FLIR SYSTEMS INC
Form 10-Q
August 06, 2012

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

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FORM 10-Q

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(Mark one)

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

For the quarterly period ended June 30, 2012

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

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

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| | |
|---|---|
| Oregon<br>(State or other jurisdiction of<br>incorporation or organization) | 93-0708501<br>(I.R.S. Employer<br>Identification No.) |
| 27700 SW Parkway Avenue,<br>Wilsonville, Oregon | 97070 |
| (Address of principal executive offices) | (Zip Code) |

(503) 498-3547
(Registrant's telephone number, including area code)

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

Indicate by check mark 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 x No ¨

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

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | ¨ |

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

At July 31, 2012, there were 151,051,546 shares of the Registrant's common stock, $0.01 par value, outstanding.

INDEX

PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011(1) | 2012 | 2011(1) |
| Revenue | $338,291 | $391,555 | $686,743 | $767,524 |
| Cost of goods sold | 168,262 | 186,144 | 333,988 | 365,601 |
| Gross profit | 170,029 | 205,411 | 352,755 | 401,923 |
| Operating expenses: | | | | |
| Research and development | 37,510 | 39,481 | 74,080 | 77,070 |
| Selling, general and administrative | 71,798 | 124,127 | 149,658 | 206,735 |
| Total operating expenses | 109,308 | 163,608 | 223,738 | 283,805 |
| Earnings from operations | 60,721 | 41,803 | 129,017 | 118,118 |
| Interest expense | 2,768 | 435 | 5,834 | 786 |
| Interest income | (377) | (86) | (805) | (350) |
| Other expense (income), net | 240 | (2,124) | (984) | (1,272) |
| Earnings from continuing operations before income taxes | 58,090 | 43,578 | 124,972 | 118,954 |
| Income tax provision | 15,685 | 13,755 | 33,742 | 37,528 |
| Earnings from continuing operations | 42,405 | 29,823 | 91,230 | 81,426 |
| Loss from discontinued operations, net of tax | (1,312) | (514) | (1,998) | (802) |
| Net earnings | $41,093 | $29,309 | $89,232 | $80,624 |
| Basic earnings per share: | | | | |
| Continuing operations | $0.28 | $0.19 | $0.59 | $0.51 |
| Discontinued operations | (0.01) | (0.00) | (0.01) | (0.01) |
| Basic earnings per share | $0.27 | $0.18 | $0.58 | $0.51 |
| Diluted earnings per share: | | | | |
| Continuing operations | $0.27 | $0.18 | $0.58 | $0.50 |
| Discontinued operations | (0.01) | (0.00) | (0.01) | (0.00) |
| Diluted earnings per share | $0.27 | $0.18 | $0.57 | $0.50 |
| Weighted average shares outstanding: | | | | |
| Basic | 153,172 | 159,796 | 153,829 | 159,599 |
| Diluted | 155,033 | 162,550 | 155,983 | 162,427 |

(1) Amounts have been adjusted for the reclassification of certain discontinued operations to continuing operations.

FLIR SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net earnings | $41,093 | $29,309 | $89,232 | $80,624 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Foreign currency translation adjustments | (24,020) | 1,591 | (6,881) | 31,800 |
| Comprehensive income | $17,073 | $30,900 | $82,351 | $112,424 |

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

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $429,771 | $440,846 |
| Accounts receivable, net | 268,550 | 325,370 |
| Inventories | 350,791 | 336,051 |
| Prepaid expenses and other current assets | 124,794 | 104,285 |
| Deferred income taxes, net | 27,023 | 27,443 |
| Total current assets | 1,200,929 | 1,233,995 |

