
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 ended December 31, 2000.

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)

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

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

None

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

Title of each class of Stock

Common Stock, $0.01 par value
Preferred Stock Purchase Rights

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

As of March 15, 2001, the aggregate market value of the shares of voting stock of the Registrant held by non-affiliates was $108,939,602.

As of March 15, 2001, there were 14,583,085 shares of the Registrant's common stock, $0.01, par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

The Registrant has incorporated by reference into Part III of this Form 10-K portions of its Proxy Statement for its 2001 Annual Meeting of Shareholders.

FLIR SYSTEMS, INC.

FORM 10-K

ANNUAL REPORT

TABLE OF CONTENTS

PART I

PART II

PART III

PART IV

PART I

ITEM 1. BUSINESS

General

We are a world leader in the design, manufacture and marketing of thermal imaging and stabilized camera systems for a wide variety of commercial, industrial and government applications. Our products are produced in a variety of configurations to suit specific customer needs. These include compact hand-held systems for surveillance or inspection applications; sealed, autonomous systems for fixed continuous monitoring installations; and stabilized gimbaled systems for airborne and shipborne use. Our thermal imaging systems use advanced infrared imaging technology that detects infrared radiation, or heat, enabling the operator to measure minute temperature differences and to see objects in total darkness and in all types of adverse conditions, including through smoke, haze and most types of fog. Many of our products also incorporate visible light cameras, laser range finders, laser illuminators, image analysis software and gyro-stabilized gimbal technology. An example of a gyro-stabilized gimbal is the ball-shaped object that you might see attached to the nose of a television news station's helicopter. These balls, or gimbals, contain broadcast quality cameras and, sometimes, thermal imaging cameras, which allow news stations to cover breaking stories or provide a view to areas which may normally be closed due to safety reasons.

Our products provide state-of-the-art imaging and stabilization technology, innovative packaging and competitive pricing. Our modular product designs and image analysis software tools increase our ability to provide products that are specifically tailored to meet individual customer requirements. Our infrared products incorporate two types of leading edge infrared detector technology. Our high performance products utilize "cooled" detector technology, offering the best sensitivity and resolution for long-range applications or those requiring high measurement precision. Our mainstream temperature measurement products incorporate "uncooled" detector technology, which can be produced in high volumes at lower prices. This technology is also being used for commercial applications and surveillance missions requiring low cost or continuous operation cameras.

Industry Overview

Background

Infrared radiation is light that is not visible because its wavelength is too long to be detected by the human eye. Unlike visible light, infrared radiation is emitted directly by all objects and materials that have a temperature above absolute zero. Thermal imaging systems are used to detect this infrared radiation and convert it into an electronic signal, which is then processed and formatted into a video signal and displayed on a common TV monitor. These systems are distinguished from one another by their capability to detect and resolve infrared radiation, the clarity of the image displayed, detection range, system reliability, price and adaptability to a variety of customer requirements. Thermal imaging systems, unlike night vision goggles, enable the operator to see objects in total darkness and through obscurants such as smoke, haze and most types of fog. Thermal imaging systems are not adversely affected by the presence of light, so they can be used day or night without regard to ambient lighting issues. Commercial thermal imaging systems can also detect and measure minute temperature differences, a critical tool for a variety of industrial applications.

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

An infrared detector, which absorbs infrared radiation and converts it into an electronic signal, is the primary component of a thermal imaging system. Until recently, thermal imaging systems relied on infrared detectors that needed to be cooled to near absolute zero (-196(degrees)C) in order to operate. This technology is sometimes referred to as "cooled" detector technology. In the past, cooling these detectors was problematic, particularly in field applications requiring battery power. Today, many of our applications are served by a new generation of "uncooled" detectors that operate at room temperature. This feature allows for less expensive, smaller, lighter, more energy efficient, solid-state systems. These factors are expected to increase the demand for such systems in existing market segments and create demand in new market segments, such as fire fighting and machine vision. FLIR has established a multi-year exclusive relationship for the supply of uncooled detectors into certain key markets. This relationship allows us to obtain top quality uncooled detectors from the leading supplier of this technology. Despite the advantages of uncooled technology, cooled systems will continue to play a significant role in military and certain commercial applications due to the longer-range performance capabilities of these systems. FLIR has developed it's own "micro-cooler" which efficiently cools these detectors under battery power in almost any environment. The availability of the micro-cooler, coupled with FLIR's purchasing volume for cooled detectors from multiple suppliers has resulted in strategic advantages in addressing the military, law enforcement and surveillance markets that we serve with products based on this technology.

Markets

The Company is divided into two divisions, according to the markets they serve. These are "Thermography," where infrared cameras that provide precise non-contact temperature measurement capabilities are used for a variety of industrial applications, and "Imaging," where a range of medium and high performance stabilized infrared and visual imaging systems are used in a variety of vision enhancement applications.

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

The Thermography market primarily consists of the following market segments:

Condition Monitoring

Thermography systems are used for monitoring the condition of mechanical and electrical equipment. Such monitoring allows for the detection of equipment faults (manifested as hot spots) so they can be repaired before they fail. This increases the equipment's productivity and avoids catastrophic failures or major equipment damage. This also, in turn, significantly reduces operating expenses by lowering repair costs and reducing downtime. Improved functionality of image analysis software, smaller size and weight, and simplicity of system operation are critical factors for this market segment. Specific condition monitoring applications include locating and repairing defective power transmission components or electrical connections, predicting the end of life of bearings in rotating machinery, evaluating the integrity or amount of insulation in a building or container and locating roof leaks and related damage.

Product Development

Because of its non-destructive analysis capability, thermography systems are a useful tool in a wide variety of research and development applications. As industry is driven to make smaller, lighter and more powerful electronic products, the problem of dealing with self-generated heat is becoming increasingly difficult. Our systems provide the ability to view thermal distribution in real time for products as small as hybrid IC circuits and as large as jet or rocket engines. Common applications include product development of cell phones, laptop computers, telecommunications equipment, consumer appliances, automotive components and aircraft engines. The thermography systems that are applied in research and development applications typically require very high imaging performance and measurement precision, coupled with extensive analysis and reporting software.

Manufacturing Process Control

The ability to determine whether a manufacturing process will produce acceptable results at the earliest point in the production cycle is critical to quality assurance and cost reduction. Thermography systems allow for the monitoring and control of heat, which is necessary in virtually all industrial processes. Thermography systems can identify moisture and contaminants and help identify the thickness of material as well as the integrity of the bonding of composite materials. Thermography applications for manufacturing process control are varied and extensive, including monitoring the quality of metal, plastic and glass cast parts, which are highly dependent upon the temperature distribution in the mold, monitoring the quality of paper, which is dependent upon proper and even moisture distribution during the drying process, and monitoring the quality of products

	such as rubber gloves, which can be thermally examined to locate abnormally warm or cool spots, indicating non-uniform thickness that may result in a quality defect.
Emerging Market Opportunities	New market segments for thermography are developing due to the availability, cost effectiveness and enhanced performance characteristics of uncooled detector technology. As system prices decline, uncooled thermography systems will provide cost effective solutions for a wide variety of new commercial applications. These may include such applications as the monitoring of food distribution, storage and preparation. Other applications such as automotive engine analysis, animal care, leak detection and non-destructive testing may grow as uncooled detector technology becomes more widespread.

Imaging Market. The Imaging market is comprised of a broad range of imaging applications where temperature measurement is not required, but vision enhancement is. However, with our infrared camera systems, differences in temperature are used to create an image. The primary focus of this segment is to provide enhanced vision capabilities to a wide variety of military and non-military customers. Our systems typically provide the capability to detect an object over long distances, day or night, through adverse weather conditions. This capability can be realized from a wide variety of platforms, including airborne, vehicle mounted, man portable and fixed installation. Although the majority of our imaging applications require the use of cooled detector technology due to their long-range nature, uncooled systems are also being used for certain ground-based security and handheld observation applications. Customers in the military and law enforcement market segments demand affordable high performance systems that can be mounted on a variety of helicopters, airplanes and ships, operate in demanding climatic conditions and perform a variety of tasks requiring high image quality and stabilization. Software capabilities within the systems typically address specific customer mission requirements and aircraft instrument or network interfaces.

The Imaging market primarily consists of the following market segments:

Search and Rescue	Imaging systems are used in a variety of airborne and shipborne search and rescue missions, including the rescue of individuals in danger or distress or by providing emergency or disaster response support for missing persons or accident victims. Such systems are in use today by the US Coast Guard, US Marines, the Air Force Reserve and Air National Guard.
Federal Drug Interdiction	Imaging systems enable government agencies to expand their drug interdiction and support activities by allowing greater surveillance and detection capabilities. FLIR has already supplied several systems as part of "Plan Colombia," a $1.3 billion US government program for drug interdiction support. Systems are also in use by the US Customs Service, DEA and the FBI in airborne, ground and maritime applications.
Surveillance and Reconnaissance	Imaging systems are used in surveillance and reconnaissance applications for the precise positioning of objects or people from substantial distances and for enhanced situational awareness, particularly at night or in conditions of reduced or obscured visibility. FLIR systems are in use today by the US Army, US Air force, several

international organizations and many federal law enforcement agencies.

Navigation Safety	Imaging systems are used in navigation safety applications to improve missions by enabling crews piloting aircraft or ships to see terrain and objects and to detect and avoid obstacles at night and in conditions of limited visibility due to smoke, haze or fog.
Border and Maritime Patrol	Imaging systems are used in airborne, shipborne and fixed installation applications for border and maritime surveillance, particularly at night, to monitor borders and coastal waters, to monitor national fishing boundaries and to prevent smuggling. FLIR systems cameras are currently deployed along US borders under a US Immigration and Naturalization Service program called "ISIS."
Environmental Monitoring	Imaging systems are used in environmental monitoring applications including forest fire detection and suppression, oil spill detection and monitoring, and wildlife management.
Perimeter Security	Imaging systems are used for ground-based surveillance and perimeter security of government and military installations, particularly at night. The US Air Force is currently using our imaging systems extensively for perimeter security of its foreign airbase locations.
Electronic News Gathering	The use of airborne observation and broadcast systems has become a standard tool for television stations and broadcast networks. News stations with this capability have the ability to provide close-up coverage of events, disasters or safety restricted areas to their viewing audiences. This market segment typically requires very high performance daylight cameras installed in highly stabilized gimbal turrets for mounting on news helicopters. Systems need to provide high resolution, jitter-free video, which can be down-linked to the production studio or command center on a real-time basis.

Law Enforcement	FLIR is a leader in the supply of stabilized airborne imaging systems for federal, state and local law enforcement agencies. Agencies with this type of equipment have the ability to track suspects, locate lost people and provide situational awareness to officers on the ground. Systems designed for this market typically have both an infrared and a visible light camera installed in a smaller, lightweight gimbal. Systems must be reliable, easy to use and have good imaging and recording capabilities. Applications should increase as system size and weight continue to decline, enabling the use of systems on small and weight-restricted helicopters. In addition, law enforcement agencies have established thermal imaging as a primary support tool and should continue to take advantage of public support for this type of law enforcement.

Technology

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

System Design and Radiometry	Our extensive experience in stabilization, packaging and systems integration allow us to effectively combine a wide variety of technologies to design and manufacture imaging systems to suit our customers needs. We also possess the specialized system design knowledge required to produce imaging systems that can accurately measure temperature--a critical tool for many commercial and industrial applications.
Software Development	We recognize that software is the key to customization and evolution of our products. Each of our products utilizes a combination of custom embedded and desktop software products. Currently, we possess the capability to develop and refine all types of software used in our systems. We also develop and deploy software that is used for testing and characterization of our systems.
Optical Design and Fabrication	We currently design and manufacture many of the sophisticated optics that are required to produce a thermal imaging system. This capability allows us to significantly shorten the product development cycle and avoid costs and delays associated with a reliance on third-party optics suppliers.
Electronic Design	We design signal processing circuits that interface directly with detector arrays to convert detected infrared radiation into electronic signals. We also design the electronic image processing that is necessary to convert the electronic signals into standard video format. Our design expertise lies in the areas of reliability, low power consumption and extreme environmental survivability.
Mechanical Engineering	Our design and production of imaging systems involves highly sophisticated mechanical engineering techniques. Such sophisticated techniques are critical for the design and assembly of the supporting structures for system components such as detector arrays, coolers, scanners and optics, which must meet high-precision mechanical tolerances. Similarly, the gyro-stabilized gimbal assembly for our imaging products requires expertise in electro-mechanical control, gyroscopes and specialized stabilization controls.

Products

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

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

ThermaCAM(R) PM Series	The ThermaCAM line of thermography systems set the standard that all other manufacturers follow. This product was the world's first commercially available handheld radiometric system incorporating uncooled infrared focal plane array detector technology. The product is now in its third generation with the models 695, 675, 545 and 515. The system provides for accurate temperature measurement of objects from -40(degrees)C to +2000(degrees)C. The imager is packaged in a camcorder-like aluminum housing weighing less than five pounds. The system features numerous automated features, offering one-hand, point and shoot operation. The Model 695, which was introduced in the fall of 2000, features a built-in visual camera for simultaneous image capture in both the visible and infrared spectrum, as well as several innovative features promoting ease of use including auto-focus, auto-report generation and automatic measurement modes. The ThermaCAM series cameras have applications across all thermography market segments, including predictive and preventive maintenance of electrical, mechanical and building HVAC systems, locating and repairing defective power transmission components or electrical connections, predicting the end of life of bearings in rotating machinery, evaluating the integrity or amount of insulation in a building and locating roof leaks and related damage.
ThermaCAM SC Series	The ThermaCAM SC series cameras are similar to the PM series cameras except they typically incorporate high-definition cooled focal plane array sensors that offer an increased level of sensitivity, image quality and measurement precision. The SC series cameras are designed primarily for high-end research and development applications. These systems, originally introduced in 1996, now comprise three models: the SC1000, SC2000 and SC3000. The SC1000 utilizes a cooled platinum silicide detector and is well suited for applications in the glass, plastics and petroleum refining industries. The SC2000 utilizes an uncooled microbolometer detector and is well suited for general research and

development applications such as product thermal testing or PC board inspections. The SC3000 is the world's first camera utilizing a quantum well infrared photodetecor (QWIP) and features extremely high sensitivity (0.03(degrees)C) and long wave operation. This camera is well suited for non-destructive testing applications and certain medical research applications. Also introduced in 2000 were two low cost research and development cameras, based on uncooled detector technology. The SC300 and SC500 products are packaged with a Windows-based software package that connects to the camera through a PCMCIA card interface.

ThermaCAM Researcher	The ThermaCAM Researcher is a suite of Windows-based analysis software and interconnect hardware for the SC series cameras. First introduced in the first quarter of 2000, this software and hardware product allows design engineers to evaluate static or dynamic thermal events and data. Information is captured and stored on standard PC memory devices and can be analyzed either within the package or by using third party software such as MatLAB(R). The product is used in applications including product development, failure analysis, pilot production monitoring and thermal management.
ThermoVision IRMV(R)	The ThermoVision IRMV, introduced in early 1998, is a line of uncooled thermography cameras for manufacturing process control and machine vision applications. "IRMV," or Infrared Machine Vision, is being rapidly accepted as an alternate means for factory automation in applications where heat is a factor. Operating as a remote controlled "smart" sensor in supervised operation or integrated into a complete control system, the ThermoVision IRMV sensor transmits data on a continuous real-time basis to factory automation equipment. Using built-in intelligence, the ThermoVision IRMV can process multiple areas of interest, trigger alarms or transmit control data. A variety of flexible, high-speed and reliable digital cable, fiber-optic and wireless transmission media allow for flexible system integration with controllers, computers and vision systems. Examples of ThermoVision IRMV applications include monitoring and controlling the manufacture of metal, plastic or glass parts, where thermal properties are critical to the final product. ThermoVision IRMV sensors are used to provide the real-time feedback to assure consistent product quality.
ThermaCAM Reporter Suite	The ThermaCAM Reporter Suite (formerly AGEMA Report software), the latest release of which was introduced in mid-2000, allows for review, analysis and processing of captured images and measurement data. The software is a Windows-based program that is easy to use and affordable. The software suite comprises three basic products, a wizard driven report writer, an Explorer-style image viewer and a stand-alone report viewer. The software is typically packaged with the ThermaCAM PM or SC series cameras, though it is capable of operating with data gathered from other imaging products as well.

