000 and $265,000, respectively. Sales of the Company's products to Hughes and its affiliates amounted to $103,000, $320,000 and $90,000 for the years ended December 31, 1996, 1995 and 1994, respectively.

Additionally included in accounts payable to related parties at December 31, 1995 is a note payable to a shareholder aggregating $8,000 payable on demand at a stated interest rate of 12.0%.

PART IV

Item 14. Exhibits, Financial Statements and Schedules.

(a)(1) Financial Statements

The financial statements are included in Item 8 above.

(a)(2) Financial Statement Schedules

The following schedule is filed as part of this Report:

Schedule II -- Valuation and Qualifying Accounts

Report of Independent Accountants on Financial Statement Schedule

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

(a)(3) Exhibits

Number	Description
3.1	Second Restated Articles of Incorporation of the Company Systems, Inc. (incorporated by reference to Exhibit 3.1, File No. 33-62582)
3.2	First Restated Bylaws of the Company Systems, Inc. (incorporated by reference to Exhibit 3.2, File No. 33-62582)
10.1	Form of Indemnity Agreement between the Company Systems, Inc. and each member of its Board of Directors (incorporated by reference to Exhibit 10.1, File No. 33-62582)
10.2	1984 Incentive Stock Option Plan and Amendments (incorporated by reference to Exhibit 10.2, File No. 33-62582)
10.3	1992 Stock Incentive Plan (incorporated by reference to Exhibit 10.3, File No. 33-62582)
10.4	1993 Stock Option Plan for Non-employee Directors (incorporated by reference to Exhibit 10.4, File No. 33-62582)
10.5	Description of Management Bonus Plan (incorporated by reference to Exhibit 10.5, File No. 33-62582)
10.6	Lease Dated February 11, 1985, as amended, by and among the Company Systems, Inc. and Pacific Realty Association, L.P. (incorporated by reference to Exhibit 10.6, File No. 33-62582)
10.7	Amendments to the Lease dated February 11, 1985, by and among the Company Systems, Inc. and Pacific Realty Association, L.P.
10.8	Terms of Credit Line with United States National Bank of Oregon, including Promissory Note Dated June 26, 1996
11.0	Statement re: computation of net earnings per share
21.0	Subsidiaries of FLIR Systems, Inc.
23.0	Consent of Price Waterhouse LLP
27.0	Financial Data Schedule

(b) No reports on Form 8-k were filed during the last quarter of the year ended December 31, 1996.

(c) See (a)(3) above.

(d) See (a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 31st day of March 1997.

THE FLIR SYSTEMS, INC.
(Registrant)

By /s/ J. Mark Samper

J. Mark Samper
Vice President of Finance and Chief Financial Officer (Principal Accounting and Financial Officer and Duly Authorized Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated on March 31, 1997.

Signature	Title
/s/ ROBERT P. DALTRY Robert P. Daltry	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)
/s/ J. KENNETH STRINGER III J. Kenneth Stringer III	Director, President and Chief Operating Officer
/s/ J. MARK SAMPER J. Mark Samper	Vice President of Finance and Chief Financial Officer (Principal Accounting and Financial Officer)
/s/ JOHN C. HART John C. Hart	Director
/s/ GEORGE PORTER George Porter	Director
/s/ W. ALLEN REED W. Allen Reed	Director
/s/ RONALD L. TURNER Ronald L. Turner	Director

SCHEDULE II

FLIR SYSTEMS, INC.

VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
	Balance at Beginning Of the Year	Charges to Costs and Expense	Charged To other Accounts Described	Write-offs Net of Recoveries	Balance At the End Of the Year
Year ended December 31, 1996					
Allowance for Doubtful Accounts	$ 743	$ 1,260	$0	$(332)	$1,671
Allowance for Deferred Tax Assets	$4,002	$(1,219)	$0	$ 0	$2,783
Year ended December 31, 1995					
Allowance for Doubtful Accounts	$ 800	$ 55	$0	$(112)	$ 743
Allowance for Deferred Tax Assets	$4,791	$ (789)	$0	$ 0	$4,002
Year ended December 31, 1994					
Allowance for Doubtful Accounts	$ 425	$ 450	$0	$ (75)	$ 800
Allowance for Deferred Tax Assets	$6,192	$(1,401)	$0	$ 0	$4,791

Report of Independent Accountants on
Financial Statement Schedule

To the Board of Directors of
FLIR Systems, Inc.

Our audits of the consolidated financial statements referred to in our report dated February 25, 1997 appearing on page 18 on this Form 10-K also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICE WATERHOUSE LLP

Portland, Oregon
February 25, 1997

Number	Description
3.1	Second Restated Articles of Incorporation of the Company Systems, Inc. (incorporated by reference to Exhibit 3.1, File No. 33-62582)
3.2	First Restated Bylaws of the Company Systems, Inc. (incorporated by reference to

	Exhibit 3.2, File No. 33-62582)
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10.8	Terms of Credit Line with United States National Bank of Oregon, including Promissory Note Dated June 30, 1996
11.0	Statement re: computation of net earnings per share
21.0	Subsidiaries of FLIR Systems, Inc.
23.0	Consent of Price Waterhouse LLP
27.0	Financial Data Schedule

Exhibit 10.7

LEASE AMENDMENT

DATED: April 15, 1996

BETWEEN: PACIFIC REALTY ASSOCIATES, LP.,
a Delaware limited partnership LANDLORD

AND: FLIR SYSTEMS, INC.,
an Oregon corporation TENANT

By written Lease dated February 11, 1985, Tenant Leased from Landlord approximately 20,118 square feet of office, production and storage space located in Building F, PacTrust Business Center, 16505 S.W. 72nd Avenue, Portland, Oregon 97224. By Lease Amendment dated May 19, 1986, the lease was amended and the term extended. By Lease Amendment dated March 6, 1989, Tenant Leased an additional approximately 24,650 square feet of warehouse and office space and the term of the Lease was extended. By Lease Amendment dated February 28, 1990, the lease was amended. By Lease Amendment dated July 31, 1990, Tenant Leased an additional approximately 2,656 square feet of office and storage space. By Lease Amendment dated August 29,1991, the Lease was amended. Tenant's Leased area within Building F now totals approximately 47,424 square feet of office, production, warehouse and storage space. By Lease Amendment dated June 24,1992, Tenant Leased an additional approximately 5,400 square feet of office and warehouse space located in Building D PacTrust Business Center, 16195 S.W. 72nd Avenue, Portland, Oregon 97224. By Lease Amendment dated January 21,1993, Tenant Leased an additional approximately 3,850 square feet of warehouse and office space in Building D and the term of the Lease was extended. By Lease Amendment dated August 26, 1993, Tenant Leased an additional approximately 6,590 square feet of warehouse and office space in Building D and the Lease was amended. By Lease Amendment dated November 22, 1993, the Lease was amended. By Lease Amendment dated September 5, 1995, Tenant Leased an additional approximately 9,160 square feet of office and warehouse space in Building D and the Lease was amended and extended. Tenant's Leased area within Building D now totals approximately 25,000 square feet of office space. Tenant's Leased area within Buildings F and D totals approximately 72,424 square feet of office, production, warehouse and storage space ("hereinafter referred to as the Premises"). Such documents are hereinafter jointly referred to as "the Lease". The Lease expires September 30, 2000.

