

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

---

**FORM 10-Q**

---

(Mark one)

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

For the quarterly period ended September 30, 2017  
OR

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

For the transition period from            to  
Commission file number 0-21918

---

**FLIR Systems, Inc.**

(Exact name of Registrant as specified in its charter)

---

**Oregon**  
(State or other jurisdiction of  
incorporation or organization)  
  
**27700 SW Parkway Avenue,  
Wilsonville, Oregon**  
(Address of principal executive offices)

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

**97070**  
(Zip Code)

**(503) 498-3547**  
(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  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes  No

As of October 18, 2017, there were 138,574,234 shares of the registrant's common stock, \$0.01 par value, outstanding.

---

## INDEX

### PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements	
	<a href="#">Consolidated Statements of Income - Three and Nine Months Ended September 30, 2017 and 2016 (unaudited)</a>	<a href="#">1</a>
	<a href="#">Consolidated Statements of Comprehensive Income - Three and Nine Months Ended September 30, 2017 and 2016 (unaudited)</a>	<a href="#">2</a>
	<a href="#">Consolidated Balance Sheets - September 30, 2017 and December 31, 2016 (unaudited)</a>	<a href="#">3</a>
	<a href="#">Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2017 and 2016 (unaudited)</a>	<a href="#">4</a>
	<a href="#">Notes to the Consolidated Financial Statements (unaudited)</a>	<a href="#">5</a>
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">20</a>
Item 3.	<a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	<a href="#">28</a>
Item 4.	<a href="#">Controls and Procedures</a>	<a href="#">29</a>

### PART II. OTHER INFORMATION

Item 1.	<a href="#">Legal Proceedings</a>	<a href="#">30</a>
Item 1.A.	<a href="#">Risk Factors</a>	<a href="#">30</a>
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">38</a>
Item 3.	<a href="#">Defaults Upon Senior Securities</a>	<a href="#">38</a>
Item 4.	<a href="#">Mine Safety Disclosures</a>	<a href="#">38</a>
Item 5.	<a href="#">Other Information</a>	<a href="#">38</a>
Item 6.	<a href="#">Exhibits</a>	<a href="#">38</a>
	<a href="#">Signature</a>	<a href="#">39</a>

---

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	\$ 464,712	\$ 405,228	\$ 1,305,650	\$ 1,187,429
Cost of goods sold	241,821	213,852	684,706	635,041
Gross profit	222,891	191,376	620,944	552,388
Operating expenses:				
Research and development	42,873	33,839	127,902	109,327
Selling, general and administrative	92,932	76,688	280,240	239,623
Total operating expenses	135,805	110,527	408,142	348,950
Earnings from operations	87,086	80,849	212,802	203,438
Interest expense	3,819	5,736	12,744	13,543
Interest income	(488)	(336)	(1,114)	(924)
Other (income) expense, net	(778)	241	(2,465)	138
Earnings before income taxes	84,533	75,208	203,637	190,681
Income tax provision	21,004	16,575	46,124	85,555
Net earnings	\$ 63,529	\$ 58,633	\$ 157,513	\$ 105,126
Net earnings per share:				
Basic	\$ 0.46	\$ 0.43	\$ 1.15	\$ 0.76
Diluted	\$ 0.46	\$ 0.43	\$ 1.13	\$ 0.76
Weighted average shares outstanding:				
Basic	137,849	136,963	137,030	137,438
Diluted	139,419	137,938	138,853	138,594

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

**FLIR SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in thousands)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net earnings	\$ 63,529	\$ 58,633	\$ 157,513	\$ 105,126
Other comprehensive income (loss), net of tax:				
Interest rate swap contracts:				
Fair value adjustment on interest rate swap contracts	—	292	187	(573)
Realized gain reclassified to earnings	(494)	—	(494)	—
Unrealized gain on available-for-sale investments	(3)	—	(4)	—
Foreign currency translation adjustments	19,993	(7,724)	55,788	(9,250)
Total other comprehensive income (loss)	19,496	(7,432)	55,477	(9,823)
Comprehensive income	<u>\$ 83,025</u>	<u>\$ 51,201</u>	<u>\$ 212,990</u>	<u>\$ 95,303</u>

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

**FLIR SYSTEMS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except for par value)  
(Unaudited)

	September 30, 2017	December 31, 2016
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 436,961	\$ 361,349
Accounts receivable, net	345,542	352,020
Inventories	413,005	371,371
Prepaid expenses and other current assets	86,570	79,917
Total current assets	1,282,078	1,164,657
Property and equipment, net	270,023	271,785
Deferred income taxes, net	51,179	45,243
Goodwill	930,846	801,406
Intangible assets, net	183,677	168,460
Other assets	48,472	168,155
Total assets	<u>\$ 2,766,275</u>	<u>\$ 2,619,706</u>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 127,420	\$ 114,225
Deferred revenue	29,015	34,420
Accrued payroll and related liabilities	67,759	52,874
Accrued product warranties	16,193	17,476
Advance payments from customers	19,260	26,019
Accrued expenses	47,528	34,022
Accrued income taxes	46,175	51,017
Other current liabilities	14,588	16,659
Current portion, long-term debt	—	15,000
Total current liabilities	367,938	361,712
Long-term debt	420,369	501,921
Deferred income taxes	14,569	2,331
Accrued income taxes	14,054	9,643
Pension and other long-term liabilities	59,827	65,773
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 10,000 shares authorized; no shares issued at September 30, 2017, and December 31, 2016	—	—
Common stock, \$0.01 par value, 500,000 shares authorized, 138,414 and 136,334 shares issued at September 30, 2017, and December 31, 2016, respectively, and additional paid-in capital	72,117	12,139
Retained earnings	1,927,875	1,832,138
Accumulated other comprehensive loss	(110,474)	(165,951)
Total shareholders' equity	1,889,518	1,678,326
Total liabilities and shareholders' equity	<u>\$ 2,766,275</u>	<u>\$ 2,619,706</u>

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

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

	<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net earnings	\$ 157,513	\$ 105,126
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	53,426	41,857
Deferred income taxes	(2,337)	(200)
Stock-based compensation arrangements	24,745	21,253
Other, net	(28,007)	19,830
Increase (decrease) in cash, net of acquisitions, resulting from changes in:		
Accounts receivable	13,047	19,951
Inventories	(30,589)	20,211
Prepaid expenses	(4,863)	(3,129)
Other assets	20,391	(18,861)
Accounts payable	11,370	(35,507)
Deferred revenue	(5,792)	4,859
Accrued payroll and other liabilities	13,712	(7,839)
Accrued income taxes	(6,647)	53,461
Pension and other long-term liabilities	(6,633)	1,595
Net cash provided by operating activities	<u>209,336</u>	<u>222,607</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment	(31,861)	(27,682)
Proceeds from sale of assets	2,886	6,986
Business acquisitions, net of cash acquired	—	(42,445)
Net cash used by investing activities	<u>(28,975)</u>	<u>(63,141)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds of long-term debt, including current portion	—	524,826
Repayment of long-term debt	(97,500)	(367,435)
Repurchase of common stock	—	(66,057)
Dividends paid	(61,776)	(49,564)
Proceeds from shares issued pursuant to stock-based compensation plans	44,231	7,347
Tax paid for net share exercises and issuance of vested restricted stock units	(9,505)	(5,775)
Other financing activities	(13)	10
Net cash (used) provided by financing activities	<u>(124,563)</u>	<u>43,352</u>
Effect of exchange rate changes on cash	19,814	2,085
Net increase in cash and cash equivalents	75,612	204,903
Cash and cash equivalents, beginning of year	361,349	472,785
Cash and cash equivalents, end of year	<u>\$ 436,961</u>	<u>\$ 677,688</u>

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

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1. Basis of Presentation**

The accompanying consolidated financial statements of FLIR Systems, Inc. and its consolidated subsidiaries (the "Company") are unaudited and have been prepared 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 Company's 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 accounting principles generally accepted in the United States 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 consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

The accompanying consolidated financial statements include the accounts of FLIR Systems, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for the year ending December 31, 2017.

*Recently Adopted Accounting Pronouncements*

Effective January 1, 2017, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). The standard update simplifies several aspects of the accounting for employee share-based payment transactions, including accounting for income taxes, forfeitures, and statutory withholding requirements, as well as classification in the Consolidated Statements of Cash Flows. As a result of the adoption, on a prospective basis, the Company recognized \$0.4 million and \$4.0 million of excess tax benefits from stock-based compensation as a discrete item in income tax provision for the three and nine months ended September 30, 2017, respectively. Historically, these amounts were recorded as additional paid-in capital. Upon adoption, the Company elected to apply the change retrospectively to the Consolidated Statement of Cash Flows which resulted in a reclassification of excess tax benefits from stock-based compensation of \$1.6 million from cash flows from financing activities to cash flows from operating activities for the nine months ended September 30, 2016. Additionally, \$5.8 million paid in cash to satisfy withholding requirements for net settlement of restricted stock unit shares vested and stock options exercised has been reclassified from cash flows from operating activities to cash flows from financing activities to conform to the presentation required by the new standard in the Consolidated Statement of Cash Flows for the nine months ended September 30, 2016. ASU 2016-09 also requires excess tax benefits and deficiencies to be excluded from the assumed future proceeds in the calculation of diluted shares. This change resulted in an increase in diluted weighted average shares outstanding of 215,000 shares and 211,000 shares for the three and nine months ended September 30, 2017, respectively. The Company elected not to change its policy on accounting for forfeitures and will continue to estimate a requisite forfeiture rate. Additional amendments to the accounting for income taxes and minimum statutory withholding requirements had no impact on the Company's results of operations.

*Reclassifications*

The Company made certain reclassifications to the prior years' financial statements and notes to the consolidated financial statements to conform them to the presentation as of and for the three and nine months ended September 30, 2017. These reclassifications had no effect on consolidated financial position, net earnings, shareholders' equity, or net cash flows for any of the periods presented.

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 2. Stock-based Compensation**

*Stock Incentive Plans*

The Company has a stock-based compensation program that provides equity incentives for employees, consultants and directors. This program includes incentive and non-statutory stock options and non-vested stock awards (referred to as restricted stock unit awards) granted under two plans: the FLIR Systems, Inc. 2002 Stock Incentive Plan (the “2002 Plan”) and the FLIR Systems, Inc. 2011 Stock Incentive Plan (the “2011 Plan”). The Company has discontinued issuing awards out of the 2002 Plan but previously-granted awards under the 2002 Plan remain outstanding.

The Company has granted time-based options, time-based restricted stock unit awards, market-based restricted stock unit awards and performance-based restricted stock unit awards. Options generally expire ten years from the grant date. Time-based options and restricted stock unit awards generally vest over a three-year period. Market-based restricted stock unit awards may be earned based upon the Company's total shareholder return compared to the total shareholder return of the component company at the 60th percentile level in the S&P 500 Index over a three-year period. Performance-based restricted stock unit awards may be earned based upon certain profitability metrics as approved by the compensation committee of the Company's board of directors, including return on invested capital or income from operations over the relevant three-year periods. Shares vested under the performance-based restricted stock unit awards and the market-based restricted stock unit awards must generally be held by the participant for a period of one year from the vest date.

*Employee Stock Purchase Plan*

The Company has an Employee Stock Purchase Plan (the “ESPP”) which allows employees to purchase shares of the Company’s common stock at 85 percent of the fair market value at the lower of either the date of enrollment or the purchase date. The ESPP provides for six-month offerings commencing on May 1 and November 1 of each year with purchases on April 30 and October 31 of each year. Shares purchased under the ESPP must be held by employees for a period of at least 18 months after the date of purchase.

The following table sets forth the stock-based compensation expense recognized in the Consolidated Statements of Income (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of goods sold	\$ 788	\$ 881	\$ 1,820	\$ 2,351
Research and development	1,329	1,225	3,805	3,639
Selling, general and administrative	7,774	4,766	19,120	15,263
Stock-based compensation expense before income taxes	<u>\$ 9,891</u>	<u>\$ 6,872</u>	<u>\$ 24,745</u>	<u>\$ 21,253</u>

Stock-based compensation expense capitalized in the Consolidated Balance Sheets is as follows (in thousands):

	September 30,	
	2017	2016
Capitalized in inventory	<u>\$ 1,074</u>	<u>\$ 585</u>

As of September 30, 2017, the Company had approximately \$45.9 million of total unrecognized stock-based compensation costs, net of estimated forfeitures, to be recognized over a weighted average period of 2.20 years.

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 3. Net Earnings Per Share**

The following table sets forth the reconciliation of the numerator and denominator utilized in the computation of basic and diluted earnings per share (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Numerator for earnings per share:</b>				
Net earnings for basic and diluted earnings per share	\$ 63,529	\$ 58,633	\$ 157,513	\$ 105,126
<b>Denominator for earnings per share:</b>				
Weighted average number of common shares outstanding	137,849	136,963	137,030	137,438
Assumed exercise of stock options and vesting of restricted stock awards, net of shares assumed reacquired under the treasury stock method	1,570	975	1,823	1,156
Diluted shares outstanding	139,419	137,938	138,853	138,594

The effect of stock-based compensation awards for the three and nine months ended September 30, 2017, which in aggregate consisted of 147,000 and 83,000 shares, respectively; and for the three and nine months ended September 30, 2016, which in the aggregate consisted of 322,000 and 317,000 shares, respectively, have been excluded for purposes of diluted earnings per share since the effect of their inclusion would have been anti-dilutive.

**Note 4. Fair Value of Financial Instruments**

Factors used in determining the fair value of financial assets and liabilities are summarized into three broad categories in accordance with FASB ASC Topic 820, "Fair Value Measurements":

- Level 1 – quoted prices in active markets for identical securities as of the reporting date;
- Level 2 – other significant directly or indirectly observable inputs, including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and observable market prices for identical instruments that are traded in less active markets; and
- Level 3 – significant inputs that are generally less observable than objective sources, including our own assumptions in determining fair value.

The factors or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The Company had \$60.8 million and \$8.3 million of cash equivalents at September 30, 2017 and December 31, 2016, respectively, which were primarily investments in money market funds and overnight deposits. The Company has categorized its cash equivalents as a Level 1 financial asset, measured at fair value based on quoted prices in active markets of identical assets. All cash equivalents are in instruments that are convertible to cash daily. The fair value of the Company's foreign currency contracts as of September 30, 2017 and December 31, 2016, are disclosed in Note 5, "Derivative Financial Instruments," and are based on Level 2 inputs. The fair value of the Company's senior unsecured notes as described in Note 13, "Long-Term Debt," is approximately \$430.8 million based upon Level 2 inputs at September 30, 2017. At September 30, 2017, the Company had no other borrowings outstanding under the revolving credit facility described in Note 13. The Company does not have any other significant financial assets or liabilities that are measured at fair value.

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 5. Derivative Financial Instruments**

*Foreign Currency Exchange Rate Risk*

The Company enters into foreign currency forward contracts not formally designated as hedges to manage the consolidated exchange rate risk associated with the remeasurement of non-functional currency denominated monetary assets and liabilities. Changes in fair value of foreign currency forward contracts are recognized in income at the end of each reporting period based on the difference between the contract rate and the spot rate. In general, these gains and losses are offset in the Consolidated Statements of Income by the reciprocal gains and losses from cash settlement of the underlying assets or liabilities which originally gave rise to the exposure. The net amount of the gains and losses related to derivative instruments recorded in other (income) expense, net for the three and nine months ended September 30, 2017 were a net gain of \$0.2 million and a net loss of \$7.3 million, respectively. The net losses for the three and nine months ended September 30, 2016 were \$3.0 million and \$4.1 million, respectively.

The table below presents the net notional amounts of the Company's outstanding foreign currency forward contracts by currency (in thousands):

	September 30, 2017	December 31, 2016
European euro	\$ 129,730	\$ 156,352
Swedish kroner	75,879	48,555
Canadian dollar	46,374	15,645
British pound sterling	24,954	33,862
Brazilian real	10,386	2,747
Australian dollar	1,960	1,653
Japanese yen	898	3,251
Other	896	—
	<u>\$ 291,077</u>	<u>\$ 262,065</u>

At September 30, 2017, the Company's foreign currency forward contracts, in general, had maturities of three months or less.

The carrying amounts of the foreign exchange contracts included in the Consolidated Balance Sheets are as follows (in thousands):

	September 30, 2017		December 31, 2016	
	Prepaid Expenses and Other Current Assets	Other Current Liabilities	Prepaid Expenses and Other Current Assets	Other Current Liabilities
Foreign exchange contracts	\$ 2,269	\$ 2,737	\$ 2,369	\$ 75

*Interest Rate Swap Contracts*

On May 31, 2016, the Company drew down \$105 million under the revolving credit facility as described in Note 11, "Credit Agreement," and repaid the term loan originally issued under the credit agreement dated April 5, 2013. Interest was accrued and paid monthly based on the one-month LIBOR rate. To manage the interest rate risk arising from the variability in monthly interest expense attributable to the original term loan and amounts drawn under the revolver, the Company entered into two amortizing interest rate swaps with an aggregate notional amount of \$105 million. The interest rate swaps were designated, and effective, as cash flow hedges.

During the quarter ended September 30, 2017, the Company repaid all amounts outstanding under the revolving credit facility. Concurrently, the Company exited both interest rate swaps which had a combined notional amount at the time of \$86.3 million and discontinued the cash flow hedge. The Company reclassified a gain of \$0.5 million from accumulated other comprehensive income to interest expense because it was probable that the forecasted variable monthly LIBOR-based interest rate payments would no longer occur.

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 6. Accounts Receivable**

Accounts receivable are net of an allowance for doubtful accounts of \$6.1 million and \$6.5 million at September 30, 2017 and December 31, 2016, respectively.

**Note 7. Inventories**

Inventories consist of the following (in thousands):

	September 30, 2017	December 31, 2016
Raw material and subassemblies	\$ 223,817	\$ 200,640
Work-in-progress	52,287	43,430
Finished goods	136,901	127,301
	<u>\$ 413,005</u>	<u>\$ 371,371</u>

**Note 8. Property and Equipment**

Property and equipment are net of accumulated depreciation of \$313.6 million and \$275.1 million at September 30, 2017 and December 31, 2016, respectively.

**Note 9. Goodwill**

The carrying value of goodwill and the activity for the nine months ended September 30, 2017 are as follows (in thousands):

Balance, December 31, 2016	\$ 801,406
Goodwill from acquisitions	100,022
Currency translation adjustments	29,418
Balance, September 30, 2017	<u>\$ 930,846</u>

See Note 17, "Operating Segments and Related Information - *Operating Segments*," of the Notes to the Consolidated Financial Statements for additional information on the carrying value of goodwill by operating segment at September 30, 2017.

See Note 18, "Business Acquisitions," of the Notes to the Consolidated Financial Statements for additional information on the addition of goodwill from acquisitions.

**Note 10. Intangible Assets**

Intangible assets are net of accumulated amortization of \$100.8 million and \$77.8 million at September 30, 2017 and December 31, 2016, respectively.

**Note 11. Credit Agreement**

On February 8, 2011, the Company entered into a credit agreement with Bank of America, N.A., U.S. Bank National Association, JPMorgan Chase Bank N.A. and other lenders, as amended on April 5, 2013, October 27, 2015 and May 31, 2016 (the "Credit Agreement") which provides for a \$500 million revolving line of credit. At September 30, 2017, the Company had no amounts outstanding under its revolving credit facility and had \$16.9 million of letters of credit outstanding governed by the facility, which reduces the total available revolving credit under the Credit Agreement to \$483.1 million.