Imaging Products. In the Imaging division, we manufacture products that are sold to military, para-military, law enforcement, news stations, surveillance and security customers. Typically we provide "vision enhancement" capability to people who need to see in the dark, through adverse environments, or from mobile platforms. We address several key segments, including airborne, ground, maritime, broadcast and fire service.

For airborne applications, we have developed highly stabilized turrets (gimbals), which typically contain one or more of the following: an infrared imaging system, a visual camera, a laser range finder, a laser illuminator and a spotter scope. The systems typically have sophisticated embedded software providing tracking, GPS and aircraft information. For ground applications, we manufacture two types of products: handheld products and platform mounted products. All ground systems have a high performance infrared camera coupled with an infrared lens system. Some units have visual cameras on board and integrated pan and tilt capabilities. Platform mounted units are typically housed in a weather-tight enclosure and feature remote control capabilities. Handheld ground products typically look like militarized camcorders and utilize commercial battery and viewfinder components, but are highly ruggedized. For maritime applications, we manufacture a mix of airborne and shipborne products. The products are similar to inverted airborne gimbals, but have a high level of customization for the marine environment. Enhancements include hermetic sealing, on-board heaters, wipers and corrosion resistant coatings. Maritime units typically incorporate infrared cameras, visual cameras and laser range finders.

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

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

Star SAFIRE(R)	First introduced in 1998, the Star SAFIRE is a 3-axis gyro-stabilized, 360(degrees) field of view thermal imaging system incorporating third generation focal plane array detector technology. Manufactured to military standards and using three fields of view, the system provides extended detection range capability and visually advanced imagery. The system permits multiple optical payloads in addition to the infrared detector, including a TV camera with a zoom lens for daylight operations, laser rangefinder, laser illuminator or laser designator. Examples of Star SAFIRE applications include the detection of vehicles, ships or planes transporting illegal narcotics, and search and rescue for individuals in danger or distress, maritime patrol and reconnaissance missions.
Star SAFIRE II(R)	Introduced in 1999, the Star SAFIRE II is an enhanced evolution on the Star SAFIRE. The system features improved performance through the use of a military qualified 5-axis gyro-stabilized, gimbal and a micro-scanned indium antimonide third generation focal plane array detector. Featuring a 30% increase in infrared magnification, the system provides an extended

detection range capability, offering greater mission safety and effectiveness. The system also permits multiple optical payloads in addition to the infrared detector, including a TV camera with a zoom lens for daylight operations, laser rangefinder, laser illuminator or laser designator. Examples of Star SAFIRE applications include search and rescue, maritime patrol, unmanned air vehicles (UAV), reconnaissance missions, border and coastal surveillance and target identification and designation.

ThermoVision(R) 1000	The ground-based ThermoVision 1000 (formerly AGEMA 1000), first introduced in 1992, is a fixed or tripod mounted thermal imaging system that can detect small objects up to several kilometers away under extreme environmental conditions, day or night. The system features mission specific optical configurations and a highly ruggedized enclosure. Capable of remote operation, the system has on-board image processing capabilities, which enhance target detection and identification. The ThermoVision 1000 can also be integrated into a gimbal for airborne applications. Examples of ThermoVision 1000 applications include perimeter security of military bases and sensitive government installations or buildings. The system is currently deployed worldwide under the US Government TASS program.
ThermoVision Sentry	The ground-based ThermoVision Sentry, first introduced in 1998, is the first fixed or tripod mounted thermal imaging system featuring uncooled detector technology. Using this technology, this system can operate unattended for very long periods of time without maintenance. The system incorporates a sophisticated pan and tilt mechanism that has highly accurate, high speed pointing capability and automated scanning functions. Designed for automated perimeter or facility surveillance, the system has on-board image alarm functions and bi-directional remote communication capabilities. Examples of ThermoVision Sentry applications include perimeter security of high value or high security environments, shipboard navigation and coastal surveillance applications.
SeaFLIR(R)	The SeaFLIR, developed under the US Navy "MarFLIR" contract and introduced in 1999, is an inverted stabilized 9" gimbal infrared imaging system designed specifically for the marine environment. Able to withstand significant shock, vibration, and sea-spray, the SeaFLIR is hermetically sealed and contains an on-board de-icing system. The system incorporates a high performance indium antimonide infrared focal plane array sensor with a 10x continuous zoom lens, a laser range finder and an auto-tracker. This system is designed to be mounted on a mast, wheelhouse or weapons platform. Examples of SeaFLIR applications include, foul weather navigation, anti-piracy, search and rescue, mine detection and collision avoidance.

MilCAM(R)

The MilCAM, introduced in 1997, is a high performance handheld infrared imaging system designed for tactical use by military, para-military and law enforcement agencies engaged in long range surveillance, target observation, artillery observation/fire correction, perimeter security and border surveillance. The system offers high-resolution imaging in total darkness, through smoke, haze and other obscurants. Small and lightweight, the system uses off-the-shelf batteries and weighs less than 5 pounds. Currently available in three models, the MilCAM LE, XP and Ranger, the MilCAM line leads the market in small size, low power and long-range capabilities. The MilCAM LE features a cooled platinum silicide detector and is designed for law enforcement applications. The MilCAM Ranger is a fixed installation or tripod mounted product that offers very long-range performance and remote control capabilities.

UltraMedia(R) III

The UltraMedia III, introduced in 1999, is a high resolution, high stabilization electronic news gathering system for airborne use. Utilizing the latest broadcast camera technology, the UltraMedia III offers industry leading magnification and stability. The hermetically sealed gimbal is small and lightweight and has been certified for use on most commercial helicopters.

UltraMedia LE

The UltraMedia LE, introduced in 1999, is a compact digital lowlight surveillance system that delivers similar performance to the UltraMedia III systems, but also adds extreme low-light imaging capability providing covert surveillance capabilities at night. The product was developed to meet the needs of federal, state and local law enforcement agencies desiring covert observation capabilities at extreme standoff distances.

FireFLIR(R)

The FireFLIR, introduced in 1999, is a lightweight, hands-free, helmet-mounted thermal imaging system for fire fighting applications. Weighing about 4 pounds, the FireFLIR incorporates an uncooled microbolometer detector that delivers crisp, high-resolution monochrome and color images. The system's unique design allows it to be used as a hands-free helmet mounted system or as a hand held imaging system. The system features automated capabilities for locating hot spots in walls and determining the temperature of objects in the scene. An optional microwave transmitter sends the video signal to a remote location for other crewmembers to view.

Ultra 7000(R)

The Ultra 7000, introduced in 1999, is an airborne gimbal-mounted, dual imaging system incorporating a state-of-the-art indium antimonide infrared imaging detector and a color CCD TV camera. At 9" in diameter and 26 pounds, the Ultra 7000 is the smallest and lightest high performance dual system available. Industry-leading features include a

	continuous zoom infrared lens, built-in auto-tracking capability, GPS annotation and an ergonomic hand controller. The system is designed primarily for law enforcement applications where the continuous zoom and auto-tracker aid in keeping suspects in the field of view. The system's small size and light weight make it attractive for use on smaller, less-expensive helicopters. The system is also available with a reduced size electronics set for use in unmanned aircraft applications.
UltraForce II(R)	The UltraForce II, introduced in the fourth quarter of 2000, is a high performance multi-sensor gyro-stabilized gimbal system designed for law enforcement or para-military use. The system incorporates a high performance, cooled infrared imaging sensor, utilizing QWIP technology, together with a high-resolution 3-chip CCD TV camera capable of imaging in moderately low light conditions. This product represents the first longwave focal plane array based gimbal in the market. Features include triple infrared fields of view, 54X TV image magnification and high magnification spotter scope or laser range finder

Customers

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

Our customers are located around the world and are serviced by a global distribution organization covering more than 60 countries. In the year 2000, our sales were split almost equally between the US and international markets. Many of our sales in the Imaging market represent the first deliveries of multi-year contracts. Typically, once a product is chosen for use for a specific aircraft or program, it will remain in use for future requirements unless significantly better technology is introduced.

Sales, Distribution and Customer Service

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

We have distinct sales channels for industrial, airborne, ground, maritime, broadcast and fire service customers. We sell our Thermography products worldwide through a direct sales staff of more than 100 people and a network of 75 distributors (many with multiple offices) and representatives, each with an exclusive right to sell our products in a defined geographic area. We sell our Imaging products through more than 50 direct sales personnel and approximately 50 independent representatives and distributors covering all major markets worldwide. Included in this total are technical and customer support staff in the United States and Europe who provide technical training and operational assistance to direct and indirect sales personnel as well as to customers.

Additionally, we maintain service facilities at our factories in Portland, Oregon; N. Billerica (Boston), Massachusetts; Danderyd (Stockholm), Sweden; and

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

Backlog

At December 31, 2000 we had an order backlog of approximately $66 million. Backlog may not be indicative of revenue for any future periods because our sales to Thermography customers are generally made pursuant to purchase orders rather than long term contracts and, accordingly, the backlog at any given time is for immediate shipments. In contrast, the backlog for the Imaging business is heavily dependent upon the timing of receipt of government contracts that may have multiple year delivery schedules. Furthermore, delivery schedules are frequently revised to accommodate changes in customer needs. Although orders received by us are generally subject to cancellation, in the case of most orders included in backlog, the customer is obligated to pay certain costs and/or penalties for cancellation. We do not include future options under contracts in backlog until funded delivery orders are issued against those options.

Manufacturing

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

Our manufacturing operations are, from time to time, audited by certain of our OEM customers, which include several major aircraft manufacturers, and have been certified as meeting their quality standards. Our facilities in Sweden and the U.K. are ISO 9000 certified. We are in the process of obtaining ISO 9000 certification in Portland and will proceed with the certification process with our N. Billerica facility.

Competition

Competition in the market for thermal imaging equipment is significant. We believe that the principal competitive factors in our market are performance, cost, customer service, product reputation and effective marketing and sales efforts. Our competitors are different in each market segment. In the Thermography market, principal competitors include Raytheon Company, NEC San-Ei, Nippon Avionics Co., Ltd. and Indigo Systems. In the Imaging market, we compete with BAE Systems, Wescam Ltd., Lockheed Martin Corp., The Boeing Company, El-Op, Sagem and Thales. Many of these competitors have substantially greater financial, technical and marketing resources than we do.

Proprietary Rights

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

Employees

As of December 31, 2000, we had 454 employees in the United States and 233 employees outside of the United States. We have been generally successful in attracting highly skilled technical, marketing and management personnel to date. None of our employees in the United States are represented by a union or other bargaining group. Employees in Sweden and Italy are represented by unions. We believe our relationships with our employees and unions are good.

ITEM 2. PROPERTIES

We lease facilities under various operating leases that expire in 2001 through 2006. The leases calls for fixed monthly payments over their term. The following summarizes our primary leased facilities:

Location	Lease Expiration Date	Square Feet
FLIR Systems, Inc.--Portland, Oregon........	2005	74,546
FLIR Systems AB--Danderyd, Sweden...........	2004	63,000
FLIR Systems Boston, Inc.--N. Billerica, Massachusetts.............................	2005	102,000
FSI Automation, Inc.--Edmonds, Washington...	2003	1,842
FLIR Systems International Ltd.--West Malling, United Kingdom...................	2006	14,300
FLIR Systems Ltd.--Toronto, Canada..........	2002	4,161
FLIR Systems S.A.R.L. --Paris, France.......	2002	2,900
FLIR Systems GmbH--Frankfurt, Germany.......	2003	2,200
FLIR Systems s.r.l.--Milan, Italy..........	2004	2,200
FLIR Systems Belgium--Brussels, Belgium.....	2002	1,270

ITEM 3. LEGAL PROCEEDINGS

On July 24, 2000, a complaint consolidating five previously filed complaints and alleging violations of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder was filed against the Company, Robert P. Daltry, J. Kenneth Stringer, III, and J. Mark Samper in the United States District Court for the District of Oregon on behalf of a class of purchasers of the Company's common stock between March 3, 1999 and March 6, 2000. On January 8, 2001, the defendants in the action reached an agreement to settle the litigation for the amount of $6.0 million, $5.5 million of which will be paid by the Company's insurance carrier and $0.5 million by the Company. The settlement has received preliminary court approval. A hearing on final court approval will be held on April 3, 2001.

The Securities and Exchange Commission (the "SEC") is conducting an investigation relating to the Company. The investigation is a non-public, fact-finding inquiry to determine whether there have been any violations of the federal securities laws. The Company is cooperating fully with the SEC investigation.

The Company is involved in other litigation and various legal matters that are being defended and handled in the ordinary course of business.

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 2000.

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.

	2000 High	2000 Low	1999 High	1999 Low
First Quarter................................	$18.63	$8.81	$23.53	$17.13
Second Quarter...............................	10.25	5.25	18.81	11.75
Third Quarter................................	9.13	5.50	18.00	12.63
Fourth Quarter...............................	6.50	3.06	17.00	11.00

At December 31, 2000, there were approximately 300 holders of record of our common stock and 14,548,370 shares outstanding. We have never paid cash dividends on our common stock. We intend to retain earnings for use in our business and, therefore, do not anticipate paying cash dividends in the foreseeable future.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The financial data in the table has been restated and reclassified. See Note 15 and Note 16 to the Consolidated Financial Statements for information concerning the Company's restatements and reclassifications of its financial statements.

	Year Ended December 31,				
	2000(1)	1999(2) (Restated)	1998 (Restated)	1997(3)	1996
	(In thousands, except per share data)				
Statement of Operations Data					
Revenue....................	$186,357	$178,556	$177,254	$141,563	$110,198
Cost of goods sold.........	104,764	123,665	87,384	86,835	57,864
Gross profit.............	81,593	54,891	89,870	54,728	52,334
Operating expenses:					
Research and development..	28,502	29,006	26,958	17,607	13,574
Selling and other operating costs..........	63,916	62,899	53,045	37,854	28,402
Combination costs.........	--	9,301	--	36,450	--
Total operating costs....	92,418	101,206	80,003	91,911	41,976
(Loss) earnings from operations............	(10,825)	(46,315)	9,867	(37,183)	10,358
Interest expense and other.....................	11,504	5,771	4,471	3,553	212
(Loss) earnings before income taxes..........	(22,329)	(52,086)	5,396	(40,736)	10,146
Income tax provision (benefit)................	3,725	2,295	1,806	(11,548)	2,723
Net (loss) earnings from continuing operations..	(26,054)	(54,381)	3,590	(29,188)	7,423
Discontinued operations, net of taxes.............	--	--	--	--	(830)
Net (loss) earnings.....	$(26,054)	$(54,381)	$ 3,590	$(29,188)	$ 6,593
Net (loss) earnings per share:					
Basic....................	$ (1.80)	$ (3.82)	$ 0.28	$ (3.69)	$ 0.89

Diluted..................	$ (1.80)	$ (3.82)	$ 0.27	$ (3.69)	$ 0.86
Balance Sheet Data:					
Working capital...........	$ 65,869	$ 4,481	$ 70,011	$ 47,852	$ 58,596
Total assets..............	166,991	196,487	233,855	185,278	104,860
Short-term debt...........	18,819	82,331	42,638	32,706	8,529
Long-term debt, excluding current portion..........	75,485	1,497	19,296	20,634	24,106
Total shareholders' equity...................	29,025	56,219	109,874	73,033	49,456

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(1) During 2000, we recorded one-time pre-tax charges of $20.5 million primarily related to streamlining our manufacturing and corporate operations. The charges include $9.0 million related to eliminating older or lower margin products, $8.8 million related to cost accumulations and asset valuations that have been written off as a result of these operational changes and $2.2 million for workforce reductions and related costs. We also recorded a charge of $0.5 million related to the settlement of the class action lawsuit. These charges are reflected in cost of goods sold for $13.3 million, operating expenses for $7.0 million, and other expenses of $0.2 million.