Tenant now wishes Landlord to amortize the cost of additional improvements constructed within the Premises.

NOW, THEREFORE, the parties agree as follows:

1. Landlord has constructed additional improvements within Building D totaling $22,635.71. Said amount shall be amortized over 53 months at 11 percent interest, resulting in a rental increase of $541.00 per month commencing May 1,1996 and continuing through September 30, 2000.

2. Landlord shall construct additional improvements within Building F totaling $79,893.00. Said amount shall be amortized over 53 months at 11 percent interest resulting in a rental increase of $1,910.00 per month commencing May 1,1996 and continuing through September 30, 2000.

3. Base rent for Buildings F and D shall be according to the following revised schedule

Period	Base Rent per Month Building F	Bldg. F Tls	F Add'l	Building D	Building D	D Add'l	Sec.Sys*	Total
5/1/96-3/31/98	36,188	1,840	1,910	18,221	1,162	541	978	60,840
4/1/98-3/31/99	38,270	1,840	1,910	18,221	1,162	541	978	62,922

4/1/99-9/30/00	38,893	1,217	1,910	19,101	282	541	978	62,922

*Amortization of $45,000.00 security system at interest rate of 11 percent per annum.

4. Except as expressly modified hereby, all terms of the Lease shall remain in full force and effect and shall continue through the existing term.

IN WITNESS WHEREOF, the parties have executed this agreement as of the day and year first written above.

PACIFIC REALTY ASSOCIATES, LP.,
an Oregon corporation

By PacTrust Realty, Inc.,
Its General Partner

By /s/ David G. Hicks

David G. Hicks
Vice President

FLIR SYSTEMS, INC.,
an Oregon corporation

By /s/ James A. Fitzhenry

James A. Fitzhenry
Vice President and General Counsel

Exhibit 10.8

ALTERNATIVE RATE OPTIONS
PROMISSORY NOTE
(PRIME RATE, IBOR)

$ 7,500,000.00 Date: June 26, 1996

Flir Systems. Inc. ("Borrower")

UNITED STATES NATIONAL BANK OF OREGON ("Lender")

1. TYPE OF CREDIT. This note is given to evidence Borrower's obligation to repay all sums which Lender may from time to time advance to Borrower ("Advances") under a:

single disbursement loan. Amounts loaned to Borrower hereunder will be disbursed in a single Advance in the amount shown in Section 2.

X revolving line of credit. No Advances shall be made which create a maximum amount outstanding at any one time which exceeds the maximum amount shown in Section 2, However, Advances hereunder may be borrowed, repaid and reborrowed, and the aggregate Advances loaned hereunder from time to time may exceed such maximum amount.

non-revolving line of credit. Each Advance made from time to time hereunder shall reduce the maximum amount available shown in Section 2. Advances loaned hereunder which are repaid may not be reborrowed.

2. PRINCIPAL BALANCE. The unpaid principal balance of all Advances outstanding under this note ("Principal Balance") at one time shall not exceed 7,500,000.00

3. PROMISE TO PAY. For value received Borrower promises to pay to Lender or order at Oregon Corporate Banking the Principal Balance of this note, with interest thereon at the rate(s) specified in Sections 4 and 11 below.

4. INTEREST RATE. The interest rate on the Principal Balance outstanding may vary from time to time pursuant to the provisions of this note. Subject to the provisions of this note, Borrower shall have the option from time to time of choosing to pay interest at the rate or rates and for the applicable periods of time based on the rate options provided herein; provided, however, that once Borrower notifies Lender of the rate option chosen in accordance with the provisions of this note, such notice shall constitute Borrower's irrevocable request for an Advance hereunder at the rate option specified in such notice. The rate options are the Prime Borrowing Rate and the IBOR Borrowing Rate. each as defined herein.

(a) The Prime Borrowing Rate.

(i) The Prime Borrowing Rate is a per annum rate equal to Lender's prime rate plus 0.00% per annum.

(ii) Whenever Borrower desires to use the Prime Borrowing Rate option, Borrower shall give Lender notice orally or in writing in accordance with Section 15 of this note, which notice shall specify the requested disbursement date and principal amount of the Advance, and that Borrower has chosen the Prime Borrowing Rate option.

(iii) Prepayments of all or any part of the Principal Balance bearing interest at the Prime Borrowing Rate may be made at any time without penalty. Upon prepayment of any such principal amount, Borrower also must pay all accrued interest thereon to the date of prepayment.

(iv) Subject to Section 11 of this note, interest shall accrue on the unpaid Principal Balance at the Prime Borrowing Rate unless and except to the extent that the IBOR Borrowing Rate is in effect.

(b) The IBOR Borrowing Rate.

(i) The following terms shall have the following meanings:

"Business Day" means any day other than a Saturday, Sunday, or other day that commercial banks in Portland, Oregon or New York City are authorized or required by law to close.

"IBOR Amount" means each principal amount for which Borrower chooses to have the IBOR Borrowing Rate apply for any specified IBOR Interest Period.

"IBOR Interest Period" means as to any IBOR Amount, a period of 1.2.3 or 6 months commencing on the date the IBOR Borrowing Rate becomes applicable thereto; provided, however, that: (A) no IBOR Interest Period shall be selected which would extend beyond expiry (B) no IBOR Interest Period shall extend beyond the date of any principal payment required under Section 6 of this note, unless the sum of the principal amounts bearing interest at the Prime Borrowing Rate, plus IBOR Amounts with IBOR Interest Periods ending on or before the scheduled date of such principal payment, plus principal amounts remaining unborrowed under a line of credit, equals or exceeds the amount of such principal payment: (C) any IBOR Interest Period which would otherwise expire on a day which is not a Business Day, shall be extended to the next succeeding Business Day, unless the result of such extension would be to extend such IBOR Interest Period into another calendar month, in which event the IBOR Interest Period shall end on the immediately preceding Business Day; and (D) any IBOR Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such IBOR Interest Period) shall end on the last Business Day of a calendar month.

(ii) The IBOR Borrowing Rate is Lender's IBOR Rate plus 2.50 % per annum. Lender's IBOR Rate for any IBOR Interest Period is the rate per annum (computed on the basis of a 360-day year and the actual number of days elapsed) equal to the arithmetic average (rounded upward to the nearest 1/16 of 1%) of the rates per annum determined by Lender as of the times specified in Section 4(b)(iii) on the date two (2) Business Days prior to the first day of such IBOR Interest Period as the rates offered to Lender by three Eurodollar money market dealers in such Eurodollar market as may be selected by Lender for U.S. dollar deposits to be delivered on the first day of such IBOR Interest Period for the number of months therein; provided, however, that Lender's IBOR Rate shall be adjusted to take into account the maximum reserves required to be maintained for Eurocurrency liabilities by banks during each such IBOR Interest Period as specified in Regulation D of the Board of Governors of the Federal Reserve System or any successor regulation.