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 12. Accrued Product Warranties**

The following table summarizes the Company's warranty liability and activity (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Accrued product warranties, beginning of period	\$ 19,530	\$ 17,492	\$ 20,845	\$ 16,514
Amounts paid for warranty services	(3,790)	(3,624)	(12,781)	(13,221)
Warranty provisions for products sold	3,294	5,099	10,785	15,658
Currency translation adjustments and other	90	1,025	275	1,041
Accrued product warranties, end of period	<u>\$ 19,124</u>	<u>\$ 19,992</u>	<u>\$ 19,124</u>	<u>\$ 19,992</u>
Current accrued product warranties, end of period			<u>\$ 16,193</u>	<u>\$ 16,759</u>
Long-term accrued product warranties, end of period			<u>\$ 2,931</u>	<u>\$ 3,233</u>

**Note 13. Long-Term Debt**

Long-term debt consists of the following (in thousands):

	September 30,	December 31,
	2017	2016
Unsecured notes	\$ 425,000	\$ 425,000
Credit Agreement	—	97,500
Unamortized discounts and issuance costs of unsecured notes	(4,631)	(5,579)
	<u>\$ 420,369</u>	<u>\$ 516,921</u>
Current portion, long-term debt	<u>\$ —</u>	<u>\$ 15,000</u>
Long-term debt	<u>\$ 420,369</u>	<u>\$ 501,921</u>

In June 2016, the Company issued \$425 million aggregate principal amount of its 3.125 percent senior unsecured notes due June 15, 2021 (the "2016 Notes"). The net proceeds from the issuance of the 2016 Notes were approximately \$421.0 million, after deducting underwriting discounts and offering expenses, which are being amortized over a period of five years. Interest on the 2016 Notes is payable semiannually in arrears on December 15 and June 15. The proceeds from the 2016 Notes were used to repay the principal amount of the notes issued in August 2011 and outstanding in July 2016 and are being used for general corporate purposes, including working capital and capital expenditure needs, business acquisitions and repurchases of the Company's common stock.

On May 31, 2016, the Company repaid its term loan and drew down \$105.0 million under the revolving credit facility. Interest on amounts outstanding under the revolving credit facility accrued at the one-month LIBOR rate plus the applicable margin for the amount outstanding and was paid monthly in arrears. During the quarter ended September 30, 2017, the Company repaid all amounts outstanding under the revolving credit facility.

**Note 14. Shareholders' Equity**

The following table summarizes the common stock and additional paid-in capital activity during the nine months ended September 30, 2017 (in thousands):

Common stock and additional paid-in capital, December 31, 2016	\$ 12,139
Common stock issued pursuant to stock-based compensation plans, net	34,726
Stock-based compensation	25,252
Common stock and additional paid-in capital, September 30, 2017	<u>\$ 72,117</u>

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 14. Shareholders' Equity - (Continued)**

On September 8, 2017, the Company paid a dividend of \$0.15 per share on its outstanding common stock to the shareholders of record as of the close of business on August 25, 2017. The total cash payments for dividends during the nine months ended September 30, 2017 were \$61.8 million.

**Note 15. Contingencies**

***Raytheon Litigation***

FLIR Systems, Inc. and its subsidiary, FLIR Commercial Systems, Inc. (formerly known as Indigo Systems Corporation) (together, the "FLIR Parties"), were named in a lawsuit filed by Raytheon Company ("Raytheon") on March 2, 2007, in the United States District Court for the Eastern District of Texas. Raytheon's complaint, as amended, asserted claims for tortious interference, patent infringement, trade secret misappropriation, unfair competition, breach of contract, and fraudulent concealment. The FLIR Parties filed an answer to the complaint on September 2, 2008, in which they denied all material allegations. On October 27, 2010, the FLIR Parties and Raytheon entered into a settlement agreement that resolved the patent infringement claims (the "Patent Claims") pursuant to which the FLIR Parties paid \$3 million to Raytheon and entitles the FLIR Parties to certain license rights in the patents that were the subject of the Patent Claims. On October 28, 2014, a four-week trial began with respect to Raytheon's remaining claims of misappropriations of trade secrets and claims related to 31 alleged trade secrets. On November 24, 2014, a jury in the United States District Court for the Eastern District of Texas rejected Raytheon's claims and determined that 27 of the alleged trade secrets were not in fact trade secrets and that neither of the FLIR Parties infringed any of the trade secrets claimed and awarded Raytheon no damages. On March 31, 2016, the United States District Court for the Eastern District of Texas issued a Final Judgment denying Raytheon's claims and awarding FLIR court costs and denying each of Raytheon's and FLIR's Renewed Motions for Judgment as a Matter of Law and denying FLIR's Amended Rule 54(d) Motion for Attorneys' Fees and Costs Under the Texas Theft Liability Act.

On April 29, 2016, Raytheon filed a Notice of Appeal to the United States Court of Appeals for the Federal Circuit of the denial by the United States District Court for the Eastern District of Texas of Raytheon's Renewed Motion for Judgment as a Matter of Law, or in the Alternative, Motion for New Trial. On May 11, 2016, the FLIR Parties filed a Notice of Appeal to the United States Court of Appeals for the Federal Circuit of the Order of the United States District Court for the Eastern District of Texas Denying the FLIR Parties' Amended Rule 54(d) Motion for Attorneys' Fees and Costs under the Texas Theft Liability Act, the Order Denying the FLIR Parties' Renewed Motion For Judgment as a Matter Of Law, and the Final Judgment to the extent it denied the FLIR Parties Attorneys' Fees and Costs under the Texas Theft Liability Act. The matter remains ongoing and is subject to appeal. The Company is unable to estimate the amount or range of potential loss or recovery, if any, which might result if the final determination of this matter is favorable or unfavorable, but an adverse ruling on the merits of the original claims against the FLIR Parties, while remote, could be material.

***Matters Involving the United States Department of State and Department of Commerce***

On October 22, 2014, the Company initially contacted the United States Department of State Office of Defense Trade Controls Compliance ("DTCC"), pursuant to International Traffic in Arms Regulation ("ITAR") § 127.12(c), regarding the unauthorized export of technical data and defense services to dual and third country nationals in at least four facilities of the Company. On April 27, 2015, the Company submitted its initial report to DTCC regarding the details of the issues raised in the October 22, 2014, submission. DTCC subsequently notified the Company that it was considering administrative proceedings under Part 128 of ITAR and requested a tolling agreement, which the Company executed on June 16, 2015 and referenced certain Company disclosures in addition to the submissions made in conjunction with the October 24, 2014 initial notification. On June 6, 2016, the Company executed a subsequent tolling agreement extending the tolling period for matters to be potentially included in an administrative proceeding for an additional 18 months until the end of December 2017. DTCC continues its review of the Company's activities and the Company continues to engage actively with the United States government on these matters.

In May 2017, the Company submitted an initial notification to DTCC regarding potential violations related to certain export classifications obtained through the commodity jurisdiction process. DTCC acknowledged the notification and at the request of DTCC, the Company executed a tolling agreement for this matter, suspending the statute of limitations for a twelve (12) month period.

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 15. Contingencies - (Continued)**

In June 2017, the United States Department of Commerce Bureau of Industry and Security informed the Company of additional export licensing requirements that restrict the Company's ability to sell 9hz thermal products without a license to customers in China not identified on a list maintained by the United States Department of Commerce. This action was precipitated by concerns of potential diversion of some of the Company's products to prohibited end users and to countries subject to economic and other sanctions implemented by the United States. If the Company is found to have violated applicable rules and regulations with respect to customers and limitations on the end use of the Company's products, the Company could be subject to substantial fines and penalties, suspension of existing licenses or other authorizations and/or loss or suspension of export privileges.

The Company is unable to reasonably estimate the time it may take to resolve these matters or the amount or range of potential loss, penalty or other government action, if any, that may be incurred in connection with these matters. However, an unfavorable outcome could result in substantial fines and penalties or loss or suspension of export privileges or of particular authorizations that could be material to the Company's financial position, results of operations or cash flows in and following the period in which such an outcome becomes estimable or known.

***SkyWatch Product Quality Matters***

In March 2016, the Company learned of potential quality concerns with respect to as many as 312 Level III and Level IV SkyWatch Surveillance Towers sold by FLIR and companies acquired by FLIR from 2002 through 2014. The Company notified customers who purchased the affected SkyWatch Towers of the potential concerns and, as a precautionary measure, also temporarily suspended production of all Level III and Level IV SkyWatch Towers pending the completion of its review and the implementation of any necessary remedial measures. During the quarter ended June 30, 2017, the Company identified the cause of these quality issues and began testing certain remedial solutions to repair the affected SkyWatch Towers. Testing of the remedial solution for certain of the product variations affected was also completed during the quarter ended June 30, 2017. Subsequent to the aforementioned identification and testing, customers who purchased the product configurations for which a remedial solution has been identified and tested were notified of their options to request modifications to their fielded units. While there still remains uncertainty related to estimating the costs associated with a potential remedy and number of units which may require such remedy, the Company currently estimates the range of potential loss to be between \$5.6 million and \$15 million. As no single amount within the range is a better estimate than any other amount within the range, the Company has recorded a liability of \$5.6 million as of September 30, 2017. Factors underlying this estimated range of loss may change from time to time, and actual results may vary significantly from this estimate.

***Other Matters***

The Company is also subject to other legal and administrative proceedings, investigations, claims and litigation arising in the ordinary course of business not specifically identified above. In these identified matters and others not specifically identified, the Company records a liability with respect to a matter when management believes it is both probable that a liability has been incurred and the Company can reasonably estimate the amount of the loss. The Company believes it has recorded adequate provisions for any probable and estimable losses for matters in existence on the date hereof. The Company reviews these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. While the outcome of each of these matters is currently not determinable, the Company does not expect that the ultimate resolution of any such matter will individually have a material adverse effect on the Company's financial position, results of operations or cash flows. The costs to resolve all such matters may in the aggregate have a material adverse effect on the Company's financial position, results of operations or cash flows.

**Note 16. Income Taxes**

The provision for income taxes was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Income tax provision	\$ 21,004	\$ 16,575	\$ 46,124	\$ 85,555
Effective tax rate	24.8%	22.0%	22.6%	44.9%

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 16. Income Taxes**

The effective tax rate for the three and nine months ended September 30, 2017, is lower than the United States Federal tax rate of 35 percent mainly due to the mix of lower foreign jurisdiction tax rates, the effect of federal, foreign and state tax credits, excess tax benefits from stock compensation, and other discrete adjustments.

As of September 30, 2017, the Company had approximately \$59.5 million of unrecognized tax benefits, all of which would affect the Company's effective tax rate if recognized. The Company anticipates approximately \$47.0 million of its net unrecognized tax benefits will be recognized within 12 months as the result of settlements or effective settlements with various tax authorities, the closure of certain audits and the lapse of the applicable statute of limitations.

The Company classifies interest and penalties related to unrecognized tax benefits in the income tax provision. As of September 30, 2017, the Company had \$2.5 million of accrued interest and penalties related to unrecognized tax benefits that are recorded as current and non-current accrued income taxes on the Consolidated Balance Sheet.

The Company currently has the following tax years open to examination by major taxing jurisdictions:

	<b>Tax Years:</b>
United States Federal	2013 - 2015
State of California	2013 - 2015
State of Massachusetts	2013 - 2015
State of Oregon	2013 - 2015
Sweden	2012 - 2015
United Kingdom	2012 - 2015
Belgium	2011 - 2016

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 17. Operating Segments and Related Information**

*Operating Segments*

The Company has six reportable operating segments as follows:

*Surveillance*

The Surveillance segment develops and manufactures enhanced imaging and recognition solutions for a wide variety of military, law enforcement, public safety, and other government customers around the world for the protection of borders, troops, and public welfare. Offerings include airborne, land, maritime, and man-portable multi-spectrum imaging systems, radars, lasers, imaging components, integrated multi-sensor system platforms, and services related to these systems.

*Instruments*

The Instruments segment develops and manufactures devices that image, measure, and assess thermal energy, gases, and other environmental elements for industrial, commercial, and scientific applications. Products include thermal imaging cameras, gas detection cameras, firefighting cameras, process automation cameras, and environmental test and measurement devices.

*Security*

The Security segment develops and manufactures cameras, video recording systems, and video management systems for use in commercial, critical infrastructure, and home security applications. Products include thermal and visible-spectrum cameras, digital and networked video recorders, and related software and accessories that enable the efficient and effective safeguarding of assets at all hours of the day and through adverse weather conditions.

*OEM & Emerging Markets*

The OEM & Emerging Markets segment develops and manufactures thermal and visible-spectrum imaging camera cores and components that are utilized by third parties to create thermal, industrial, and other types of imaging systems. The segment also develops and manufactures intelligent traffic monitoring and signal control systems, imaging payloads for Unmanned Aerial Systems ("UAS"), and thermal imaging solutions for use by consumers in the smartphone and mobile devices markets.

*Maritime*

The Maritime segment develops and manufactures electronics and imaging instruments for the recreational and commercial maritime market. The segment provides a full suite of networked electronic systems including multi-function helm displays, navigational instruments, autopilots, radars, sonar systems, thermal and visible imaging systems, and communications equipment for boats of all sizes.

*Detection*

The Detection segment develops and manufactures sensor instruments and integrated platform solutions for the detection, identification, and suppression of chemical, biological, radiological, nuclear, and explosives ("CBRNE") threats for military force protection, homeland security, and commercial applications.

The Company's chief operating decision maker ("CODM"), its Chief Executive Officer, evaluates each of its segment's performance and allocates resources based on revenue and segment operating income. Intersegment revenues are recorded at cost and are eliminated in consolidation. The Company and each of its segments employ consistent accounting policies.

The following tables present revenue, operating income, and assets for the six segments. Operating income as reviewed by the CODM is revenue less cost of goods sold and operating expense, excluding general corporate expenses, acquisition related costs, executive transition costs, amortization of purchased intangible assets, amortization of acquisition-related inventory step-up, costs associated with the SkyWatch product remediation, and restructuring charges. Accounts receivable and inventories for operating segments are regularly reviewed by management and are reported below as segment assets. All remaining assets, liabilities, capital expenditures, and depreciation are managed on a Company-wide basis.

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 17. Operating Segments and Related Information - (Continued)**

*Operating Segments - (Continued)*

Operating segment information is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Revenue—External Customers:</b>				
Surveillance	\$ 146,805	\$ 136,402	\$ 394,742	\$ 373,993
Instruments	91,429	82,673	255,253	240,160
Security	65,660	56,431	160,447	166,872
OEM & Emerging Markets	87,206	62,719	259,418	167,544
Maritime	42,256	40,586	145,909	147,469
Detection	31,356	26,417	89,881	91,391
	<u>\$ 464,712</u>	<u>\$ 405,228</u>	<u>\$ 1,305,650</u>	<u>\$ 1,187,429</u>
<b>Revenue—Intersegments:</b>				
Surveillance	\$ 10,115	\$ 5,001	\$ 18,203	\$ 13,980
Instruments	929	709	2,916	3,498
Security	2,931	4,267	9,697	10,575
OEM & Emerging Markets	11,456	7,518	29,986	24,528
Maritime	567	656	1,865	2,728
Detection	2	—	3	31
Eliminations	(26,000)	(18,151)	(62,670)	(55,340)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Segment operating income:</b>				
Surveillance	\$ 44,941	\$ 41,428	\$ 104,313	\$ 103,888
Instruments	29,603	27,578	74,376	67,254
Security	6,486	4,784	8,090	7,025
OEM & Emerging Markets	26,931	20,658	77,628	48,100
Maritime	4,466	3,155	19,060	16,482
Detection	8,883	6,999	24,644	25,556
	<u>\$ 121,310</u>	<u>\$ 104,602</u>	<u>\$ 308,111</u>	<u>\$ 268,305</u>

A reconciliation of the Company's consolidated segment operating income to consolidated earnings before income taxes is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Consolidated segment operating income	\$ 121,310	\$ 104,602	\$ 308,111	\$ 268,305
Unallocated corporate expenses	(25,492)	(16,514)	(68,733)	(49,186)
Amortization of purchased intangible assets	(7,102)	(4,329)	(20,854)	(12,464)
Amortization of acquisition-related inventory step-up	—	—	(1,992)	—
SkyWatch product quality accrual	(1,088)	(2,000)	(3,088)	(2,000)
Restructuring charges	(542)	(910)	(642)	(1,217)
Consolidated earnings from operations	87,086	80,849	212,802	203,438
Interest and non-operating expense, net	(2,553)	(5,641)	(9,165)	(12,757)
Consolidated earnings before income taxes	<u>\$ 84,533</u>	<u>\$ 75,208</u>	<u>\$ 203,637</u>	<u>\$ 190,681</u>

Unallocated corporate expenses include general corporate expenses, acquisition related costs and executive transition costs.

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 17. Operating Segments and Related Information - (Continued)**

*Operating Segments - (Continued)*

	September 30, 2017	December 31, 2016
Segment assets (accounts receivable, net and inventories):		
Surveillance	\$ 290,353	\$ 283,324
Instruments	132,642	114,681
Security	95,063	93,174
OEM & Emerging Markets	141,212	144,862
Maritime	65,276	61,494
Detection	34,001	25,856
	<u>\$ 758,547</u>	<u>\$ 723,391</u>
	September 30, 2017	December 31, 2016
Segment goodwill:		
Surveillance	\$ 259,400	\$ 152,383
Instruments	153,677	147,595
Security	111,883	102,983
OEM & Emerging Markets	255,490	252,647
Maritime	102,384	97,860
Detection	48,012	47,938
	<u>\$ 930,846</u>	<u>\$ 801,406</u>

*Revenue and Long-Lived Assets by Geographic Area*

Information related to revenue by significant geographical location, determined by the end customer, is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
United States	\$ 250,755	\$ 229,350	\$ 696,612	\$ 647,938
Europe	91,529	71,949	265,842	240,656
Asia	56,416	42,639	170,061	133,877
Middle East/Africa	26,437	41,889	86,826	98,231
Canada/Latin America	39,575	19,401	86,309	66,727
	<u>\$ 464,712</u>	<u>\$ 405,228</u>	<u>\$ 1,305,650</u>	<u>\$ 1,187,429</u>

Long-lived assets by significant geographic locations are as follows (in thousands):

	September 30, 2017	December 31, 2016 (as reclassified)
United States	\$ 686,191	\$ 676,007
Europe	485,216	490,089
Canada/Latin America	253,051	235,921
Other foreign	8,560	7,789
	<u>\$ 1,433,018</u>	<u>\$ 1,409,806</u>

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 17. Operating Segments and Related Information - (Continued)**

*Operating Segments - (Continued)*

*Major Customers*

Revenue derived from major customers is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
United States government	\$ 117,797	\$ 112,735	\$ 345,856	\$ 298,476

**Note 18. Business Acquisitions**

*Point Grey Research, Inc.*

On November 4, 2016, the Company completed the acquisition of the assets of Point Grey Research Inc. ("Point Grey"), a global leader in the development of advanced visible imaging cameras and solutions that are used in industrial automation systems, medical diagnostic equipment, people counting systems, intelligent traffic systems, military and defense products, and advanced mapping systems, for approximately \$259.2 million in cash, subject to customary post-closing adjustments. During the third quarter of 2017, the Company finalized the purchase price allocation which had no change to the previously recorded allocation of \$39.8 million to identifiable intangible assets and \$183.7 million to goodwill. These amounts have been recorded in the Company's OEM & Emerging Markets segment.