| | | |
|---|---|---|
| Property and equipment, net | 193,594 | 186,269 |
| Deferred income taxes, net | 31,857 | 31,644 |
| Goodwill | 497,728 | 498,343 |
| Intangible assets, net | 152,274 | 164,440 |
| Other assets | 38,424 | 32,338 |
| | $2,114,806 | $2,147,029 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $79,611 | $84,190 |
| Deferred revenue | 23,446 | 24,046 |
| Accrued payroll and related liabilities | 44,794 | 49,475 |
| Accrued product warranties | 13,232 | 13,370 |
| Advance payments from customers | 10,425 | 13,219 |
| Accrued expenses | 32,862 | 41,183 |
| Accrued income taxes | — | 2,161 |
| Other current liabilities | 4,057 | 3,886 |
| Total current liabilities | 208,427 | 231,530 |
| Long-term debt | 248,090 | 247,861 |
| Deferred income taxes | 17,294 | 17,237 |
| Accrued income taxes | 18,138 | 17,537 |
| Pension and other long-term liabilities | 58,082 | 53,835 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, $0.01 par value, 10,000 shares authorized; no shares issued at June 30, 2012, and December 31, 2011 | — | — |
| Common stock, $0.01 par value, 500,000 shares authorized, 151,769 and 154,969 shares issued at June 30, 2012, and December 31, 2011, respectively, and additional paid-in capital | 277,037 | 352,157 |
| Retained earnings | 1,306,613 | 1,238,866 |
| Accumulated other comprehensive earnings | (18,875) | (11,994) |
| Total shareholders' equity | 1,564,775 | 1,579,029 |
| | $2,114,806 | $2,147,029 |

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

| | Six Months Ended June 30, 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $89,232 | $80,624 |
| Income items not affecting cash: | | |
| Depreciation and amortization | 30,016 | 43,631 |
| Deferred income taxes | 95 | (1,324) |
| Stock-based compensation plans | 13,400 | 13,876 |
| Other non-cash items | (1,350) | (629) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Decrease in accounts receivable | 54,741 | 18,950 |
| Increase in inventories | (17,143) | (24,204) |

| | | |
|---|---|---|
| Increase in prepaid expenses and other current assets | (21,520) | (11,924) |
| Increase in other assets | (423) | (3,246) |
| Decrease in accounts payable | (4,296) | (418) |
| (Decrease) increase in deferred revenue | (437) | 1,861 |
| Decrease in accrued payroll and other liabilities | (17,580) | (31,382) |
| Decrease in accrued income taxes | (2,940) | (3,572) |
| Increase (decrease) in pension and other long-term liabilities | 4,436 | (452) |
| Cash provided by operating activities | 126,231 | 81,791 |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (26,429) | (18,730) |
| Business acquisitions, net of cash acquired | — | (2,351) |
| Other investments | (3,000) | — |
| Cash used by investing activities | (29,429) | (21,081) |
| Cash flows from financing activities: | | |
| Repurchase of common stock | (90,201) | (23,801) |
| Dividends paid | (21,485) | (19,168) |
| Proceeds from shares issued pursuant to stock-based compensation plans | 5,656 | 14,281 |
| Excess tax benefit of stock options exercised | 552 | 2,326 |
| Other financing activities | (140) | (27) |
| Cash used by financing activities | (105,618) | (26,389) |
| Effect of exchange rate changes on cash | (2,259) | 8,164 |
| Net (decrease) increase in cash and cash equivalents | (11,075) | 42,485 |
| Cash and cash equivalents, beginning of period | 440,846 | 193,137 |
| Cash and cash equivalents, end of period | $429,771 | $235,622 |

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

1

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 by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, these statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the 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 year ended December 31, 2011.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All 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, 2012.

The amounts shown in the Consolidated Statements of Income for the three and six months ended June 30, 2011 have been adjusted to reflect the reclassification of certain business units that were previously reported as discontinued operations to continued operations.

Note 2. Stock-based Compensation

Stock-based compensation expense and related tax benefit recognized in the Consolidated Statements of Income are as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Cost of goods sold | $917 | $881 | $1,621 | $1,522 |
| Research and development | 1,298 | 1,358 | 2,474 | 2,844 |
| Selling, general and administrative | 5,650 | 5,349 | 9,305 | 9,510 |
| Stock-based compensation expense before income taxes | 7,865 | 7,588 | 13,400 | 13,876 |
| Income tax benefit | (2,389) | (2,201) | (4,063) | (3,991) |
| Total stock-based compensation expense after income taxes | $5,476 | $5,387 | $9,337 | $9,885 |

Stock-based compensation costs capitalized in inventory are as follows (in thousands):

| | June 30, 2012 | 2011 |
|---|---|---|
| Capitalized in inventory | $697 | $943 |

As of June 30, 2012, the Company had $52.1 million of total unrecognized stock-based compensation costs, net of estimated forfeitures, to be recognized over a weighted average period of 2.3 years.