(iii) Borrower may obtain IBOR Borrowing Rate quotes from Lender between 5:00 a.m. and 12:00 noon (Portland, Oregon time) on any Business Day. Any IBOR Borrowing Rate quoted (A) before 10:00 a.m. shall be based on Lender's IBOR Rate determined as of approximately 8:00 a.m. on such day, and Borrower may request an Advance at such rate only by giving Lender notice in accordance with Section 4(b)(iv) before 10:00 a.m. on such day; and (B) between 10:00 a.m. and 12:00 noon shall be based on Lender's IBOR Rate determined as of approximately 10:00 a.m. on such day, and Borrower may request an Advance at such rate only by giving Lender notice in accordance with Section 4(b)(iv) not later than 12:00 noon on such day.

(iv) Whenever Borrower desires to use the IBOR Borrowing Rate option, Borrower shall give Lender irrevocable notice (either in writing or orally and promptly confirmed in writing) between 8:00 a.m. and 12:00 noon (Portland, Oregon time) two (2) Business Days in advance of the desired effective date of such rate. Any oral notice shall be given by, and any written notice or confirmation of an oral notice shall be signed by, the person(s) authorized in Section 15 of this note, and shall specify the requested effective date of the rate, IBOR Interest Period and IBOR Amount, and whether Borrower is requesting a new Advance at the IBOR Borrowing Rate under a line of credit, conversion of any portion of the Principal Balance bearing interest at the Prime Borrowing Rate to an IBOR Amount, or a new IBOR Interest Period for an outstanding IBOR Amount. Notwithstanding any other term of this note, Borrower may elect the IBOR Borrowing Rate in the minimum principal amount of $ 500,000,00 and in integral multiples of $500,000.00; provided, however, that no more than n/a separate IBOR Interest Periods may be in effect at any one time.

(v) Borrower may not prepay all or any part of any IBOR Amount(s).

(vi) If at any time Lender's IBOR Rate is unascertainable or unavailable to Lender or if IBOR Rate loans become unlawful, the option to select the IBOR Borrowing Rate shall terminate immediately. If the IBOR

Borrowing Rate is then in effect, (A) it shall terminate automatically with respect to all IBOR Amounts (i) on the last day of each then applicable IBOR Interest Period, if Lender may lawfully continue to maintain such loans, or (ii) immediately if Lender may not lawfully continue to maintain such loans through such day, and (B) subject to Section 11, the Prime Borrowing Rate automatically shall become effective as to such amounts upon such termination.

(vii) If at any time after the date hereof (A) any revision in or adoption of any applicable law, rule, or regulation or in the interpretation or administration thereof (i) shall subject Lender or its Eurodollar lending office to any tax, duty, or other charge, or change the basis of taxation of payments to Lender with respect to any loans bearing interest based on Lender's IBOR Rate, or (ii) shall impose or modify any reserve, insurance, special deposit, or similar requirements against assets of, deposits with or for the account of, or credit extended by Lender or its Eurodollar lending office, or impose on Lender or its

Eurodollar lending office any other condition affecting any such loans, and (B) the result of any of the foregoing is (i) to increase the cost to Lender of making or maintaining any such loans or (ii) to reduce the amount of any sum receivable under this note by Lender or its Eurodollar lending office. Borrower shall pay Lender within 15 days after demand by Lender such additional amount as will compensate Lender for such increased cost or reduction. The determination hereunder by Lender of such additional amount shall be conclusive in the absence of manifest error. If Lender demands compensation under this Section 4(b)(vii), Borrower may upon three (3) Business Days' notice to Lender pay the accrued interest on all IBOR Amounts, together with any additional amounts payable under Section 4(b)(viii). Subject to Section 11, upon Borrower's paying such accrued interest and additional costs, the Prime Borrowing Rate immediately shall be effective with respect to the unpaid principal balance of such IBOR Amounts.

(viii) Upon any termination of any IBOR Borrowing Rate (including but not limited to conversion to another rate) or payment of all or any portion of any IBOR Amount on a date other than the last day of the then applicable IBOR Interest Period, including without limitation (A) acceleration under Section 11 or (B) repayment in response to a notice under Section 4(b)(vii), Borrower shall pay to Lender on demand such amount as Lender reasonably determines (determined as though 100% of the applicable IBOR Amount had been funded in the applicable Eurodollar market) is equivalent to all direct or indirect losses, expenses, liabilities, or reductions in yield to Lender resulting therefrom, whether incurred in connection with liquidation or reemployment of funds or otherwise.

(ix) If Borrower chooses the IBOR Borrowing Rate, Borrower shall pay interest based on such rate, plus any other applicable taxes or charges hereunder, even though Lender may have obtained the funds loaned to Borrower from sources other than the applicable Eurodollar market. Lender's determination of the IBOR Borrowing Rate and any such taxes or charges shall be conclusive in the absence of manifest error.

(x) Notwithstanding any other term of this note, Borrower may not select the IBOR Borrowing Rate if an event of default hereunder has occurred and is continuing.

(xi) Nothing contained in this note, including without limitation the determination of any IBOR Interest Period or Lender's quotation of any IBOR Borrowing Rate, shall be construed to prejudice Lenders right, if any, to decline to make any requested Advance or to require payment on demand.

5. COMPUTATION OF INTEREST. All interest under Section 4 and Section 11 will be computed at the applicable rate based on a 360~day year and applied to the actual number of days elapsed.

6. PAYMENT SCHEDULE.

(a) Principal. Principal shall be paid:

X on demand.
on demand, or if no demand, on
on
subject to Section 7, in installments of
each, plus accrued interest
each including accrued interest
beginning on and on the same day of each thereafter until when the entire Principal Balance plus interest thereon shall be due and payable.

(b) Interest.

(i) Interest on all amounts bearing interest at the Prime Borrowing Rate shall be paid:

X on the 30th day of July and on the same day of each month thereafter prior to maturity and at maturity.

at maturity.

at the time each principal installment is due and at maturity.

(ii) Interest on all IBOR Borrowing Rate Amounts shall be paid:

X on the last day of the applicable IBOR Interest Period, and if such IBOR Interest Period is longer than three months, on the last day of each three month period occurring during such IBOR Interest Period, and at maturity.

on the day of and on the same day of each thereafter prior to maturity and at maturity.

at maturity.

at the time each principal installment is due and at maturity.