(2) In connection with the merger with Inframetrics, Inc., which was effective on March 30, 1999, we recorded one-time pre-tax charges of $34.6 million. The charges consisted of $25.3 million of inventories, which is included in cost of goods sold, due to the elimination of duplicative product lines, and $9.3 million of transaction related costs, which are reported as combination costs. This merger was accounted for as a pooling of interests.

(3) In connection with the acquisition of AGEMA Infrared Systems AB, which was effective on December 1, 1997, we recorded a one-time pre-tax charge of $52.5 million. The charge consisted of $36.4 million of in-process research and development and merger-related costs, which are included in combination costs, and $16.1 million of inventories due to the creation of duplicative product lines, which is included in cost of goods sold. This acquisition was accounted for under the purchase method.

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

Forward Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains 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 "expects," "anticipates," "intends," "plans," "believes," "sees," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors, including, but not limited to, those discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Annual Report as well as those discussed from time to time in our other Securities and Exchange Commission filings and reports. In addition, such statements could be affected by general industry and market conditions. Such forward-looking statements speak only as of the date on which they were made and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Annual Report. If we update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections with respect to other forward-looking statements.

Overview

FLIR Systems was founded in 1978 and has become a world leader in the design, manufacture and marketing of thermal imaging and stabilized camera systems for a wide variety of commercial, industrial and government applications. Our business is organized around two principal markets, Imaging and Thermography. Through the acquisition of AGEMA Infrared Systems AB, headquartered in Danderyd, Sweden, in 1997 and the pooling of interest merger with Inframetrics, Inc., headquartered in N. Billerica, Massachusetts, in 1999, the Company has experienced significant change in its structure and operations. In the Thermography market where each of the three previously separate companies competed, there was a significant transition as the Company phased out products utilizing "cooled" technology and focused on the "uncooled" products that are produced in Sweden. In the Imaging market, the merger with Inframetrics brought a certain set of complimentary products to the previous portfolio of products carried by the Company.

We continue to enhance our state-of-the-art products within both markets, as well as develop products for new market applications that use advanced thermal imaging technologies. "Uncooled" detector technology operates at room temperature, allowing for systems that are less expensive, smaller, lighter, and more energy efficient. Additionally, we have developed higher-margin image analysis software tools that enhance the capability of our thermography products. As hardware prices decline, the sophistication of image analysis software and the incremental functionality provided by such analysis tools are expected to become a more critical component of thermography systems.

During the course of 2000, the Company, under new management, has been restructuring its operations to improve profitability. As a result, in 2000, the Company recorded charges totaling $20.5 million primarily associated with realigning its operations to focus on higher margin products, eliminating aged or lower margin products, improving manufacturing efficiencies and reducing production and distribution costs. These charges include $9.0 million to cost of goods sold to adjust inventory reserves related to certain low margin products and older products being phased out. In addition, $8.8 million related to cost accumulation and asset valuations have been written off as a result of these operational changes, $2.2 million was incurred associated with workforce reductions and related costs, and $0.5 million was recorded related to the settlement of the class action lawsuit.

International revenue accounted for approximately 48.4%, 50.2% and 47.6% of our revenue in 2000, 1999 and 1998, respectively. We anticipate that international sales will continue to account for a significant portion of revenue. With the production and distribution of our thermography products in Sweden contributing a

significant volume of sales denominated in foreign currencies, we have exposure to foreign exchange fluctuations and changing dynamics of foreign competitiveness based on variations in the value of the US dollar relative to other currencies.

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

The Company experiences fluctuations in orders and sales due to seasonal variances and customer sales cycles, such as the seasonal pattern of contracting by the US and certain foreign governments, the frequent requirement by international customers to take delivery of equipment prior to the end of December due to funding considerations, and the tendency of commercial enterprises to fully utilize annual capital budgets prior to expiration. Such events have resulted and could continue to result in certain fluctuations in quarterly results in the future. As a result of such quarterly fluctuations in operating results, the Company believes that quarter-to-quarter comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indicators of future performance.

Restatements and Reclassifications

In March 2001, the Company determined that it was necessary to restate its

1999 and 1998 consolidated financial statements and its interim 2000 and 1999 consolidated financial statements. The restatements were effected after the Company determined, based on a review of the specific terms and conditions underlying certain sales transactions recorded in 1999 and 1998, that revenue was recognized with respect to such transactions during periods or in amounts that were not consistent with the Company's revenue recognition policy. Accordingly, the restatements include the deferral of revenue from the reporting period in which the revenue was originally recorded to the reporting period in which the revenue would be properly recorded under the Company's revenue recognition policy. The related cost of sales and certain operating costs have also been restated as appropriate. The restatements also include a revision in the accounting for certain assets recorded in connection with the merger with Inframetrics, Inc. in 1999.

As a result of the restatements, previously reported revenue for the year ended December 31, 1998 was reduced by $11.1 million, previously reported revenue for the year ended December 31, 1999 was increased by $0.7 million, and revenue for the year ended December 31, 2000 was increased by $8.1 million. As a result of the restatements, the previously reported net earnings for the year ended December 31, 1998 was reduced by $6.2 million, the previously reported net loss for the year ended December 31, 1999 was reduced by $0.3 million, and the net loss for the year ended December 31, 2000 was reduced by $5.6 million.

There have also been reclassifications made in 1998 and 1999 to report results on a consistent basis with that of 2000. These reclassifications had no impact on net earnings for the years presented. See Notes 15 and 16 to the Consolidated Financial Statements for information concerning these restatements and reclassifications. All of the information presented in the Management Discussion and Analysis reflect the impact of these restatements and reclassifications.

Results of Operations

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

	Year Ended December 31,		
	2000(1)	1999(2) (Restated)	1998 (Restated)
Revenue	100.0 %	100.0 %	100.0%
Cost of goods sold	56.2	69.3	49.3
Gross profit	43.8	30.7	50.7
Operating expenses:			
Research and development	15.3	16.2	15.2
Selling and other operating costs	34.3	35.2	29.9
Combination costs	--	5.2	--
Total operating expenses	49.6	56.6	45.1
(Loss) earnings from operations	(5.8)	(25.9)	5.6
Interest expense	6.5	4.4	1.8
Other (income) and expenses, net	(0.3)	(1.1)	0.7
(Loss) earnings before income taxes	(12.0)	(29.2)	3.1
Income tax provision	2.0	1.3	1.0
Net (loss) earnings	(14.0)%	(30.5)%	2.1%

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(1) Excluding the one-time charges in connection with the 2000 charges related to streamlining our manufacturing and corporate operations, cost of goods sold, gross profit, operating expenses, loss before taxes and net loss would have been 49.1%, 50.9%, 45.8%, (1.0)%, and (3.0)%, respectively.

(2) Excluding the one-time charges of $34.6 million in connection with the acquisition of Inframetrics, cost of goods sold, gross profit, loss from

operations and net loss in 1999 would have been 55.1%, 44.9%, (6.6)% and (11.1)%, respectively.

Years ended December 31, 2000, 1999 and 1998

Revenue. Revenue increased 4.4% from $178.6 million in 1999 to $186.4 million in 2000. The increase was due to higher volumes in the Imaging business as revenue in that business segment increased 10.3% from $89.9 million in 1999 to $99.2 million in 2000. The increase in Imaging revenue was experienced across most of the product segments. Revenue for Thermography in 1999 and 2000 amounted to $88.6 million and $87.1 million, respectively. Revenue for Thermography remained relatively constant, as revenue from an increase in units delivered was offset by approximately $4.9 million associated with the decline in the value of foreign currencies to the US dollar during the revenue period.

Revenue in 1998 was $177.3 million compared to revenue in 1999 of $178.6 million. In 1999, revenue from the Imaging business increased by $8.8 million, or 10.9%, while revenue from the Thermography business decreased by $7.5 million, or 7.8%. The increase in Imaging revenue was due to increased demand in both the governmental and commercial market segments. The decrease in Thermography revenue was primarily due to the loss of market share as a result of the consolidation of the business base after the acquisition of AGEMA (1997) and the merger with Inframetrics (1999). The loss of market share resulted from the Company's focus on the consolidation of operations and distribution channels, the elimination of duplicative or overlapping product lines and the reaction of the market to those changes.

International revenue in 2000 was $90.2 million, representing 48.4% of revenue. This compared to 1999 international revenue of $89.6 million, or 50.2% of revenue, and 1998 international revenue of $84.4 million, or 47.6% of revenue.

Gross profit. As a percentage of revenue, gross profit in 2000 was 43.8% compared to 30.7% in 1999. One-time charges of $13.3 million and $25.3 million were recorded in 2000 and 1999, respectively. Without

these one-time charges, gross profit would have been 50.9% in 2000 and 44.9% in 1999. This improvement in margin is partially attributable to the decrease in manufacturing costs that has resulted from the streamlining of operations that took place in 2000.

As a percentage of revenue, gross profit in 1998 was 50.7% compared to 44.9% in 1999, excluding the impacts of the one-time charges recorded in that year. The gross profit in 1999 was negatively impacted by excess manufacturing costs, partially as a result of the merger and before certain consolidation activities occurred.

Research and development. As a percentage of revenue, research and development expense decreased slightly to 15.3% in 2000, from 16.2% in 1999. Research and development expense for 2000 included $2.9 million related to cost accumulations and asset valuations that have been written off as a result of operational changes and charges totaling $0.2 million associated with workforce reductions and related costs. Without these charges, research and development expense would have been 13.6% of revenue.

As a percentage of revenue, research and development expense increased slightly to 16.2% in 1999 from 15.2% in 1998. Research and development expense increased in 1999 to facilitate the introduction of new products including the ThermaCAM 595, SC3000, MarFLIR, FireFLIR, Ultra7000, UltraMedia III, Star SAFIRE and Star SAFIRE II.

Selling and other operating costs. Selling and other operating costs increased 1.6%, from $62.9 million in 1999 to $63.9 million in 2000. The increase in selling and other operating costs were due to one-time charges in 2000 of $3.9 million principally related to workforce reductions, the settlement of the class action lawsuit and write offs of demonstration equipment, as well as additional legal and audit fees incurred during 2000, partially offset by cost savings generated in 2000 as a result of streamlining activities initiated during the year. As a percentage of revenue, selling and other operating costs were 34.3% and 35.2% in 2000 and 1999, respectively. Without these one-time charges, selling and other operating costs would have been $60.0 million or 32.2% of revenue in 2000.

Selling and other operating costs increased 18.6% in 1999 from $53.0 million in 1998 to $62.9 million in 1999. The $9.9 million increase in selling and other operating costs in 1999 in absolute dollar terms was due to a variety of factors including expense increases due to anticipated higher volumes of business that were not fully realized, implementation costs for an Enterprise Resource Planning System, higher commission expense, increased bad debt expense and higher costs from our UK operations.

Interest expense. Interest expense was $12.0 million, $7.8 million and $3.2 million for the years ended 2000, 1999 and 1998, respectively. The increase in expense was primarily due to increased debt levels and increased interest rates. The increased interest rates were due to the application of default rates for most of 2000 under the Company's Credit Agreement resulting in the average borrowing rate of 7.86% at December 31, 1999 increasing to a rate of 12.25% as of December 31, 2000. The increase in expense was also due to the fair value adjustment of $1.3 million on the interest rate swap agreements.

Income taxes. The Company's income tax provision was $3.7 million, $2.3 million and $1.8 million in 2000, 1999 and 1998, respectively. The mix in taxable income or loss between the Company's US and foreign operations in each of these years significantly impacted the recording of the tax provision. The tax provisions in 2000 and 1999 primarily reflect taxes provided on income generated in the Company's foreign subsidiaries, principally Sweden. The substantial losses generated in the United States, however, have not been benefited in those years due to inability to carry such losses back to prior years and valuation allowances recorded against the resulting deferred tax assets.

At December 31, 2000, the Company had US and United Kingdom tax net operating loss carryforwards (NOLs) totaling approximately $80.8 million and $0.6 million, respectively, which expire in the years 2005 through 2020. Additionally, the Company has various US tax credits available aggregating $3.2 million that expire in the years 2007 through 2019. The Company also has a $10.1 million deferred tax asset related to

acquired in-process research and development recorded in connection with the AGEMA acquisition. The realization of this deferred tax asset is dependent upon the ability of foreign subsidiaries to remit earnings to the US parent. Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" (SFAS 109) requires that the tax benefits described above be recorded as an asset to the extent that management assesses the utilization of such assets to be "more likely than not." Otherwise, a valuation allowance is required to be recorded. Based on this guidance, management has recorded a substantial valuation allowance amounting to $24.1 million against such deferred tax assets. Management believes, primarily as a result of the significant operational restructuring in the third quarter of 2000, that the net deferred tax asset of $23.7 million reflected on the December 31, 2000 consolidated balance sheet, is realizable based on future forecasts of taxable income. In addition, the Company is planning to implement various tax planning strategies to assist in the utilization of such deferred tax assets.

Future levels of taxable income are dependent upon general economic conditions, including but not limited to continued growth of the Thermography and Imaging markets, competitive pressures on sales and gross margins, successful implementation of tax planning strategies, and other factors beyond the Company's control. No assurance can be given that sufficient taxable income will be generated for full utilization of the unreserved deferred tax assets. Accordingly, the Company may be required to record an additional valuation allowance against the deferred tax assets in future periods if its future forecasts of taxable income and/or tax planning strategies are not achieved.

Liquidity and Capital Resources

At December 31, 2000, the Company had short-term borrowings net of cash on hand of $5.9 million compared to $77.0 million at December 31, 1999. The decrease in short-term borrowings during the year was principally due to the reclassification of $74.9 million to long-term debt as a result of an amendment to the Company's Credit Agreement in January 2001.

Cash provided by operating activities in 2000 was $3.9 million, compared to net cash used by operating activities in 1999 of $16.1 million. Cash provided by operating activities was principally due to reductions in accounts receivable and inventories offset by the net loss for the year, net of non-cash charges, and a reduction in accounts payable and accrued liabilities.

At December 31, 2000, the Company had accounts receivable in the amount of $39.7 million compared to $56.8 million at December 31, 1999. The Company has increased its collection efforts and tightened its credit policies. Days sales outstanding decreased from 116 at December 31, 1999 to 78 at December 31, 2000. The timing of sales, particularly the recording of large system sales, can significantly impact the calculation of days sales outstanding at any point in time.

At December 31, 2000, the Company had inventories on hand of $55.8 million compared to $65.1 million at December 31, 1999. The decrease was primarily due to inventory reduction initiatives and write-offs of certain inventories in connection with restructuring our operations in 2000.

The Company had accounts payable of $16.2 million at December 31, 2000, compared to a balance of $22.1 million on December 31, 1999. The decrease in accounts payable was primarily attributable to the lower operating expenses and inventory purchases during the fourth quarter of 2000 compared to earlier periods and to the increase in the availability of cash to settle trade accounts.

At December 31, 2000, the Company had accrued payroll and other current liabilities of $19.2 million compared to $27.2 million on December 31, 1999. The decrease is principally due to the reduction of deferred revenue that arose in 1999 in connection with the timing of revenue recognition on shipments made in that year.

The Company's investing activities have consisted primarily of expenditures for fixed assets, which totaled $7.3 million and $7.5 million for the years ended December 31, 2000 and 1999, respectively.

The Company entered into a Credit Agreement with a number of lender banks as of December 16, 1999. This Credit Agreement was amended and is effective as of January 23, 2001. The Credit Agreement, as amended, provides the Company with a borrowing facility to a maximum of $93.4 million. As of December 31, 2000, the Company had $89.9 million of borrowings in addition to $0.8 million of standby letters of credit, with $2.7 million of financing available to the Company. At December 31, 2000, the interest rate under the Amended Credit Agreement was 12.25%.