The allocation of the purchase price for Point Grey is as follows (in thousands):

Cash acquired	\$ 2,994
Other tangible assets and liabilities, net	35,064
Net deferred taxes	(2,438)
Identifiable intangible assets	39,800
Goodwill	183,741
Total purchase price	<u>\$ 259,161</u>

The allocation of the purchase price related to this acquisition is based on management's judgments after evaluating several factors, including valuation assessments of tangible and intangible assets, and estimates of the fair value of liabilities assumed. The goodwill of \$183.7 million represents future economic benefits expected to arise from synergies from combining operations and the ability of Point Grey to provide the Company domain knowledge and distribution channels in adjacent markets.

In connection with the allocation of purchase price to the assets acquired and liabilities assumed, the Company identified certain intangible assets. The following table presents the acquired intangible assets, their estimated fair values, and estimated useful lives (in thousands, except years):

	Estimated Useful Life	Amount
Developed technology	10 years	\$ 23,100
Customer relationships	7 years	13,200
Backlog	1 year	2,300
Non-Competition Agreements	5 years	1,000
Other	n/a	200
		<u>\$ 39,800</u>

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 18. Business Acquisitions - (Continued)**

Acquisition-date identifiable intangible assets primarily consist of intangibles derived from developed technology, customer relationships, backlog, and non-competition agreements. Developed technology represents the economic advantage of having certain technologies in place that lower manufacturing and operating costs and drive higher margins. Customer relationships represent the relationships Point Grey has established in the OEM and people counting markets as of the date of the acquisition. Backlog represents "pre-sold" business at the date of acquisition, which provides positive earning streams post acquisition that exceed what is required to provide a return on the other assets employed. Non-competition agreements represent the economic benefit of having agreements with certain current and former employees and shareholders of Point Grey that restrict their ability to compete directly with the Company.

The developed technology was valued using the income approach and relief from royalty method. Customer relationships and backlog were valued using the income approach and multi-period excess earnings method. Non-competition agreements were valued using the income approach and the with-and-without method.

*Prox Dynamics, AS*

On November 30, 2016, the Company acquired 100% of the outstanding stock of Prox Dynamics AS ("Prox Dynamics"), a leading developer and manufacturer of nano-class UASs for military and para-military intelligence, surveillance, and reconnaissance applications, for approximately \$134.1 in cash, subject to customary post-close adjustments. At December 31, 2016, the Company reported the net tangible assets of \$11.3 million in the respective balance sheet accounts and the excess purchase price of \$122.8 million in other long-term assets.

During the three months ended March 31, 2017, the Company performed a preliminary purchase price allocation which resulted in an allocation of \$31.4 of identifiable intangible assets and \$91.9 million of goodwill in conjunction with the Prox Dynamics acquisition, which has been recorded in the Company's Surveillance business segment.

During the three months ended June 30, 2017, the Company finalized the purchase price allocation, resulting in a \$7.4 decrease to net deferred taxes, and a corresponding \$7.4 increase in goodwill. The goodwill of \$99.3 represents future economic benefits expected to arise from synergies from combining operations the ability of Prox Dynamics to provide the Company domain knowledge and distribution channels in adjacent markets.

The allocation of the purchase price for Prox Dynamics is as follows (in thousands):

Cash acquired	\$ 11,706
Other tangible assets and liabilities, net	(900)
Net deferred taxes	(7,387)
Identifiable intangible assets	31,400
Goodwill	99,269
Total purchase price	<u>\$ 134,088</u>

In connection with the allocation of purchase price to the assets acquired and liabilities assumed, the Company identified certain intangible assets. The following table presents the acquired intangible assets, their estimated fair values, and estimated useful lives (in thousands, except years):

	Estimated Useful Life	Amount
Developed technology	8 years	\$ 23,400
Customer relationships	7 years	3,500
Patents	8 years	3,100
Trade name	8 years	1,400
		<u>\$ 31,400</u>

Acquisition-date identifiable intangible assets primarily consist of intangibles derived from developed technology, customer relationships, patents, and trade name. Developed technology and patents represent the economic advantage of having certain technologies in place that lower manufacturing and operating costs and drive higher margins. Customer relationships represents the relationships Prox Dynamics has established in the military and defense ministries of countries throughout the world. Trade name represents the "Black Hornet" name, which is well recognized within the industry and is known as a leading product within the nano-class UAS segment.

**FLIR SYSTEMS, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(Unaudited)**

**Note 18. Business Acquisitions - (Continued)**

The developed technology and customer relationships were valued using the income approach and multi-period excess earnings method. Patents and trade name were valued using the income approach and relief from royalty method.

The acquisitions of Point Grey and Prox Dynamics are not significant as defined in Regulation S-X under the Securities Exchange Act of 1934, nor are they significant compared to the Company's overall results of operations. Consequently, no pro forma financial information is provided.

**Note 19. Subsequent Events**

On October 19, 2017, the Company's Board of Directors declared a quarterly dividend of \$0.15 per share on its common stock, payable on December 8, 2017, to shareholders of record as of the close of business on November 24, 2017. The total cash payment of this dividend will be approximately \$20.8 million.

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

### *Forward-Looking Statements*

*This Quarterly Report on Form 10-Q (the "Report"), including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding future events and the future results of FLIR Systems, Inc. and its consolidated subsidiaries ("FLIR" or the "Company") that are based on management's current expectations, estimates, projections and assumptions about the Company's business. 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 "Risk Factors" section in Part II, Item 1A of this Report, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2, and elsewhere in this Report as well as those discussed from time to time in the Company's other Securities and Exchange Commission filings and reports. In addition, such statements could be affected by general industry, economic, and market conditions. Such forward-looking statements speak only as of the date of this Report or, in the case of any document incorporated by reference, the date of that document, and the Company does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Report, or for changes made to this document by wire services or Internet service providers. If the Company updates or corrects one or more forward-looking statements, investors and others should not conclude that the Company will make additional updates or corrections with respect to other forward-looking statements.*

### **Consolidated Operating Results**

The following discussion of operating results provides an overview of our operations by addressing key elements in our Consolidated Statements of Income. The "Segment Operating Results" section that follows describes the contributions of each of our business segments to our consolidated revenue and earnings from operations. Our six operating segments are: Surveillance, Instruments, Security, OEM & Emerging Markets, Maritime, and Detection. Given the nature of our business, we believe revenue and earnings from operations (including operating margin percentage) are most relevant to an understanding of our performance at a segment level. Additionally, at the segment level we disclose backlog, which represents orders received for products or services for which a sales agreement is in place and delivery is expected within twelve months. See Note 17, "Operating Segments and Related Information," of the Notes to the Consolidated Financial Statements for additional information on the six operating segments.

*Revenue.* Consolidated revenue for the three months ended September 30, 2017, increased by 14.7 percent year over year, from \$405.2 million in the third quarter of 2016 to \$464.7 million in the third quarter of 2017. Consolidated revenue for the nine months ended September 30, 2017, increased by 10.0 percent year over year, from \$1,187.4 million in the first nine months of 2016 to \$1,305.7 million in the first nine months of 2017. Revenue increased in all six of our operating segments for three month period ended September 30, 2017. Increases in revenues for the nine month period in our Surveillance, Instruments, and OEM & Emerging Markets segments were partially offset by declines in revenues in our Security, Maritime, and Detection segments. The growth for the three month period ended September 30, 2017 occurred in all six of our operating segments, supported by the acquisitions of Prox Dynamics and Point Grey. The acquisitions of Armasight, Prox Dynamics, and Point Grey were the primary drivers in revenue growth for the nine month period ended September 30, 2017 compared to the same periods ended September 30, 2016.

The timing of orders, scheduling of backlog, and fluctuations in demand in various regions of the world can give rise to quarter to quarter and year over year fluctuations in the mix of revenue. Consequently, year over year comparisons for any given quarter may not be indicative of comparisons using longer time periods. While we currently expect total annual revenue for 2017 to be higher than 2016 revenue, unexpected changes in economic conditions from key customer markets or other major unanticipated events may cause total revenue, and the mix of revenue between our segments, to vary from quarter to quarter during the year.

International sales accounted for 46.0 percent and 43.4 percent of total revenue for the quarters ended September 30, 2017 and 2016, respectively. The proportion of our international revenue compared to total revenue will fluctuate from quarter to quarter

due to normal variation in order activity across various regions as well as specific factors that may affect one region and not another. Overall, we anticipate that revenue from international sales will continue to comprise a significant percentage of total revenue.

*Cost of goods sold.* Cost of goods sold for the three and nine months periods ended September 30, 2017 were \$241.8 million and \$684.7 million, respectively compared to cost of goods sold for the three and nine months ended September 30, 2016 of \$213.9 million and \$635.0 million, respectively. The year over year increase in cost of goods sold is primarily related to higher revenues in 2017.

*Gross profit.* Gross profit for the quarter ended September 30, 2017, was \$222.9 million compared to \$191.4 million for the same quarter last year. Gross profit for the nine months ended September 30, 2017 was \$620.9 million compared to \$552.4 million for the nine month period ended September 30, 2016. Gross margin, defined as gross profit divided by revenue, increased from 47.2 percent in the third quarter of 2016 to 48.0 percent in the third quarter of 2017 and increased from 46.5 percent for the nine months ended September 30, 2016, to 47.6 percent during the nine months ended September 30, 2017. The increase in gross margin for the three and nine month periods was primarily due to the acquisitions and favorable product mix.

*Research and development expenses.* Research and development expenses for the third quarter of 2017 totaled \$42.9 million, compared to \$33.8 million in the third quarter of 2016. Research and development expenses in the first nine months of 2017 were \$127.9 million compared to \$109.3 million for the first nine months of 2016. The increase in research and development expenses year over year for the three and nine month periods was primarily related to the inclusion of companies acquired in the last 12 months. Research and development expenses as a percentage of revenue were 9.2 percent for the three months ended September 30, 2017 and 8.4 percent for the three months ended September 30, 2016. Research and development expenses as a percentage of revenue for the first nine months of 2017 were 9.8 percent compared to 9.2 percent during the first nine months of 2016. We have, and will continue to have, fluctuations in quarterly spending depending on product development needs and overall business spending priorities and believe that annual spending levels are most indicative of our commitment to research and development. Over the past five annual periods through December 31, 2016, our annual research and development expenses have varied between 8.5 percent and 9.9 percent of revenue, and we currently expect these expenses to remain within that range, on an annual basis, for the foreseeable future.

*Selling, general, and administrative expenses.* Selling, general, and administrative expenses were \$92.9 million and \$76.7 million for the quarters ended September 30, 2017 and 2016, respectively. Selling, general and administrative expenses were \$280.2 million and \$239.6 million for the nine months ended September 30, 2017 and 2016, respectively. The increase in selling, general, and administrative expenses year over year for the three and nine month periods was primarily related to the inclusion of selling, general, and administrative expenses of companies acquired in the last 12 months. Selling, general, and administrative expenses as a percentage of revenue were 20.0 percent and 18.9 percent for the quarters ended September 30, 2017 and 2016, respectively. Selling, general and administrative expenses as a percentage of revenue were 21.5 percent and 20.2 percent for the nine month periods ended September 30, 2017 and 2016, respectively. Over the past five annual periods through December 31, 2016, our annual selling, general and administrative expenses have varied between 19.4 percent and 21.7 percent of revenue, and we currently expect these expenses to remain within that range, on an annual basis, for the foreseeable future.

*Interest expense.* Interest expense for the three months ended September 30, 2017, was \$3.8 million, compared to \$5.7 million for the same period of 2016. Interest expense for the nine months ended September 30, 2017, was \$12.7 million, compared to \$13.5 million for the nine months ended September 30, 2016. Interest expense in 2017 was primarily associated with the \$425 million aggregate principal amount of our 3.125 percent senior unsecured notes and amounts drawn under our credit facility. During the three month period ended September 30, 2017 we paid off the outstanding amount drawn on our credit facility. Interest expense in 2016 was primarily associated with the \$250 million aggregate principal amount of our 3.75 percent senior unsecured notes and our term loan that was drawn upon under our credit agreement.

*Income taxes.* Our income tax provision of \$21.0 million and \$46.1 million for the three and nine month periods ended September 30, 2017, represents an effective tax rate of 24.8 percent and 22.6 percent, respectively. Our income tax provision for the three and nine month periods ended September 30, 2016 was \$16.6 million and \$85.6 million, which represented an effective tax rate of 22.0 percent and 44.9 percent, respectively. The effective tax rate for the three and nine months ended September 30, 2017 is lower than the United States Federal tax rate of 35 percent mainly due to the mix of lower foreign jurisdiction tax rates, the effect of federal, foreign and state tax credits, excess tax benefits for stock compensation, and other discrete adjustments. The first quarter of 2016 included discrete tax charges totaling \$39.6 million related to the January 11, 2016, announcement from the European Commission of a decision concluding that certain rules under Belgian tax legislation are deemed to be incompatible

with European Union regulations on state aid. As a result of this decision, the European Commission has directed the Belgian Government to recover past taxes from certain entities, reflective of disallowed state aid, which impacts one of the Company's international subsidiaries. The Belgian Government announced they have appealed this decision and filed action for an annulment in the General Court of the European Union, and in July 2016 the Company filed a separate appeal with the General Court of the European Union. In accordance with FASB ASC Topic 740, "Income Taxes," the Company recorded discrete tax expense of \$39.6 million during 2016, related to this matter and on January 10, 2017, received tax assessments from the Belgium government for a similar amount, which the Company has classified as current taxes payable on the Consolidated Balance Sheet as of September 30, 2017. The Company has filed a complaint against the Belgian tax assessments, and the result of this complaint, the appeal with the General Court of the European Union, new information received from the Belgian Government, or other future events may cause the income tax provision associated with the decision to be entirely or partially reversed.

## Segment Operating Results

The Company is currently organized into six reportable operating segments. See Note 17, "Operating Segments and Related Information," of the Notes to the Consolidated Financial Statements for a description of each segment, including the types of products and services from which each segment derives its revenues. On August 30, 2017, we announced our plans to realign the business operations into three principle business units: Government and Defense, Industrial, and Commercial. The Government and Defense business unit will consist of the current Surveillance and Detection segments, excluding the Outdoor and Tactical Systems (OTS) business; The Industrial business unit will consist of the current Instruments and OEM and Emerging segments, excluding the Intelligent Traffic Systems (ITS) business; and the Commercial business unit will consist of the current Maritime and Security segments, along with the ITS and OTS businesses. With this consolidation, we intend to reduce complexity, realize greater operating synergies, and enhance management focus. We expect to report our financial results in accordance with this new operating structure beginning with the first quarter 2018 operating results. The operating results of our six current reportable operating segments for the three and nine months ended September 30, 2017 are presented below.

### Surveillance

Surveillance operating results are as follows (in millions, except percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	\$ 146.8	\$ 136.4	\$ 394.7	\$ 374.0
Earnings from operations	44.9	41.4	104.3	103.9
Operating margin	30.6%	30.4%	26.4%	27.8%
Backlog			395	363

Surveillance revenue for the quarter ended September 30, 2017, increased by 7.6 percent compared to the same period of 2016. Surveillance revenue for the nine months ended September 30, 2017, increased by 5.5 percent compared to the same period of 2016. The increase in revenue for the quarter ended September 30, 2017, compared to the same period of 2016 was driven by increase in sales in Airborne and Weapon Sights markets, and the addition of the Prox Dynamics business, which was acquired in November 2016, partially offset by lower Land market sales. The increase in revenue for the nine months ended September 30, 2017 compared to the same period of 2016 was predominately due to the addition of Armasight, which was acquired in June 2016, the Prox Dynamics business, and increased Airborne sales. The increase in earnings from operations for the three and nine month periods ended September 30, 2017, compared to the same periods in 2016, was primarily due to higher revenues and favorable product mix, partially offset by increased operating expenses from the acquired businesses. The increased backlog in the Surveillance segment is largely attributed to the \$74.7 million contract for land surveillance systems from the United States Army received in September 2017.

### ***Instruments***

Instruments operating results are as follows (in millions, except percentages):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Revenue	\$ 91.4	\$ 82.7	\$ 255.3	\$ 240.2
Earnings from operations	29.6	27.6	74.4	67.3
Operating margin	32.4%	33.4%	29.1%	28.0%
Backlog			34	27

Instruments segment revenue for the quarter ended September 30, 2017, increased by 10.6 percent compared to the same period of 2016. Instruments revenue for the nine months ended September 30, 2017, increased by 6.3 percent compared to the same period of 2016. The increase in revenue for the three and nine month periods was predominately attributable to strength in the Premium and Volume Handheld product lines driven by new product launches, supplemented by growth in Optical Gas and Fire products. The revenue growth for the three and nine month periods was partially offset by declines in the test and measurement product lines. The increase in earnings from operations for the three and nine months ended September 30, 2017, compared to the same periods of 2016, was primarily due to the higher revenue base.

### ***Security***

Security operating results are as follows (in millions, except percentages):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Revenue	\$ 65.7	\$ 56.4	\$ 160.4	\$ 166.9
Earnings from operations	6.5	4.8	8.1	7.0
Operating margin	9.9%	8.5%	5.0%	4.2%
Backlog			24	23

Security segment revenue for the quarter ended September 30, 2017, increased by 16.4 percent compared to the same period of 2016. Security revenue for the nine months ended September 30, 2017, decreased by 3.9 percent compared to the same period of 2016. The increase in revenue for the three month period ended September 30, 2017 was predominately due to growth in the Lorex-branded and other consumer-grade retail sales. The decrease in revenue for the nine month period ended September 30, 2017 compared to the same period ended September 30, 2016 was primarily due to a reduction in sales for consumer-grade security products in retail channels during the first six months of 2017, partially offset by increased consumer-grade sales through our e-commerce channel. The increase in earnings from operations for the three and nine months ended September 30, 2017, compared to the same periods of 2016, was due to cost savings initiatives in 2017.

### ***OEM & Emerging Markets***

OEM & Emerging Markets operating results are as follows (in millions, except percentages):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Revenue	\$ 87.2	\$ 62.7	\$ 259.4	\$ 167.5
Earnings from operations	26.9	20.7	77.6	48.1
Operating margin	30.9%	32.9%	29.9%	28.7%
Backlog			162	139

OEM & Emerging Markets segment revenue for the quarter ended September 30, 2017, increased by 39.0 percent compared to the same period of 2016. The increase in revenue for the three month period ended September 30, 2017 was primarily related to revenue from the Point Grey business acquired in November 2016, supplemented by growth in our unmanned aerial systems and mobile accessories product lines. OEM & Emerging Markets revenue for the nine months ended September 30, 2017, increased by 54.8 percent compared to the same period of 2016. The increase in revenue for the nine month period was primarily due to the Point Grey acquisition and growth in our cores and traffic product lines. The increase in earnings from operations for the three and nine months ended September 30, 2017, compared to the same periods of 2016, was due to higher revenues. The increase in backlog for the OEM & Emerging Markets segment was primarily attributed to the inclusion of backlog associated with the Point Grey acquisition.