7. CHANGE IN PAYMENT AMOUNT. If the interest rate on this note is subject to change in accordance with Section 4, the holder of this note may, from time to time, in holder's sole discretion, increase or decrease the amount of each of the installments remaining unpaid at the time of each change in rate to an amount holder in its sole discretion deems necessary to continue amortizing the Principal Balance at the same rate established by the installment amounts specified in Section 6(a), whether or not a "balloon" payment may also be due upon maturity of this note. Holder shall notify the undersigned of each such change in writing. Whether or not the installment amount is increased under this Section 7, Borrower understands that, as a result of increases in the rate of interest in accordance with Section 4, the final payment due, whether or not a "balloon" payment, shall include the entire Principal Balance and interest thereon then outstanding, and may be substantially more than the installment specified in Section 6.

8. ALTERNATE PAYMENT DATE. Notwithstanding any other term of this note, if in any month there is no day on which a scheduled payment would otherwise be due (e.g. February 31), such payment shall be paid on the last banking day of that month.

9. PAYMENT BY AUTOMATIC CHARGE.

Please automatically deduct the amount of all principal and interest payments from account number n/a . If there are insufficient funds in the account to pay the automatic deduction in full, Lender may allow the account to become overdrawn, or Lender may reverse the automatic deduction. Borrower will pay all the fees on the account which result from the automatic deductions, including any overdraft/NSF charges. If for any reason Lender does not charge the account for a payment, or if an automatic payment is reversed, the payment is still due according to this note. If the account is a Money Market Account, the number of withdrawals from that account is limited as set out in the agreement. Lender may cancel the automatic deduction at any time in its discretion.
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Provided, however, if no account number is entered above, Borrower does not want to make payments by automatic charge.

10. LENDERS PRIME RATE. Lender's prime rate is the rate of interest which Lender from time to time establishes as its prime rate and is not, for example, the lowest rate of interest which Lender collects from any borrower or class of borrowers. When Lenders prime rate is applicable under Section 4(a) or 11(b), the interest rate hereunder shall be adjusted without notice effective on the day Lender's prime rate changes, but in no event shall the rate of interest be higher than allowed by law.

11. DEFAULT.

(a) Without prejudice to any right of Lender to require payment on demand or to decline to make any requested Advance, each of the following shall be an event of default: (i) Borrower fails to make any payment when due. (ii) Borrower fails to perform or comply with any term, covenant or obligation in this note or any agreement related to this note, or in any other agreement or loan Borrower has with Lender. (iii) Borrower defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrowers property or Borrower's ability to repay this note or perform Borrower's obligations under this note or any related documents. (iv) Any representation or statement made or furnished to Lender by Borrower or on Borrowers behalf is false or misleading in any material respect. (v) Borrower becomes insolvent, a receiver is appointed for any part of Borrowers property, Borrower makes an assignment for the benefit of creditors, or any proceeding is commenced either by Borrower or against borrower under any bankruptcy or insolvency laws. (vi) Any creditor tries to take any of Borrower's property on or in which Lender has a lien or security interest. This includes a garnishment of any of Borrowers accounts with Lender. (vii) Any of the events described in this default section occurs with respect to any guarantor of this note or any guaranty of Borrower's indebtedness to Lender ceases to be, or is asserted not to be, in full force and effect. (viii) Lender in good faith deems itself insecure. If this note is payable on demand, the inclusion of specific events of default shall not prejudice Lender's right to require payment on demand or to decline to make any requested Advance.

(b) Without prejudice to any right of Lender to require payment on demand, upon the occurrence of an event of default, Lender may declare the entire unpaid Principal Balance on this note and all accrued unpaid interest immediately due and payable, without notice. Upon default, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, increase the interest rate on this note to a rate equal to the Prime Borrowing Rate plus 5%. The interest rate will not exceed the maximum rate permitted by applicable law. In addition, if any payment of principal or interest is 19 or more

days past due, Borrower will be charged a late charge of 5% of the delinquent payment.

12. EVIDENCE OF PRINCIPAL BALANCE; PAYMENT ON DEMAND. Holder's records shall, at any time, be conclusive evidence of the unpaid Principal Balance and interest owing on this note. Notwithstanding any other provisions of this note, in the event holder makes Advances hereunder which result in an unpaid Principal Balance on this note which at any time exceeds the maximum amount specified in Section 2, Borrower agrees that all such Advances, with interest, shall be payable on demand.

13. LINE OF CREDIT PROVISIONS. If the type of credit indicated in Section 1 is a revolving line of credit or a non-revolving line of credit, Borrower agrees that Lender is under no obligation and has not committed to make any Advances hereunder. Each Advance hereunder shall be made at the sole option of Lender.

14. DEMAND NOTE. If this note is payable on demand, Borrower acknowledges and agrees that (a) Lender is entitled to demand Borrower's immediate payment in full of all amounts owing hereunder and (b) neither anything to the contrary contained herein or in any other loan documents (including but not limited to. provisions relating to defaults, rights of cure, default rate of interest, installment payments. late charges, periodic review of Borrowers financial condition, and covenants) nor any act of Lender pursuant to any such provisions shall limit or impair Lender's right or ability to require Borrower's payment in full of all amounts owing hereunder immediately upon Lender's demand.

15. REQUESTS FOR ADVANCES.

(a) Any Advance may be made or interest rate option selected upon the request of Borrower (if an individual), any of the undersigned (if Borrower consists of more than one individual), any person or persons authorized in subsection (b) of this Section 15, and any person or persons otherwise authorized to execute and deliver promissory notes to Lender on behalf of Borrower.

(b) Borrower hereby authorizes any of the following individuals to request Advances and to select interest rate options:

unless Lender is otherwise instructed in writing.

(c) All Advances made pursuant to this Section 15 shall be disbursed by deposit directly to Borrowers account number n/a at branch of Lender, or by cashier's check issued to Borrower.

(d) Borrower agrees that Lender shall have no obligation to verify the identity of any person making any request pursuant to Section 15, and Borrower assumes all risks of the validity and authorization of such requests. In consideration of Lender agreeing, at its sole discretion, to make Advances upon such requests, Borrower promises to pay holder, in accordance with the provisions of this note, the Principal Balance together with interest thereon and other sums due hereunder, although any Advances may have been requested by a person or persons not authorized to do so.

16. PERIODIC REVIEW. Lender will review Borrowers credit accommodations periodically. At the time of the review, Borrower will furnish Lender with any additional information regarding Borrowers financial condition and business operations that Lender requests. This information may include but is not limited to, financial statements, tax returns, lists of assets and liabilities, agings of receivables and payable, inventory schedules, budgets and forecasts. If upon review, Lender, in its sole discretion, determines that there has been a material adverse change in Borrower's financial condition, Borrower will be in default. Upon default, Lender shall have all rights specified herein.

17. NOTICES. Any notice hereunder may be given by ordinary mail, postage paid and addressed to Borrower at the last known address of Borrower as shown on holders records. If Borrower consists of more than one person, notification of any of said persons shall be complete notification of all. Notice may be given either before or reasonably soon after the effective date of the change.

