SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

(MARK ONE)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1997

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE TRANSITION PERIOD FROM _______________ TO _________________

Commission file number 0-21918

FLIR SYSTEMS, INC.
(Exact name of Registrant as specified in its charter)

OREGON	93-0708501
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
16505 S.W. 72ND AVENUE, PORTLAND, OREGON	97224
(Address of principal executive offices)	(Zip Code)

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

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 [_].

At September 30, 1997, there were 5,559,724 shares of the Registrant's common stock, $0.01, par value, outstanding.

FLIR SYSTEMS, INC.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FLIR SYSTEMS, INC.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Revenues:				
Government	$12,946	$11,913	$32,325	$28,383
Commercial	10,969	6,025	27,350	15,920
	23,915	17,938	59,675	44,303
Cost of goods sold	11,130	8,312	27,654	20,942
Research and development	3,187	2,272	8,532	6,555
Selling and other operating costs	5,930	4,390	16,889	12,165
	20,247	14,974	53,075	39,662
Earnings from operations	3,668	2,964	6,600	4,641
Interest income	32	8	52	37
Interest expense and other	(533)	(259)	(1,405)	(484)
Earnings before income taxes	3,167	2,713	5,247	4,194
Provision for income taxes	730	592	1,269	911
Net earnings	$ 2,437	$ 2,121	$ 3,978	$ 3,283

Net earnings per share	$ 0.41	$ 0.38	$ 0.68	$ 0.59
Weighted average number of common shares and equivalents outstanding	5,980	5,620	5,856	5,579

The accompanying notes are an integral part of these financial statements

FLIR SYSTEMS, INC.

CONSOLIDATED BALANCE SHEET
(in thousands, except share amounts)

ASSETS	September 30, 1997 (Unaudited)	December 31, 1996
Current assets:		
Cash and cash equivalents	$ 2,535	$ 775
Accounts receivable	44,023	28,311
Inventories	34,130	33,513
Prepaid expenses	1,251	1,551
Total current assets	81,939	64,150
Property and equipment	10,368	7,137
Software development costs	1,026	799
Deferred income taxes	2,200	2,200
Other assets	815	818
	$96,348	$75,104
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$21,306	$ 6,365
Accounts payable	5,778	7,628
Accounts payable to related parties	876	128
Accrued payroll and other liabilities	3,824	3,389
Accrued income taxes	2,104	1,073
Current portion of long-term debt	1,832	1,377
Total current liabilities	35,720	19,960
Long-term debt	5,477	5,173
Commitments and contingencies	--	--
Shareholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares Authorized; no shares issued at September 30, 1997, and December 31, 1996	--	--
Common stock, $0.01 par value, 30,000,000 shares authorized, 5,559,724 and 5,387,483 shares issued at September 30, 1997, and December 31, 1996, respectively	56	54
Additional paid-in capital	42,971	41,833
Retained earnings	12,235	8,257
Cumulative foreign translation adjustment	(111)	(173)
Total shareholders' equity	55,151	49,971
	$96,348	$75,104

The accompanying notes are an integral part of these financial statements

FLIR SYSTEMS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30, 1997	1996
Cash used by operators:		
Net earnings	$ 3,978	$ 3,283
Income charges not affecting cash:		
Depreciation	1,971	1,436
Amortization	389	306
Disposals and write-offs of property and equipment	185	257
Deferred income taxes	--	--
Changes in certain working capital components:		
Increase in accounts receivable	(15,712)	(8,116)
Increase in inventories	(617)	(6,141)
Decrease (increase) in prepaid expenses	300	(239)
Decrease (increase) in other assets	3	(154)
(Decrease) increase in accounts payable	(1,850)	2,709
Increase (decrease) in accounts payable to related parties	748	(181)
Increase (decrease) in accrued payroll and other liabilities	435	(1,593)
Increase in accrued income taxes	1,031	323
Cash used by operating activities	(9,139)	(8,110)
Cash used by investing activities:		
Additions to property and equipment	(5,455)	(3,313)
Software development costs	(548)	(468)
Cash used by investing activities	(6,003)	(3,781)
Cash provided by financing activities:		
Net increase in notes payable	14,941	5,229
Proceeds from long term debt	1,728	5,816
Repayment of long term debt including current portion	(969)	(564)
Proceeds from exercise of stock options	1,140	438
Cash provided by financing activities	16,840	10,919
Effect of exchange rate changes on cash	62	--
Net increase (decrease) in cash and cash equivalents	1,760	(972)
Cash and cash equivalents, beginning of period	775	1,154
Cash and cash equivalents, end of period	$ 2,535	$ 182

The accompanying notes are an integral part of these financial statements

FLIR SYSTEMS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 -- BASIS OF PRESENTATION:

The accompanying consolidated financial statements are unaudited and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, these statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the Company's audited financial statements and the notes thereto for the year ended December 31, 1996.