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

Note 2. Stock-based Compensation - (Continued)

The fair value of the stock-based awards, as determined under the Black-Scholes model, granted in the three and six months ended June 30, 2012 and 2011 was estimated with the following weighted-average assumptions:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Stock option awards: | | | | |
| Risk-free interest rate | 0.4 % | 1.0 % | 0.4 % | 1.0 % |
| Expected dividend yield | 1.3 % | 0.7 % | 1.3 % | 0.7 % |
| Expected term | 4.2 years | 4.3 years | 4.2 years | 4.3 years |
| Expected volatility | 39.7 % | 42.3 % | 39.7 % | 42.3 % |
| Employee stock purchase plan: | | | | |
| Risk-free interest rate | 0.2 % | 0.1 % | 0.2 % | 0.1 % |
| Expected dividend yield | 1.3 % | 0.7 % | 1.3 % | 0.7 % |
| Expected term | 6 months | 6 months | 6 months | 6 months |
| Expected volatility | 27.4 % | 21.3 % | 27.4 % | 21.3 % |

The fair value of stock-based compensation awards granted and vested, and the intrinsic value of options exercised during the period were (in thousands, except per share amounts):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Stock Option Awards: | | | | |
| Weighted average grant date fair value per share | $6.43 | $11.68 | $6.43 | $11.68 |
| Total fair value of awards granted | $4,104 | $4,513 | $4,104 | $4,513 |
| Total fair value of awards vested | $5,970 | $5,030 | $5,985 | $7,962 |
| Total intrinsic value of options exercised | $939 | $5,798 | $2,358 | $13,153 |
| Restricted Stock Unit Awards: | | | | |
| Weighted average grant date fair value per share | $17.21 | $34.50 | $17.22 | $34.48 |
| Total fair value of awards granted | $30,471 | $21,337 | $30,522 | $21,524 |
| Total fair value of awards vested | $11,763 | $18,083 | $12,103 | $18,933 |
| Employee Stock Purchase Plan: | | | | |
| Weighted average grant date fair value per share | $5.02 | $7.36 | $5.02 | $7.36 |
| Total fair value of shares estimated to be issued | $1,106 | $1,051 | $1,106 | $1,051 |

The total amount of cash received from the exercise of stock options in the three months ended June 30, 2012 and 2011 was $0.8 million and $3.2 million, respectively, and the related tax impact realized from the exercise of the stock options was an expense of $1.0 million and a benefit of $2.4 million, respectively. The total amount of cash received from the exercise of stock options in the six months ended June 30, 2012 and 2011 was $1.7 million and $10.3 million, respectively, and the related tax impact realized from the exercise of the stock options was an expense of $0.7 million and a benefit of $4.1 million, respectively.

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

Note 2. Stock-based Compensation - (Continued)
Information with respect to stock option activity is as follows:

| | Shares (in thousands) | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Outstanding at December 31, 2011 | 6,570 | $20.73 | 5.0 | |
| Granted | 638 | 22.30 | | |
| Exercised | (169) | 9.90 | | |
| Forfeited | (97) | 26.10 | | |
| Outstanding at June 30, 2012 | 6,942 | $21.06 | 5.1 | $17,527 |
| Exercisable at June 30, 2012 | 6,027 | $20.17 | 4.4 | $17,526 |
| Vested and expected to vest at June 30, 2012 | 6,896 | $21.02 | 5.1 | $17,527 |

Information with respect to restricted stock unit activity is as follows:

| | Shares (in thousands) | Weighted Average Grant Date Fair Value |
|---|---|---|
| Outstanding at December 31, 2011 | 1,305 | $30.89 |
| Granted | 1,775 | 17.22 |
| Vested and distributed | (548) | 29.27 |
| Forfeited | (70) | 32.58 |
| Outstanding at June 30, 2012 | 2,462 | $21.44 |

During the six months ended June 30, 2012 and 2011, the Company granted approximately 980,000 and 624,000 time-vested restricted stock units, respectively. The fair value of time-vested restricted stock units is fixed and determined on the date of grant based upon the Company's stock price on the date of grant. The weighted average fair values of the time-vested restricted stock units granted during the six months ended June 30, 2012 and 2011 were $21.68 and $34.50, respectively.