The Amended Credit Agreement provides that the maximum borrowing facility will be permanently reduced by 50% of the first $5.0 million of principal payment and at which time the financing availability will be fixed at an amount not to exceed $5.2 million. Principal payments exceeding $5.0 million will permanently reduce the maximum borrowing facility on a dollar-for-dollar basis.

The interest rate on the borrowings under the Amended Credit Agreement as of December 31, 2000 and January 23, 2001 was the prime rate of the primary lender for domestic borrowings plus 2.75%. The interest rate on borrowings decline as certain principal payments are made. A reduction of 25 basis points is provided after the payment of $7.5 million and an additional 25 basis point reduction after each $5.0 million principal reduction thereafter, subject to a total reduction of 100 basis points.

The Amended Credit Agreement requires minimum cumulative principal payments totaling not less than $2.5 million on or before March 31, 2001, $5.0 million on or before June 30, 2001, $9.0 million on or before September 30, 2001, $15.0 million on or before December 31, 2001, $20.0 million on or before March 31, 2002, and $25.0 million on or before June 30, 2002. The Amended Credit Agreement expires on July 15, 2002.

The Amended Credit Agreement includes one financial covenant related to the Company achieving certain levels of profitability beginning with the quarter ending March 31, 2001. The Amended Credit Agreement is collateralized by substantially all of the assets of the Company.

Additionally, the Company, through one of its subsidiaries, has a 40,000,000 Swedish Kronar (approximately $4.2 million) line of credit at 4.3% at December 31, 2000. At December 31, 2000, the Company had $2.7 million outstanding on this line. This credit line is secured primarily by accounts receivable and inventories of the subsidiary and is subject to automatic renewal on an annual basis.

We believe that our existing cash, cash generated by operating activities, available credit facilities and financing available from other sources, combined with our continuing efforts to control costs, to improve the collections of accounts receivable and better manage our inventory levels will be sufficient to meet our cash requirements for the foreseeable future. At the present, we do not have any significant capital commitments for the coming year.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's exposure to market risk for changes in interest rates relates primarily to its short-term and long-term debt obligations. The debt obligations are at variable rates. The Company has not historically utilized interest rate swap or similar hedging arrangements to fix interest rates, but in March 2000, the Company entered into interest rate swap agreements with one of its lender banks for a notional amount of $40.0 million. A change in interest rates on the debt obligations impacts the interest incurred and cash flows. A change in interest rates related to the swap agreements impacts interest incurred, cash flows and the fair value of the instrument.

The sensitivity analysis related to the Company's debt obligation assumes a change of 10% in the variable interest rates from their levels of December 31, 2000 with all other variables held constant. A 10% increase in market interest rates would result in an increase in interest expense of $0.9 million for the year ended December 31, 2000. A 10% decrease in market interest rates would result in a decrease in interest expense of $0.9 million for the year ended December 31, 2000.

The sensitivity analysis related to the Company's swap agreements assumes a change of 10% in the variable interest rates from their levels of December 31, 2000 with all other variables held constant. A 10% increase in market interest rates would result in a decrease in interest expense of $0.9 million for the year ended December 31, 2000 and a decrease in the fair value of the obligations of $0.6 million. A 10% decrease in market interest rates would result in an increase in interest expense of $0.9 million for the year ended December 31, 2000 and an increase in the fair value of the obligation of $0.6 million.

The foreign subsidiaries of the Company generally use their local currency as the functional currency. The Company does not currently enter into any foreign exchange forward contracts to hedge certain balance sheet exposures and intercompany balances against future movements in foreign exchange rates. To date, such exposure has been immaterial. The Company does maintain cash balances denominated in currencies other than the US Dollar.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

This item includes the following financial information:

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheet of FLIR Systems, Inc. (an Oregon corporation) and subsidiaries as of December 31, 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. 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 audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FLIR Systems, Inc. and subsidiaries as of December 31, 2000, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Portland, Oregon
March 2, 2001

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, based on our audits and the report of other auditors, the consolidated balance sheet as of December 31, 1999 and the related consolidated statements of operations, of shareholders' equity and of cash flows for each of the two years in the period ended December 31, 1999 present fairly, in all material respects, the financial position, results of operations and cash flows of FLIR Systems, Inc. and its subsidiaries at December 31, 1999 and for each of the two years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Inframetrics Inc., a wholly-owned subsidiary, which statements reflect total revenues of $53,785,000 for the year ended December 31, 1998. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Inframetrics, Inc., is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion. We have not audited the consolidated financial statements of FLIR Systems, Inc. for any period subsequent to December 31, 1999.

As described in Note 15, the financial statements as of and for the years ended December 31, 1998 and 1999 have been restated.

/s/ PricewaterhouseCoopers LLP

Portland, Oregon
April 14, 2000, except as to Note 15, which is as of March 23, 2001

FLIR SYSTEMS, INC.

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

	Year Ended December 31,		
	2000	1999	1998
		(Restated)	(Restated)
Revenue	$186,357	$178,556	$177,254
Cost of goods sold	104,764	123,665	87,384
Gross profit	81,593	54,891	89,870
Operating expenses:			
Research and development	28,502	29,006	26,958
Selling and other operating costs	63,916	62,899	53,045
Combination costs	--	9,301	--
Total operating costs	92,418	101,206	80,003
(Loss) earnings from operations	(10,825)	(46,315)	9,867
Interest expense	12,022	7,843	3,162
Other (income) and expenses, net	(518)	(2,072)	1,309
(Loss) earnings before income taxes	(22,329)	(52,086)	5,396
Income tax provision	3,725	2,295	1,806
Net (loss) earnings	$(26,054)	$(54,381)	$ 3,590
Net (loss) earnings per share:			
Basic	$ (1.80)	$ (3.82)	$ 0.28
Diluted	$ (1.80)	$ (3.82)	$ 0.27

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

FLIR SYSTEMS, INC.

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

December 31,

	2000	1999
		(Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,858	$ 4,255
Accounts receivable, net	39,663	56,788
Inventories	55,844	65,074
Prepaid expenses and other current assets	3,030	6,040
Deferred income taxes	11,943	7,216
Total current assets	122,338	139,373
Property and equipment, net	15,407	20,854
Deferred income taxes	11,772	16,499
Intangible assets, net	16,635	17,932
Other assets	839	1,829
	$ 166,991	$196,487
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 17,716	$ 81,247
Accounts payable	16,247	22,128
Accrued payroll and other liabilities	19,186	27,226
Accrued income taxes	2,217	3,207
Current portion of capital lease obligations	1,103	1,084
Total current liabilities	56,469	134,892
Long-term debt	75,485	1,497
Pension and other long-term liabilities	6,012	3,879
Commitments and contingencies (Notes 8 and 9)		
Shareholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized; no shares issued at December 31, 2000 or 1999	--	--
Common stock, $0.01 par value, 30,000,000 shares authorized, 14,548,370 and 14,388,600 shares issued at December 31, 2000 and 1999, respectively	145	144
Additional paid-in capital	144,118	143,318
Accumulated deficit	(110,798)	(84,744)
Accumulated other comprehensive loss	(4,440)	(2,499)
Total shareholders' equity	29,025	56,219
	$ 166,991	$196,487

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		Accumulated		Annual
				Paid-in	Accumulated	Other Comprehensive		Comprehensive
Shares	Amount	Shares	Amount	Capital	Deficit	(Loss)	Total	Earnings (Loss)

Authorized..........	10,000,000	$0.01*	30,000,000	$0.01*					
Balance, December 31, 1997................	--	--	11,835,265	$ 119	$107,278	$ (33,953)	$ (411)	$ 73,033	$ --
Net earnings for the year (restated).....	--	--	--	--	--	3,590	--	3,590	3,590
Common stock options exercised..........	--	--	188,508	1	1,681	--	--	1,682	--
Common stock issued pursuant to stock option plans........	--	--	111,130	1	1,181	--	--	1,182	--
Common stock issued.............	--	--	1,998,500	20	32,656	--	--	32,676	--
Cost of stock issuance...........	--	--	--	--	(627)	--	--	(627)	--
Translation adjustment.........	--	--	--	--	--	--	(1,662)	(1,662)	(1,662)
Balance, December 31, 1998 (restated)......	--	--	14,133,403	141	142,169	(30,363)	(2,073)	109,874	
Comprehensive earnings, year ended December 31, 1998 (restated)...........									$ 1,928
Net (loss) for the year (restated).....	--	--	--	--	--	(54,381)	--	(54,381)	$(54,381)
Common stock options exercised..........	--	--	237,528	3	950	--	--	953	--
Common stock issued pursuant to stock compensation plans..	--	--	17,669	--	199	--	--	199	--
Translation adjustment.........	--	--	--	--	--	--	(426)	(426)	(426)
Balance, December 31, 1999 (restated)......	--	--	14,388,600	144	143,318	(84,744)	(2,499)	56,219	
Comprehensive (loss), year ended December 31, 1999 (restated)..									$(54,807)
Net (loss) for the year...............	--	--	--	--	--	(26,054)	--	(26,054)	$(26,054)
Common stock options exercised..........	--	--	60,535	--	241	--	--	241	--
Common stock issued pursuant to employee stock purchase plans..............	--	--	99,235	1	559	--	--	560	--
Translation adjustment.........	--	--	--	--	--	--	(1,941)	(1,941)	(1,941)
Balance, December 31, 2000................	--	$ --	14,548,370	$ 145	$144,118	$(110,798)	$(4,440)	$ 29,025	
Comprehensive (loss), year ended December 31, 2000............									$(27,995)

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* Par value

The accompanying notes are an integral part of these financial statements

FLIR SYSTEMS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2000	1999 (Restated)	1998 (Restated)
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Net (loss) earnings..........................	$(26,054)	$(54,381)	$ 3,590
Income charges not affecting cash:			
Depreciation................................	8,119	6,944	6,065
Amortization................................	1,600	2,952	2,412

Disposal and write-offs of property and equipment	4,407	5,131	43
Fair value adjustment of swap agreements	1,282	--	--
Deferred income taxes	--	(1,012)	(4,231)
Changes operating assets and liabilities:			
Decrease (increase) in accounts receivable	15,174	22,568	(14,824)
Decrease (increase) in inventories	8,300	8,031	(25,276)
Decrease (increase) in prepaid expenses and other current assets	2,893	(68)	(2,624)
Decrease (increase) in other assets	680	(1,052)	(83)
(Decrease) increase in accounts payable	(5,443)	(1,761)	3,398
(Decrease) in accounts payable to related parties	--	--	(6,228)
(Decrease) increase in accrued payroll and other liabilities	(7,276)	(2,785)	5,004
(Decrease) increase in accrued income taxes	(854)	(629)	2,646
Increase (decrease) in pension and other long-term liabilities	1,082	(7)	346
Cash provided (used) by operating activities	3,910	(16,069)	(29,762)
CASH USED BY INVESTING ACTIVITIES:			
Additions to property and equipment	(7,279)	(7,470)	(13,182)
Increase in intangible assets	--	--	(2,880)
Software development costs	--	--	(239)
Cash used by investing activities	(7,279)	(7,470)	(16,301)
CASH PROVIDED BY FINANCING ACTIVITIES:			
Net proceeds from notes payable	11,369	41,289	13,400
Proceeds from long-term debt	12	1,538	1,570
Repayments of long-term debt, including current portion	(905)	(20,933)	(6,376)
Common stock issued	--	--	32,676
Cost of common stock issuance	--	--	(627)
Proceeds from exercise of stock options and shares issued pursuant to incentive stock option plans	241	1,152	2,864
Proceeds from shares issued pursuant to employee stock purchase plan	560	--	--
Cash provided by financing activities	11,277	23,046	43,507
Effect of exchange rate changes on cash	(305)	(45)	(196)
Net increase (decrease) in cash and cash equivalents	7,603	(538)	(2,752)
Cash and cash equivalents, beginning of year	4,255	4,793	7,545
Cash and cash equivalents, end of year	$ 11,858	$ 4,255	$ 4,793

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

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

Principles of consolidation

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

Foreign currency translation

The assets and liabilities of the Company's foreign operations are translated into US dollars at current exchange rates, and revenues and expenses are translated at average exchange rates for the year. Resulting translation adjustments are reflected as other comprehensive earnings or loss within shareholders' equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in currency other than the functional currency, are included in the results of operations as incurred.

Recognition of revenue

Revenue is generally recognized upon delivery of the product to the customer, passage of title to the customer as indicated by the shipping terms and fulfillment of all significant obligations, pursuant to guidance provided by Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101), issued by the Securities and Exchange Commission. A provision for the estimated cost of warranty is recorded when revenue is recognized. Provisions for estimated losses on sales or related receivables are recorded when identified. Revenue is stated net of representative commissions. Service revenue is deferred and recognized over the contract period or as services are provided.

Research and Development

Expenditures for research and development activities are expensed as incurred.

Cash and cash equivalents

The Company considers short-term investments that are highly liquid, readily convertible into cash and have original maturities of less than three months to be cash equivalents.

Inventories

Inventories are stated at the lower of average cost or market and include materials, labor, and manufacturing overhead. Cost is determined based on a currently-adjusted standard basis which approximates actual cost on a first-in, first-out basis. The Company periodically reviews its inventories for obsolete or slow-moving items.

Property and equipment

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

Repairs and maintenance are charged to operations as incurred.

Long-lived Assets

Long-lived assets are reviewed for impairment when circumstances indicate that the carrying amount may not be recoverable. Impairment exists when the carrying value is greater than the expected undiscounted future cash flows expected to be provided by the asset. If impairment exists, the asset is written down to its fair value.

Earnings per share

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

	December 31,		
	2000	1999	1998
Weighted average number of common shares outstanding..	14,472	14,252	12,983
Assumed exercise of stock options net of shares assumed reacquired under the treasury stock method...	--	--	527
Diluted shares outstanding..........................	14,472	14,252	13,510

The dilutive effect of stock options for the years ended December 31, 2000 and 1999 that aggregated 2,131,966 and 1,494,490, respectively, have been excluded for purposes of diluted earnings per share since the effect would have been anti-dilutive.

Restatements

The Company's consolidated financial statements as of December 31, 1999 and 1998 and for the years then ended have been restated. See Note 15 to the Consolidated Financial Statements for a description of the restatements.

Reclassifications

Certain reclassifications, including those described in Note 16 to the Consolidated Financial Statements, have been made to prior years' data to conform to the current year's presentation. These reclassifications had no impact on previously reported results of operations or shareholders' equity.

Statement of cash flows

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

	Year ended December 31,		
	2000	1999	1998

Cash paid for:			
Interest..	$ 10,438	$ 5,013	$ 3,930
Taxes...	$ 4,114	$ 2,941	$ 3,812

Fair value of financial assets and liabilities

The Company estimates the fair value of its monetary assets and liabilities based upon comparison of such assets and liabilities to the current market values for instruments of a similar nature and degree of risk. The Company estimates that the recorded value of all of its monetary assets and liabilities approximates fair value as of December 31, 2000. The Company has interest rate swap agreements which are accounted for on a fair value basis.

Stock-based compensation

The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 allows companies to choose whether to account for stock-based compensation under the method prescribed in Accounting Principles Board Opinion No. 25 (APB 25) or use the fair value method described in SFAS No. 123. The Company follows the provisions of APB 25 and related interpretations in accounting for its employee stock option plans. (see Note 12).

Concentration of risk

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

The Company maintains cash deposits with major banks which from time to time may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

Use of estimates

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

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

of inventories and recoverability of deferred tax assets. Actual results could differ from those estimates. The Company believes that the estimates used are reasonable.

Comprehensive (loss) earnings

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

Recent accounting pronouncements

In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities-an amendment of FASB Statement No. 133" ("SFAS 138"). In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 137"). SFAS 137 is an amendment to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 137 and 138 establish accounting and reporting standards for all derivative instruments. SFAS 137 and 138 are effective for fiscal years beginning after June 15, 2000. The Company adopted the pronouncements in the first quarter of 2001 and did not have a material impact on its financial position or results of operations.