The accompanying financial statements include the accounts of FLIR Systems, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated. The results of the interim periods are not necessarily indicative of the results for the entire year.

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

NOTE 2 -- REVENUE RECOGNITION:

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

NOTE 3 -- NET EARNINGS PER SHARE:

Net 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 Company will adopt Statement of Financial Accounting Standards No. 128, "Earnings Per Share" in 1997. The effect of the adoption of such pronouncement is expected to be immaterial to the financial statements taken as a whole.

NOTE 4 -- INVENTORIES:

Inventories consist of the following (in thousands):

	September 30, 1997 (Unaudited)	December 31, 1996
Materials	$22,019	$23,855
Work-in-progress	11,391	8,171
Finished goods	1,712	1,494
	35,122	33,520
Less -- progress payments received from Customers	(992)	(7)
	$34,130	$33,513

NOTE 5 -- CHANGES IN SHAREHOLDERS' EQUITY:

Changes in Shareholders' Equity consist of the following (in thousands):

Cumulative

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Foreign Translation Adjustment	Total
Balance, December 31, 1996.............	$ --	$54	$41,833	$ 8,257	$(173)	$49,971
Common stock options exercised..........	--	2	1,138	--	--	1,140
Net earnings for the nine month period..	--	--	--	3,978	--	3,978
Foreign translation adjustment..........	--	--	--	--	62	62
Balance, September 30, 1997...........	--	$56	$42,971	$12,235	$(111)	$55,151

NOTE 6 -- SUBSEQUENT EVENT:

On October 6, 1997, the Company entered into a Combination Agreement with Spectra-Physics AB and certain of its affiliates. The Combination Agreement provides for the acquisition by FLIR of all the outstanding shares of capital stock of AGEMA Infrared Systems AB, a corporation organized under the laws of Sweden, AGEMA Infrared Systems Limited, a corporation organized under the laws of the United Kingdom, AGEMA Infrared Systems, Ltd., a corporation organized under the laws of Canada and AGEMA Infrared Systems, Inc., a Delaware corporation, in exchange for 4,162,000 shares of the Company's common stock. This transaction will be accounted for as a purchase for accounting and financial reporting purposes. A special meeting of shareholders is scheduled for December 1, 1997 to consider and vote upon the proposed transaction and, subject to shareholder approval and certain other conditions, the transaction is expected to close in early December.

The Company anticipates recording a one-time, non-cash charge in the fourth quarter related to the write-off of in process research and development recorded as part of the transaction and other transaction costs. Such charge off is expected to aggregate approximately $36.0 million, net of taxes.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS:

OVERALL. Net earnings for the three months ended September 30, 1997 increased 14.9%, from $2.1 million (or $0.38 per share) in the third quarter of 1996 to $2.4 million (or $0.41 per share) in the third quarter of 1997. Net earnings increased 21.2%, from $3.3 million (or $0.59 per share) for the nine months ended September 30, 1996 to $4.0 million (or $0.68 per share) for the nine months ended September 30, 1997. The increase in net earnings was principally due to the significant increase in sales of the Company's products to commercial customers, primarily the UltraMedia(TM) and the Prism DS(TM).

REVENUES. The Company's revenue for the three months ended September 30, 1997 increased 33.3%, from $17.9 million in the third quarter of 1996 to $23.9 million in the third quarter of 1997. Revenue from the sale of the Company's products to governmental customers increased 8.7%, from $11.9 million in the third quarter of 1996 to $12.9 million in the third quarter of 1997. This increase was primarily due to the increased deliveries of SAFIRE night vision systems to a variety of domestic and international customers. Revenue from the sale of the Company's products to commercial customers continued to show strong growth by increasing 82.1%, from $6.0 million in the third quarter of 1996 to $11.0 million in the third quarter of 1997. This improvement was principally attributable to the continued strong sales of UltraMedia(TM) for the broadcast and entertainment markets, further increases in production and delivery of the Prism DS(TM) and increased international sales.