### **Maritime**

Maritime operating results are as follows (in millions, except percentages):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Revenue	\$ 42.3	\$ 40.6	\$ 145.9	\$ 147.5
Earnings from operations	4.5	3.2	19.1	16.5
Operating margin	10.6%	7.8%	13.1%	11.2%
Backlog			16	24

Maritime segment revenue for the quarter ended September 30, 2017, increased by 4.1 percent compared to the same period of 2016. The increase was due to sales on the new Axiom line of multi-function displays which began shipping during the second quarter of 2017. Maritime revenue for the nine months ended September 30, 2017, decreased by 1.1 percent. The decrease in revenue for the nine month period of 2017 compared to the same period of the prior year was driven by a decline in Thermal camera sales, partially offset by the increase in multi-function display sales. The increase in operating income for the three and nine month periods ended September 30, 2017 compared to the same periods of 2016 was driven by stronger margins on shipments of new products introduced in 2017.

### **Detection**

Detection operating results are as follows (in millions, except percentages):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Revenue	\$ 31.4	\$ 26.4	\$ 89.9	\$ 91.4
Earnings from operations	8.9	7.0	24.6	25.6
Operating margin	28.3%	26.5%	27.4%	28.0%
Backlog			78	68

Detection segment revenue for the quarter ended September 30, 2017, increased by 18.7 percent compared to same period of 2016. The increase for the quarter ended September 30, 2017 compared to the same period of 2016 was due to higher shipments of our CBRNE threat response systems to the United States government customers and higher sales of our ChemBio and Radiation products. Detection revenue for the nine months ended September 30, 2017, decreased by 1.7 percent. The decrease in revenue for the nine month period ending September 30, 2017, compared to the same periods of 2016, was primarily due to lower shipments of our CBRNE threat response systems during the period. These shipments account for a significant portion of Detection revenues, and timing of delivery schedules impacts periodic results. The increase in earnings from operations for the three month period ended September 30, 2017, compared to the same period of 2016 was due to the higher revenues in the quarter, while the decrease for the nine months ended September 30, 2017, compared to the same period of 2016 was due to lower revenues.

## Liquidity and Capital Resources

At September 30, 2017, we had a total of \$437.0 million in cash and cash equivalents, \$136.6 million of which resided in the United States and \$300.4 million at our foreign subsidiaries, compared to cash and cash equivalents at December 31, 2016, of \$361.3 million, of which \$98.3 million resided in the United States and \$263.0 million at our foreign subsidiaries. The increase in cash and cash equivalents during the nine months ended September 30, 2017, was primarily due to cash provided from operations of \$209.3 million and proceeds of \$44.2 million from shares issued under our stock compensation plans, partially offset by the pay down on our revolving credit facility of \$97.5 million, capital expenditures of \$31.9 million and dividend payments of \$61.8 million.

Cash provided by operating activities during the nine months ended September 30, 2017, totaled \$209.3 million, which primarily consisted of net earnings, adjusted for depreciation and amortization, stock-based compensation, other non-cash items and changes in working capital.

Cash used for investing activities for the nine months ended September 30, 2017, totaled \$29.0 million, which primarily consisted of capital expenditures in the ordinary course of business.

Cash used by financing activities for the nine months ended September 30, 2017, totaled \$124.6 million, which primarily consisted of repayment of borrowings under our revolving credit facility and the payment of quarterly dividends, partially offset by proceeds from share issuances pursuant to our stock plans.

On February 8, 2011, we entered into a Credit Agreement (“Credit Agreement”) with Bank of America, N.A., U.S. Bank National Association, JPMorgan Chase Bank N.A. and other Lenders. The Credit Agreement provides for a \$200 million, five-year revolving line of credit. On April 5, 2013, the Credit Agreement was amended to extend the maturity of the revolving credit facility from April 8, 2016 to April 5, 2018, in addition to incorporating a \$150 million term loan facility maturing April 5, 2019. On May 31, 2016, the Credit Agreement was further amended to increase the borrowing capacity to \$500 million and to extend the maturity of the revolving credit facility from April 5, 2018 to May 31, 2021. The amendment also incorporated a revised schedule of fees and interest rate spreads. We have the right, subject to certain conditions, including approval of additional commitments by qualified lenders, to increase the revolving line of credit under the Credit Agreement by an additional \$200 million until May 31, 2021. The Credit Agreement allows us and certain designated subsidiaries to borrow in United States dollars, European euros, Swedish kronor, British pound sterling, Japanese yen, Canadian dollars, Australian dollars, and other agreed upon currencies. Interest rates under the Credit Agreement are determined based on the type of borrowing. Interest associated with borrowings can be based on either the prime lending rate of Bank of America, N.A. or the published Eurocurrency rate (i.e. LIBOR). The borrowings have an applicable margin that ranges from 0.125 percent to 2.125 percent depending on the applicable base rate and our consolidated total leverage ratio. Including the respective spreads, the one-month Eurocurrency-based borrowing rate was 2.610 percent per annum and the prime lending-based borrowing rate was 4.625 percent per annum at September 30, 2017. The Credit Agreement requires us to pay a commitment fee on the amount of unused revolving commitments at a rate, based on our total leverage ratio, which ranges from 0.150 percent to 0.300 percent of unused revolving commitments. At September 30, 2017, the commitment fee on the amount of unused revolving credit was 0.175 percent per annum. The Credit Agreement contains two financial covenants that require the maintenance of a total leverage ratio and an interest coverage ratio, with which the Company was in compliance at September 30, 2017. The credit facilities available under the Credit Agreement are unsecured.

On May 31, 2016, the Company drew down \$105 million under the revolving credit facility and repaid the term loan originally issued under the credit agreement dated April 5, 2013. Interest was accrued and paid monthly based on the one-month LIBOR rate. To manage the interest rate risk arising from the variability in monthly interest expense attributable to amounts drawn under the revolver, the Company entered into two amortizing interest rate swaps with an aggregate of \$105 million. The interest rate swaps were designated, and effective, as cash flow hedges.

During the quarter ended September 30, 2017, the Company repaid all amounts outstanding under the revolving credit facility. Concurrently, the Company exited both interest rate swaps which had a combined notional value at the time of \$86.3 million. We had \$16.9 million of letters of credit outstanding under the Credit Agreement at September 30, 2017, which reduced the total available revolving credit under the Credit Agreement.

In June 2016, we issued \$425 million aggregate principal amount of our 3.125 percent senior unsecured notes due June 15, 2021 (the “Notes”). The net proceeds from the issuance of the Notes were approximately \$421.0 million, after deducting underwriting discounts and offering expenses, which are being amortized over a period of five years. Interest on the Notes is payable semiannually in arrears on December 15 and June 15. The proceeds from the Notes were used to repay our 3.75 percent

senior unsecured notes that were due September 1, 2016, and are being used for general corporate purposes, which include working capital and capital expenditure needs, business acquisitions, and repurchases of our common stock.

On February 5, 2015, our Board of Directors authorized the repurchase of up to 15.0 million shares of our outstanding common stock. An aggregate of 6.3 million shares were repurchased under this authorization, which expired on February 5, 2017. On February 8, 2017, our Board of Directors authorized the repurchase of up to 15.0 million shares of our outstanding common stock. This authorization will expire on February 8, 2019. As of September 30, 2017, no shares have been repurchased under the February 8, 2017 authorization.

United States income taxes have not been provided for accumulated earnings of certain subsidiaries outside of the United States as we currently intend to reinvest the earnings in operations and other activities outside the United States indefinitely. Should we subsequently elect to repatriate such foreign earnings, we would need to accrue and pay United States income taxes, thereby reducing the amount of our cash.

We believe that our existing cash combined with the cash we anticipate generating from operating activities, and our available credit facilities and financing available from other sources will be sufficient to meet our cash requirements for the next twelve months. We do not have any significant commitments nor are we aware of any significant events or conditions that are likely to have a material impact on our liquidity or capital resources.

#### **Off-Balance Sheet Arrangements**

As of September 30, 2017, we leased our non-owned facilities under operating lease agreements. We also leased certain operating machinery and equipment and office equipment under operating lease agreements. Except for these operating lease agreements, we do not have any off-balance sheet arrangements that have or are likely to have a material current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

## Recent Accounting Pronouncements

### *Recently Issued Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which establishes new guidance under which companies will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 also provides for additional disclosure requirements. The FASB has recently issued several amendments to the new standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations. The amendments include (i) ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606)-Principal versus Agent Considerations, which was issued in March 2016, and clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09, and (ii) ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606)-Identifying Performance Obligations and Licensing, which was issued in April 2016, and amends the guidance in ASU No. 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property.

The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. While ASU 2014-09 was to be effective for annual periods and interim periods beginning after December 15, 2016, on July 9, 2015, the FASB approved the deferral of the effective date to periods beginning on or after December 15, 2017. Accordingly, the Company currently intends to adopt ASU 2014-09 on January 1, 2018. The Company currently plans to adopt using the modified retrospective approach.

The Company has made progress toward completing the evaluation of the potential changes from adopting the new standard on its financial reporting and disclosures. The Company has evaluated the impact of the standard on all of its revenue streams and most of its significant contracts. The Company has completed the assessment of the impact on its business processes, controls and systems. During the third quarter of 2017, the Company completed the design of the changes to our business processes, controls and systems. The Company plans to implement the changes in the fourth quarter of 2017. The Company has also begun quantifying the impact of the adoption of the standard on retained earnings as of January 1, 2017. However, the impact to retained earnings is not known at this time, as it will be dependent on the number, size, and complexity of contracts that have not been substantially completed as of December 31, 2017.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The amendments in this update require the identification of arrangements that should be accounted for as leases by lessees. In general, for lease arrangements exceeding a twelve-month term, these arrangements must now be recognized as assets and liabilities on the balance sheet of the lessee. ASU 2016-02 requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted, and the Company currently intends to adopt ASU 2016-02 on January 1, 2019. The Company is assessing the impact ASU 2016-02 will have on its consolidated financial statements and expects that the primary impact upon adoption will be the recognition, on a discounted basis, of its minimum commitments under noncancelable operating leases on its consolidated balance sheets resulting in the recording of right of use assets and lease obligations.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"). The amendments in this update eliminate the exception of recognizing, at the time of transfer, current and deferred income taxes for intra-entity asset transfers other than inventory. ASU 2016-16 is effective for interim and annual reporting periods beginning after December 15, 2017, and should be applied on a modified retrospective transition basis. The Company is currently planning to adopt ASU 2016-16 on January 1, 2018. The Company has estimated that there will be a remaining deferred tax benefit of \$6.5 million recorded in prepaid expenses and other current assets and other assets as of December 31, 2017, which represents the tax benefit that was deferred in accordance with current GAAP. At adoption, the Company will recognize this amount through a cumulative-effect adjustment to retained earnings.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01"). The amendments in this update clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for interim and annual reporting periods beginning after December 15, 2017. The Company currently intends to adopt ASU 2017-01 on January 1, 2018, and does not expect the adoption of ASU 2017-01 to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Updated No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). The amendments in this update simplify the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual, or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendment should be applied on a prospective basis. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments in ASU 2017-04 are to be applied on a prospective basis and are not expected to have a material impact on the Company's consolidated financial statements.

### **Critical Accounting Policies and Estimates**

The Company reaffirms the critical accounting policies and its use of estimates as reported in its Form 10-K for the fiscal year ended December 31, 2016, as described in Note 1, "Nature of Business and Significant Accounting Policies," of the Notes to the Consolidated Financial Statements included in the Form 10-K for the fiscal year ended December 31, 2016.

### **Contractual Obligations**

There were no material changes to the Company's contractual obligations outside the ordinary course of its business during the quarter ended September 30, 2017.

### **Contingencies**

See Note 15, "Contingencies," of the Notes to the Consolidated Financial Statements for a description of an ongoing lawsuit filed by Raytheon Company against FLIR Systems, Inc. and its subsidiary, FLIR Commercial Systems, Inc., the disclosure of certain matters by the Company to the United States Department of State Office of Defense Trade Controls Compliance, communications to the Company from the United States Department of Commerce Bureau of Industry and Security, and the Company's current estimates of the range of potential loss associated with quality concerns identified by the Company regarding certain SkyWatch Surveillance Towers.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of September 30, 2017, the Company has not experienced any changes in market risk exposure that would materially affect the quantitative and qualitative disclosures about market risk presented in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

As of September 30, 2017, the Company completed an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

**Changes in Internal Control Over Financial Reporting**

There was no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended September 30, 2017, that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company is subject to legal proceedings, claims and litigation arising in the ordinary course of its business. See Note 15, "Contingencies" of the Notes to the Consolidated Financial Statements for additional information on the Company's legal proceedings.

### ITEM 1A. RISK FACTORS

The following are important factors that could cause actual results or events to differ materially from those contained in any forward-looking statements made by or on behalf of the Company. If we are unable to adequately respond to these risks and uncertainties, our business, financial condition and results of operations could be materially adversely affected. Additionally, we cannot be certain or give any assurance that any actions taken to reduce known risks and uncertainties will be effective.

#### **Risks, Uncertainties and Other Factors Related to Our Business**

*We depend on the United States government for a material portion of our business and changes in government spending could adversely affect our business*

We derive significant revenue from contracts or subcontracts funded by United States government agencies. A significant reduction in the purchase of our products by these agencies or contractors for these agencies would have a material adverse effect on our business. For the fiscal years ended December 31, 2016, 2015 and 2014, approximately 25 percent, 21 percent and 20 percent, respectively, of our revenues were derived directly or indirectly from sales to the United States government and its agencies. The funding of contracts awarded to us depends on the overall United States government budget and appropriations process, which is beyond our control. In addition, at its discretion, the United States government may change its spending priorities and/or terminate, reduce or modify contracts.

Substantial uncertainty exists in the spending levels and priorities of the United States government, particularly with respect to military expenditures. Continued and further reductions in military spending could have a material adverse effect on our results from operations.

*As a United States government supplier, we are subject to a number of procurement rules and regulations*

Government contractors must comply with specific procurement regulations and other requirements and are subject to routine audits and investigations by United States government agencies. In addition, violations of these regulations or other unrelated laws and statutes can lead to debarment and other penalties. If we fail to comply with procurement rules and regulations and other laws and statutes, the results could include: reductions in the value of contracts; contract modifications or termination; the assessment of penalties and fines; and/or suspension or debarment from United States government contracting or subcontracting for a period of time or permanently. An adverse action by the United States government could also result in lost sales to non-governmental customers who might disqualify us as a result of such adverse action. The impairment or loss of our government contracts could have a material adverse effect on our business.

*Operating margins may be negatively impacted by reduction in sales or by a change in the mix of products sold*

Our expense levels are based, in part, on our expectations regarding future sales and these expenses are largely fixed in the short term. Some expenses, such as those related to research and development activities, would likely be maintained in the event of a sales downturn in order to maintain and enhance the long-term competitiveness of the Company. We maintain inventories of finished goods, components and raw materials at levels we believe are necessary to meet anticipated sales. Accordingly, we may not be able to reduce our costs in a timely manner to compensate for any unexpected shortfall between forecasted and actual sales. Any significant shortfall of sales may result in us carrying higher levels of inventories of finished goods, components and raw materials thereby increasing our risk of inventory obsolescence and corresponding inventory write-downs and write-offs. Our fixed costs, including facilities and information technology costs, compliance and public company costs, and depreciation and amortization related to previous acquisitions and capital expenditures, are significant and are difficult to reduce in the short term.

Our operating margins vary by product and substantial changes in the mix of products sold could also have a negative impact on our operating margins.

*We may experience impairment in the value of our tangible and intangible assets*

Our industry is subject to rapid changes in technology, which may result in unexpected obsolescence or impairment of our assets. Our intangible assets, including goodwill, represent a significant portion of our total assets. Most of these intangibles are the result of acquisitions in which the purchase price exceeded the value of the tangible assets acquired. We amortize certain of these intangibles over their anticipated useful life and review goodwill and indefinite-lived intangible assets for impairment annually or more frequently if warranted by events. To date we have not experienced any impairment of our intangible assets, but there can be no assurance that we will not experience such impairment in the future. In addition, certain of our tangible assets such as inventory and machinery and equipment may experience impairment in their value as a result of such events as the introduction of new products, changes in technology or changes in customer demand patterns. We depreciate our machinery and equipment at levels we believe are adequate; however, there can be no assurance that there will not be a future impairment that may have a material impact on our business, financial condition and results of operations.

*Unfavorable results of legal proceedings could materially adversely affect us*

We are subject to various legal proceedings and claims that have arisen out of the ordinary conduct of our business and are not yet resolved, and additional claims may arise in the future. Results of legal proceedings cannot be predicted with certainty. Regardless of merit, litigation may be both time-consuming and disruptive to our operations and could cause significant expense and diversion of management attention. From time to time, we are involved in lawsuits concerning intellectual property, torts, contracts, shareholder litigation, administrative and regulatory proceedings and other matters, as well as governmental inquiries and investigations, the outcomes of which may be significant to our results of operations and may limit our ability to engage in our business activities. In recognition of these considerations, we have and may in the future enter into material settlements to avoid ongoing costs and efforts in defending or pursuing a matter. Should we fail to prevail in certain matters, or should several of these matters be resolved against us in the same reporting period, we may be faced with significant monetary damages or injunctive relief against us that could adversely affect our business, financial condition, operating results and cash flows. While we have insurance related to our business operations, it may not apply to or fully cover liabilities we incur as a result of these lawsuits. We record accruals for liabilities where we believe a loss to be probable and reasonably estimable. However, our actual costs may differ materially from these estimates.

*We face risks from international sales and business activities*

We market and sell our products worldwide and international sales have accounted for, and are expected to continue to account for, a significant portion of our revenue. For the years ended December 31, 2016, 2015 and 2014, international sales accounted for 46 percent, 47 percent and 49 percent, respectively, of our total revenue. We also manufacture certain products and subassemblies in Europe and we have several contract manufacturing agreements with third parties in Europe and in Asia. Certain of these products, particularly our thermal and infrared products, are subject to substantial government regulation and licensing and end use restrictions throughout the world. Our international business activities are subject to a number of risks, including:

- the imposition of and changes to governmental licensing restrictions and controls impacting our technology and products;
- restrictions and prohibitions on the export of technology and products, including recent changes in regulation prohibiting the sale of certain of our products to certain end users without a license;
- international trade restrictions;
- difficulty in collecting receivables and governmental restrictions with respect to currency;
- inadequate protection of intellectual property;
- labor union activities;
- changes in tariffs and taxes;
- restrictions on repatriation of earnings;
- restriction on the importation and exportation of goods and services;
- risks, costs, impacts and obligations associated with the United States Foreign Corrupt Practices Act ("FCPA"), and other anti-bribery and anti-corruption laws applicable to us, and laws applicable to global trade and United States exports and

costs and penalties from violations of such laws and related regulations, including the costs associated with required remedial and other increased compliance activity;

- difficulties in staffing and managing international operations; and
- political and economic instability.