18. ATTORNEY FEES. Whether or not litigation or arbitration is commenced, Borrower promises to pay all costs of collecting overdue amounts. Without limiting the foregoing, in the event that holder consults an attorney regarding the enforcement of any of its rights under this note or any document securing the same, or if this note is placed in the hands of an attorney for collection or if suit or litigation is brought to enforce this note or any document securing the same, Borrower promises to pay all costs thereof including such additional sums as the court or arbitrator(s) may adjudge reasonable as attorney fees, including without limitation, costs and attorney fees incurred in any appellate court, in any proceeding under the bankruptcy code, or in any receivership and post-judgment attorney fees incurred in enforcing any judgment.

19. WAIVERS; CONSENT. Each party hereto, whether maker, co-maker, guarantor or otherwise, waives diligence, demand, presentment for payment, notice of non-payment, protest and notice of protest and waives all defenses based on suretyship or impairment of collateral. Without notice to Borrower and without diminishing or affecting Lenders rights or Borrower's obligations hereunder, Lender may deal in

any manner with any person who at any time is liable for, or provides any real or personal property collateral for, any indebtedness of Borrower to Lender, including the indebtedness evidenced by this note. Without limiting the foregoing, Lender may, in its sole discretion: (a) make secured or unsecured loans to Borrower and agree to any number of waivers, modifications, extensions and renewals of any length of such loans, including the loan evidenced by this note; (b) impair, release (with or without substitution of new collateral), fail to perfect a security interest in, fail to preserve the value of, fail to dispose of in accordance with applicable law, any collateral provided by any person: (C) sue, fail to sue, agree not to sue. release, and settle or compromise with, any person.

20. JOINT AND SEVERAL LIABILITY. All undertakings of the undersigned Borrowers are joint and several and are binding upon any marital community of which any of the undersigned are members. Holder's rights and remedies under this note shall be cumulative.

21. ARBITRATION.

(a) Either Lender or Borrower may require that all disputes, claims, counterclaims and defenses, including those based on or arising from any alleged tort ("Claims") relating in any way to this note or any transaction of which this note is a part (the "Loan"), be settled by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association and Title 9 of the U.S. Code. All Claims will be subject to the statutes of limitation applicable if they were litigated. This provision is void if the Loan, at the time of the proposed submission to arbitration, is secured by real property located outside of Oregon or Washington, or if the effect of the arbitration procedure (as opposed to any Claims of Borrower) would be to materially impair Lenders ability to realize on any collateral securing the Loan.

(b) If arbitration occurs and each party/s Claim is less than $100,000, one neutral arbitrator will decide all issues; if any party's Claim is $100,000 or more, three neutral arbitrators will decide all issues. All arbitrators will be active Oregon State Bar members in good standing. All arbitration hearings will be held in Portland, Oregon. In addition to all other powers, the arbitrator(s) shall have the exclusive right to determine all issues of arbitrability. Judgment on any arbitration award may be entered in any court with jurisdiction.

(c) If either party institutes any judicial proceeding relating to the Loan, such action shall not be a waiver of the right to submit any Claim to arbitration. In addition, each has the right before, during and after any arbitration to exercise any number of the following remedies, in any order or concurrently: (i) setoff; (ii) self-help repossession; (iii) judicial or non-judicial foreclosure against real or personal property collateral; and (iv) provisional remedies, including injunction, appointment of receiver, attachment, claim and delivery and replevin.

22. GOVERNING LAW.

This note shall be governed by and construed and enforced in accordance with the laws of the State of Oregon without regard to conflicts of law principles; provided, however, that to the extent that Lender has greater rights or remedies under Federal law, this provision shall not be deemed to deprive Lender of such rights and remedies as may be available under Federal law.

23. DISCLOSURE.

BY OREGON STATUTE(ORS 41.580). THE FOLLOWING DISCLOSURE IS REQUIRED:

Under Oregon law. most agreements. promises and commitments made by Lenders after October 3.1989 concerning loans and other credit extensions which are not for personal. family or household purposes or secured solely by the Borrower's residence must be in writing. express consideration and be signed by the Lender to be enforceable.

EACH OF THE UNDERSIGNED HEREBY ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS DOCUMENT.

Flir Systems. Inc.
Borrower Name
(Corporation, Partnership or other Entity) Signature of Individual Borrower

By Title Signature of Individual Borrower

By Title Signature of Individual Borrower

For valuable consideration, Lender agrees to the terms of the arbitration provision set forth in this note.

Lender Name: UNITED STATES NATIONAL BANK OF OREGON

By:

Title:

Date:

U.S. BANK

COMMERCIAL SECURITY AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call	Collateral	Account	Office	Initials
	O6 26 1996			19	380	3021313582	59488	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

Borrower: Flir Systems, Inc.
16505 SW 72nd Avenue
Portland, OR 97224

Lender: UNITED STATES NATIONAL BANK OF OREGON
Corporate Banking Division
PL-7 Oregon Commercial Loan Servicing

555 S. W. Oak
Portland, OR 97204

THIS COMMERCIAL SECURITY AGREEMENT Is entered Into between Fur Systems, Inc. (referred to below as "Grantor"); and UNITED STATES NATIONAL BANK OF OREGON (referred to below as "Lender"). For valuable consideration, Grantor grants to Lender a security interest In the Collateral to secure the Indebtedness and agrees that Lender shall have the rights stated In this Agreement with respect to the Collateral, In addition to all other rights which Lender may have by law.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Collateral. The word "Collateral" means the following described property of Grantor, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

All accounts, chattel paper, general Intangibles, inventory and equipment, together with the following specifically described property.' all machinery now owned or acquired later

In addition, the word "Collateral" includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

(a) All attachments, accessions, accessories, tools, parts, supplies, increases, and additions to and all replacements of and substitutions for any property described above.

(b) All products and produce of any of the property described in this Collateral section.

(c) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, or other disposition of any of the property described in this Collateral section.

(d) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section.

(e) All records and data relating to any of the property described in this Collateralsection, whether in the form of a writing, photograph, microfilm, microfiche, or electronicmedia, together with all of Grantor's right, title, and interest in and to all computersoftware required to utilize, create, maintain, and process any such records or data onelectronic media.

Event of Default. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "Events of Default."

Grantor. The word "Grantor" means FIir Systems, Inc., its successors and assigns

Guarantor. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with the Indebtedness.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note, including all principal and interest, together with all other indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents. In

addition, the word "Indebtedness" includes all other obligations, debts and liabilities, plus interest thereon, of Grantor, or any one or more of them, to Lender, as well as all claims by Lender against Grantor, or any one or more of them, whether existing now or later; whether they are voluntary or involuntary, due or not due, direct or indirect, absolute or contingent, liquidated or unliquidated; whether Grantor may be liable individually or jointly with others; whether Grantor may be obligated as guarantor, surety, accommodation party or otherwise; whether recovery upon such indebtedness may be or hereafter may become barred by any statute of limitations; and whether such indebtedness may be or hereafter may become otherwise unenforceable.