Revenue for the nine months ended September 30, 1997 increased 34.7%, from $44.3 million in the first nine months of 1996 to $59.7 million for the first nine months of 1997. Revenue from the sale the Company's products to governmental customers increased 13.9%, from $28.4 million in the first nine months of 1996 to $32.3 million in the first nine months of 1997 primarily due to increased deliveries of the SAFIRE night vision system. Revenue from the sale of the Company's products to commercial customers increased 71.8%, from $15.9 million in the first nine months of 1996 to $27.4 million in the first nine months of 1997. This improvement was principally attributable to the inclusion of a full nine months of revenue from the sale of the UltraMedia(TM) product in 1997 compared to only six months in 1996, as the UltraMedia(TM) was introduced in

April of 1996, and the increased production and deliveries of the Prism DS(TM).

Revenue from international sales increased as a percentage of total revenue from approximately 27.7% to approximately 52.8% for the quarters ended September 30, 1996 and 1997, respectively. For the first nine months of 1997, international sales accounted for approximately 47.1% of the Company's revenue. This represents an increase from the 31.7% experienced in the first nine months of 1996 primarily due to decreased deliveries to U.S. Government customers, principally the U.S. Marine Corps. The Company anticipates that the revenues from international sales as a percentage of total revenue will continue to comprise a significant percentage of revenues but may vary modestly from year to year.

GROSS PROFIT. As a percentage of revenue, gross profit decreased slightly from 53.7% in the third quarter of 1996 to 53.5% in the third quarter of 1997 and increased slightly from 52.7% for the first nine months of 1996 to 53.7% for the first nine months of 1997. The

relatively consistent gross margin in the third quarter of 1997 was primarily due to decreased sales to U.S Governmental customers which typically have lower margins than non-governmental customers and the increased proportion of higher margin international sales, offset by the increased proportion of revenues from commercial products which typically have a slightly lower margin than the products sold to governmental customers. The increase for the nine months ended September 30, 1997 was primarily due to the increased proportion of higher margin international sales. Gross profit percentages are affected by a variety of factors, including the mix of domestic and international night vision and industrial imaging sales, the more competitive nature of the commercial imaging market, and the impact of competitive bids for significant government contracts.

RESEARCH AND DEVELOPMENT. Research and development expense increased 40.3%, from $2.3 million for the third quarter of 1996 to $3.2 million for the third quarter of 1997 and increased 30.2%, from $6.6 million for the first nine months of 1996 to $8.5 million for the first nine months of 1997. As a percentage of revenue, research and development expense increased from 12.7% to 13.3% for the three months ended September 30, 1996 and 1997, respectively, and decreased slightly from 14.8% for the first nine months of 1996 to 14.3% for the first nine months of 1997. The increases in research and development expense, in absolute dollar terms, were attributable to increased research and development activities related to existing product enhancements and increased activity related to scheduled development and introduction of new products in 1998. While the Company expects the absolute dollar amount of research and development to continue to increase, research and development expense as a percentage of total revenue should continue to decline as revenues increase.

SELLING AND OTHER OPERATING COSTS. Selling and other operating costs for the quarter increased 35.1%, from $4.4 million for the third quarter of 1996 to $5.9 million for the third quarter of 1997 and increased 38.8%, from $12.2 million for the first nine months of 1996 to $16.9 million for the first nine months of 1997. Selling and other operating costs increased as a percentage of revenues from 24.5% for the third quarter of 1996 to 24.8% for the third quarter of 1997 and increased from 27.5% for the first nine months of 1996 to 28.3% for the first nine months of 1997. The increases in absolute dollar terms were primarily due to costs associated with the increase in international revenues, particularly commissions, for the quarter and to increased sales and marketing personnel as the Company continues to expand and strengthen the direct sales and marketing staff at both FSI and Optimas. These efforts have directly resulted in increased sales of commercial products both domestically and internationally.

INTEREST EXPENSE AND OTHER. Interest expense and other includes interest on short term and long term borrowings, costs related to capital lease obligations, and miscellaneous charges. Interest expense and other for the quarter increased 105.8%, from $259,000 in the third quarter of 1996 to $533,000 in the third quarter of 1997 and increased 190.3%, from $484,000 in the first nine months of 1996 to $1.4 million for the first nine months of 1997. This increase was due to the increased usage of the Company's line of credit discussed in Liquidity and Capital Resources below.