Some of these factors recently have had an adverse impact on our sales and operations and increased the Company's cost of doing business and subjected the business to additional rules, policies and procedures that impacted the operation of the Company. No assurance can be given that these factors will not have a material adverse effect on our future international sales and operations and, consequently, on our business, financial condition and results of operations. Furthermore, compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business both in the United States and in international jurisdictions. These regulations include import and export laws, anti-competition laws, anti-corruption laws, such as the FCPA and the U.K. Bribery Act, and other local laws prohibiting corrupt payments to governmental officials, data privacy requirements, tax laws, and accounting, internal control and disclosure requirements. For example, on April 8, 2015, the Company and the Securities and Exchange Commission ("SEC") entered into an agreement through entry of an Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities and Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (the "SEC Order"). The SEC Order settled charges under the FCPA with respect to incidents of improper travel and gifts involving FLIR's Middle East operation. Pursuant to the SEC Order, the Company is obligated to "cease and desist" from committing any future violations of the Securities Exchange Act of 1934, as amended. Violations of these laws and regulations could result in civil and criminal fines, penalties and sanctions against us, our officers or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially affect our reputation, business and results of operations. In certain foreign jurisdictions, there is a higher risk of fraud or corruption and greater difficulty in maintaining effective internal controls and compliance programs. Further, although we have implemented and continue to implement policies and procedures designed to promote compliance with applicable laws and regulations, there can be no assurance that our employees, contractors or agents will not violate our policies or applicable laws and regulations. In addition, our international contracts may include industrial cooperation agreements requiring specific in-country purchases, investments, manufacturing agreements or other financial obligations, known as offset obligations, and may provide for penalties if we fail to meet such requirements. The impact of these factors is difficult to predict, but one or more of them could have a material adverse effect on our financial position, results of operations, or cash flows.

*We face risks from currency fluctuations*

Historically, currency fluctuations have affected our operating results. Changes in the value of foreign currencies in which our sales or costs incurred are denominated have in the past caused, and could in the future cause, fluctuations in our operating results. We seek to reduce our exposure to currency fluctuations by denominating, where possible, our international sales in United States dollars, by balancing expenses and revenues in various currencies and by undertaking limited hedging of forecasted currency exposures. With respect to international sales denominated in United States dollars, a decrease in the value of foreign currencies relative to the United States dollar could make our products less price competitive.

*We may not be successful in obtaining the necessary export licenses to conduct operations abroad and the United States government may prevent proposed sales to foreign governments and customers*

Export licenses and other authorizations are required from United States government agencies under the ITAR, the Export Administration Regulation ("EAR"), the Office of Foreign Assets Control ("OFAC") Regulations, the Trading with the Enemy Act of 1917, the International Emergency Economic Powers Act ("IEEPA"), the Arms Export Control Act of 1976 ("AECA"), and other similar laws and regulations for the sale, use and export of many of our products and related data and services. Thermal and infrared products and technical data have been subject to the ITAR and EAR, historically under United States Munitions List ("USML") Category XII and Commerce Control List ("CCL") Category 6. Recently, the United States Government's export reform effort resulted in the transition of various Company products from the USML to the CCL, shifting the licensing requirements and restrictions for products regulated by the Department of Commerce under the EAR. This transition has increased the licensing requirements and restrictions on some products and reduced the requirements and restrictions on others. We can give no assurance that we will be successful in obtaining the necessary licenses from the United States Department of State or Department of Commerce required to conduct our business as presently or historically conducted.

The United States export licensing environment has been affected by a number of factors, including but not limited to, the aftermath of 9/11, the rise of terrorism and the changing geopolitical environment, heightened tensions with other countries (which shift and evolve over time), and the United States reliance on the tactical advantage of the night-time war fighter. Some of these factors have affected the thermal imaging and infrared technology industry overall while others have impacted the Company directly. In addition, the Company's 2014 submission to the United States Department of State Office of Defense Trade Controls Compliance ("DTCC") pursuant to ITAR § 127.12(c), regarding the unauthorized export of technical data and defense services to dual and third country nationals in at least four facilities of the Company, have led to heightened scrutiny of export licenses for products in our markets and in some cases, has resulted in lengthened drafting and review periods for our license applications, including in countries where we have historically made significant sales. Subsequent engagement with the DTCC as part of the Company's 2014 and related submissions and other communications concerning the Company's licensing posture overall, highlight DTCC's focus on the manner in which the Company handles exports of its products, technical data and services subject to the ITAR. In addition, concerns with respect to potential diversion of certain of the Company's products to prohibited end users and countries subject to economic and other sanctions implemented by the United States government has caused the United States Department of Commerce Bureau of Industry and Security to restrict recently the Company's ability to sell 9hz thermal products without a license to customers in China not identified on a list maintained by the United States Department of Commerce.

Although we have taken actions and continue to take additional actions necessary to implement policies and procedures to promote an improved compliance culture and programs, there is no guarantee that our actions will be effective or that government agencies will not view our actions and programs with heightened scrutiny, including as a result of events outside the Company's control. As a result, we may receive more restrictive provisos or limitations on new license requests, wholesale denials of our license requests, suspensions or terminations of our existing licenses, or delays in receiving new licenses resulting from requests for follow-up information, due diligence requests or additional limitations on our sale to third parties. We can give no assurance that we will be successful in obtaining necessary licenses required to facilitate our international business. Failures to obtain or delays in obtaining licenses may prevent or limit our ability to market, sell, export, or transfer our products outside the United States and has had and could continue to have a material adverse effect on our business and its operating results.

*General economic conditions may adversely affect our business, operating results and financial condition*

Our operations and performance depend significantly on worldwide economic conditions and their impact on levels of capital investment and consumer spending. Economic factors that could adversely influence demand for the Company's products include uncertainty about global economic conditions leading to reduced levels of investment, changes in government spending levels and/or priorities, the size and availability of government budgets, customers' and suppliers' access to credit, consumer confidence and other macroeconomic factors affecting government, industrial or consumer spending behavior.

In recent years, our performance has been negatively impacted by reduced spending by United States government agencies, global economic weakness, and the Eurozone crisis. Continuation of the conditions that led to reduced spending and potential further reductions in spending globally by either consumers or government agencies could have a material adverse effect on our business, financial condition and results of operations.

*Our primary markets are volatile and unpredictable*

Our business depends on the demand for our products and solutions in a variety of commercial, industrial and government markets. In the past, the demand for our products in these markets has fluctuated due to a variety of factors, some of which are beyond our control, including:

- the timing, number and size of orders from, and shipments to, our customers, as well as the relative mix of those orders;
- variations in the volume of orders for a particular product or product line in a particular fiscal quarter;
- the size and timing of new contract awards;
- the timing of the release of government funds for procurement of our products; and
- the timing of orders and shipments within a given fiscal quarter.

Seasonal fluctuations in our operating results are an outcome of:

- the seasonal pattern of contracting by the United States government and certain foreign governments;
- the desire of customers to take delivery of equipment prior to fiscal year ends due to funding considerations; and
- the tendency of commercial enterprises to utilize fully annual capital budgets prior to expiration.

*Competition in our markets is intense and our failure to compete effectively could adversely affect our business*

Competition in the markets for our products is intense. The speed with which companies can identify new applications for thermal imaging, develop products to meet those needs and supply commercial quantities at low prices to the market are important competitive factors. We believe the principal competitive factors in our markets are product performance, price, customer service and training, product reputation, and effective marketing and sales efforts. Many of our competitors have greater financial, technical, research and development, and marketing resources than we do. All of these factors, as well as the potential for increased competition from new market entrants, require us to continue to invest in, and focus on, research and development and new product innovation. No assurance can be given that we will be able to compete effectively in the future and a failure to do so could have a material adverse effect on our business, financial condition and results of operations.

*Our products may suffer from defects or errors leading to substantial product liability, damage or warranty claims*

We include complex system designs and components in our products that may contain errors or defects, particularly when we incorporate new technology into our products or release new versions. If any of our products are defective, we might be required to redesign or recall those products or pay substantial damages or warranty claims. Such an event could result in significant expenses including expenses arising from product liability and warranty claims. It also could disrupt sales and affect our reputation and that of our products, which could have a material adverse effect on our business, financial condition and results of operations. As we expand our presence into new markets, we may face increased exposure to product liability claims. We maintain product liability insurance but cannot be certain that it will be sufficient or will continue to be available on acceptable terms.

#### **Risks, Uncertainties and Other Factors Related to Our Technology and Intellectual Property**

*Our inability to protect our intellectual property and proprietary rights and avoid infringing the rights of others could harm our competitive position and our business*

Our ability to compete successfully and achieve future revenue growth depends, in part, on our ability to protect our proprietary technology and operate without infringing the rights of others. To accomplish this, we rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements and contractual provisions to protect our proprietary rights. Many of our proprietary rights are held in confidence as trade secrets and are not covered by patents, making them more difficult to protect. Although we currently hold worldwide patents covering certain aspects of our technologies and products, and we are actively pursuing additional patents, we cannot be certain that we will obtain additional patents or trademarks on our technology, products and trade names. Furthermore, we cannot be certain that our patents or trademarks will not be challenged or circumvented by our competitors or that measures taken by us to protect our proprietary rights will adequately deter their misappropriation or disclosure. Any failure by us to protect our intellectual property could have a material adverse effect on our business, financial condition and results of operations. Moreover, because intellectual property does not necessarily prevent our competitors from entering the markets we serve, there can be no assurance that we will be able to maintain our competitive advantage or that our competitors will not develop capabilities equal or superior to ours.

Litigation over patents and other intellectual property is common in our industry. We have been the subject of patent and other intellectual property litigation in the past and cannot be sure that we will not be subject to such litigation in the future. Similarly, there exists the possibility we will assert claims in litigation to protect our intellectual property. Lawsuits defending or prosecuting intellectual property claims and related legal and administrative proceedings could result in substantial expense to us and significant diversion of effort of our personnel. An adverse determination in a patent suit or in any other proceeding in which we are a party could subject us to significant liabilities, result in the loss of intellectual property rights we claim or impact our competitive position. Additionally, an adverse determination could require us to seek licenses from third parties. If such licenses are not available on commercially reasonable terms or at all, our business, financial condition and results of operations could be adversely affected.

*Our future success will depend on our ability to respond to the rapid technological change in the markets in which we compete, our ability to introduce new or enhanced products and enter into new markets*

The markets in which we compete are characterized by rapid technological developments and frequent new product introductions, enhancements and modifications. Our ability to develop new products and technologies that anticipate changing customer requirements, reduce costs and otherwise retain or enhance our competitive position in existing and new markets will be an important factor in our future results from operations. We will continue to make substantial capital expenditures and incur significant research and development costs to improve our manufacturing capability, reduce costs, and develop and introduce new products and enhancements. If we fail to develop and introduce new products and technologies in a timely manner, our business, financial condition and results of operations would be adversely affected. In addition, we cannot be certain that our new products and technologies will be successful or that customers will accept any of our new products.

*Our business could be negatively impacted by cybersecurity threats and other security threats and technology disruptions*

We face certain security threats and technology disruptions, including threats to our information technology infrastructure, attempts to gain access to our or our customers' proprietary or classified information, threats to the physical security of our facilities and employees, threats of terrorism events, and failures of our technology tools and systems. We are subject to laws and rules issued by various agencies concerning safeguarding and maintaining infrastructure and physical security and information confidentiality. Our information technology networks and related systems are critical to the operation of our business and essential to our ability to successfully perform day-to-day operations. We are also involved with information technology systems for certain customers and other third parties, for which we face similar security threats as for our own. In particular, cybersecurity threats-which include, but are not limited to, computer viruses, spyware and malware, attempts to access information, denial of service attacks and other electronic security breaches-are persistent and evolve quickly. Such threats have increased in frequency, scope and potential impact in recent years. Further, a variety of technological tools and systems, including both company-owned information technology and technological services provided by outside parties, support our critical functions. These technologies, as well as our products, are subject to failure and the user's inability to have such technologies properly supported, updated, expanded or integrated into other technologies and may contain open source and third party software which may unbeknownst to us contain defects or viruses that pose unintended risks to our customers. These risks if not effectively mitigated or controlled could materially harm our business or reputation. While we believe that we have implemented appropriate measures and controls, there can be no assurance that such actions will be sufficient to prevent disruptions to critical systems, unauthorized release of confidential information or corruption of data.

We require user names and passwords in order to access our information technology systems. We use encryption and authentication technologies designed to secure the transmission and storage of data and prevent access to our data or accounts. These security measures are subject to third-party security breaches, employee error, malfeasance, faulty password management or other irregularities. For example, third parties may attempt to induce by fraud employees or customers into disclosing user names, passwords or other sensitive information, which may in turn be used to access our information technology systems. These security systems cannot provide absolute security. To the extent we were to experience a breach of our systems and were unable to protect sensitive data, such a breach could materially damage business partner and customer relationships, and curtail or otherwise impact the use of our information technology systems. Moreover, if a security breach of our information technology system affects our computer systems or results in the release of personally identifiable or other sensitive information of customers, business partners, employees and other third parties, our reputation and brand could be materially damaged, use of our products and services could decrease, and we could be exposed to a risk of loss, litigation and potential liability.

Although we have in the past and continue to be subject to cybersecurity threats and other security threats and technology disruptions, to date none has had a material impact on our business, financial condition or results of operations. Nonetheless, in the future, these types of events could disrupt our operations and customer and other third party information technology systems. They also could require significant management attention and resources, negatively impact our reputation among our customers and the public and challenge our eligibility for future work on sensitive or classified systems, which could have a material adverse effect on our business, financial condition and results of operations.

## **Risks, Uncertainties and Other Factors Related to Our Corporate Structure and Organization**

*Our future success depends in part on attracting and retaining key senior management and qualified technical, sales and other personnel*

Our future success depends in part on the efforts and continued services of our key executives and our ability to attract and retain qualified technical, sales and other personnel. Significant competition exists for such personnel and we cannot assure the retention of our key executives, technical and sales personnel or our ability to attract, integrate and retain other such personnel that may be required in the future. We cannot assure that employees will not leave and subsequently compete against us. If we are unable to attract and retain key personnel, our business, financial condition and results of operations could be adversely affected.

*We must successfully manage a complex global organization*

As we have grown, the size and scope of our worldwide operations have also increased substantially. We currently design, manufacture and market numerous product lines in locations worldwide. Significant management time and effort is required to manage effectively the increased complexity of the business and our failure to successfully do so could have a material adverse effect on our business, financial condition and results of operations. Our inability to continue to manufacture our products at one or more of our facilities as a result of, for example, a prolonged power outage, earthquake, fire or other natural disaster, or labor or political unrest, could prevent us from supplying products to our customers and could have a material adverse effect on our business, financial condition and results of operations.

*We may be unable to integrate successfully recent or future acquisitions into our operations, thereby disrupting our business and harming our financial condition and results of operations*

We have made twelve acquisitions of various sizes in the past five years. The integration of businesses, personnel, product lines and technologies can be difficult, time consuming and subject to significant risks. For example, we could lose key personnel from companies that we acquire, incur unanticipated costs, lose major sources of revenue, fail to integrate critical technologies, suffer business disruptions, fail to capture anticipated synergies, fail to establish satisfactory internal controls, or incur unanticipated liabilities. Any of these difficulties could disrupt our ongoing business, distract our management and employees, increase our expenses and decrease our revenue.

We frequently evaluate strategic opportunities available to us and it is likely that we will make additional acquisitions in the future. Such acquisitions may vary in size and complexity. Any future acquisitions are subject to the risks described above. Furthermore, we might assume or incur additional debt or issue additional equity securities to pay for future acquisitions. Additional debt may negatively impact our results and increase our financial risk, and the issuance of any additional equity securities could dilute our then existing shareholders' ownership. No assurance can be given that we will realize anticipated benefits of any future acquisitions, or that any such acquisition or investment will not have a material adverse effect on our business, financial condition and results of operations.

*We have indebtedness as a result of the issuance of our 3.125 percent senior unsecured notes (the "Notes") and borrowings against our unsecured credit facility, and we are subject to certain restrictive covenants under our unsecured credit facility and the indenture governing the Notes which may limit our operational and financial flexibility*

Our ability to meet our debt service obligations and comply with the financial covenants under our credit facility will be dependent upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. Our inability to meet our debt service obligations or comply with the required covenants could result in a default under the credit facility or indenture. In the event of any such default, under the credit facility, the lenders thereunder could elect to declare all outstanding debt, accrued interest and fees under the facility to be due and immediately payable. In the event of any such default under our indenture, either the trustee or the holders of at least 25 percent of the outstanding principal amount of the Notes could declare the principal amount of all of the Notes to be due and payable immediately.

*We may not be able to refinance our indebtedness on favorable terms, if at all, which could materially and adversely affect our liquidity and our ongoing results of operations.*

Our ability to refinance indebtedness, including the Notes, will depend in part on our operating and financial performance, which, in turn, is subject to prevailing economic conditions and to financial, business, legislative, regulatory and other factors beyond our control. In addition, prevailing interest rates or other factors at the time of refinancing could increase our interest expense. A refinancing of our indebtedness, including the Notes, could also require us to comply with more onerous covenants and further restrict our business operations. Our inability to refinance our indebtedness or to do so upon favorable terms could materially and adversely affect our business, results of operations, financial condition and cash flows, and make us vulnerable to adverse industry and general economic conditions.

*Changes in our effective income tax rate may have an adverse effect on our results of operations*

We are subject to taxes in the United States and numerous foreign jurisdictions, including Belgium, where a number of our subsidiaries are organized. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. Our future effective tax rate could be affected by changes in the mix of earnings in countries with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in the enforcement environment, and changes in tax laws or their interpretations, including in the United States and in foreign jurisdictions. For example, in January 2016, the European Commission announced a decision concluding that certain rules under Belgian tax legislation are deemed to be incompatible with European Union regulations on state aid. As a result of this decision, the European Commission has directed the Belgian Government to recover past taxes from certain entities, reflective of disallowed state aid, which impacts one of the Company's international subsidiaries. The Belgian Government announced they have appealed this decision and filed action for an annulment in the General Court of the European Union, and in July 2016 the Company filed a separate appeal with the General Court of the European Union. The Company recorded discrete tax expense of \$39.6 million during 2016 related to this matter and on January 10, 2017, received tax assessments from the Belgium government for a similar amount. The Company has filed a complaint against the Belgian tax assessments, and the result of this complaint, the appeal with the General Court of the European Union, new information received from the Belgian Government, or other future events may cause the income tax provision associated with the decision to be entirely or partially reversed.

Our future effective tax rate may be adversely affected by a number of additional factors including:

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes;
- changes in available tax credits;
- changes in share-based compensation expense;
- changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles;
- changes in foreign tax rates or agreed upon foreign taxable base; and/or
- the repatriation of earnings from outside the United States for which we have not previously provided for United States taxes.

Any significant increase in our future effective tax rates could adversely impact net income for future periods. In addition, the United States Internal Revenue Service ("IRS") and other tax authorities regularly examine our income tax returns. Our financial condition and results of operations could be adversely impacted if any assessments resulting from the examination of our income tax returns by the IRS or other taxing authorities are not resolved in our favor.

*State of Oregon law and our charter documents contain provisions that could discourage or prevent a potential takeover, even if the transaction would benefit our shareholders*

Other companies may seek to acquire or merge with us. An acquisition or merger of our Company could result in benefits to our shareholders, including an increase in the value of our common stock. Some provisions of our Articles of Incorporation and Bylaws, including our ability to issue preferred stock without further action by our shareholders, as well as provisions of the State of Oregon law, may discourage, delay or prevent a merger or acquisition that a shareholder may consider favorable.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<b>Number</b>	<b>Description</b>
10.1	<a href="#"><u>Separation and Release of Claims Agreement between FLIR Systems, Inc. and Thomas A. Surran effective as of September 30, 2017.(1)</u></a>
10.2	<a href="#"><u>Executive Officer Severance Plan Agreement between FLIR Systems, Inc. and Thomas A. Surran dated April 24, 2017.(1)</u></a>
10.3	<a href="#"><u>FLIR Systems, Inc. Executive Officer Severance Plan, effective May 1, 2017.(1)</u></a>
10.4	<a href="#"><u>Offer Letter (the "Offer Letter") between FLIR Systems, Inc. and Carol P. Lowe dated as of October 16, 2017 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on October 24, 2017).(1)</u></a>
10.5	<a href="#"><u>Change of Control Agreement between FLIR Systems, Inc. and Carol P. Lowe attached to the Offer Letter as Attachment A (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed on October 24, 2017).(1)</u></a>
31.1	<a href="#"><u>Principal Executive Officer Certification Pursuant to Sarbanes-Oxley Act of 2002, Section 302.</u></a>
31.2	<a href="#"><u>Principal Financial Officer Certification Pursuant to Sarbanes-Oxley Act of 2002, Section 302.</u></a>
32.1	<a href="#"><u>Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2	<a href="#"><u>Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

**SIGNATURE**

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

FLIR SYSTEMS, INC.