During the six months ended June 30, 2012, the Company also granted approximately 795,000 market-based restricted stock units. These units may be earned based upon the Company's total shareholder return compared to the total shareholder return of the S&P 500 Index over a three year period. The fair value of the market-based restricted units was determined and fixed on the date of the grant using a lattice-based option-pricing valuation model that incorporates a Monte-Carlo simulation and considered the likelihood of the Company achieving the market-based condition. The fair value of the market-based restricted stock units granted during the six months ended June 30, 2012 was $11.73.

There were 208,383 shares issued under the 2011 Employee Stock Purchase Plan ("ESPP") during the six months ended June 30, 2012 and 4,072,134 shares remain available under the ESPP at June 30, 2012 for future issuance. Shares issued for ESPP purchases are new shares.

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011[(1)] | 2012 | 2011[(1)] |
| Numerator for earnings per share: | | | | |
| Earnings from continuing operations | $42,405 | $29,823 | $91,230 | $81,426 |
| Loss from discontinued operations | (1,312) | (514) | (1,998) | (802) |
| Net earnings for basic and diluted earnings per share | $41,093 | $29,309 | $89,232 | $80,624 |
| Denominator for earnings per share: | | | | |
| Weighted average number of common shares outstanding | 153,172 | 159,796 | 153,829 | 159,599 |
| Assumed exercises of stock options and vesting of restricted stock awards, net of shares assumed reacquired under the treasury stock method | 1,861 | 2,754 | 2,154 | 2,828 |
| Weighted average diluted shares outstanding | 155,033 | 162,550 | 155,983 | 162,427 |

(1) Amounts have been adjusted for the reclassification of certain discontinued operations to continuing operations.

The effect of stock-based compensation awards for the three and six months ended June 30, 2012, which aggregated 3,582,000 shares and 3,302,000 shares, respectively, and for the three and six months ended June 30, 2011, which aggregated 130,000 shares and 277,000 shares, respectively, has been excluded for purposes of calculating diluted earnings per share since including such stock-based compensation awards would have been anti-dilutive.

Note 4. Fair Value of Financial Instruments
The Company had $72.2 million and $192.6 million of cash equivalents at June 30, 2012 and December 31, 2011, respectively, which were primarily investments in money market funds. 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. The fair value of the Company's forward currency contracts as of June 30, 2012 and December 31, 2011 was not significant. The fair value of the Company's long-term debt is approximately $261.0 million based upon Level 2 inputs at June 30, 2012. The Company does not have any other significant financial assets or liabilities that are measured at fair value.

Note 5. Foreign Currency Exchange Rate Risk
The gains and losses related to outstanding derivative instruments recorded in other income are offset by the reciprocal gains and losses from the underlying assets or liabilities which originally gave rise to the exposure. The net amount of these gains and losses for the three and six months ended June 30, 2012 were a loss of $1.4 million and a gain of $0.3 million, respectively. The net amount of these gains and losses for the three and six months ended June 30, 2011 were a loss of less than $0.1 million and a loss of $4.5 million, respectively.

The net notional amounts are used to measure the volume of foreign currency forward contracts and do not represent exposure to foreign currency gains or losses. The table below presents the net notional amounts of the Company's outstanding foreign currency forward contracts by currency (in thousands):

5

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

Note 5. Foreign Currency Exchange Rate Risk - (Continued)

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Euro | $2,196 | $19,640 |
| Swedish kronor | 7,042 | 18,091 |
| British pound sterling | 3,541 | 3,050 |
| Australian dollar | 1,570 | 609 |
| Danish kroner | — | 174 |
| Japanese yen | 6,112 | 3,581 |
| Norwegian krone | 1,169 | — |
| | $21,630 | $45,145 |

At June 30, 2012, all of the Company's foreign currency forward contracts had maturities of 45 days or less.
On June 29, 2012, the Company entered into two zero-cost collar options to limit the Company's exposure to changes in the US Dollar/Euro and the US Dollar/Swedish Kronor exchange rates. The zero-cost collar option hedges are designed to protect the Company as the US Dollar strengthens, but also provide the Company with some flexibility if the US Dollar weakens. The foreign exchange hedging structure is set up, generally, on a six month time horizon. These options are not designated as hedging instruments and accordingly, gains and losses related to these options will be recorded as a component of net income.