Lender. The word "Lender" means UNITED STATES NATIONAL BANK OF OREGON, its successors and assigns.

Note. The word "Note means the Promissory note from Borrower to Lender dated June 26, 1996 in the original amount of $7,500,000.00, and promissory note dated June 26, 1996 in the original amount of $5,000,000.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of and substitutions for the Note or Credit Agreement.

Related Documents. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

RIGHT OF SETOFF. Grantor hereby grants Lender a contractual possessory security interest in and hereby assigns, conveys, delivers, pledges, and transfers all of Grantor's right, title and interest in and to Grantor's accounts with Lender (whether checking, savings, or some other account), including all accounts held jointly with someone else and all accounts Grantor may open in the future, excluding, however, all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all Indebtedness against any and all such accounts.

OBLIGATIONS OF GRANTOR. Grantor warrants and covenants to Lender as follows:

Organization. Grantor is a corporation which is duly organized, validly existing, and in good standing under the laws of the State of Oregon. Grantor has its chief executive office at 16505 SW 72nd Avenue, Portland, OR 97224. Grantor will notify Lender of any change in the location of Grantor's chief executive office.

Authorization. The execution, delivery, and performance of this Agreement by Grantor have been duly authorized by all necessary action by Grantor and do not conflict with, result in a violation of, or constitute a default under (a) any provision of its articles of incorporation or organization, or bylaws, or any agreement or other instrument binding upon Grantor or (b) any law, governmental regulation, court decree, or order applicable to Grantor.

Perfection of Security Interest. Grantor agrees to execute such financing statements and to take whatever other actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper if not delivered to Lender for possession by Lender. Grantor hereby appoints Lender as its irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect or to continue the security interest granted in this Agreement. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral. Grantor promptly will notify Lender before any change in Grantor's name including any change to the assumed business names of Grantor. This is a continuing Security Agreement and will continue in effect even though all or any part of the Indebtedness is paid In full and even though for a period of time Grantor may not be indebted to Lender.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its certificate or articles of incorporation and bylaws do not prohibit any term or condition of this Agreement.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, the Collateral is enforceable in accordance with its terms, is genuine, and complies with applicable laws concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid

account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or theretofore shipped or delivered pursuant to a contract of sale, or for services theretofore performed by Grantor with or for the account debtor; there shall be no setoffs or counterclaims against any such account; and no agreement under which any deductions or discounts may be claimed shall have been made with the account debtor except those disclosed to Lender in writing.

Location of the Collateral. Grantor, upon request of Lender, will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantor's operations, including without limitation the following: (a) all real property owned or being purchased by Grantor; (b) all real property being rented or leased by Grantor; (c) all storage facilities owned, rented, leased, or being used by Grantor; and (d) all other properties where Collateral is or may be located. Except in the ordinary course of its business, Grantor shall not remove the Collateral from its existing locations without the prior written consent of Lender.

Removal of Collateral. Grantor shall keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts, the records concerning the Collateral) at Grantor's address shown above, or at such other locations as are acceptable to Lender. Except in the ordinary course of its business, including the sales of inventory, Grantor shall not remove the Collateral from its existing locations without the prior written consent of Lender. To the extent that the Collateral consists of vehicles, or other titled property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the State of Oregon, without the prior written consent of Lender.

Transactions Involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Grantor's business, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. While Grantor is not in default under this Agreement, Grantor may sell inventory, but only in the ordinary course of its business and only to buyers who qualify as a buyer in the ordinary course of business. A sale in the ordinary course of Grantor's business does not include a transfer in partial or total satisfaction of a debt or any bulk sale. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

Title. Grantor represents and warrants to Lender that it holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

Collateral Schedules and Locations. As often as Lender shall require, and insofar as the Collateral consists of accounts and general intangibles, Grantor shall deliver to Lender schedules of such Collateral, including such information as Lender may require, including without limitation names and addresses of account debtors and agings of accounts and general intangibles. Insofar as the

Collateral consists of inventory and equipment, Grantor shall deliver to Lender, as often as Lender shall require, such lists, descriptions, and designations of such Collateral as Lender may require to identify the nature, extent, and location of such Collateral. Such information shall be submitted for Grantor and each of its subsidiaries or related companies.

Maintenance and Inspection of Collateral. Grantor shall maintain all tangible Collateral in good condition and repair. Grantor will not commit or permit damage to or destruction of the Collateral or any part of the Collateral. Lender and its designated representatives and agents shall have the right at all reasonable times to examine, inspect, and audit the Collateral wherever located. Grantor shall immediately notify Lender of all cases involving the return, rejection, repossession, loss or damage of or to any Collateral; of any request for credit or adjustment or of any other dispute arising with respect to the Collateral; and generally of all happenings and events affecting the Collateral or the value or the amount of the Collateral.

Taxes, Assessments and Liens. Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the Indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral.

Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings.

Compliance With Governmental Requirements. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

Hazardous Substances. Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any hazardous waste or substance, as those terms are defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or Federal laws, rules, or regulations adopted pursuant to any of the foregoing or intended to protect human health or the environment ("Environmental Laws"). The terms "hazardous waste" and "hazardous substance" shall also include, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for hazardous wastes and substances. Grantor hereby (a) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any Environmental Laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement, or as a result of a violation of any Environmental Laws. This obligation to indemnify shall survive the payment of the Indebtedness and the satisfaction of this Agreement.

Maintenance of Casualty Insurance. Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default pf Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if it so chooses "single interest insurance," which will cover only Lender's interest in the Collateral.

Application of Insurance Proceeds. Grantor shall promptly notify Lender of any loss or damage to the Collateral. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the Indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the Indebtedness.

Insurance Reserves. Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

Insurance Reports. Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the property insured; (e) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (f) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not m6re often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value replacement cost of the Collateral.

GRANTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS. Until default and except as otherwise provided below with respect to accounts and above in the paragraph titled 'Transactions Involving Collateral" , Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. Until otherwise notified by Lender, Grantor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Lender may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Lender for application to the Indebtedness. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Indebtedness.

EXPENDITURES BY LENDER. If not discharged or paid when due, Lender may (but shall not be obligated to) discharge or pay any amounts required to be discharged or paid by Grantor under this Agreement, including without limitation all taxes, liens, security interests, encumbrances, and other claims, at any time levied or placed on the Collateral. Lender also may (but shall not be obligated to) pay all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses shall become a part of the Indebtedness and, at Lender's option, will (a) be payable on demand, (b) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (i) the term of any applicable insurance policy or (ii) the remaining term of the Note, or (c) be treated as a balloon payment which will be due and payable at the Note's maturity. This Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon the occurrence of an Event of Default.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Default on Indebtedness. Failure of Grantor to make any payment when due on the Indebtedness.