Date October 27, 2017

/s/ Shane R. Harrison

---

Shane R. Harrison

Sr. Vice President, Corporate Development & Strategy and Interim Chief Financial Officer

(Duly Authorized and Principal Financial Officer)

SEPARATION AND RELEASE OF CLAIMS AGREEMENT

This Separation and Release of Claims Agreement (“Agreement”) is made by and between Thomas A. Surran (“Employee”) and FLIR Systems, Inc. (the “Company”) (collectively referred to as the “Parties” or individually referred to as a “Party”).

RECITALS

WHEREAS, Employee was employed by the Company;

WHEREAS, Employee was required to sign an agreement protecting the confidentiality of Company information in connection with Employee’s employment with the Company (the “Confidentiality Agreement”);

WHEREAS, Employee was a Participant in the Company’s Severance Plan (the “Plan”), is eligible for certain defined benefits as outlined in the Employee’s Participation Agreement, which Employee signed as confirmation of Employee’s acceptance of the Plan (the “Participation Agreement”), and has suffered an enumerated employment loss as described in the Plan, effective as of September 30, 2017 (such date, the “Termination Date”);

WHEREAS, the Employee must enter into this Agreement as a condition of receiving any severance benefits in accordance with the Plan; and

WHEREAS, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions, and demands that the Employee may have against the Company and any of the Releasees as defined below, including, but not limited to, any and all claims arising out of or in any way related to Employee’s employment with or separation from the Company.

NOW, THEREFORE, in consideration of the mutual promises made herein, the Company and Employee hereby agree as follows:

COVENANTS

1. Consideration.

a. *Severance.* The Company agrees to provide Employee with the following, as described in Employee’s Participation Agreement: (i) a cash severance benefit in the amount of \$933,480 payable over the twelve (12) month period after termination of employment, (ii) all of the then-unvested and outstanding equity awards, the exercisability or vesting of which depends merely on the satisfaction of a service obligation by Employee to the Company, will vest in full (see Exhibit A) and (iii) the reimbursement of continued health coverage under COBRA for a period of twelve (12) months following Employee’s Termination Date or a lump sum payment in lieu of reimbursement, as applicable. In order to obtain reimbursement for COBRA coverage under this Section 1(a)(ii), Employee must timely elect and pay for continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (“COBRA”), within the time period prescribed pursuant to COBRA. COBRA reimbursements shall be made by the Company to Employee consistent with the Company’s normal expense reimbursement policy, provided that Employee submits documentation to the Company substantiating Employee’s payments for COBRA coverage. Notwithstanding the preceding, if the Company determines in its sole discretion that it cannot provide COBRA reimbursement benefits without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company will instead provide the Employee a taxable payment in an amount equal to the monthly COBRA premium that the Employee would be required to pay to continue the Employee’s group health coverage in effect on the date of termination of employment (which amount will be based on the premium for the first

month of COBRA coverage), which payments will be made regardless of whether the Employee elects COBRA continuation coverage and will commence in the month following the month of the Termination Date and continue for the period of months indicated in the Employee's Participation Agreement.

b. *Acknowledgement.* Employee acknowledges that without this Agreement, Employee is otherwise not entitled to the consideration listed in this paragraph 1.

2. Stock. To the extent Employee has entered into any Stock Agreements with the Company, the Parties agree that for purposes of determining the number of shares of the Company's common stock that Employee is entitled to purchase from the Company, pursuant to the exercise of outstanding options, Employee will be considered to have vested only up to the Termination Date, in addition to the vesting of any outstanding options that become vested pursuant to paragraph 1. a. (ii) of this Agreement. The exercise of Employee's vested options and shares shall continue to be governed by the terms and conditions of the Company's Stock Agreements.

3. Benefits. Employee's health insurance benefits shall cease on the last day of the month in which the Termination Date occurs, subject to Employee's right to continue Employee's health insurance under COBRA. Employee's participation in all benefits and incidents of employment, including, but not limited to, vesting in stock options, and the accrual of bonuses, vacation, and paid time off, ceased as of the Termination Date.

4. Payment of Salary and Receipt of All Benefits. Employee acknowledges and represents that, other than the consideration set forth in this Agreement, the Company has paid or provided all salary, wages, bonuses, accrued vacation/paid time off, premiums, leaves, housing allowances, relocation costs, interest, severance, outplacement costs, fees, reimbursable expenses, commissions, stock, stock options, vesting, and any and all other benefits and compensation due to Employee.

5. Release of Claims. Employee agrees that the foregoing consideration represents settlement in full of all outstanding obligations owed to Employee by the Company and its current and former officers, directors, employees, agents, investors, attorneys, shareholders, administrators, affiliates, benefit plans, plan administrators, professional employer organization or co-employer, insurers, trustees, divisions, and subsidiaries, and predecessor and successor corporations and assigns, (collectively, the "Releasees"). Employee, on Employee's own behalf and on behalf of Employee's respective heirs, family members, executors, agents, and assigns, hereby and forever releases the Releasees from, and agrees not to sue concerning, or in any manner to institute, prosecute, or pursue, any claim, complaint, charge, duty, obligation, demand, or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Employee may possess against any of the Releasees arising from any omissions, acts, facts, or damages that have occurred up until and including the Effective Date of this Agreement, including, without limitation:

a. any and all claims relating to or arising from Employee's employment relationship with the Company and the termination of that relationship;

b. any and all claims relating to, or arising from, Employee's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

c. any and all claims for wrongful discharge of employment, termination in violation of public policy, discrimination, harassment, retaliation, breach of contract (both express and implied), breach of covenant of good faith and fair dealing (both express and implied), promissory estoppel, negligent or intentional infliction of emotional distress, fraud, negligent or intentional misrepresentation, negligent or intentional interference with contract or prospective economic advantage, unfair business practices, defamation, libel,

slander, negligence, personal injury, assault, battery, invasion of privacy, false imprisonment, conversion, and disability benefits;

d. any and all claims for violation of any federal, state, or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, the Equal Pay Act, the Fair Labor Standards Act, the Fair Credit Reporting Act, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the Employee Retirement Income Security Act of 1974, the Worker Adjustment and Retraining Notification Act, the Family and Medical Leave Act, the Sarbanes-Oxley Act of 2002, the Immigration Reform and Control Act, Oregon Equality Act, Oregon Age Discrimination Law, Oregon Discrimination Against Injured Workers Law, Oregon Disability Discrimination Law, Oregon Family Leave Act, Oregon Whistleblower Protection Statute, Oregon Wage and Hour Law, as amended, Oregon Minimum Wage and Employment Conditions Law, Oregon Economic Dislocations Act, Oregon Contracts of Teachers and Administrators Law;

e. any and all claims for violation of the federal or any state constitution;

f. any and all claims arising out of any other laws and regulations relating to employment or employment discrimination;

g. any claim for any loss, cost, damage, or expense arising out of any dispute over the nonwithholding or other tax treatment of any of the proceeds received by Employee as a result of this Agreement; and

h. any and all claims for attorneys' fees and costs.

Employee agrees that the release set forth in this section shall be and remain in effect in all respects as a complete general release as to the matters released. This release does not extend to any obligations incurred under this Agreement. This release does not release claims that cannot be released as a matter of law, including any Protected Activity (as defined below). Any and all disputed wage claims that are released herein shall be subject to binding arbitration in accordance with Paragraph 17, except as required by applicable law. This release does not extend to any right Employee may have to unemployment compensation benefits.

6. **Acknowledgment of Waiver of Claims under ADEA.** **This section only applicable to Employee if Employee is over the age of 40 on the Termination Date.** Employee acknowledges that Employee is waiving and releasing any rights Employee may have under the Age Discrimination in Employment Act of 1967 ("ADEA"), and that this waiver and release is knowing and voluntary. Employee agrees that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Agreement. Employee acknowledges that the consideration given for this waiver and release is in addition to anything of value to which Employee was already entitled. Employee further acknowledges that he/she has been advised by this writing that: (a) Employee should consult with an attorney prior to executing this Agreement; (b) Employee has twenty-one (21) days within which to consider this Agreement; (c) Employee has seven (7) days following Employee's execution of this Agreement to revoke this Agreement; (d) this Agreement shall not be effective until after the revocation period has expired; and (e) nothing in this Agreement prevents or precludes Employee from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties, or costs for doing so, unless specifically authorized by federal law. In the event Employee signs this Agreement and returns it to the Company in less than the 21-day period identified above, Employee hereby acknowledges that Employee has freely and voluntarily chosen to waive the time period allotted for considering this Agreement. Employee acknowledges and understands that revocation must be accomplished by a written notification to the person executing this Agreement on the Company's behalf that is received prior to the Effective Date. The Parties agree that changes, whether material or immaterial, do not restart the running of the 21-day period.

7. Unknown Claims. Employee acknowledges that Employee has been advised to consult with legal counsel and that Employee is familiar with the principle that a general release does not extend to claims that the releaser does not know or suspect to exist in Employee's favor at the time of executing the release, which, if known by Employee, must have materially affected Employee's settlement with the releasee. Employee, being aware of said principle, agrees to expressly waive any rights Employee may have to that effect, as well as under any other statute or common law principles of similar effect.

8. No Pending or Future Lawsuits. Employee represents that Employee has no lawsuits, claims, or actions pending in Employee's name, or on behalf of any other person or entity, against the Company or any of the other Releasees. Employee also represents that Employee does not intend to bring any claims on Employee's own behalf or on behalf of any other person or entity against the Company or any of the other Releasees.

9. Confidentiality. Subject to paragraph 12 governing Protected Activity, Employee agrees to maintain in complete confidence the existence of this Agreement, the contents and terms of this Agreement, and the consideration for this Agreement (hereinafter collectively referred to as "Separation Information"). Except as required by law, Employee may disclose Separation Information only to Employee's immediate family members, the Court in any proceedings to enforce the terms of this Agreement, Employee's attorney(s), and Employee's accountant(s) and any professional tax advisor(s) to the extent that they need to know the Separation Information in order to provide advice on tax treatment or to prepare tax returns, and must prevent disclosure of any Separation Information to all other third parties. Employee agrees that Employee will not publicize, directly or indirectly, any Separation Information.

Employee acknowledges and agrees that the confidentiality of the Separation Information is of the essence. The Parties agree that if the Company proves that Employee breached this Confidentiality provision, the Company shall be entitled to an award of its costs spent enforcing this provision, including all reasonable attorneys' fees associated with the enforcement action, without regard to whether the Company can establish actual damages from Employee's breach, except to the extent that such breach constitutes a legal action by Employee that directly pertains to the ADEA. Any such individual breach or disclosure shall not excuse Employee from Employee's obligations hereunder, nor permit Employee to make additional disclosures. Employee warrants that Employee has not disclosed, orally or in writing, directly or indirectly, any of the Separation Information to any unauthorized party.

10. Trade Secrets and Confidential Information/Company Property. Employee agrees at all times hereafter to hold in the strictest confidence, and not to use or disclose to any person or entity, any Confidential Information of the Company and, if applicable, to continue to abide by the terms of the Confidentiality Agreement. Employee understands that "Confidential Information" means any Company proprietary information, technical data, trade secrets or know-how, including, but not limited to, research, product plans, products, services, customer lists and customers (including, but not limited to, customers of the Company on whom Employee has called or with whom Employee became acquainted during the term of Employee's employment), markets, software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances, or other business information disclosed to Employee by the Company either directly or indirectly, in writing, orally, or by drawings or observation of parts or equipment. Employee further understands that Confidential Information does not include any of the foregoing items that have become publicly known and made generally available through no wrongful act of Employee's or of others who were under confidentiality obligations as to the item or items involved or improvements or new versions thereof. Employee hereby grants consent to notification by the Company to any new employer about Employee's obligations under this paragraph. Employee represents that Employee has not to date misused or disclosed Confidential Information to any unauthorized party. Employee's signature below constitutes Employee's certification under penalty of perjury that Employee has returned all documents and other items provided to Employee by the Company, developed or obtained by Employee in connection with Employee's employment with the Company, or otherwise belonging to the Company (with the exception of a

copy of the Employee Handbook and personnel documents specifically relating to Employee). Employee will be permitted to retain his personal computer and mobile devices, provided that he first makes them available to FLIR so that the confidential and proprietary information can be removed.

11. No Cooperation. Subject to paragraph 12 governing Protected Activity, Employee agrees that Employee will not knowingly encourage, counsel, or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against any of the Releasees, unless under a subpoena or other court order to do so or as related directly to the ADEA waiver in this Agreement. Employee agrees both to immediately notify the Company upon receipt of any such subpoena or court order, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or other court order. If approached by anyone for counsel or assistance in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints against any of the Releasees, Employee shall state no more than that Employee cannot provide counsel or assistance.

12. Protected Activity Not Prohibited. Employee understands that nothing in this Agreement shall in any way limit or prohibit Employee from engaging in any Protected Activity. For purposes of this Agreement, "Protected Activity" shall mean filing a charge, complaint, or report with, or otherwise communicating, cooperating, or participating in any investigation or proceeding that may be conducted by, any federal, state or local government agency or commission, including the Securities and Exchange Commission, the Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, and the National Labor Relations Board ("Government Agencies"). Employee understands that in connection with such Protected Activity, Employee is permitted to disclose documents or other information as permitted by law, and without giving notice to, or receiving authorization from, the Company. Notwithstanding the foregoing, Employee agrees to take all reasonable precautions to prevent any unauthorized use or disclosure of any information that may constitute Company confidential information under the Confidentiality Agreement and/or Section 10 of this Agreement to any parties other than the Government Agencies. Employee further understands that "Protected Activity" does not include the disclosure of any Company attorney-client privileged communications. Any language in the Confidentiality Agreement regarding Employee's right to engage in Protected Activity that conflicts with, or is contrary to, this paragraph is superseded by this Agreement. In addition, pursuant to the Defend Trade Secrets Act of 2016, Employee is notified that an individual will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (i) is made in confidence to a federal, state, or local government official (directly or indirectly) or to an attorney *solely* for the purpose of reporting or investigating a suspected violation of law, or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if (and only if) such filing is made under seal. In addition, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the individual's attorney and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.

13. Nondisparagement. Employee agrees to refrain from any disparagement, defamation, libel, or slander of any of the Releasees, and agrees to refrain from any tortious interference with the contracts and relationships of any of the Releasees.

14. Breach. In addition to the rights provided in the "Attorneys' Fees" section below, Employee acknowledges and agrees that any material breach of this Agreement, unless such breach constitutes a legal action by Employee challenging or seeking a determination in good faith of the validity of the waiver herein under the ADEA, or of any provision of the Confidentiality Agreement and/or Section 10 of this Agreement shall entitle the Company immediately to recover and/or cease providing the consideration provided to Employee under this Agreement and to obtain damages, except as provided by law.

15. No Admission of Liability. Employee understands and acknowledges that this Agreement constitutes a compromise and settlement of any and all actual or potential disputed claims by Employee. No

action taken by the Company hereto, either previously or in connection with this Agreement, shall be deemed or construed to be (a) an admission of the truth or falsity of any actual or potential claims or (b) an acknowledgment or admission by the Company of any fault or liability whatsoever to Employee or to any third party.

16. Costs. The Parties shall each bear their own costs, attorneys' fees, and other fees incurred in connection with the preparation of this Agreement.

17. RESERVED.

18. Tax Consequences. The Company makes no representations or warranties with respect to the tax consequences of the payments and any other consideration provided to Employee or made on Employee's behalf under the terms of this Agreement. Employee agrees and understands that Employee is responsible for payment, if any, of local, state, and/or federal taxes on the payments and any other consideration provided hereunder by the Company and any penalties or assessments thereon. Employee further agrees to indemnify and hold the Releasees harmless from any claims, demands, deficiencies, penalties, interest, assessments, executions, judgments, or recoveries by any government agency against the Company for any amounts claimed due on account of (a) Employee's failure to pay or delayed payment of federal or state taxes, or (b) damages sustained by the Company by reason of any such claims, including attorneys' fees and costs.

19. Authority. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company and all who may claim through it to the terms and conditions of this Agreement. Employee represents and warrants that Employee has the capacity to act on Employee's own behalf and on behalf of all who might claim through Employee to bind them to the terms and conditions of this Agreement. Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

20. Severability. In the event that any provision or any portion of any provision hereof or any surviving agreement made a part hereof becomes or is declared by a court of competent jurisdiction or arbitrator to be illegal, unenforceable, or void, this Agreement shall continue in full force and effect without said provision or portion of provision.

21. Attorneys' Fees. Except with regard to a legal action challenging or seeking a determination in good faith of the validity of the waiver herein under the ADEA, in the event that either Party brings an action to enforce or effect its rights under this Agreement, the prevailing Party shall be entitled to recover its costs and expenses, including the costs of mediation, arbitration, litigation, court fees, and reasonable attorneys' fees incurred in connection with such an action.

22. Entire Agreement. This Agreement represents the entire agreement and understanding between the Company and Employee concerning the subject matter of this Agreement and Employee's employment with and separation from the Company and the events leading thereto and associated therewith, and supersedes and replaces any and all prior agreements and understandings concerning the subject matter of this Agreement and Employee's relationship with the Company, with the exception of the Confidentiality Agreement, if applicable, the Plan and the Stock Agreements, except as otherwise modified or superseded herein.

23. No Oral Modification. This Agreement may only be amended in a writing signed by Employee and the Company's Chief Executive Officer.

24. Governing Law. This Agreement shall be governed by the laws of the State of Oregon, without regard for choice-of-law provisions.

25. Effective Date. If Employee is over the age of 40 on the Termination Date, this Agreement shall be null and void if not executed by Employee within twenty one (21) days. Each Party has seven (7) days after that Party signs this Agreement to revoke it. This Agreement will become effective on the eighth (8th) day after Employee signed this Agreement, so long as it has been signed by the Parties and has not been revoked by either Party before that date (the "Effective Date"). If Employee is under the age of 40 on the Termination Date, this Agreement shall be null and void if not executed by Employee within seven (7) days. This Agreement will become effective on the date it has been signed by both Parties (the "Effective Date").

26. Counterparts. This Agreement may be executed in counterparts and each counterpart shall be deemed an original and all of which counterparts taken together shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned. The counterparts of this Agreement may be executed and delivered by facsimile, photo, email PDF, or other electronic transmission or signature.