Note 6. Accounts Receivable
Accounts receivable are net of an allowance for doubtful accounts of $4.8 million and $5.6 million at June 30, 2012 and December 31, 2011, respectively.

Note 7. Inventories
Inventories consist of the following (in thousands):

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Raw material and subassemblies | $232,674 | $225,573 |
| Work-in-progress | 55,377 | 55,886 |
| Finished goods | 62,740 | 54,592 |
| | $350,791 | $336,051 |

Note 8. Property and Equipment
Property and equipment are net of accumulated depreciation of $178.5 million and $164.6 million at June 30, 2012 and December 31, 2011, respectively.

Note 9. Goodwill
As of June 30, 2012, the Company had not yet completed its annual review of goodwill for possible impairment but believes that there have been no triggering events or indicators of impairment on its recorded goodwill. The carrying value of goodwill by reporting segment and the activity for the six months ended June 30, 2012 are as follows (in thousands):

| | Thermal Vision and | Raymarine | Surveillance | Detection | Integrated Systems | Total |
|---|---|---|---|---|---|---|

| | Measurement | | | | | |
|---|---|---|---|---|---|---|
| Balance, December 31, 2011 | $ 251,187 | $ 98,364 | $ 90,501 | $ 38,162 | $ 20,129 | $ 498,343 |
| Currency translation adjustments | (1,204 ) | 617 | (28 ) | — | — | (615 ) |
| Balance, June 30, 2012 | $ 249,983 | $ 98,981 | $ 90,473 | $ 38,162 | $ 20,129 | $ 497,728 |

6

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

Note 10. Intangible Assets
Intangible assets are net of accumulated amortization of $109.6 million and $98.2 million at June 30, 2012 and December 31, 2011, respectively.

Note 11. Credit Agreements
At June 30, 2012, the Company had no borrowings outstanding under its Credit Agreement, dated February 8, 2011, with Bank of America, N.A., U.S. Bank National Association, JPMorgan Chase Bank N.A. and other Lenders, and $10.1 million of letters of credit outstanding, which reduces the total available credit under the Credit Agreement to $189.9 million.

Note 12. Accrued Product Warranties
The following table summarizes the Company's warranty liability and activity (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Accrued product warranties, beginning of period | $15,994 | $18,960 | $16,046 | $18,686 |
| Amounts paid for warranty services | (2,090) | (2,193) | (4,257) | (5,181) |
| Warranty provisions for products sold | 1,299 | 2,319 | 3,134 | 5,027 |
| Currency translation adjustments and other | 119 | 128 | 399 | 682 |
| Accrued product warranties, end of period | $15,322 | $19,214 | $15,322 | $19,214 |
| Current accrued product warranties, end of period | | | $13,232 | $15,941 |
| Long-term accrued product warranties, end of period | | | $2,090 | $3,273 |

Note 13. Long-Term Debt
Long-term debt consists of the following (in thousands):

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Unsecured notes | $250,000 | $ 250,000 |
| Unamortized issuance costs | (1,910) | (2,139) |
| | $248,090 | $ 247,861 |

In August 2011, the Company issued $250 million aggregate principal amount of its 3.750% senior unsecured notes due September 1, 2016 (the "Notes"). The net proceeds from the issuance of the Notes were approximately $247.7 million, after deducting underwriting discounts and offering expenses, which are being amortized over a period of five years. Interest is payable on the Notes semiannually in arrears on March 1 and September 1, which commenced March 1, 2012. The proceeds from the Notes are being used for general corporate purposes, which may include working capital and capital expenditure needs, business acquisitions and repurchases of the Company's common stock.