INCOME TAXES. The Company's effective income tax rates for the quarters ended September 30, 1997 and 1996 were 23.1% and 21.8%, respectively, and for the nine month periods ended September 30, 1997 and 1996 were 24.2% and 21.7%, respectively. The increase in the effective tax rate is primarily due to the fact that the Company has utilized all of its internally generated net operating loss carryforwards. The effective tax rates remain substantially below the statutory rate due to utilization of a portion of the Company's acquired net operating loss carryforwards, utilization of various tax credits, and benefits from the favorable tax treatment of international revenue.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1997, the Company had short-term borrowings net of cash on hand of $18.8 million compared with $5.6 million at December 31, 1996 and $11.7 million at June 30, 1997. Additionally, during the quarter, the Company increased its available line of credit from $14.0 million to $25.0 million to cover its short-term cash needs. The increased use of cash during the third quarter is consistent with the prior year and is primarily due to the build up of accounts receivable and continued high levels of inventories discussed below.

At September 30, 1997, the Company had inventories on hand of $34.1 million compared to $33.5 million at December 31, 1996 and $33.9 million at June 30, 1997. Consistent with the prior quarter, the efforts to reduce inventory levels for existing product lines were partially offset by the increase in inventory needed to support deliveries of the Company's new product lines, including the SeekIR(TM), the Tracer(TM), the UltraMedia(TM) and the UltraMedia RS(TM) as well as inventory to support new products to be introduced in 1998. Further, because of the extremely long lead times for many of the most expensive components, it is necessary to have inventory on hand to meet the required delivery schedule. The Company maintains levels of inventories sufficient to satisfy backlog which the Company considers to be firm and to respond to short term delivery requirements for a majority of its products. Management believes its ability to provide prompt deliveries gives it a competitive advantage for certain sales. It is expected that the current inventory levels will be maintained or decrease slightly as efforts to reduce inventory levels for existing products continue.

At September 30, 1997, the Company had accounts receivable in the amount of $44.0 million compared to $28.3 million at December 31, 1996 and $35.6 million at June 30, 1997. The increase in accounts receivable is primarily due to the significant level of shipments in the last month of the quarter primarily to international customers and domestic governmental customers. The Company generally experiences long collection cycles due to a variety of factors, including payment terms required by U.S. and foreign governmental customers as well as payment terms for companies that integrate the Company's products into aircraft for sale to ultimate users.

The Company has available a $25.0 million line of credit which bears interest at LIBOR plus 1.75% (7.375% at September 30, 1997) and is collateralized by all receivables and inventories of the

Company. At September 30, 1997, the Company had a $21.3 million balance outstanding on this line.

While the use of the credit facility will vary significantly and is heavily dependent upon the timing of collection of significant receivables, the Company believes that its existing cash, available credit facilities together with the scheduled payments from existing customers will be sufficient to meet its cash requirements for the foreseeable future.

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995 that are based on current expectations, estimates and projections about the Company's business, management's beliefs and assumptions made by management. Words such as "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, as well as those discussed from time to time in the Company's Securities and Exchange Commission fillings and reports. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES

During the quarter, the Company sold securities without registration under the Securities Act of 1933, as amended (the "Securities Act") upon the exercise of certain stock options granted under the Company's 1984 Stock Incentive Plan. An aggregate of 13,800 shares of Common Stock were issued at exercise prices ranging from $1.625 to $5.225. These transactions were effected in reliance upon the exemption from registration under the Securities Act provided by Rule 701 promulgated by the Securities and Exchange Commission pursuant to authority granted under Section 3 (b) of the Securities Act.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

11.0 Computation of Net Income Per Share
27.1 Financial Data Schedule

(b) No reports on Form 8-K were filed during the three months ended September 30, 1997.

SIGNATURES

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

FLIR SYSTEMS, INC.

Date November 14, 1997

/s/ J. Mark Samper

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

EXHIBIT 11.0

FLIR SYSTEMS, INC.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Net earnings	$2,437	$2,121	$3,978	$3,283
Weighted average number of common shares outstanding	5,542	5,336	5,485	5,320
Assumed exercise of stock options net of share assumed reacquired under the treasury stock method	438	284	371	259
	5,980	5,620	5,856	5,579
Earnings per share	$ 0.41	$ 0.38	$ 0.68	$ 0.59

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