Other Defaults. Failure of Grantor to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or in any other agreement between Lender and Grantor.

False Statements. Any warranty, representation or statement made or furnished to Lender by or on behalf of Grantor under this Agreement, the

Note or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien) at any time and for any reason.

Insolvency. The dissolution or termination of Grantor's existence as a going business, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against the Collateral or any other collateral securing the Indebtedness. This includes a garnishment of any of Grantor's deposit accounts with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of

any of the Indebtedness or such Guarantor dies or becomes incompetent. Lender, at its option, may, but shall not be required to, permit the Guarantor's estate to assume unconditionally the obligations arising under the guaranty in a manner satisfactory to Lender, and, in doing so, cure the Event of Default.

Adverse Change. A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Lender, in good faith, deems itself insecure.

Right to Cure. If any default, other than a Default on Indebtedness, is curable and if Grantor has not been given a prior notice of a breach of the same provision of this Agreement, it may be cured (and no Event of Default will have occurred) if Grantor, after Lender sends written notice demanding cure of such default, (a) cures the default within fifteen (15) days; or (b), if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the Oregon Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

Accelerate Indebtedness. Lender may declare the entire Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice.

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in its own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor reasonable notice of the time after which any private sale or any other intended disposition of the Collateral is to be made unless Grantor has signed, after an Event of Default occurs, a statement renouncing or modifying Grantor's right to notification of sale. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. To the extent permitted by applicable law, Lender shall have the following rights and remedies regarding the appointment of a receiver: (a) Lender may have a receiver appointed as a matter of right, (b) the receiver may be an employee of Lender and may serve without bond, and (c) all fees of the receiver shall become part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Collect Revenues, Apply Accounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in its discretion transfer any Collateral into its own name or that of its nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

Obtain Deficiency. It Lender chooses to sell any or all of the Collateral, Lender may obtain a

judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

Cumulative Remedies. All of Lender's rights and remedies, whether evidenced by this Agreement or the Related Documents or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and to exercise its remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Applicable Law. This Agreement has been delivered to Lender and accepted by Lender in the State of Oregon. If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of Multnomah County, State of Oregon. Subject to the provisions on arbitration, this Agreement shall be governed by and construed in accordance with the laws of the State of Oregon.

Expenses. Grantor agrees to pay upon demand all of Lender's costs and expenses, including legal expenses, incurred in connection with the enforcement of this Agreement. Lender may pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's legal expenses whether or not there is a lawsuit, including legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Multiple Parties; Corporate Authority. All obligations of Grantor under this Agreement shall be joint and several, and all references to Grantor shall mean each and every Grantor. This means that each of the Borrowers signing below is responsible for all obligations in this Agreement.

Notices. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimilie, and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. To the extent permitted by applicable law, if there is more than one Grantor, notice to any Grantor will constitute notice to all Grantors. For notice purposes, Grantor will keep Lender informed at all times of Grantor's current address(es).

Power of Attorney. Grantor hereby appoints Lender as its true and lawful attorney-in-fact, irrevocably, with full power of substitution to do the following: (a) to demand, collect, receive, receipt for, sue and recover all sums of money or other property which may now or hereafter become due, owing or payable from the Collateral; (b) to execute, sign and endorse any and all claims, instruments, receipts, checks, drafts or warrants issued in payment for the Collateral; (c) to settle or compromise any and all claims arising under the Collateral, and, in the place and stead of Grantor, to execute and deliver its release and settlement for the claim; and (d) to file any claim or claims or to take any action or institute or take part in any proceedings, either in its own name or in the name of Grantor, or otherwise, which in the discretion of Lender may seem to be necessary or advisable. This power is given as security for the Indebtedness, and the authority hereby conferred is and shall be irrevocable and shall remain in full force and effect until

renounced by Lender.

Preference Payments. Any monies Lender pays because of an asserted preference claim in Borrower's bankruptcy will become a part of the Indebtedness and, at Lender's option, shall be payable by Borrower as provided above in the "EXPENDITURES BY LENDER" paragraph.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

Successor Interests. Subject to the limitations set forth above on transfer of the Collateral, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

Waiver. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Waiver of Co obligor's Rights. If more than one person is obligated for the Indebtedness, Borrower irrevocably waives, disclaims and relinquishes all claims against such other person which Borrower has or would otherwise have by virtue of payment of the Indebtedness or any part thereof, specifically including but not limited to all rights of indemnity, contribution or exoneration.

GRANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT, AND GRANTOR AGREES TO ITS TERMS. THIS AGREEMENT IS DATED JUNE 26,1996.

GRANTOR:

FLIR Systems, Inc.

X
Authorized Officer

BAN K (R)

PROMISSORY NOTE

Principal	Loan Date	Maturity	LoanNo	Call	Collateral	Account	Officer	Initials
$5,000,000.00	06 26 1996	05 31 2002		46	380	3021313582	59488	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

Borrower: Flir Systems, Inc.
16506 SW 72nd Avenue
Portland, OR 97224

Lender: UNITED STATES NATIONAL BANK OF OREGON
Corporate Banking Division
PL-7 Oregon Commercial Loan Servicing
565 S. W. Oak
Portland, OR 97204

Principal Amount: $5,000,000.00 Date of Note: June 26,1996

PROMISE TO PAY. Fur Systems, Inc. ("Borrower") promises to pay to UNITED STATES NATIONAL BANK OF OREGON ("Lender"), or order, in lawful money of the United States of America, the principal amount of Five Million & 001100 Dollars ($5,000,000.00), together with Interest on the unpaid principal balance from June 26, 1996, until paid in full.

PAYMENT. Subject to any payment changes resulting from changes in tine Index, Borrower will pay this loan on demand, or if no demand is made, in accordance with the following payment schedule:

> 11 consecutive monthly interest payments, beginning July 31, 1996, with interest calculated on the unpaid principal balances at an Interest rate of 0.00 percentage points over the Index described below; 59 consecutive monthly principal and interest payments of $103,547.07 each, beginning June 30, 1997, with interest calculated on the unpaid principal balances at an interest rate of 8.770% per annum; and 1 principal and Interest payment of $103,546.87 on May 31, 2002, with Interest calculated on the unpaid principal balances at an interest rate of 8.770% per annum. This estimated final payment Is based on the assumption that all payments will be made exactly as scheduled; the actual final payment will be for all principal and accrued Interest not yet paid, together with any other unpaid amounts under this Note.