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

Note 14. Shareholders' Equity

The following table summarizes the common stock and additional paid-in capital activity during the six months ended June 30, 2012 (in thousands):

| | |
|---|---|
| Common stock and additional paid-in capital, December 31, 2011 | $352,157 |
| Income tax expense of common stock options exercised | (658) |
| Common stock issued pursuant to stock-based compensation plans, net | 2,462 |
| Stock-based compensation expense | 13,277 |
| Repurchase of common stock | (90,201) |
| Common stock and additional paid in capital, June 30, 2012 | $277,037 |

During the six months ended June 30, 2012, the Company repurchased 4.0 million shares of the Company's common stock under the February 2011 repurchase authorization by the Company's Board of Directors pursuant to which the Company is authorized to repurchase up to 20.0 million shares of the Company's outstanding common stock. This authorization expires in February 2013.

On February 9, 2011, the Company's Board of Directors adopted a dividend policy under which the Company intends to pay quarterly cash dividends on its common stock. Accordingly, a dividend of $0.07 per share of outstanding common stock was paid on June 8, 2012 to shareholders of record as of the close of business on May 21, 2012. The total cash payments for dividends in the six months ended June 30, 2012 were $21.5 million.

Note 15. Contingencies

The Company and its subsidiary, Indigo Systems Corporation (now known as FLIR Commercial Systems, Inc.) (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 August 31, 2009, the court entered an order granting the FLIR Parties' motion for summary judgment on Raytheon's trade secret misappropriation claim based on the FLIR Parties' statute of limitations defense. Raytheon abandoned all of its other claims except its claims relating to four patents (the "Patent Claims"). On August 11, 2010, the FLIR Parties and Raytheon entered into an agreement in principle to resolve the remaining Patent Claims, which resulted in a payment of $3 million by the FLIR Parties to Raytheon and entitles the FLIR Parties to certain license rights in the patents that were the subject of the Patent Claims. The parties appealed certain rulings of the District Court to the United States Court of Appeals for the Federal Circuit which on August 1, 2012, reversed the judgment of the District Court and remanded the case for further proceedings consistent with the appellate court's opinion. The Company intends to vigorously defend itself in this matter and is unable to estimate the amount or range of potential loss, if any, which might result if the outcome in this matter is unfavorable.

Note 16. Income Taxes

As of June 30, 2012, the Company had approximately $29.9 million of net unrecognized tax benefits of which $18.1 million would affect the Company's effective tax rate if recognized. The Company anticipates a portion 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 uncertain tax positions as income tax expense. As of June 30, 2012, the Company had approximately $2.4 million of net accrued interest and penalties related to uncertain tax positions.

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

Note 16. Income Taxes - (Continued)
The Company currently has the following tax years open to examination by major taxing jurisdictions:

| | Tax Years: |
|---|---|
| US Federal | 2008 – 2011 |
| State of Oregon | 2007 – 2011 |
| State of Massachusetts | 2008 – 2011 |
| State of California | 2008 – 2011 |
| Sweden | 2007 – 2011 |
| United Kingdom | 2006 – 2011 |
| Germany | 2005 – 2011 |
| France | 2009 – 2011 |

Note 17. Operating Segments and Related Information
Operating Segments
The Company has two business divisions: Commercial Systems and Government Systems.
Commercial Systems Division
The Commercial Systems division is focused on the design, manufacture, and marketing of instrument, sensor, and electronics solutions that facilitate improved situational awareness and environmental analytics for commercial customers. The division is comprised of two operating segments: Thermal Vision and Measurement and Raymarine. The Thermal Vision and Measurement segment provides advanced thermal imaging solutions for emerging commercial and industrial markets that enable people to see at night or through adverse weather conditions and to capture, measure, and analyze temperature data. The Raymarine segment provides electronics for the maritime market and is a leading global provider of fully integrated “stem to stern” networked electronic systems for boats of all sizes.
Government Systems Division
The Government Systems division designs, manufactures, and markets advanced imaging and detection systems for government markets where high performance is required. The division is comprised of three operating segments: Surveillance, Detection, and Integrated Systems. The Surveillance segment provides enhanced imaging and recognition solutions to 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. The Detection segment produces sensor instruments that detect and identify chemical, biological, radiological, nuclear, and explosives (“CBRNE”) threats for military force protection, homeland security, and commercial applications. The Integrated Systems segment develops platform solutions for combating sophisticated security threats and incorporates multiple sensor systems in order to deliver actionable intelligence for wide area surveillance, intrusion detection, and facility security.