Note 2. Accounts Receivable

Accounts receivable are net of an allowance for doubtful accounts of $2.6 million and $4.8 million at December 31, 2000 and 1999, respectively.

Note 3. Inventories

Inventories consist of the following (in thousands):

	December 31, 2000	December 31, 1999
Raw material and subassemblies	$29,546	$32,452
Work-in-progress	14,139	15,261
Finished goods	12,159	17,361
	$55,844	$65,074

Note 4. Property and Equipment

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

	December 31, 2000	December 31, 1999
Machinery and equipment	$ 32,845	$ 30,598
Office equipment and other	22,439	28,124
	55,284	58,722
Less accumulated depreciation	(39,877)	(37,868)
	$ 15,407	$ 20,854

Note 4. Property and Equipment--(Continued)

Property and equipment includes the cost of equipment held by the Company under capital lease agreements. Such cost and related accumulated depreciation aggregated $2.9 million and $2.6 million, respectively, at December 31, 2000, and $2.9 million and $2.4 million respectively, at December 31, 1999.

Note 5. Notes Payable

The Company entered into a Credit Agreement with a number of lender banks as of December 16, 1999. This Credit Agreement was amended and is effective as of January 23, 2001. The Credit Agreement, as amended, provides the Company with a borrowing facility to a maximum of $93.4 million. As of December 31, 2000, the Company had $89.9 million of borrowings in addition to $0.8 million of standby letters of credit, with $2.7 million of financing available to the Company. At December 31, 2000, the interest rate under the Amended Credit Agreement was 12.25%.

The Amended Credit Agreement provides that the maximum borrowing facility will be permanently reduced by 50% of the first $5.0 million of principal payment and at which time the financing availability will be fixed at an amount not to exceed $5.2 million. Principal payments exceeding $5.0 million will permanently reduce the maximum borrowing facility on a dollar-for-dollar basis.

The interest rate on the borrowings under the Amended Credit Agreement as of December 31, 2000 and January 23, 2001 was the prime rate of the primary lender for domestic borrowings plus 2.75%. The interest rates on borrowings decline as certain principal payments are made. A reduction of 25 basis points is provided after the payment of $7.5 million and an additional 25 basis point reduction after each $5.0 million principal reduction thereafter, subject to a total reduction of 100 basis points.

The Amended Credit Agreement requires minimum cumulative principal payments totaling not less than $2.5 million on or before March 31, 2001, $5.0 million on or before June 30, 2001, $9.0 million on or before September 30, 2001, $15.0 million on or before December 31, 2001, $20.0 million on or before March 31, 2002, and $25.0 million on or before June 30, 2002. The Amended Credit Agreement expires on July 15, 2002.

The Amended Credit Agreement includes one financial covenant related to the Company achieving certain levels of profitability beginning with the quarter ending March 31, 2001. The Credit Agreement is collateralized by substantially all of the assets of the Company.

At December 31, 2000, the Company had $89.9 million outstanding against the Amended Credit Agreement of which $15.0 million is classified as short term. Standby letters of credit totaling $0.8 million were outstanding at December 31, 2000.

In March, 2000, the Company entered into interest rate swap agreements to minimize its exposure to fluctuations in interest rates under the original Credit Agreement. At December 31, 2000, the fair value of these agreements is $1.3 million and is included in other long-term liabilities. The change in fair value of these agreements and interest rate differential to be paid or received under these agreements, which have a notional amount totaling $40.0 million, are recognized as incurred and are included in interest expense.

Additionally, the Company, through one of its subsidiaries, has a 40,000,000 Swedish Kronar (approximately $4.2 million) line of credit at 4.3% at December 31, 2000. At December 31, 2000, the Company had $2.7 million outstanding on this line. This line of credit is secured primarily by accounts receivable and inventories of the subsidiary and is subject to automatic renewal on an annual basis.

Note 6. Long-Term Debt

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

	December 31,	
	2000	1999

Amended Credit Agreement (Note 5)	$ 89,900	$ --
Capital leases	1,688	2,581
	91,588	2,581
Less current portion	(16,103)	(1,084)
	$ 75,485	$ 1,497

Note 7. Pension Plans

The Company previously offered most of the employees outside the United States participation in a defined benefit pension plan. A summary of the components of the net periodic pension expense for the benefit obligation and fund assets plan is as follows (in thousands):

	2000	1999
Change in benefit obligation:		
Projected benefit obligation at beginning of the period	$3,627	$3,595
Service costs	--	--
Interest costs	167	162
Actuarial (gain) loss	(27)	42
Benefits paid	(63)	(54)
Foreign currency exchange changes	(658)	(118)
Projected benefit obligation at December 31	3,046	3,627
Fair value of plan assets at January 1	$ --	$ --
Unfunded status	3,046	3,627
Unrecognized net loss	(73)	(110)
Unrecognized transition obligation	296	362
Pension liability recognized	$3,269	$3,879

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

	2000	1999
Weighted average discount rate	7.5%	7.5%
Rates of increase in compensation levels	N/A	3.0%

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

	2000	1999	1998
Interest costs	$167	$162	$278
Amortization of transition costs	(30)	(34)	(35)
Net periodic pension costs	$137	$128	$243

Note 7. Pension Plans--(Continued)

The Company has a 401(k) Savings and Retirement Plan (the "Plan") to provide for voluntary salary deferral contributions on a pre-tax basis for employees within the United States in accordance with Section 401(k) of the Internal Revenue Code of 1986, as amended. The Plan allows for contributions by the Company. The Company made and expensed matching contributions of $1.2 million, $1.1 million and $1.1 million for the years ended December 31, 2000, 1999 and 1998, respectively. The Company also has an unfunded retirement obligation to a former executive officer which has been recorded and is reported in other long-term liabilities.

Note 8. Commitments

The Company leases its primary facilities under various operating leases that expire in 2001 through 2006. Total rent expense for the years ended December 31, 2000, 1999 and 1998 amounted to $4.2 million, $4.2 million and $3.6 million, respectively.

Minimum rental payments required under all non-cancelable leases for equipment and facilities at December 31, 2000 are as follows (in thousands):

	Capital leases	Operating leases
2001	$1,203	$ 2,609
2002	605	2,495
2003	1	2,307
2004		2,159
2005		950
Thereafter		226
Total minimum lease payments	1,809	$10,746
Less amount representing interest	(121)	
Present value of lease payments	$1,688	

Note 9. Litigation

On July 24, 2000, a complaint consolidating five previously filed complaints and alleging violations of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder was filed against the Company, Robert P. Daltry, J. Kenneth Stringer, III, and J. Mark Samper in the United States District Court for the District of Oregon on behalf of a class of purchasers of the Company's common stock between March 3, 1999 and March 6, 2000. On January 8, 2001, the defendants in the action reached an agreement to settle the litigation for the amount of $6.0 million, $5.5 million of which will be paid by the Company's insurance carrier and $0.5 million by the Company, which was accrued as of December 31, 2000. The settlement has received preliminary court approval. A hearing on final court approval will be held on April 3, 2001.

The Securities and Exchange Commission (the "SEC") is conducting an investigation relating to the Company. The investigation is a non-public, fact-finding inquiry to determine whether there have been any violations of the federal securities laws. The Company is cooperating fully with the SEC investigation.

The Company is involved in other litigation and various legal matters that are being defended and handled in the ordinary course of business.

Note 9. Litigation--(Continued)

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

Note 10. Income Taxes

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

Pre-tax (loss) income by significant geographical location is as follows (in thousands):

	Year ended December 31,		
	2000	1999	1998
		(Restated)	(Restated)
United States	$(34,183)	$(64,670)	$(3,248)
Foreign	11,854	12,584	8,644
	$(22,329)	$(52,086)	$ 5,396

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

	Year ended December 31,		
	2000	1999	1998
Current tax expense:			
Federal	$ --	$ 510	$ 2,209
State	165	12	68
Foreign	2,984	2,785	1,931
	3,149	3,307	4,208
Deferred tax expense (benefit):			
Federal	(1,709)	(14,342)	(1,801)
State	(201)	(2,337)	(210)
Foreign	576	10	--
	(1,334)	(16,669)	(2,011)
Increase (decrease) in valuation allowance	1,910	15,657	(391)
Total provision	$ 3,725	$ 2,295	$ 1,806

Note 10. Income Taxes--(Continued)

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

	December 31, 2000	December 31, 1999
Allowance for doubtful accounts	$ 680	$ 1,536
Warranty reserve	707	389
Inventory basis differences	8,693	4,149
Accrued liabilities	1,689	1,142
Other	174	--
Net current deferred tax assets	$ 11,943	$ 7,216
Acquired in-process research and development	$ 10,143	$ 10,995
Net operating loss carryforwards	31,356	24,271
Credit carryforwards	3,186	3,367
Depreciation	(181)	110
Unremitted foreign earnings	(8,667)	(1,515)
Merger costs capitalized for tax purposes	--	1,414
Other	--	12
Gross long-term deferred tax asset	35,837	38,654
Deferred tax asset valuation allowance	(24,065)	(22,155)
Net long-term deferred tax asset	$ 11,772	$ 16,499

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

	Year ended December 31, 2000	1999	1998
Statutory federal tax rate	(34.0)%	(34.0)%	34.0 %
Increase (decrease) in rates resulting from:			
State taxes	(3.0)	(4.5)	3.5
Foreign sales corporation benefit	--	4.6	(6.5)
Utilization of research and development credits	--	(1.3)	(22.6)
Increase (decrease) in valuation allowance	8.6	30.1	(7.2)
Non-deductible expenses	2.1	2.5	36.7
Correction of prior year estimates	14.0	--	--
Unremitted foreign earnings	32.0	--	--
Other	(3.0)	7.0	(4.4)
Effective tax rate	16.7 %	4.4 %	33.5 %

At December 31, 2000, the Company had US and United Kingdom tax net operating loss carryforwards (NOLs) totaling approximately $80.8 million and $0.6 million, respectively, which expire in the years 2005 through 2020. Additionally, the Company has various US tax credits available aggregating $3.2 million which expire in the years 2007 through 2019. The Company also has a $10.1 million deferred tax asset related to acquired in-process research and development recorded in connection with the AGEMA acquisition. The realization of this deferred tax asset is dependent upon the ability of foreign subsidiaries to remit earnings to the US parent. Statement of Financial

Accounting Standards No. 109 "Accounting for Income Taxes"

Note 10. Income Taxes--(Continued)

(SFAS 109) requires that the tax benefits described above be recorded as an asset to the extent that management assesses the utilization of such assets to be "more likely than not." Otherwise, a valuation allowance is required to be recorded. Based on this guidance, management has recorded a substantial valuation allowance amounting to $24.1 million and $22.2 million at December 31, 2000 and 1999, respectively, against such deferred tax assets. Management believes, primarily as a result of the significant operational restructuring in the third quarter of 2000, that the net deferred tax asset of $23.7 million reflected on the December 31, 2000 consolidated balance sheet, is realizable based on future forecasts of taxable income. In addition, the Company is planning to implement various tax planning strategies to assist in the utilization of such unreserved deferred tax assets.

Future levels of taxable income are dependent upon general economic conditions, including but not limited to continued growth of the Thermography and Imaging markets, competitive pressures on sales and gross margins, successful implementation of tax planning strategies, and other factors beyond the Company's control. No assurance can be given that sufficient taxable income will be generated for full utilization of the deferred tax assets. Accordingly, the Company may be required to record an additional valuation allowance against the deferred tax assets in future periods if its future forecasts of taxable income and/or tax planning strategies are not achieved.

Note 11. Capital Stock

On July 6, 1998, the Company completed a secondary public offering of 2,399,130 shares of common stock, including 1,638,630 shares of common stock issued and sold by the Company. Additionally, on July 24, 1998, the underwriters exercised the over-allotment option related to the secondary offering and the Company issued and sold an additional 359,870 shares of common stock. The net proceeds of $32.0 million were utilized to repay in full a payable to a related party, which aggregated approximately $5.0 million, and to reduce amounts outstanding under the Company's lines of credit.

On June 2, 1999, the Board of Directors approved a Shareholder Rights Plan that provides for the issuance of one right for each share of outstanding common stock. The rights will become exercisable only in the event that an acquiring party acquires beneficial ownership of 15% or more of the Company's outstanding common stock or announces a tender or exchange offer, the consummation of which would result in beneficial ownership by that party of 15% or more of the Company's outstanding common stock. Each right entitles the holder to purchase one one-hundredth of a share of the Company's A Junior Participating Preferred Stock with economic terms similar to that of one share of the Company's common stock at a purchase price of $65.00, subject to adjustment. The Company will generally be entitled to redeem the rights at $0.01 per right at any time on or prior to the tenth day after an acquiring person has acquired beneficial ownership of 15% or more of the Company's common stock. If an acquiring person or group acquires beneficial ownership of 15% or more of the Company's outstanding common stock and the Company does not redeem or exchange the rights, each right not beneficially owned by the acquiring person or group will entitle its holder to purchase, at the rights' then current exercise price, that number of shares of common stock having a value equal to two times the exercise price. The rights expire on June 2, 2009 if not previously redeemed, exchanged or exercised.

Note 12. Stock Options

The Company has stock incentive plans for employees, consultants, and directors of the Company. Under the plans, 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

Note 12. Stock Options--(Continued)

stock on the date of grant. The options generally become exercisable over a 3-year period beginning 1 year after date of grant and expire 10 years from the date of grant. The plans terminate in 2003. In 1998, the Company increased the number of shares of common stock reserved for future issuance pursuant to its incentive stock plans to 4,269,400.

The Company has elected to account for its employee stock-based compensation under APB 25; however, as required by SFAS No. 123, the Company has computed for pro forma disclosure purposes the value of options granted during 2000, 1999 and 1998 using the Black-Scholes option pricing model. The weighted average assumptions used for stock option grants for 2000, 1999 and 1998 were a risk-free interest rate of 6.1%, 5.5% and 5.7%, respectively; an expected dividend yield of 0%; an expected life of three years; and an expected volatility of 77.9%, 49.5% and 48.4%, 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, 2000, 1999 and 1998, the total value of the options granted was computed to be $9.4 million, $3.4 million and $2.4 million, respectively, which would be amortized on a straight-line basis over the vesting period of the options.

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

	Year Ended December 31,		
	2000	1999	1998
		(Restated)	(Restated)
Net (loss) earnings--as reported............	$(26,054)	$(54,381)	$3,590
Net (loss) earnings--pro forma..............	$(28,995)	$(56,744)	$2,243
(Loss) earnings per share:			
Basic--as reported.......................	$ (1.80)	$ (3.82)	$ 0.28
Diluted--as reported.....................	$ (1.80)	$ (3.82)	$ 0.27
(Loss) earnings per share:			
Basic--pro forma.........................	$ (2.00)	$ (3.98)	$ 0.17
Diluted--pro forma.......................	$ (2.00)	$ (3.98)	$ 0.17

The effects of applying SFAS No. 123 for providing pro forma disclosure for 2000, 1999 and 1998 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, 1997	1,339,528	$10.09
Granted	386,309	16.67
Exercised	(188,508)	8.92
Terminated	(116,935)	12.47
Balance at December 31, 1998	1,420,394	11.84
Granted	511,600	17.14
Exercised	(237,528)	4.12
Terminated	(199,976)	17.28
Balance at December 31, 1999	1,494,490	14.15
Granted	1,366,700	6.86
Exercised	(60,535)	3.68
Terminated	(668,689)	13.20
Balance at December 31, 2000	2,131,966	$10.11

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 of options outstanding and exercisable as of December 31, 2000:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Shares	Weighted Average Exercise Price
$ 0.38--$ 5.23	76,305	$ 4.75	2.1	70,305	$ 4.82
$ 5.94--$ 6.16	624,800	6.16	9.7	207,901	6.16
$ 6.75--$ 7.50	581,500	7.45	9.6	296,507	7.41
$ 8.38--$14.63	370,454	12.46	5.1	356,625	12.52
$15.00--$17.25	357,407	16.94	7.6	193,748	16.86
$18.00--$21.86	121,500	19.36	7.8	72,003	19.71
	2,131,966	$10.11	8.1	1,197,089	$10.83

Options available for grant at December 31, 2000 totaled 1,115,427 shares.