27. Voluntary Execution of Agreement. Employee understands and agrees that Employee executed this Agreement voluntarily, without any duress or undue influence on the part or behalf of the Company or any third party, with the full intent of releasing all of Employee's claims against the Company and any of the other Releasees. Employee acknowledges that:

- (a) Employee has read this Agreement;
- (b) Employee has been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of Employee's own choice or has elected not to retain legal counsel;
- (c) Employee understands the terms and consequences of this Agreement and of the releases it contains;
- (d) Employee is fully aware of the legal and binding effect of this Agreement; and
- (e) Employee has not relied upon any representations or statements made by the Company that are not specifically set forth in this Agreement.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK; SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

EMPLOYEE, an individual

Dated: 10/2/2017 /s/ Thomas A. Surran

Name: Thomas A. Surran

FLIR SYSTEMS, INC.

Dated: 10/9/2017 By /s/ Paul Zaninovich

Name: Paul Zaninovich

Title: VP Global Human Resources

**Exhibit A**

<b>Grant Type</b>	<b>Grant Date</b>	<b>Unvested Options &amp; RSUs to Vest in Full</b>	<b>Option Strike Price</b>
Option	4/28/2015	28,872	\$31.15
Option	4/28/2016	69,334	\$30.75
Option	4/28/2017	43,605	\$36.73
RSU	4/28/2015	6,213	
RSU	4/28/2016	13,800	
RSU	4/28/2017	10,548	



To: Tom Surran  
From: Paul Zaninovich – Vice President Global Human Resources  
Date: April 24, 2017  
Re: Severance Plan – Executive Officer

---

I am pleased to inform you that you have been selected to participate in the FLIR Systems, Inc. (the “Company”) Severance Plan (the “Plan”). Enclosed for your reference please find a copy of the combined Plan document and Summary Plan Description, as effective May 1, 2017.

As described more fully in the Plan, you may become eligible for certain Severance Benefits under Section 4.1 of the Plan if you terminate your employment with the Employer as a result of a Constructive Termination or the Employer terminates your employment for a reason other than Cause or your Disability or death. Please refer to the Plan for the definition of capitalized terms. Capitalized terms that are used in this Participation Agreement that are not defined in the Participation Agreement will have the same meaning as in the Plan. Your participation in the Plan is subject to all of the terms and conditions of the Plan and of this Participation Agreement.

In order to actually become a participant in the Plan (a “Participant” as described in the Plan), you must complete and sign this Participation Agreement and return it to Paul Zaninovich no later than May 31, 2017.

The Plan describes in detail certain circumstances under which you may become eligible for Severance Benefits.

If you become eligible for Severance Benefits as described in the Plan, then subject to the terms and conditions of the Plan, including this Participation Agreement, you will receive:

**1. Cash Severance Benefit.**

As described in Section 4.1.1 of the Plan, an aggregate cash amount equal to the sum of: (a) twelve (12) months of your Monthly Base Salary, and (b) one hundred percent (100%) of your Target Bonus, which amount will (subject to Sections 7 and 9 of the Plan) be paid in substantially equal installments during the period of twelve (12) months following your Involuntary Termination and in accordance with the Employer’s payroll practice as in effect from time to time.

**2. Equity Award Vesting Acceleration Benefit.**

As described in Section 4.1.3 of the Plan, one hundred percent (100%) of your then-unvested and outstanding Equity Awards, the exercisability or vesting of which depends merely on the satisfaction of a service obligation by you to the Employer, will vest in full and be free of restrictions related to the exercisability or vesting of such Awards.



**3. Continued Medical Benefits.**

As described in Section 4.1.2 of the Plan, the reimbursement of continued health coverage under COBRA for a period of twelve (12) months following your Involuntary Termination or a lump sum payment in lieu of reimbursement, as applicable.

In order to actually receive any Severance Benefits for which you otherwise become eligible under the Plan, you must sign and deliver to the Administrator the Release, which must become effective and irrevocable within the requisite period set forth in the Release and subject to the Release timing requirements specified in the Plan. Also, as explained in the Plan, your Severance Benefits (if any) will be reduced if necessary to avoid the Severance Benefits from becoming subject to “golden parachute” excise taxes under the Internal Revenue Code. Any Severance Benefits payable to you will be paid in the manner and at the time or times specified in the Plan and in this Participation Agreement.

By your signature below, you and the Company agree that your participation in the Plan is governed by this Participation Agreement and the provisions of the Plan. Your signature below confirms that: (1) you have received a copy of the FLIR Systems, Inc. Severance Plan and Summary Plan Description (the “Plan/SPD”); (2) you have carefully read this Participation Agreement and the Plan/SPD, including, but not limited to, the terms and conditions of participation in, and receipt of any Severance Benefits, under the Plan; and (3) the decisions and determinations by the Administrator under the Plan will be final and binding on you and your successors, and will be given the maximum possible deference permitted by law.

**FLIR SYSTEMS, INC.**

**Tom Surran**

/s/ Paul Zaninovich                      /s/ Thomas A. Surran  
Signature                                      Signature

5/17/2017                                      5/17/2017  
Date    Date

Attachment: FLIR Systems, Inc. Severance Plan and Summary Plan Description

**FLIR SYSTEMS, INC. SEVERANCE PLAN**

(Effective as of May 1, 2017)

***Consolidated Plan and Summary Plan Description***

1. **Introduction.** The FLIR Systems, Inc. Severance Plan (the “Plan”) has been adopted by FLIR Systems, Inc. (the “Company”), effective as of May 1, 2017, in order to provide specified severance pay and benefits to eligible employees of the Company and/or its affiliates who (a) incur qualifying terminations of employment, and (b) abide by the terms and conditions of participation in, and receipt of such pay and benefits as set forth in the Plan.

The Plan is an “employee welfare benefit plan,” as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). This document constitutes both the written instrument under which the Plan is maintained and the summary plan description for the Plan, as required by ERISA.

2. **Important Terms.** The following capitalized words and phrases will have the meanings set forth in this Section 2, unless a different meaning plainly is required by the context:

2.1. **“Administrator”** means the Company, acting through the Compensation Committee of the Board or another duly constituted committee of members of the Board, or any person to whom the Administrator has delegated any authority or responsibility with respect to the Plan pursuant to Section 11, but only to the extent of such delegation.

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

2.3. **“Cause”** means any of the following reasons:

(a) An act of personal dishonesty demonstrably and materially damaging to the Company, fraud or embezzlement by the Eligible Employee;

(b) A willful and deliberate violation by the Eligible Employee of his or her obligations under any written employment agreement or offer letter between the Employer and Eligible Employee or proprietary rights and/or non-solicitation agreement between the Employer and Eligible Employee, which is not remedied in a reasonable period of time after receipt of written notice from the Employer;

(c) A willful or deliberate refusal by the Eligible Employee to follow the lawful reasonable requests or instructions of the Board or the Eligible Employee’s supervisor, which is not remedied in a reasonable period of time after receipt of written notice from the Employer; or

(d) A conviction of the Eligible Employee for any criminal act that is a felony or that is a crime causing direct material harm to the standing or reputation of the Employer.

2.4. **“Code”** means the Internal Revenue Code of 1986, as amended. Any reference to a specific section of the Code will include such section and any valid regulation or other applicable guidance that has been promulgated under such section and is in effect.

2.5. **“Company”** means FLIR Systems, Inc., an Oregon corporation, and any successor as described in Section 21.

2.6. **“Constructive Termination”** means an Eligible Employee’s resignation from employment with the Employer within ninety (90) calendar days following the expiration of any Cure Period (as defined below) after the occurrence of one or more of the following events without the Participant’s written consent:

(a) A material breach by the Employer of any of the material terms and conditions required to be complied with by the Employer pursuant to a written employment agreement or offer of employment letter between the Employer and Eligible Employee;

(b) A material reduction by the Company of an Eligible Employee’s Monthly Base Pay or Target Bonus (it being understood that a one-time reduction of less than 10% will not be considered material so long as it also applies to substantially all other Eligible Employees);

(c) A material diminution in the Eligible Employee’s title, duties or responsibilities by the Board or the Eligible Employee’s director supervisor to a level below the Eligible Employee’s title, duties or responsibilities in effect immediately before such change; or

(d) A relocation by the Employer of the Eligible Employee’s principal work site to a facility or location more than fifty (50) miles from the place of performance specified in the written employment agreement or offer of employment letter between the Employer and Eligible Employee or otherwise agreed to in writing by the Eligible Employee.

However, the Eligible Employee’s resignation will not constitute a resignation due to a “Constructive Termination” unless he or she first provides the Employer with written notice of any such event and/or breach that he or she contends constitutes a Constructive Termination within ninety (90) calendar days of the first occurrence of such alleged event and/or breach, and thereafter provides the Employer a reasonable opportunity (not to exceed thirty (30) calendar days following the date of such notice) to cure such event and/or breach (the **“Cure Period”**).

The determination of whether a Constructive Termination exists, including the determination of the cure of any event and/or breach constituting a Constructive Termination, will be made in all cases by the Administrator in accordance with authorities and deference afforded to the Administrator under Section 11 of the Plan.

2.7. **“Disability”** means Eligible Employee’s inability to perform his or her essential duties and responsibilities with or without reasonable accommodation for a period of not less than twelve

(12) months. The Administrator will determine whether an Eligible Employee has incurred a Disability in accordance with uniform and nondiscriminatory standards adopted by the Administrator from time to time, based on such evidence as the Administrator deems necessary or advisable. The Administrator may employ one or more physicians to examine an Eligible Employee and to investigate health or medical statements made by or on behalf of the Eligible Employee and may rely upon such evidence as it deems sufficient. The Administrator's determination as to an Eligible Employee's Disability will be final and binding.

2.8. **“Effective Date”** means May 1, 2017.

2.9. **“Eligible Employee”** means an employee of the Company or of any parent or subsidiary of the Company who has been designated by the Administrator as being eligible to participate in the Plan.

2.10. **“Employer”** means, with respect to an Eligible Employee, the Company or the parent or subsidiary of the Company that directly employs such employee.

2.11. **“ERISA”** means the Employee Retirement Income Security Act of 1974, as amended. Any reference to a specific section of ERISA will include such section and any valid regulation or other applicable guidance that has been promulgated under such section and is in effect.

2.12. **“Equity Awards”** mean a Participant's outstanding stock options, restricted stock, restricted stock units and other Company equity compensation awards, if any.

2.13. **“Involuntary Termination”** means an Eligible Employee's termination of employment with the Employer under the circumstances described in Section 3.

2.14. **“Monthly Base Salary”** means an Eligible Employee's monthly base salary rate in effect immediately before the date on which his or her Involuntary Termination occurs. The determination of the amount of a Participant's Monthly Base Salary will be made by the Administrator, in accordance with the records of the Employer.

2.15. **“Participant”** means an Eligible Employee who has timely and properly executed and delivered his or her Participation Agreement to the Administrator, as set forth therein. A Participant will be a “Tier 1 Participant” or a “Tier 2 Participant,” as designated by the Administrator in its sole discretion.

2.16. **“Participation Agreement”** means the individual agreement provided by the Administrator to an employee of an Employer designating such employee as an Eligible Employee under the Plan

2.17. **“Plan”** means the FLIR Systems, Inc. Severance Plan, as set forth in this document, and as hereafter amended from time to time.

2.18. **“Section 409A”** means Section 409A of the Code.

2.19. “**Severance Benefits**” means the compensation and other benefits that the Participant will be provided in the circumstances described in Section 3.

2.20. “**Target Bonus**” means the Participant’s annualized target bonus amount under the applicable Employer bonus plan, as in effect for the performance period in which the Participant’s Involuntary Termination occurs.

3. **Eligibility for Severance Benefits.** An individual is eligible for Severance Benefits under the Plan, as described in Section 3, only if he or she is an Eligible Employee on the date he or she experiences an Involuntary Termination and otherwise satisfies the requirements of the Plan.

4. **Involuntary Termination.**

4.1. **Involuntary Termination.** If (a) a Participant terminates his or her employment with the Employer due to a Constructive Termination, or (b) the Employer terminates the Participant’s employment for a reason other than Cause or the Participant’s death or Disability, then, subject to the Participant’s compliance with Section 6, the Participant will receive the following Severance Benefits:

4.1.1 **Cash Severance Benefit.** Continuing payments of cash severance, payable in accordance with the Employer’s payroll practice as in effect from time to time, as set forth in the Participant’s Participation Agreement;

4.1.2 **Continued Medical Benefits.** If the Participant and any spouse and/or other dependents of the Participant (“**Family Members**”) have coverage on the date of the Participant’s Involuntary Termination under a group health plan sponsored by the Company, the Company will reimburse the Participant the total applicable premium cost for continued group health plan coverage under the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended (“**COBRA**”), during the period of time following the Participant’s Involuntary Termination, as set forth in the Participant’s Participation Agreement, provided that the Participant validly elects and is eligible to continue coverage under COBRA for the Participant and his or her Family Members. However, if the Administrator determines in its sole discretion that the Company cannot provide such COBRA reimbursement benefits without potentially violating, or being subject to an excise tax under, applicable law (including, without limitation, Section 2716 of the Public Health Service Act and ERISA), then in lieu thereof, the Company will provide to the Participant a taxable lump sum payment of cash or its equivalent in an amount equal to the monthly COBRA premium that the Participant would be required to pay to continue the group health coverage in effect on the date of the Participant’s Involuntary Termination (which amount will be based on the premium for the first month of COBRA coverage) for the period of time set forth in the Participant’s Participation Agreement following such termination, which payment will be made regardless of whether the Participant (and/or any Family Members) elects COBRA continuation coverage. For the avoidance of doubt, any taxable payments in lieu of the reimbursements described in this Section 4.1.2 may be used for any purpose, including, but not limited to, COBRA continuation coverage, and will be subject to all applicable tax withholdings; and

4.1.3 **Equity Award Vesting Acceleration Benefits** . If and to the extent specifically provided in the Participant's Participation Agreement, all or a portion of the Participant's Equity Awards will accelerate and vest.

5. **Limitation on Payments.** In the event that the Severance Benefits or other payments and benefits payable or provided to a Participant (i) constitute "parachute payments" within the meaning of Section 280G of the Code ("**Section 280G**") and (ii) but for this Section 5, would be subject to the excise tax imposed by Section 4999 of the Code ("**Section 4999**"), then the Participant's Severance Benefits or such other payments or benefits (collectively, the "**280G Amounts**") will be either:

(a) delivered in full; or

(b) delivered as to such lesser extent that would result in no portion of the 280G Amounts being subject to the excise tax under Section 4999;

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by the Participant on an after-tax basis, of the greatest amount of 280G Amounts, notwithstanding that all or some portion of the 280G Amounts may be taxable under Section 4999.

5.1. **Reduction Order.** In the event that a reduction of 280G Amounts is made in accordance with this Section 5, the reduction will occur, with respect to the 280G Amounts considered parachute payments within the meaning of Section 280G, in the following order:

(a) reduction of cash payments in reverse chronological order (that is, the cash payment owed on the latest date following the occurrence of the event triggering the excise tax will be the first cash payment to be reduced);

(b) cancellation of equity awards that were granted "contingent on a change in ownership or control" within the meaning of Section 280G in the reverse order of date of grant of the awards (that is, the most recently granted equity awards will be cancelled first);

(c) reduction of the accelerated vesting of equity awards in the reverse order of date of grant of the awards (that is, the vesting of the most recently granted equity awards will be cancelled first); and

(d) reduction of employee benefits in reverse chronological order (that is, the benefit owed on the latest date following the occurrence of the event triggering the excise tax will be the first benefit to be reduced).

In no event will the Participant have any discretion with respect to the ordering of payment reductions.

5.2. **Nationally Recognized Firm Requirement.** Unless the Company and the Participant otherwise agree in writing, any determination required under this Section 5 will be made in writing by a nationally recognized accounting or valuation firm (the "**Firm**") selected by the Administrator, whose determination will be conclusive and binding upon the Participant and the Company for all purposes. For purposes of making the calculations required by this Section 5, the Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and Section 4999. The Company and the Participant will furnish to the Firm such information and documents as the Firm may reasonably request in

order to make a determination under this Section 5. The Company will bear the costs and make all payments for the Firm's services in connection with any calculations contemplated by this Section 5.

6. **Conditions to Receipt of Severance Benefits.**

6.1. **Release Agreement.** Notwithstanding any contrary Plan provision, as a condition to receiving any Severance Benefits, a Participant will be required to sign and not revoke a separation and release of claims agreement in a form reasonably satisfactory to the Company (the "**Release**"). In all cases, the Release must become effective and irrevocable no later than the sixtieth (60<sup>th</sup>) calendar day following the Participant's Involuntary Termination (the "**Release Deadline Date**"). If the Release does not become effective and irrevocable by the Release Deadline Date, the Participant will forfeit any right to receive the Severance Benefits. In no event will any Severance Benefits be paid or provided until the Release becomes effective and irrevocable.

6.2. **Confidential Information.** A Participant's receipt of Severance Benefits will be subject to his or her continuing to comply with the terms of the Confidentiality and Proprietary Rights Agreement between the Participant and the Company and/or the Employer, and also the terms of any other written confidentiality and/or proprietary rights agreement or agreements between the Participant and the Employer or the Company under which the Participant has a material duty or obligation to the Employer or the Company. Any Severance Benefits will terminate immediately for a Participant if he or she, at any time, violates any such agreement.

6.3. **Non-Competition.** A Participant's receipt of Severance Benefits will be subject to his or her, during his or her employment with the Employer and for one (1) year thereafter, not engaging or investing in, owning, managing, operating, financing, controlling, or participating in the ownership, management, operation, financing, or control of, be employed by, associated with, or in any manner connected with, lend the Participant's name or any similar name to, lend the Participant's credit to or render services or advice to, any business whose products or activities compete in whole or in part with the products or activities of the Company or any parent or subsidiary of the Company in any geographic location in which the Company (or any parent or subsidiary) does business; provided, however, that the Participant may purchase or otherwise acquire up to (but not more than) five percent (5%) of any class of securities of any enterprise (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934, as amended. Any Severance Benefits will terminate immediately for a Participant if he or she, at any time, violates this Section 6.3.

6.4. **Non-Solicitation of Customers.** A Participant's receipt of Severance Benefits will be subject to his or her, during his or her employment with the Employer and for one (1) year thereafter, except in the course of his or her employment with the Employer, not soliciting business of the same or similar type being carried on by the Company (or any parent or subsidiary), from any person known by the Participant to be a customer or a potential customer of the Company (or any parent or subsidiary), whether or not the Participant had personal contact with such person during and by reason of the Participant's employment with the Employer. Any Severance Benefits will terminate immediately for a Participant if he or she, at any time, violates this Section 6.4.

6.5. **Non-Solicitation of Service Providers.** A Participant's receipt of Severance Benefits will be subject to his or her, during his or her employment with the Employer and for one (1) year thereafter, not soliciting, employing, or otherwise engaging as an employee, independent contractor, or otherwise, any person who is an employee (or was an employee within one (1) year of the date in question) of the Company (or any parent or subsidiary) at any time during the Participant's employment with the Employer or in any manner inducing or attempting to induce any employee of the Company (or any parent or subsidiary) to terminate his or her employment with the Company (or any parent or subsidiary); or interfering with the Company's (or any parent or subsidiary) relationship with any person, including any person who at any time during the Participant's employment with the Employer was an employee, contractor, supplier, or customer of the Company (or any parent or subsidiary), provided that this Section 6.5 shall not extend to actions taken for and on behalf of the Company (or any parent or subsidiary) in the course of his or her employment with the Employer. Any Severance Benefits will terminate immediately for a Participant if he or she, at any time, violates this Section 6.5.