Interest on this Note is computed on a 365/360 simple interest basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an index which is the Lender's Prime Rate. This is the rate of interest which Lender from time to time establishes as its Prime Rate and is not, for example, the lowest rate of interest which Lender collects from any borrower or class of borrowers (the "Index"). The interest rate shall be adjusted without notice effective on the day Lender's prime rate changes. Lender will tell Borrower the current Index rate upon Borrower's request. Borrower understands that Lender may make loans based on other rates as well. The interest rate change will not occur more often than each Day. The Index currently Is 8.250% per annum. The interest rate or rates to be applied to the unpaid principal balance of this Note will be the rate or rates set forth above in the "Payment" section. Whenever increases occur in the interest rate, Lender, at its option, may do one or more of the following: (a) increase Borrower's payments to ensure Borrower's loan will pay oft by its original final maturity date, (b) increase Borrower's payments to cover accruing interest, (c) increase the number of Borrower's payments, and (d) continue Borrower's payments at the same amount and increase Borrower's final payment.

PREPAYMENT. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, they will reduce the principal balance due and may result in Borrower making fewer payments.

DEFAULT. Borrower will be in default if any of the following happens: (a) Borrower fails to make any payment when due. (b) Borrower breaks any promise Borrower has made to Lender, or Borrower fails to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan Borrower has with Lender. (c) Any representation or statement made or furnished to Lender by Borrower or on Borrower's behalf is false or misleading in any material respect either now or at the time made or furnished. (d) Borrower becomes insolvent, a receiver is appointed for any part of Borrower's property, Borrower makes an assignment for the benefit of creditors, or any proceeding is commenced either by Borrower or against Borrower under any bankruptcy or insolvency laws. (a) Any creditor tries to take any of Borrower's property on or in which Lender has a lien or security interest. This includes a garnishment of any of Borrower's accounts with Lender. (f) Any guarantor dies or any of the other events described in this default section occurs with respect to any guarantor of this Note. (g) A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired. (h) Lender in good faith deems itself insecure.

If any default, other than a default in payment, is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured (and no event of default will have occurred) if Borrower, after receiving written notice from Lender demanding cure of such default: (a) cures the default within fifteen (15) days; or (b) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note

and all accrued unpaid interest immediately due, without notice, and then Borrower will pay that amount. Upon default, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, increase the variable interest rate on this Note by 5.000 percentage points. The interest rate will not exceed the maximum rate permitted by applicable law. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law. This Note has been delivered to Lender and accepted by Lender in the Stale of Oregon. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Multnomah County, the State of Oregon Subject to the provisions on arbitration, this Note shall be governed by and construed in accordance with the laws of the State of Oregon.

RIGHT OF SETOFF. Borrower grants to Lender a contractual possessory security interest in, and hereby assigns, conveys, delivers, pledges, and transfers to Lender all Borrower's right, title and interest in and to, Borrower's accounts with Lender (whether checking, savings, or some other account), including without limitation all accounts held jointly with someone else and all accounts Borrower may open in the future, excluding however all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on this Note against any and all such accounts.

ARBITRATION. Lender and Borrower agree that all disputes, claims and controversies between them, whether Individual, joint, or class in nature, arising from this Note or otherwise, Including without limitation contract and tort disputes, shall be arbitrated pursuant to the Rules of the American Arbitration Association, upon request of either party. No act to take or dispose of any collateral securing this Note shall constitute a waiver of this arbitration agreement or be prohibited by this arbitration agreement. This includes, without limitation, obtaining injunctive relief or a temporary restraining order; foreclosing by notice and sale under any deed of trust or mortgage; obtaining a writ of attachment or imposition of a receiver; or exercising any rights relating to personal property, including taking or disposing of such property with or without judicial process pursuant to Article g of the Uniform Commercial Code. Any disputes, claims, or controversies concerning the lawfulness or reasonableness of any act, or exercise of any right, concerning any collateral securing this Note, including any claim to rescind, reform, or otherwise modify any agreement relating to the collateral securing this Note, shall also be arbitrated, provided however that no arbitrator shall have the right or the power to enjoin or restrain any act of any party. Judgment upon any award rendered by any arbitrator may be entered in any court having jurisdiction. Nothing in this Note shall preclude any party from seeking equitable relief from a court of competent jurisdiction. The statute of limitations, estoppel, waiver, laches, and similar doctrines which would otherwise be applicable in an action brought by a party shall be applicable in any arbitration proceeding, and the commencement of an arbitration proceeding shall be deemed the commencement of an action for these purposes. The Federal Arbitration Act shall apply to the construction, interpretation, and enforcement of this arbitration provision.

INITIAL ADVANCE PERIOD. Advances under this Note may be requested orally by Borrower or by an authorized person until May 31, 1997. Once the total amount of principal has been advanced, Borrower is not entitled to further loan advances. Lender may, but need not, require that all oral requests be confirmed in writing. All communications, instructions, or directions by telephone or otherwise to Lender are to be directed to Lender's office shown above. Borrower agrees to be liable for all sums either: (a) advanced in accordance with the instructions of an authorized person, or (b) credited to any of Borrower's accounts with Lender, regardless of the fact that persons other than those authorized to borrow have authority to draw against the accounts. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (a) Borrower or any guarantor

is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; (d) Borrower has applied funds provided pursuant to the Note for purposes other than those authorized by Lender; or (e) Lender in good faith deems itself insecure under this Note or any other agreement between Lender and Borrower..

LATE CHARGE. If a payment is 19 days or more past due, Borrower will be charged a late charge of 5% of the delinquent payment.

GENERAL PROVISIONS. This Note is payable on demand. The inclusion of specific default provisions or rights of Lender shall not preclude Lender's right to declare payment of this Note on its demand. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral: or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made.

UNDER OREGON LAW MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY US (LENDER) AFTER OCTOBER 3,1989 CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY

BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY US TO BE ENFORCEABLE.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER..

Flir Systems, Inc.

x

Authorized Officer

LENDER:

UNITED STATES NATIONAL BANK OF OREGON

By

Authorized Officer

EXHIBIT 11.0

FLIR SYSTEMS, INC.

COMPUTATION OF NET EARNINGS PER SHARE
(In thousands except per share data)
(Unaudited)

	Year ended December 31,		
	1996	1995	1994
Net earnings	$5,092	$3,867	$5,186
Weighted average number of common shares outstanding	5,361	5,246	5,149
Assumed exercise of stock options net of share assumed reacquired under the treasury stock method	263	277	287
	5,624	5,523	5,436
Earnings per share	$ 0.91	$ 0.70	$ 0.95

EXHIBIT 21.0

Subsidiaries of FLIR Systems, Inc.

- FSI International, Inc., a Barbados Corporation
- Hoeger Optical Co., Inc., a California Corporation
- Broadcast & Surveillance Systems, Ltd., a United Kingdom Corporation
- Optimas Corporation, a Washington Corporation

EXHIBIT 23.0

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 33-82676, 33-82194 and 33-95248) of FLIR Systems, Inc. of our report dated February 25, 1997, which appears on page 18 of this Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule which appears on page 37 of this Form 10-K.

PRICE WATERHOUSE LLP

Portland, Oregon
March 28, 1997

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