Note 13. Segment Information

The Company has determined its operating segments to be the Thermography and Imaging market segments. The Thermography market is comprised of a broad range of commercial and industrial applications utilizing infrared cameras to provide precise temperature measurement. The Imaging market is comprised of a broad range of applications that is focused on providing enhanced vision capabilities where temperature measurement is not required, although differences in temperature are used to create an image. The Imaging market also includes high performance daylight imaging applications.

Note 13. Segment Information--(Continued)

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

Previously, the Company reported its operating segments to be the commercial and government market segments. The information below for 1999 and 1998 has been reclassified to be consistent with the reporting for the Thermography and Imaging market segments in 2000.

Operating segment information for revenue is as follows (in thousands):

	Year ended December 31,		
	2000	1999	1998
		(Restated)	(Restated)
Thermography	$ 87,139	$ 88,628	$ 96,164
Imaging	99,218	89,928	81,090
	$186,357	$178,556	$177,254

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

	Year ended December 31,		
	2000	1999	1998
		(Restated)	(Restated)
United States	$ 96,140	$ 88,971	$ 92,843
Europe	47,668	51,539	39,572
Other foreign	42,549	38,046	44,839
	$186,357	$178,556	$177,254
Major customers:			
US government	$ 33,902	$ 35,493	$ 31,240

Long-lived assets by significant geographical location is as follows (in thousands):

	2000	1999
United States	$13,052	$18,886
Europe	19,829	21,729
	$32,881	$40,615

Note 14. Inframetrics Merger

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

The shares of capital stock of Inframetrics outstanding immediately prior to the effective time were converted into and exchanged for a total of 2,107,552 shares of the Company's common stock (including

Note 14. Inframetrics Merger--(Continued)

210,755 shares of the Company's common stock held in escrow to secure the indemnification obligations of the stockholders of Inframetrics until September 26,1999). In addition, all employee stock options to purchase Inframetrics common stock that were outstanding immediately prior to the effective time were assumed by the Company. A total of 192,439 shares of the Company's common stock are issuable upon the exercise of the stock options assumed by the Company in the Merger.

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

In conjunction with the merger, the Company recorded in 1999 a one-time charge of $34.6 million consisting of a reserve for duplicative inventories of $25.3 million, transaction related costs of $3.2 million and cost to exit activities of $6.1 million.

The inventory reserve relates to duplicative product lines created by the merger and is included in cost of goods sold. The transaction related costs consisted of investment advisor fees, legal and accounting fees and other direct transaction costs. Such costs are included in combination costs, a separate line item in operating expenses. The cost to exit activities amount relates to estimated shut down costs related to duplicative sales offices in the United Kingdom, Germany and France. As of December 31, 2000, the Company has written off and disposed of substantially all of the inventory and has paid all of the transaction related costs and the cost to exit activities.

The following reconciles revenue and net earnings for the impacts of the merger to the information presented in the consolidated financial statements:

	1998
Revenues:	
Previously reported, as restated (Note 15) and reclassified (Note 16)	$123,469
Inframetrics, as reclassified (Note 16)	53,785
	$177,254
Net earnings:	
Previously reported, as restated (Note 15)	$ 3,068
Inframetrics	522
	$ 3,590

Note 15. Restatements

In March 2001, the Company determined that it was necessary to restate its 1999 and 1998 consolidated financial statements and its interim 2000 and 1999 consolidated financial statements. The restatements were effected after the Company determined, based on a review of the specific terms and conditions underlying certain sales transactions recorded in 1999 and 1998, that revenue was recognized with respect to such transactions during periods or in amounts that were not consistent with the Company's revenue recognition policy. Accordingly, the restatements include the deferral of revenue from the reporting period in which the revenue was originally recorded to the reporting period in which the revenue would be properly recorded under the Company's revenue recognition policy. The related cost of sales and certain operating costs have also been restated as appropriate. The restatements also include a revision in the accounting for certain assets recorded in connection with the merger with Inframetrics, Inc. in 1999. The consolidated financial statements and related notes set forth in this Annual Report reflect all such restatements for periods presented.

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 15. Restatement--(Continued)

Additional information regarding the impact of the restatements, before reclassifications, is set forth in the table below (in thousands, except per share amounts):

Results of Operations

	Year Ended December 31, 1999		Year Ended December 31, 1998	
	Previously Reported	As Restated	Previously Reported	As Restated
Revenue	$186,448	$187,160	$196,865	$185,750
Cost of goods sold	123,666	123,665	92,260	87,384
Gross profit	62,782	63,495	104,605	98,366
Research and development	29,006	29,006	26,958	26,958
Selling and other operating costs	71,046	71,503	61,541	61,541
Combination costs	9,301	9,301	--	--
Total operating expenses	109,353	109,810	88,499	88,499
(Loss) earnings from operations	(46,571)	(46,315)	16,106	9,867
Interest expense	7,843	7,843	3,162	3,162
Other (income) and expenses, net	(2,072)	(2,072)	1,309	1,309
(Loss) earnings before income taxes	(52,342)	(52,086)	11,635	5,396
Income tax provision	2,295	2,295	1,806	1,806
Net (loss) earnings	$(54,637)	$(54,381)	$ 9,829	$ 3,590
Net (loss) earnings per share:				
Basic	$ (3.83)	$ (3.82)	$ 0.76	$ 0.28
Diluted	$ (3.83)	$ (3.82)	$ 0.73	$ 0.27

Financial Position

	December 31, 1999	
	Previously Reported	As Restated
Accounts receivable	$ 57,777	$ 56,788
Inventory	64,374	65,074
Total current assets	139,662	139,373
Property and equipment, net	20,796	20,854
Total assets	196,718	196,487
Accrued payroll and other liabilities	21,474	27,226
Total current liabilities	129,140	134,892
Accumulated deficit	(78,761)	(84,744)
Total shareholders' equity	62,202	56,219
Total liabilities and shareholders' equity	196,718	196,487

FLIR SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 16. Reclassifications

Reclassifications have been made to the consolidated statement of operations for the reporting of representative commissions incurred by the Company. These commissions, which were previously recorded as a portion of selling and other operating costs, have been reclassified to a reduction of revenue to be consistent with current reporting presentations.

The consolidated statement of operations were modified as follows (in thousands):

	Year Ended December 31, 1999		Year Ended December 31, 1998	
	As Restated	As Reclassified	As Restated	As Reclassified
Revenue.......................	$187,160	$178,556	$185,750	$177,254
Gross profit..................	63,495	54,891	98,366	89,870
Selling and other operating costs........................	71,503	62,899	61,541	53,045
Total operating expenses.......	109,810	101,206	88,499	80,003

QUARTERLY FINANCIAL DATA (UNAUDITED)

FLIR SYSTEMS, INC.
(In thousands, except per share data)

	Q1		Q2		Q3		
	As Reported	As Restated*	As Reported	As Restated*	As Reported	As Restated*	Q4
2000							
Revenue................	$35,828	$36,678	$52,891	$52,560	$ 38,539	$ 39,912	$57,207
Gross profit...........	19,650	19,158	23,977	22,699	11,112	10,698	29,038
Net (loss) earnings	(5,507)	(3,906)	(7,263)	(6,575)	(18,595)	(18,149)	2,576
Net (loss) earnings per share:							
Basic................	$ (0.38)	$ (0.27)	$ (0.50)	$ (0.45)	$ (1.28)	$ (1.25)	$ 0.18
Diluted..............	$ (0.38)	$ (0.27)	$ (0.50)	$ (0.45)	$ (1.28)	$ (1.25)	$ 0.18

	Q1		Q2		Q3		Q4	
	As Reported	As Restated*	As Reported	As Restated*	As Reported	As Restated*	As Reported	As Restated*
1999								
Revenue................	$ 38,821	$ 39,038	$46,316	$45,890	$47,007	$45,569	$ 54,304	$ 48,059
Gross profit...........	(6)	(400)	24,745	23,331	25,431	24,187	12,612	7,773
Net (loss) earnings	(26,902)	(26,183)	930	1,738	(39)	193	(28,626)	(30,129)
Net (loss) earnings per								

share:								
Basic.................	$ (1.90)	$ (1.85)	$ 0.07	$ 0.12	$ 0.00	$ 0.01	$ (1.99)	$ (2.10)
Diluted...............	$ (1.90)	$ (1.85)	$ 0.06	$ 0.12	$ 0.00	$ 0.01	$ (1.99)	$ (2.10)

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* Includes reclassifications. See Note 15 and Note 16 to the Consolidated Financial Statements regarding the basis of the above restatement and reclassifications.

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

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

On May 2, 2000, the Company dismissed PricewaterhouseCoopers, LLP ("PricewaterhouseCoopers") as its independent auditors. The action was approved by the Board of Directors and the Audit Committee of the Board of Directors. The audit reports of PricewaterhouseCoopers on the consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 1998 and 1999, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles, except that the report on the financial statements for the year ended December 31, 1999 included an emphasis of a matter paragraph referring to the restatement of the 1998 financial statements, as described in the notes thereto.

In connection with the audits for the two years ended December 31, 1999 and 1998, and the subsequent interim period through May 2, 2000, there were no disagreements with PricewaterhouseCoopers on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which if not resolved to the satisfaction of PricewaterhouseCoopers, would have caused it to make a reference to the subject matter of the disagreement in connection with its report.

In connection with the audit of the Company's consolidated financial statements for the year ended December 31, 1999, PricewaterhouseCoopers had delivered to the Company its Report to the Audit Committee--Results of 1999 Audit (the "Report"). The Report stated that, in the course of PricewaterhouseCoopers' audit of the Company's consolidated financial statements for the year ended December 31, 1999, PricewaterhouseCoopers noted certain matters involving the internal control structure of its operations that it considered to be material weaknesses. The Report identified material weaknesses in internal controls in three areas: (i) lack of follow-up by personnel independent from the inventory costing system, (ii) the use of manual entries to general ledger account balances for sales, cost of sales, accounts receivable, inventory and intercompany receivables and payables and the lack of regular and timely follow-up of the related accounts, and (iii) the lack of regular and timely reconciliation of intercompany receivable and payable accounts and follow-up of the related accounts. The Report also stated that, as a result of the material weaknesses in internal controls identified in the Report, PricewaterhouseCoopers has determined that it would be unable to perform a review of the Company's March 31, 2000 interim financial statements and that PricewaterhouseCoopers believed that the material weaknesses raised questions about the Company's ability to prepare interim consolidated financial information that was both timely and accurate. The Company authorized PricewaterhouseCoopers to respond fully to questions from any successor auditors regarding this matter. The Company believes that it has corrected the deficiencies identified by PricewaterhouseCoopers.

The Company requested that PricewaterhouseCoopers furnish it with a letter addressed to the Securities and Exchange Commission stating whether or not it agrees with the statements contained herein. A copy of such letter dated May 9, 2000 was filed as Exhibit 16.1 to the Current Report on Form 8-K, dated May 9, 2000.

On July 13, 2000, the Company engaged Arthur Andersen LLP ("Arthur Andersen") as its independent auditors for the fiscal year ended December 31, 2000. The engagement of Arthur Andersen was approved by the Company's Board of Directors.

During the two most recent fiscal years and the interim period through May

2, 2000, the date Arthur Andersen was retained to conduct the First Quarter SAS 71 Review, neither the Company nor any person on its behalf consulted Arthur Andersen regarding (i) the application of accounting principles to a specified transaction, either completed or proposed, (ii) the type of audit opinion that might be rendered on the Company's financial statements, or (iii) any matter than was either the subject of a disagreement (as defined in paragraph 304(a)(1)(iv) of the Regulation S-K) or a reportable event (as described in paragraph 304(a)(1)(v) of Regulation S-K).

In the ordinary course of the First Quarter SAS 71 Review, the Company discussed various accounting and financial reporting matters with Arthur Andersen. The Company also provided Arthur Andersen with a copy of the Report issued by PricewaterhouseCoopers and discussed such Report with Arthur Andersen. Arthur Andersen discussed the Report with PricewaterhouseCoopers and has advised the Company that it considered the Report and these discussions in conducting the First Quarter SAS 71 Review. The Company also informed PricewaterhouseCoopers of its discussions with Arthur Andersen of these matters.

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(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement for its 2001 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation is included under "Executive Compensation" in the Company's definitive proxy statement for its 2001 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to security ownership of certain beneficial owners and management is included under "Stock Owned by Management and Principal Shareholders" in the Company's definitive proxy statement for its 2001 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

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

(a)(1) Financial Statements

The financial statements are included in Item 8 above.

(a)(2) Financial Statement Schedules

The following schedule is filed as part of this Report:

Schedule II--Valuation and Qualifying Accounts

Report of Independent Accountants on Financial Statement Schedule

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

(a)(3) Exhibits

Number	Description
2.1	Merger Agreement dated as of March 19, 1999 by and among FLIR Systems, Inc., Inframetrics, Inc., Irabu Acquisition Corporation and the shareholders of Inframetrics, Inc. (incorporated by reference to Current Report on Form 8-K filed on April 14, 1999).
3.1	Second Restated Articles of Incorporation of the FLIR Systems, Inc. (incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-1 (File No. 33-62582)).
3.2	First Amendment to Second Restated Articles of Incorporation of FLIR Systems, Inc. (incorporated by reference to Exhibit 1.1 to Registration Statement on Form 8-A filed on June 11, 1999).
3.3	First Restated Bylaws of the FLIR Systems, Inc. (incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-1 (File No. 33-62582)).
4.1	Rights Agreement dated as of June 2, 1999 (incorporated by reference to Exhibit 1.1 to the Registration Statement on Form 8-A filed on June 11, 1999).
10.1	Form of Indemnity Agreement between the FLIR Systems, Inc. and each member of its Board of Directors (incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-1 (File No. 33-62582)). (1)
10.2	1984 Incentive Stock Option Plan and Amendments (incorporated by reference to Exhibit 10.2 to Registration Statement on Form S-1 (File No. 33-62582)). (1)
10.3	1992 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to Registration Statement on Form S-1 (File No. 33-62582)). (1)
10.4	1993 Stock Option Plan for Non-employee Directors (incorporated by reference to Exhibit 10.4 to Registration Statement on Form S-1 (File No. 33-62582)). (4)
10.5	Lease Dated February 11, 1985, as amended, by and among the FLIR Systems, Inc. and Pacific Realty Association, L.P. (incorporated by reference to Exhibit 10.6 to Registration Statement on Form S-1 (File No. 33-62582)).
10.6	Combination Agreement, Dated October 6, 1997, Among FLIR Systems, Inc., Spectra-Physics AB, Spectra-Physics Holding S.A., Spectra-Physics Holdings GmbH, Spectra-Physics Holdings PLC, and Pharos Holdings, Inc. (incorporated by reference to Exhibit 2.0 to Current Report on Form 8-K filed on October 24, 1997).
10.7	Form of Executive Employment Agreement dated as of May 5, 1997 (James A. Fitzhenry) (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on October 24, 1997). (1)
10.8	Form of Agreement amending Executive Employment Agreement dated as of December 1, 1997 for James A. Fitzhenry (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on December 15, 1997). (1)
10.9	Form of Agreement amending Executive Employment Agreement dated as of

January 20, 1999 amending Executive Employment Agreement of James A.

Fitzhenry and Arne Almerfors (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed on August 16, 1999). (1)

10.10 Registration Rights Agreement dated as of December 1, 1997 by and among FLIR Systems, Inc., Spectra-Physics AB, Spectra-Physics Holdings PLC and Pharos Holdings (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on December 15, 1997).