6.6. **Non-Disparagement.** A Participant's receipt of Severance Benefits will be subject to his or her, during his or her employment with the Employer and for one (1) year thereafter, not disparaging the Company (or any parent or subsidiary) or any of the shareholders, directors, officers, employees, or agents of the Company (or any parent or subsidiary). Nothing contained in this Section 6.6 is intended to prevent the Participant from testifying truthfully in any legal or regulatory proceeding. Any Severance Benefits will terminate immediately for a Participant if he or she, at any time, violates this Section 6.6.

7. **Timing of Severance Benefits.** Provided that a Participant's Release becomes effective and irrevocable by the Release Deadline Date (as defined in Section 6.1) and subject to Section 9, any Severance Benefits will be paid, or in the case of installments, will commence, on the first Employer payroll date following the Release Deadline Date (the "**Payment Date**"), and any Severance Benefits otherwise payable to the Participant during the period immediately following the Participant's Involuntary Termination through the Payment Date will be paid in a lump sum to the Participant on the Payment Date, with any remaining payments to be made as provided in the Plan or the Participant's Participation Agreement, as applicable.

8. **Non-Duplication of Benefits.** Notwithstanding any contrary Plan provision, if a Participant is entitled to any cash severance, continued medical benefits and/or Equity Award acceleration outside of the Plan by operation of applicable law or under another Employer plan, policy, contract, or arrangement, his or her Severance Benefits hereunder correspondingly will be reduced by such other benefits that the Participant receives, as the Administrator determines (in its good faith judgement) to be equitable. Any payments or benefits received by the Participant from a party other than the Employer (*e.g.*, a future employer that is not the Company or the Employer) will not reduce or affect the Employer's obligations to make payments and provide benefits to the Participant under the Plan.

9. **Section 409A.**

9.1. Notwithstanding any contrary Plan provision, no Severance Benefits to be paid or provided to a Participant, if any, which, when considered together with any other severance payments or separation benefits, are considered deferred compensation under Section 409A (collectively, the "**Deferred Payments**"), will be paid or provided until the Participant has a "separation from service" within the meaning

of Section 409A (a “**Separation from Service**”). Similarly, no Severance Benefits payable to a Participant, if any, which otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9), will be payable until the Participant has a Separation from Service.

9.2. It is intended that none of the Severance Benefits will constitute Deferred Payments but rather will be exempt from Section 409A as payments that would fall within the “short-term deferral period” or result from an involuntary separation from service (as defined in Section 409A), as described in Section 9.4, or as exempt reimbursements pursuant to Treasury Regulation Section 1.409A-1(b)(9)(v)(B). It is also intended that to the extent any such Severance Benefits is not otherwise excluded from coverage under Section 409A pursuant to the exceptions in the immediately preceding sentence, they are excluded from coverage under Section 409A pursuant to the “limited payment” exception under Treasury Regulation Section 1.409A-1(b)(9)(v)(D), but only to the extent permitted by such regulation. In no event will a Participant have discretion to determine the taxable year of payment of any Deferred Payment. Any Severance Benefits that would be considered Deferred Payments will be paid on the sixtieth (60th) calendar day following the Participant’s Separation from Service, or if later, such time as required by Section 9.3. Further, except as required by Section 9.3, any Severance Benefits that, but for the immediately preceding sentence, would have been made to the Participant during the sixty (60)-day period immediately following the Participant’s Separation from Service will be paid to the Participant on the sixtieth (60th) calendar day following the Participant’s Separation from Service and any remaining payments will be made as provided in this Plan.

9.3. Notwithstanding any contrary Plan provision, if an Eligible Employee is a “specified employee” within the meaning of Section 409A at the time of his or her Separation from Service (other than due to death), then the Deferred Payments, if any, that are payable within the first six (6) months following such Separation from Service, will become payable on the date that is six (6) months and one (1) day following the date of such Separation from Service. Any subsequent Deferred Payment, if any, will be payable in accordance with the payment schedule applicable to such payment. Notwithstanding anything herein to the contrary, in the event of the Participant’s death following his or her Separation from Service, but before the six (6) month anniversary of such Separation from Service, then any payments delayed in accordance with this Section 8.3 will be payable in a lump sum as soon as administratively practicable after the date of the Participant’s death and any other Deferred Payment will be payable in accordance with the payment schedule applicable to such payment. Each payment and benefit payable under this Plan is intended to constitute a separate payment under Treasury Regulation Section 1.409A-2(b)(2).

9.4. Any amount paid under this Plan that satisfies the requirements of the “short-term deferral” rule set forth in Treasury Regulation Section 1.409A-1(b)(4) or qualifies as a payment made as a result of an involuntary separation from service pursuant to Treasury Regulation Section 1.409A-1(b)(9)(iii) that does not exceed the limit set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A) will not constitute a Deferred Payment for purposes of Section 9.1.

9.5. The foregoing provisions are intended to comply with or be exempt from the requirements of Section 409A so that none of the Severance Benefits to be provided under the Plan will be subject to the additional tax imposed under Section 409A, and any ambiguities and ambiguous terms herein will be interpreted to so comply or be exempt. For purposes of the Plan, to the extent required to be exempt from or comply with Section 409A, any references to an Eligible Employee’s Involuntary Termination or similar phrases relating to the termination of an Eligible Employee’s employment will be references to his or her Separation from Service (as defined in Section 9.1). Notwithstanding any contrary Plan provision,

including but not limited to Section 14, the Company, by action of the Administrator, reserves the right to amend the Plan as it deems necessary or advisable, in its sole discretion and without the consent of any Participant or other person or entity, to comply with Section 409A or to avoid income recognition under Section 409A prior to the actual payment of any Severance Benefits or imposition of any additional tax. In no event will an Employer reimburse any Participant or other person or entity for any taxes imposed or any other costs incurred as result of Section 409A.

10. **Withholdings.** The Employer will withhold from any payments or benefits under the Plan any applicable U.S. federal, state, local and non-U.S. taxes required to be withheld and any other required payroll deductions.

11. **Administration.** The Company is the administrator of the Plan (within the meaning of section 3(16)(A) of ERISA). The Plan will be administered and interpreted by the Administrator (in its sole discretion). The Administrator is the “named fiduciary” of the Plan for purposes of ERISA. Any decision made or other action taken by the Administrator (or its authorized delegates) with respect to the Plan, and any interpretation by the Administrator (or its authorized delegates) of any term or condition of the Plan, or any related document, will be conclusive and binding on all persons and be given the maximum possible deference allowed by law. In accordance with Section 2.1, the Administrator (a) may, in its sole discretion and on such terms and conditions as it may provide, delegate in writing to one or more officers of the Company all or any portion of its authority or responsibility with respect to the Plan, and (b) has the authority to act for the Company (in a non-fiduciary capacity) as to any matter pertaining to the Plan; *provided, however*, that any Plan amendment or termination or any other action that reasonably could be expected to increase materially the cost of the Plan must be approved by the Board.

12. **Eligibility to Participate.** To the extent that the Administrator has delegated administrative authority or responsibility to one or more officers of the Company in accordance with Sections 2.1 and 11, each such officer will not be excluded from participating in the Plan if otherwise eligible, but he or she is not entitled to act upon or make determinations regarding any matters pertaining specifically to his or her own benefit or eligibility under the Plan. The Administrator will act upon and make determinations regarding any matters pertaining specifically to the benefit or eligibility of each such officer under the Plan.

13. **Term.** The Plan will become effective upon the Effective Date and will terminate automatically on the third anniversary of the Effective Date. Notwithstanding the preceding, the Plan will remain in effect as necessary to implement the completion of all benefits (if any) under the terms of the Plan that may be owed to any Participant who incurs an Involuntary Termination on or before the third anniversary of the Effective Date.

14. **Amendment or Termination.** The Company, by action of the Administrator, reserves the right to amend or terminate the Plan at any time, without advance notice to any Participant or other person or entity, and without regard to the effect of the amendment or termination on any Participant or such other person or entity. Any amendment or termination of the Plan will be in writing. Notwithstanding the foregoing, any amendment to the Plan that (a) causes an individual or group of individuals to cease to be a Participant or (b) reduces or alters to the detriment of the Participant the Severance Benefits potentially payable to him or her (including, without limitation, imposing additional conditions or modifying the timing of payment), will not be effective unless it both is approved by the Administrator and communicated to the affected

individual(s) in writing at least twelve (12) months before the effective date of the amendment or termination and once a Participant has incurred an Involuntary Termination, no amendment or termination of the Plan may, without that Participant's written consent, reduce or alter to the detriment of the Participant, the Severance Benefits payable to him or her. Any action of the Administrator, on behalf of the Company, in amending or terminating the Plan will be taken solely in a non-fiduciary capacity.

15. **Claims and Review Procedure.**

15.1. **Claims Procedure.** Any Participant or other person who has a claim of any kind relating to the Plan, or the duly authorized representative thereof (the "**Claimant**"), must file such claim in writing with the Administrator at the following address, setting forth the nature of the Severance Benefit claimed, the amount thereof and the basis for claiming entitlement to such benefit: FLIR Systems, Inc., Plan Administrator of the FLIR Systems, Inc. Severance Plan, 27700 SW Parkway Avenue, Wilsonville, OR 97070.

The Administrator will determine the validity of the claim and communicate a decision to the Claimant promptly and, in any event, not later than ninety (90) days after receipt of the claim. If additional information is necessary to make a determination on a claim, however, the Claimant will be advised of the need for such additional information within forty-five (45) calendar days after receipt of the claim. The Claimant will then have up to one hundred and eighty (180) calendar days to supplement the claim information, and the Claimant will be advised of the decision on the claim within forty-five (45) calendar days after the earlier of the date the supplemental information is supplied or the end of the one hundred and eighty (180)-day period. Notwithstanding the foregoing, if the claim relates to a determination of Disability (a "**Disability Claim**"), the decision will be rendered within forty-five (45) calendar days after receipt of the claim, which may be extended twice by an additional thirty (30) days per extension for matters beyond the control of the Administrator. The Claimant will be notified in writing of any such extension(s) before the end of the applicable decision period, as well as the circumstances requiring the extension, the date by which a decision on the claim is expected to be rendered and such other information required by ERISA. Every claim for benefits which is denied will be denied by written notice setting forth in a manner calculated to be understood by the claimant (a) the specific reason or reasons for the denial, (b) specific reference to any provisions of the Plan (including any internal rules, guidelines, protocols, criteria, etc.) on which the denial was based, (c) a description of any additional material or information that is necessary to process the claim and an explanation of why such material or information is necessary, (d) an explanation of the procedure for further reviewing the denial of the claim, including the applicable binding arbitration requirements under the Plan, and (e) such other information required by ERISA.

15.2. **Review Procedure.** A Claimant may appeal a denied claim under the Plan by filing a written request for review of such denial with the Administrator (at the address specified in Section 15.1) within sixty (60) calendar days after the receipt of the denial (or, in the case of a Disability Claim, within one hundred and eighty (180) calendar days after the receipt of the denial). Such review will be undertaken by the Administrator and will be a full and fair review. The Claimant will have the right to review all pertinent documents and to submit written comments, documents and other information relating to the claim. The Administrator will issue its decision on review within sixty (60) calendar days after its receipt of a timely request for review (or, in the case of a Disability Claim, within forty-five (45) calendar days after receipt of a timely review request), unless special circumstances require a longer period of time, in which case a decision

will be rendered as soon as possible, but not later than one hundred and twenty (120) calendar days after its receipt of the Claimant's timely request for review (or, in the case of a Disability Claim, no later than ninety (90) calendar days after the timely review request). The Claimant will be notified in writing of any such extension before the end of the original 60-day review period (or 45-day review period in the case of a Disability Claim), as well as the circumstances requiring the extension, the date by which a decision is expected to be rendered and such other information required by ERISA. In the case of a Disability Claim, the review of the appealed claim will be conducted by the Administrator (who will not be the individual who decided the initial Disability Claim nor the subordinate of such individual). In deciding an appeal of any denied Disability Claim that is based in whole or in part on a medical judgment, the Administrator will consult with a health care professional (who will neither be an individual who was consulted in connection with the initial Disability Claim nor the subordinate of such individual) who has appropriate training and experience in the field of medicine involved in the medical judgment. Any medical or vocational experts whose advice was obtained on behalf of the Administrator in connection with the denied Disability Claim will be identified, regardless of whether the advice was relied upon in denying such claim.

The Administrator's decision on review will be in writing and will include specific reasons for the decision written in a manner calculated to be understood by the Claimant with specific reference to the provisions of the Plan on which the decision was based and other information required by ERISA, as well as an explanation of the applicable binding arbitration requirements under the Plan or the Claimant's right to file a legal action with respect to a Disability Claim that has been denied on review.

**15.3. Exhaustion of Plan's Claims and Review Procedure Required; Limitations on any Legal Actions.** The Plan's claims and review procedure set forth in this Section 15 must be exhausted with respect to any claim of any kind relating to the Plan. If any legal action is permitted to be filed with respect to a Disability Claim, such action must be brought by the Claimant no later than one (1) calendar year after the Administrator's denial of such claim on review, regardless of any state or federal statutes establishing provisions relating to limitations on actions.

16. **Attorneys' Fees.** The parties will each bear their own expenses, legal fees and other fees incurred in connection with this Plan.

17. **Source of Payments.** Any Severance Benefits will be paid in cash from the general funds of the Employer; no separate fund will be established under the Plan, and the Plan will have no assets. No right of any person to receive any benefit under the Plan will be any greater than the right of any other general unsecured creditor of the Employer.

18. **No Guarantee of Tax Consequences.** Participants (or their beneficiaries) solely will be responsible for any and all taxes with respect to any Severance Benefits provided under the Plan. Neither the Administrator, the Company nor any other Employer makes any guarantees regarding the tax treatment to any person of any Severance Benefits provided under the Plan.

19. **Inalienability.** In no event may any current or former employee of any Employer sell, transfer, anticipate, assign or otherwise dispose of any right or interest under the Plan. At no time will any such right or interest be subject to the claims of creditors nor liable to attachment, execution or other legal process.

20. **No Enlargement of Employment Rights.** Neither the establishment or maintenance or amendment of the Plan, nor the making of any benefit payments hereunder, will be construed to confer upon any individual any right to continue to be an employee of the Company or any other Employer. The Employers expressly reserve the right to discharge any of their employees at any time and for any reason. However, as described in the Plan, a Participant may be entitled to benefits under the Plan depending upon the circumstances of his or her termination of employment.

21. **Successors.** Any successor to the Company of all or substantially all of the Company's business and/or assets (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or other transaction) will assume the obligations under the Plan and agree expressly to perform the obligations under the Plan in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under the Plan, the term "Company" will include any successor to the Company's business and/or assets which become bound by the terms of the Plan by operation of law, or otherwise.

22. **Applicable Law.** The provisions of the Plan will be construed, administered and enforced in accordance with ERISA and, to the extent applicable, the internal substantive laws of the State of Oregon (but not its conflict of laws provisions).

23. **Severability.** If any provision of the Plan is held invalid or unenforceable, its invalidity or unenforceability will not affect any other provision of the Plan, and the Plan will be construed and enforced as if such provision had not been included.

24. **Headings.** Headings in this Plan document are for purposes of reference only and will not limit or otherwise affect the meaning hereof.

25. **Indemnification.** The Company hereby agrees to indemnify and hold harmless the officers and employees of the Company, and the members of the Board, from all losses, claims, costs or other liabilities arising from their acts or omissions in connection with the administration, amendment or termination of the Plan, to the maximum extent permitted by applicable law. This indemnity will cover all such liabilities, including judgments, settlements and costs of defense. The Company will provide this indemnity from its own funds to the extent that insurance does not cover such liabilities. This indemnity is in addition to and not in lieu of any other indemnity provided to such person by the Company.

26. **Additional Information.**

<b>Name of Plan:</b>	FLIR Systems, Inc. Severance Plan
<b>Name, Address and Phone Number of Plan Sponsor:</b>	FLIR Systems, Inc. 27700 SW Parkway Avenue Wilsonville, OR 97070
<b>Plan Sponsor's Federal Employer Identification Number:</b>	93-0708501

**Plan Year:** The Plan's initial Plan Year begins on the Effective Date and ends on December 31, 2017; thereafter, the Plan Year will be the calendar year.

**Plan Number:** 508

**Name, Address and Phone Number of Plan Administrator:** FLIR Systems, Inc.  
Attention: Chairman Compensation Committee  
27700 SW Parkway Avenue  
Wilsonville, OR 97070

**Agent for Service of Legal Process:** Legal process may be served on the General Counsel of FLIR Systems, Inc. (acting on behalf of the Plan Administrator), at the address shown above for the Plan Administrator.

**Type of Plan:** Severance Plan/Employee Welfare Benefit Plan

**Plan Costs:** The cost of the Plan is paid by the Employer.

27. **Statement of ERISA Rights.**

As a Participant, you are entitled to certain rights and protections under ERISA. You are entitled to:

- Examine, without charge, at the Administrator's office and at other specified locations (such as worksites), all documents governing the Plan, including a copy of the latest annual report (Form 5500 Series), if any, filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration; and
- Obtain, upon written request to the Administrator, copies of documents governing the operation of the Plan, including copies of the latest annual report (Form 5500 Series), if any, and an updated summary plan description. The Administrator may assign a reasonable charge for the copies.

In addition to creating rights for you, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate the Plan (called "fiduciaries" of the Plan) have a duty to do so prudently and in the interest of you and the other Participants. No one, including the Company or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a Plan benefit or from exercising your rights under ERISA. However, this rule neither guarantees your employment with any Employer, nor affects the Employer's or your right to terminate your employment for other reasons.

If your claim for a Plan benefit is denied or ignored, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge and to appeal any denial, all within certain time schedules. (For more information, see "ERISA Claims and Review Procedure" above.)

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of Plan documents or the Plan's latest annual report, if any, from the Administrator and do not receive them within 30 calendar days, you may file suit in a federal court. In such a case, the court may require the Administrator to provide the materials and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Administrator.

If you have a Disability Claim that is denied, in whole or in part, and you have been through the Plan's claims and review procedure, or you have a Disability Claim that is ignored, you may be able to file suit in a state or federal court. However, any such lawsuit or other court action must be filed no later than one (1) calendar year after receipt of the final claim denial, regardless of any state or federal statutes establishing provisions relating to limitations on actions.

If you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you win, the court may order the person you sued to pay these legal expenses. If you lose, the court may order you to pay the costs and fees (if, for example, it finds your claim is frivolous).

If you have any questions about the Plan, you should contact the Administrator. If you have any questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Administrator, you should contact the nearest area office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington D.C. 20210. You also may obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

I, James J. Cannon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FLIR Systems, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control of financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date October 27, 2017

/s/ James J. Cannon

James J. Cannon  
President and Chief Executive Officer

I, Shame R. Harrison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FLIR Systems, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control of financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date October 27, 2017

/s/ Shane R. Harrison

Shane R. Harrison  
Interim Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of FLIR Systems, Inc. (the "Company") on Form 10-Q for the quarter ending September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James J. Cannon, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date October 27, 2017

/s/ James J. Cannon

James J. Cannon

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of FLIR Systems, Inc. (the “Company”) on Form 10-Q for the quarter ending September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Shane R. Harrison, Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date October 27, 2017

/s/ Shane R. Harrison

Shane R. Harrison  
Interim Chief Financial Officer