10.11 Contract for the Supply of Uncooled Imaging Modules, dated January 15, 1997 (incorporated by reference to Exhibit 10.1 to Form 10-Q/A filed May 28, 1998). (2)

Number	Description
10.12	Contract for the Supply of Uncooled Imaging Modules, dated March 4, 1998 (incorporated by reference to Exhibit 10.1 to Form 10-Q/A filed May 28, 1998). (2)
10.13	Inframetrics, Inc. Shareholders Agreement dated as of March 19, 1999 by and among FLIR, Inframetrics and the shareholders of Inframetrics (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on April 14, 1999).
10.14	Amendment to Inframetrics, Inc. Shareholders Agreement dated as of October 27, 1999 by and among FLIR, Inframetrics, and the former shareholders of Inframetrics (incorporated by reference to Exhibits to Registration Statement on Form S-1 (File No. 333-90717)).
10.15	FLIR Systems, Inc. 1999 Employee Stock Purchase Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement dated April 30, 1999). (1)
10.16	Contract for the Supply of Uncooled Imaging Modules, dated August 8, 1999 (incorporated by reference to Exhibit 10.1 to Form 10-Q/A filed December 2, 1999). (2)
10.17	Form of Credit Agreement among FLIR Systems, Inc. and Bank of America N.A. and certain other financial institutions dated as of December 16, 1999 (incorporated by reference to Exhibits to Registration Statement on Form S-1 (File No. 333-90717)).
10.18	Form of Pledge Agreement dated as of December 16, 1999 by FLIR Systems, Inc. in favor of Bank of America N.A. as Agent (incorporated by reference to Exhibits to Registration Statement on Form S-1 (File No. 333-90717)).
10.19	Form of Security Agreement dated as of December 16, 1999 between FLIR Systems, Inc. and Bank of America N.A. as Agent (incorporated by reference to Exhibits to Registration Statement on Form S-1 (File No. 333-90717)).
10.20	Amendment to Credit Agreement among FLIR Systems, Inc. and Bank of America N.A. and certain other financial institutions dated as of January 23, 2001.
10.21	Amendment to Security Agreement dated as of January 23, 2001 between

FLIR Systems, Inc. and Bank of America N.A. as Agent.

10.22 Executive Employment Agreement dated as of November 1, 2001 between FLIR Systems, Inc. and Earl R. Lewis. (1)

21.0 Subsidiaries of FLIR Systems, Inc.

23.0 Consent of Arthur Andersen LLP.

23.1 Consent of PricewaterhouseCoopers LLP.

99.0 Report of Ernst & Young, LLP.

99.1 Consent of Ernst & Young, LLP.

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(1) This exhibit constitutes a management contract or compensatory plan or arrangement.

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

(b) During the quarter ended December 31, 2000, the Company filed the following reports on Form 8-K.

1. The Company filed a current report on Form 8-K, dated November 16, 2000, reporting under Item 5 and 7 its financial results for the quarter ended September 30, 2000.

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 2nd day of April 2001.

FLIR SYSTEMS, INC.
(Registrant)

/s/ Stephen M. Bailey
By: ________________________________
Stephen M. Bailey
Sr. Vice President, 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 April 2, 2001.

Signature	Title
/s/ Earl R. Lewis ______________________________ Earl R. Lewis	Chairman of the Board of Directors, President and Chief Executive Officer
/s/ John C. Hart ______________________________ John C. Hart	Director

/s/ W. Allen Reed W. Allen Reed	Director
/s/ Ronald L. Turner Ronald L. Turner	Director
/s/ Steven E. Wynne Steven E. Wynne	Director

SCHEDULE II

FLIR SYSTEMS, INC.

VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
	Balance at Beginning of the Year	Charges to Costs and Expenses	Charged To Other Accounts--Described	Write-offs Net of Recoveries	Balance at the End of the Year
Year ended December 31, 2000					
Allowance for Doubtful Accounts............	$ 4,772	$ 1,122	$ 0	$(3,286)	$ 2,608
Allowance for Deferred Tax Assets...........	$22,155	$ 1,910	$ 0	$ 0	$24,065
Year ended December 31, 1999					
Allowance for Doubtful Accounts............	$ 3,216	$ 5,221	$ 0	$(3,665)	$ 4,772
Allowance for Deferred Tax Assets...........	$ 6,498	$15,657	$ 0	$ 0	$22,155
Year ended December 31, 1998					
Allowance for Doubtful Accounts............	$ 2,639	$ 417	$ 0	$ 160	$ 3,216
Allowance for Deferred Tax Assets...........	$ 6,889	$ (391)	$ 0	$ 0	$ 6,498

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of
FLIR Systems, Inc.:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements, as of and for the year ended December 31, 2000 included in FLIR Systems, Inc. and subsidiaries' Form 10-K, and have issued our report thereon dated March 2, 2001. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The Valuation and Qualifying Accounts Schedule is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commissions rules and is not part of the basic financial statements. The 2000 Valuation and Qualifying Accounts Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statement taken as a whole.

/s/ Arthur Andersen LLP

Portland, Oregon
March 2, 2001

REPORT OF INDEPENDENT ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of FLIR Systems, Inc.

Our audits of the consolidated financial statements referred to in our report dated April 14, 2000, except as to Note 15, which is as of March 23, 2001, appearing in the 2000 Annual Report on Form 10-K of FLIR Systems, Inc. also included an audit of the financial statement schedule for the years ended December 31, 1999 and 1998 listed in Item 14(a)(2) of this Form 10-K. We did not audit the financial statement schedule of Inframetrics, Inc., a wholly owned subsidiary, for the year ended December 31, 1998. That schedule was audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Inframetrics, Inc., is based solely on the report of the other auditors. In our opinion, based on our audit and the report of other auditors, the financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. We have not audited the financial statement schedule of FLIR Systems, Inc. for any period subsequent to December 31, 1999.

/s/ PricewaterhouseCoopers LLP

Portland, Oregon
April 14, 2000

EXHIBIT 10.20

JANUARY 2001 AMENDMENT
TO CREDIT AGREEMENT

This is an amendment to the Credit Agreement dated as of December 16, 1999, by and among FLIR Systems, Inc., an Oregon corporation ("Borrower"), each lender from time to time party thereto (collectively, "Lenders" and individually, a " Lender"), and Bank of America, N.A. as Administrative Agent and Issuing Lender.

RECITALS:

The parties hereto entered into the Credit Agreement referred to above (the "Credit Agreement") as of December 16, 1999. Thereafter, the parties entered into a series of amendments and/or forbearance agreements as follows:

A. Amendment to Credit Agreement dated as of April 13, 2000.

B. Forbearance Agreement and Consent dated as of August 10, 2000.

C. Amendment to Forbearance Agreement and Consent dated as of August 21, 2000.

D. Second Amendment Forbearance Agreement and Consent dated as of September 29, 2000.

E. Third Amendment Forbearance Agreement and Consent dated as of December 15, 2000.

The parties hereto desire to amend the Credit Agreement and to supercede all of the amendments and forbearance agreements listed above so that upon execution of this January 2001, the only effective documents will be the Credit Agreement and this January 2001 Amendment.

The parties agree as follows:

1. The definition of "Applicable Amount" in Section 1.01 of the Credit Agreement is amended to read as follows:

"'Applicable Amount' means initially 275 basis points per annum:

If and only if all covenants herein are met, the Applicable Amount will be reduced as follows:

When the total Combined Commitments have been reduced by principal payments to $88,391,257.89 or less, the Applicable Amount will be 250 basis points per annum.

When the total Combined Commitments have been reduced by principal payments to $83,391,257.89 or less, the Applicable Amount will be 225 basis points per annum.

When the total Combined Commitments have been reduced by principal payments to $78,391,257.89 or less, the Applicable Amount will be 200 basis points per annum.

When the total Combined Commitments have been reduced by principal payments to $73,391,257.89 or less, the Applicable Amount will be 175 basis points. There will be no further reduction in the Applicable Amount per annum.

2. The definition of Revolving Credit Maturity Date is amended to read as follows:

"'Revolving Credit Maturity Date' means July 15, 2002, as it may be earlier terminated or extended in accordance with the terms hereof."

3. The following definitions in Section 1.01 of the Credit Agreement are

deleted in their entirety:

"Consolidated Tangible Net Worth"
"Continuation" and "Continue"
"Conversion" and "Convert"
"Interest Coverage Ratio"
"Interest Period"
"Leverage Ratio"
"Offshore Base Rate"
"Offshore Rate"
"Offshore Rate Loan"
"Shareholders' Equity"
"Swing Line"
"Swing Line Lender"
"Swing Line Loan"
"Swing Line Sublimit"
"Term Loan"
"Term Loan Maturity Date"

4. Section 2.02(c) and Section 2.02(d) are deleted.

5. Section 2.02 of the Credit Agreement is amended by substituting the following subsection (g):

"(g) Availability is total Combined Commitments, less outstanding Loans and Outstanding Letters of Credit. Current availability is total Combined Commitments of $93,391,257.89 less outstanding Loans of $89,900,000 and less outstanding Letters of Credit of $767,709.89. Availability is $2,723,548 as of January 23, 2001.

Availability may be used for and is reduced by new Loans or Letters of Credit. Availability will be increased and replenished as set forth below and will be increased by 100% of each standby Letter of Credit that expires without being drawn upon and that portion of any commercial Letter of Credit that is reimbursed and any commercial letter of credit or portion thereof which expires without being drawn upon.

Availability will be reduced by the sum of unrepaid new advances plus outstanding Letters of Credit issued after 01/23/01, and increased by 50% of the first $5,000,000 of principal payments (the other 50% constituting a permanent reduction in total Combined Commitments). Principal payments exceeding $5,000,000 will permanently reduce the total Combined Commitments provided, however, that to the extent the sum of outstanding Letters of Credit and availability be less than $5,991,257.89, Borrower may elect to designate all or a portion of any principal repayment in excess of the first $5,000,000 to replenish availability up to a total availability of no more than $5,991,257.89, less the amount of outstanding Letters of Credit.

Notwithstanding any provision of this Amendment to the contrary, the sum of availability and outstanding Letters of Credit shall not exceed $5,991,257.89."

6. Section 2.03(j) is amended to provide:

"Standby Letter of Credit Fee. On each Quarterly Payment Date and on the Revolving Credit Maturity Date, Borrower shall pay to Administrative Agent in

arrears, for the account of each Lender in accordance with its Pro Rata Share, a standby Letter of Credit fee equal to 250 basis points per annum times the actual daily maximum amount available to be drawn under each Standby Letter of Credit since the later of the Closing Date and the previous Quarterly Payment Date."

7. Section 2.07 is deleted and amended to read:

"2.07 Principal, Interest and Reductions in Total Combined Commitments.

The following is substituted as Section 2.07.

(a) By principal payments as described in Section 2.02 and Section 2.07(b), the total Combined Commitments will be reduced to the following amounts at the following times:

Not Later Than:	To No More Than
03/31/01	$92,141,257.89
06/30/01	90,891,257.89
09/30/01	86,891,257.89
12/31/01	80,891,257.89
03/31/02	75,891,257.89
06/30/02	70,891,257.89"

(b) Borrower shall repay principal by the dates shown below in at least the cumulative amounts stated below:

On or before:	Principal Payments Totaling not less than
03/31/01	$ 2,500,000
06/30/01	5,000,000
09/30/01	9,000,000
12/31/01	15,000,000
03/31/02	20,000,000
06/30/02	25,000,000
07/15/02	All principal and interest

(c) Borrower will pay on the principal of the Loans, such amounts as are required so that the outstanding principal of the Loans at no time exceeds the total Combined Commitments and shall pay all of the outstanding principal amount of all Loans on the Revolving Credit Maturity Date.

(d) Subject to subsection (e) below, Borrower shall pay interest on the unpaid principal amount of each Loan (before and after default, before and after maturity, before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Laws) from the date borrowed until paid in full (whether by acceleration or otherwise) on each applicable Interest Payment Date at a rate per annum equal to the interest rate for Base Rate Loans, plus, to the extent applicable in each case, the Applicable Amount.

(e) If any amount payable by Borrower under any Loan Document is not paid when due (without regard to any applicable grace periods), it shall thereafter bear interest (after as well as before entry of judgment thereon to the extent

permitted by law) at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Law. Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be payable upon demand."

8. The fee described in Section 2.08(a) of the Credit Agreement is deleted.

9. Sections 2.12, 3.02, 3.03 and 3.04(a) of the Credit Agreement are deleted.

10. Section 3.05 of the Credit Agreement is deleted.

11. The Borrower Disclosure Schedules to Section V and Sections 5.01, 5.05, 5.08, and 7.01 are deleted and replaced with those attached as Exhibit X hereto.

12. Section 6.01 of the Credit Agreement is amended to add the following paragraphs:

"(d) In addition to all other reporting, Borrower will provide Lenders with Borrower prepared reports monthly no later than the 45th day following the last day of March, June and September, and the 25th day after the end of each other month, except December, including Borrower's:

(1) balance sheet
(2) income statement
(3) receivable aging
(4) payable aging
(5) backlog, and
(6) inventory detail

Not later than 120 days after the end of December, Borrower shall provide Lenders with its audited financial reports.

(e) Such additional cash flow projections and reports of performance, such as performance by product line, as Lenders may reasonably request."

13. Section 7.01(c) and Section 7.02(c) of the Credit Agreement are deleted.

14. Borrower's rights under Section 7.03(c) of the Credit Agreement are not revoked by this Amendment.

15. Section 7.07 is amended to read: "Borrower shall make no Restricted Payments."

16. Section 7.12 of the Credit Agreement is amended to substitute $8,000,000 for $12,000,000.

17. Subsections (a), (b), (c) and (d) of Sections 7.14 are all deleted, and the following is substituted for them as the only remaining Financial Covenant:

"Allow or cause Consolidated EBITDA for any of the following periods to be less than that set forth below:

Quarter Ending	Minimum Permissible Consolidated EBITDA
March 31, 2001	$ 5,162,900

Two Quarters Ended:	Consolidated EBITDA:
June 30, 2001	$12,591,900
September 30, 2001	$14,018.200
December 31, 2001	$15,130,850
March 31, 2002	$13,636,550

18. Exhibit B, Form of Compliance Certificate, attached to the Credit Agreement is deleted and Exhibit B attached hereto is substituted therefor.

19. Schedule 1 is deleted.

20. Schedule 2 attached to the Credit Agreement is deleted and Schedule 2 attached hereto is substituted therefor.

21. Schedule 2.01 attached to the Credit Agreement is deleted and Schedule 2.01 attached hereto is substituted therefor.

22. Borrower hereby releases each Lender, Lenders, Agent and their officers, agents, successors and assigns from all claims of every nature known or unknown arising out of or related to any Loan or the Credit Agreement or past amendments to the Credit Agreement, which now exist and, but for the passage of time, could be asserted on the date Borrower signs this January 2001 Amendment.

23. All references to "Swing Line Loans," "Term Loan," "Offshore Rates," "Offshore Rate Loans" in any section of the Credit Agreement shall be deemed removed and of no further effect.

24. "Amendment Fee." Upon execution hereof, Borrower shall pay to the agent for the pro rata benefit of the Lenders an amendment fee of $250,000.

25. Except as modified by this January 2001 Amendment, the Credit Agreement remains in full force and effect and the amendments/forbearance agreements referred to in "Recitals" above are no longer of any force or effect. The Credit Agreement and other Loan Documents as amended hereby represent the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

26. Each Lender, Lenders and Agent waive any Borrower breaches or Events of Default which have occurred to date and which have been disclosed to Lender, Lenders or Agent.

27. This January 2001 Amendment may be executed in any number of counterparts and by different parties hereto and separate counterparts, each of which when so executed shall be deemed to be an original, and all of which taken together shall constitute one and the same amendment.

28. UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY THE 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 LENDERS TO BE ENFORCEABLE.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers or agents duly authorized as of the date first above written.

FLIR SYSTEMS, INC., an Oregon corporation

By: /s/ Stephen M. Bailey

Name: Stephen M. Bailey

Title: Senior Vice President, Finance and CFO

BANK OF AMERICA, N.A.,
Administrative Agent

By: /s/ Dora A. Brown

Name: Dora A. Brown

Title: Vice President

BANK OF AMERICA, N.A.,
Issuing Lender, a Lender and Swing Line Lender

By: /s/ Thomas E. Brown

Name: Thomas E. Brown

Title: Senior Vice President

BANK ONE, N.A., a Lender

By: /s/ Bonnie D. Wilson

Name: Bonnie D. Wilson

Title: FVP

ABN AMRO BANK N.V., a Lender

By: /s/ Steven C. Wimpenny

Name: Steven C. Wimpenny

Title: Group Senior Vice President

By: /s/ William J. Teresky

Name: William J. Teresky

Title: Group Vice President

KEYBANK, N.A., a Lender

By: /s/ Thomas E. Nadan

Name: Thomas E. Nadan

Title: Vice President

SVENSKA HANDELSBANKEN AB (publ),
a Lender

By: /s/ Mark Cleary

Name: Mark Cleary

Title: Senior Vice President

By: /s/ Kraig Klosson

Name: Kraig Klosson

Title: Senior Vice President

7

EXHIBIT 10.21

AMENDMENT
TO SECURITY AGREEMENT

This is an Amendment to the Security Agreement dated as of December 16, 1999, by and among FLIR Systems, Inc., an Oregon corporation, and BANK OF AMERICA, N.A. a national banking association, as agent for the Lenders and its successors as agent for the Lenders (the "Security Agreement"). All capitalized terms herein shall have the meaning given in the Security Agreement.

RECITALS

The parties hereto desire to add certain items as Collateral to the Security Agreement.

Therefore, the parties agree as follows:

1. Section 2(a) of the Security Agreement is amended by deleting the existing Section 2(a) and replacing Section 2(a) in its entirety with the following:

(a) Grant of Security Interest. As security for the payment and performance of the Secured Obligation, the Grantor hereby pledges, assigns, transfers, hypothecates and sets over to the Agent for its benefit and for the ratable benefit of the other Lender Parties, and hereby grants to the Agent for its benefit and for the ratable benefit of the other Lender Parties, a security interest in all of the Grantor's rights, title and interest in, to and under the following property, wherever located and whether now existing or owned or hereafter acquired or arising (collectively, the "Collateral"): (i) all Accounts; (ii) all Chattel Paper; (iii) all Deposit Accounts; (iv) all Documents; (v) all Equipment; (vi) all General Intangibles; (vii) all Instruments; (viii) all Inventory; (ix) all Books; (x) all products and Proceeds of any and all of the foregoing; and (xi) all copyrights, patents, proprietary information, trade secrets, trademarks, service marks, trade names, trade dress, whether registered or unregistered, and all goodwill associated therewith, and all registrations and applications for registration thereof (collectively referred to as the "Intellectual Property"), including without limitation: (a) the trademark and service mark registrations described in Exhibit A attached hereto and all renewals thereof and any future trademark and service mark registrations and renewals thereof (the "Trademark Registrations"); (b) the applications for Trademark Registration described in Exhibit A and any Trademark Registrations that may be issued on any of those applications and any future Trademark Registration applications, to the full extent allowable by law (the "Trademark Applications"); (c) all common law rights in the marks described in Exhibit A; (d) all Patent Registrations including without limitation those described in Exhibit B attached hereto, and all applications therefor and all future applications and registrations (the "Patent Registrations"); (e) all Patent Applications including without limitation those described in Exhibit B attached hereto, and all applications therefor and all future applications and registrations (the "Patent Applications"); (f) all future royalties or other fees paid or payments made or owed to Grantor with respect to the Intellectual Property (the "Royalties"); and (g) proceeds of any and all of the foregoing (the Intellectual Property, Trademark Registrations, Trademark Applications, Common Law, Trademarks, Patent Registrations, Patent Applications, Copyright Registrations, Royalties, and such proceeds are referred to collectively as the "Intellectual Property Rights").

2. Section 2 of the Security Agreement is amended by adding the following subsection:

(d) Covenants Relating to Patents and Trademarks. The Grantor shall:

(1) (A) Continue to use each trademark and service mark in such a manner as to maintain such trademark and service mark in full force free from any claim of abandonment for non-use, (B) maintain as in the past the quality of products and services offered under such trademark

or service mark, (C) employ such trademark or service mark with the appropriate notice of registration or notice of trademark or service mark, as applicable, sufficient to protect such trademark or service mark, (D) not adopt or use any mark which is confusingly similar or a colorable imitation of such trademark or service mark unless the Agent, for the ratable benefit of the Lenders, shall obtain a perfected security interest in such mark pursuant to this Security Agreement, and (E) not (and not permit any licensee or sublicensee thereof to) do any act or-knowingly omit to do any act whereby any trademark or service mark may be lost.

(2) Not do any act, or omit to do any act, whereby any patent may become abandoned or dedicated.

(3) Notify the Agent promptly if it knows that any application or registration relating to any material patent or material mark may become abandoned or dedicated, or of any adverse determination or development (including, without limitation, the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office or any court or tribunal in any country), regarding the Grantor's ownership of any patent or mark or its right to register the same or to keep and maintain the same.

(4) Take all reasonable and necessary steps, including, without limitation, in any proceeding before the United States Patent and Trademark Office, or any similar office or agency in any other country or any political subdivision thereof, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the patents and marks, including, without limitation, filing of applications for renewal, affidavits of use, affidavits of incontestability, and petitions to revive abandoned applications. The Grantor also will promptly make application on any patentable but unpatented inventions, and registerable but unregistered trademarks and service marks, and promptly report new applications and/or registrations to Agent.

(i) Promptly notify the Agent after it learns that any material patent or material mark is infringed, misappropriated or diluted in any material manner by a third party, and take such actions as it shall

reasonably deem appropriate under the circumstances to protect such patent or mark, including, where it shall reasonably deem appropriate, the bringing of suit for infringement, misappropriation or dilution, seeking injunctive relief where appropriate and seeking to recover any and all damages for such infringement, misappropriation or dilution.

(ii) Not make any assignment or agreement in conflict with the security interest in the patents or marks of the Grantor.

3. Except as expressly modified by this Agreement, the terms of the Security Agreement, as amended prior to the date of this Agreement, shall remain unchanged and in full force and effect. Grantors' agreement to modify the Security Agreement pursuant to this Agreement shall not obligate Grantors to make any future modifications to the Security Agreement or any other loan document. Nothing in this Agreement shall constitute a satisfaction of any indebtedness of any Borrower to Agent.

5. This Agreement may be signed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

IN WITNESS WHEREOF, the Grantor hereto has caused this Agreement to be executed by its respective officers or agents duly authorized as of the date first above written.

FLIR SYSTEMS, INC., an Oregon corporation

By: /s/ James A. Fitzhenry

Name: James A. Fitzhenry

Title: Senior Vice President and General Counsel

EXHIBIT 10.22

PARTIES: FLIR Systems, Inc ("Company")
16505 S.W. 72nd Avenue
Portland, Oregon 97224

Earl Lewis ("Executive")
58 Ford Road
Sudbury, Massachusetts 01776

EFFECTIVE DATE: November 1, 2000

RECITALS:

Company wishes to obtain the services of Executive for the duration of this Agreement, and the Executive wishes to provide his services for such period, all upon the terms and conditions set forth in this Agreement.

Therefore, in consideration of the mutual promises contained herein, the parties agree as follows:

ARTICLE I
DEFINITIONS

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

1.2 "Board" means the Board of Directors of Company.

1.3 "Cause" means Executive committed any one or more of the following: (i) the repeated failure to perform any material duties under this Agreement or negligence of Executive in the performance of such duties, and if such failure or negligence is susceptible of cure, the failure to effect such cure within 30 days after written notice of such failure or negligence is given to Executive; (ii) use of alcohol or illegal drugs which interferes with the performance of Executive's duties hereunder; (iii) theft, embezzlement, fraud, misappropriation of funds, other acts of dishonesty or the violation of any law, ethical rule or fiduciary duty relating to Executive's employment by Company; (iv) a felony or any act involving moral turpitude; (v) the violation of any confidentiality or proprietary rights agreement between Executive and Company, or (vi) the violation of Company policy or procedure, or the breach of any material provision of this Agreement, and if such violation or breach is susceptible of cure, the failure to effect such cure within 30 days after written notice of such breach is given to Executive.

1.4 "Disability" means the inability of Executive to perform his duties under this Agreement, with or without reasonable accommodation, because of physical or mental incapacity for a continuous period of five (5) months, as determined by the Board.

1.5 "FLIR" shall mean FLIR Systems, Inc., and its wholly owned subsidiaries.

ARTICLE II
EMPLOYMENT, DUTIES AND TERM

2.1 Employment. Upon the terms and conditions set forth in this Agreement, Company hereby employs Executive as President and Chief Executive Officer, and Executive accepts such employment. Except as expressly provided herein, termination of this Agreement by either party shall also terminate Executive's employment by Company. Upon termination of this Agreement, Executive also agrees to resign as Chairman and Director of the Board if asked to do so by resolution of the Board.

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

2.3 Term. The term of this Agreement shall be two years (until October 31, 2002) until January 1, 2003, unless earlier terminated in accordance with Article IV. This Agreement may be extended by mutual agreement of the parties.

ARTICLE III
COMPENSATION AND EXPENSES

3.1 Base Salary. For all services rendered under this Agreement during the term of Executive's employment, Company shall pay Executive an a minimum annual Base Salary of $300,000.

3.2 Bonus. Executive shall be eligible for an annual Bonus of up to one hundred percent (100%) of Executive's Base Salary, based upon the achievement of objectives agreed upon by the Board. Executive's Bonus for 2000 shall be a minimum of $100,000, and paid in the form of shares of FLIR stock valued at market closing price on August 14, 2000 ($7.50), which shares shall vest upon the earlier of (a) the time at which Executive ceases to be an employee of Company, or (b) Company's total debt is less than $60 million.

3.3 Stock Options. Company shall grant Executive an option to purchase 250,000 shares of FLIR stock valued at market closing price on August 14, 2000 ($7.50), which shares shall vest as follows: fifty percent (50%) on August 14, 2001the first anniversary of the effective date of this Agreement, and fifty percent (50%) on August 14, 2002the second anniversary of the effective date of this Agreement. Executive shall be eligible for future grants of additional stock options, based upon achievement of objectives agreed upon by the Board.

3.4 Vacation. Executive shall have four weeks of paid vacation annually.

3.5 Benefits. Executive shall be eligible to participate in all Company-sponsored health and welfare benefit plans made available to other executives of the Company (medical, dental, 401K, etc.).

3.6 Housing and Relocation. Until such time as Executive relocates to the Portland, Oregon area, Company shall pay for reasonable housing for Executive's use while in Portland. In the event Executive elects to relocate from Boston to Portland, Company shall pay Executive's moving expenses.

3.7 Automobile. Company shall pay for an automobile for Executive's use while in Portland.

3.8 Travel Expenses. Company shall pay for reasonable travel expenses for Executive and his wife between Boston and Portland.

3.5 Business Expenses. Company shall, in accordance with, and to the extent of, its policies in effect from time to time, bear all ordinary and necessary business expenses reasonably incurred by Executive in performing his duties as an employee of Company, provided that Executive accounts promptly for such expenses to Company in the manner prescribed from time to time by Company.

3.6 Taxes and Withholding. All amounts payable to Executive under this Agreement shall be net of amounts required to be withheld by law. To the extent there is any tax consequence to Executive in connection with the provision of housing or payment for work between two states, Executive's Base Salary shall be grossed up to cover the tax consequence to Executive.

ARTICLE IV
EARLY TERMINATION

4.1 Early Termination. This Article sets forth the terms for early termination of this Agreement.

4.2 Termination for Cause. Company may terminate this Agreement for Cause immediately upon written notice to Executive. In the event of termination for Cause pursuant to this Section 4.2, Executive shall be paid at the then current rate of Executive's Base Salary through the date of termination.

4.3 Termination Without Cause. Either Executive or Company may terminate this Agreement and Executive's employment without Cause on no less than 30 days' written notice. In the event Executive terminates this Agreement without Cause pursuant to this Section 4.3, Executive shall be paid his base salary through the date of termination. In the event Company terminates Executive without Cause pursuant to this Section 4.3, Company shall continue to pay to Executive either an amount equal to Executive's Base Salary in effect at the time of termination for a period of eighteen months, or for the duration of the remaining term of the Agreement, whichever is greater. In addition, if such termination by the Company occurs during the first year of this Agreement, Executive shall be entitled to the annual bonus described in Section 3.2 of this Agreement. If such termination occurs during the second year of this Agreement, Executive shall be entitled to a prorated portion of the annual bonus to be paid for that year as determined by the Board.

4.4 Termination in the Event of Death or Disability. This Agreement shall terminate in the event of death or disability of Executive.

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

(b) In the event of Disability, Base Salary shall be paid through the final day of the fifth month referenced in the definition of "Disability."

4.5 Entire Termination Payment. The compensation provided for in this Article IV shall constitute Executive's sole remedy for termination pursuant to this Article. Executive shall not be entitled to any other termination or severance payment which may be payable to Executive under any other agreement between Executive and Company or under any policy in effect at, preceding or following the date of termination.

ARTICLE V
CONFLICT OF INTEREST

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

ARTICLE VI
GENERAL PROVISIONS

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

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

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

6.4 Governing Law and Jurisdiction. The validity, construction and performance of this Agreement shall be governed by the laws of the State of Oregon, which shall be the exclusive jurisdiction for any action to interpret or enforce this Agreement.

6.5 Mediation. In the case of any dispute arising under this Agreement which cannot be settled by reasonable discussion, the parties agree that, prior to commencing any proceeding, they will first engage the services of a professional mediator agreed upon by the parties and attempt in good faith to resolve the dispute through confidential nonbinding mediation. Each party shall bear one-half (1/2) of the mediator's fees and expenses and shall pay all of its own attorneys' fees and expenses related to the mediation. This Section 6.5 shall not apply to any action to enforce Executive's obligations under a confidentiality or proprietary rights agreement.

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

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

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

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

6.10 Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior or contemporaneous oral or written understandings, statements, representations or promises with respect to its subject matter. This Agreement was the subject of negotiation between the parties and, therefore, the parties agree that the rule of construction requiring that the agreement be construed against the drafter shall not apply to the interpretation of this agreement.

EARL R. LEWIS	FLIR SYSTEMS, INC.
/s/ Earl R. Lewis	By: /s/ John C. Hart
	Title: President and CEO

SUBSIDIARIES OF FLIR SYSTEMS, INC.

EXHIBIT 21.0

Subsidiaries of FLIR Systems, Inc.

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

CONSENT OF ARTHUR ANDERSEN LLP

EXHIBIT 23.0

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 (No. 33-82676, 33-82194, 33-95248, 333-65063 and 333-36206).

/s/ Arthur Andersen LLP

Portland, Oregon
March 29, 2001

CONSENT OF PRICEWATERHOUSECOOPERS LLP

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-82676, 33-82194, 33-95248, 333-65063 and 333-36206) of FLIR Systems, Inc. of our report dated April 14, 2000 except as to Note 15, which is as of March 23, 2001, in this Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which also appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Portland, Oregon
March 29, 2001

REPORT OF ERNST & YOUNG LLP

EXHIBIT 99.0

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

Board of Directors
Inframetrics, Inc.

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

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

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

/s/ Ernst & Young LLP

Boston, Massachusetts
February 19, 1999

EXHIBIT 99.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the use of our report dated February 19, 1999 with respect to the consolidated financial statements of Inframetrics Inc. and Subsidiaries for the years ended December 31, 1998 and 1997, included in the Annual Report on Form 10-K of FLIR Systems, Inc. for the year ended December 31, 2000.

/s/ Ernst & Young

Boston, Massachusetts
March 29, 2001