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011[(1)] | 2012 | 2011[(1)] |
| Revenue – External Customers: | | | | |
| Thermal Vision and Measurement | $142,641 | $164,838 | $298,381 | $309,803 |
| Raymarine | 47,181 | 50,190 | 93,785 | 100,726 |
| Surveillance | 119,493 | 141,479 | 234,090 | 291,336 |
| Detection | 15,713 | 17,221 | 35,066 | 35,092 |
| Integrated Systems | 13,263 | 17,827 | 25,421 | 30,567 |
| | $338,291 | $391,555 | $686,743 | $767,524 |
| Revenue – Intersegments: | | | | |
| Thermal Vision and Measurement | $4,403 | $5,705 | $9,451 | $10,398 |
| Raymarine | — | 4 | 4 | 7 |
| Surveillance | 7,083 | 6,764 | 11,986 | 17,021 |
| Detection | 326 | 1,478 | 776 | 1,478 |
| Integrated Systems | 473 | 1,221 | 1,047 | 1,902 |
| Eliminations | (12,285) | (15,172) | (23,264) | (30,806) |
| | $— | $— | $— | $— |
| Earnings (loss) from operations: | | | | |
| Thermal Vision and Measurement | $27,394 | $47,109 | $66,736 | $84,285 |
| Raymarine | 5,728 | 7,243 | 9,569 | 14,653 |
| Surveillance | 40,821 | 46,475 | 75,722 | 97,799 |
| Detection | (1,767) | (3,014) | (330) | (6,875) |
| Integrated Systems | 331 | 161 | (66) | (172) |
| Other | (11,786) | (56,171) | (22,614) | (71,572) |
| | $60,721 | $41,803 | $129,017 | $118,118 |

(1) Amounts have been adjusted for the reclassification of certain discontinued operations to continuing operations.

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Segment assets (accounts receivable, net and inventories): | | |
| Thermal Vision and Measurement | $211,420 | $233,888 |
| Raymarine | 70,667 | 60,093 |
| Surveillance | 289,143 | 316,615 |
| Detection | 26,966 | 32,447 |
| Integrated Systems | 21,145 | 17,774 |
| Discontinued Operations | — | 604 |
| | $619,341 | $661,421 |

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

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

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011[(1)] | 2012 | 2011[(1)] |
| United States | $152,032 | $196,087 | $350,929 | $392,386 |
| Europe | 89,152 | 99,222 | 169,866 | 191,694 |
| Other international | 97,107 | 96,246 | 165,948 | 183,444 |
| | $338,291 | $391,555 | $686,743 | $767,524 |

(1) Amounts have been adjusted for the reclassification of certain discontinued operations to continuing operations.

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

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| United States | $579,612 | $587,592 |
| Europe | 292,570 | 284,171 |
| Other international | 9,838 | 9,627 |
| | $882,020 | $881,390 |

Major Customers

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011[(1)] | 2012 | 2011[(1)] |
| US Government | $75,758 | $111,765 | $174,262 | $230,285 |

(1) Amounts have been adjusted for the reclassification of certain discontinued operations to continuing operations.

Note 18. Discontinued Operations

During the three months ended June 30, 2012, the Company sold the two remaining business units that had been classified as discontinued operations. The operating losses of those operations up to the time of sale and the net losses on the sales of the units, net of tax, are reflected in the Consolidated Statements of Income for the three and six months ended June 30, 2012.

Note 19. Subsequent Events

On July 19, 2012, the Company's Board of Directors declared a quarterly dividend of $0.07 per share on its common stock, payable on September 7, 2012, to shareholders of record as of the close of business on August 20, 2012. The total cash payment of this dividend will be approximately $10.6 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 the "Risk Factors" section of the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2011, "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 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 we do 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 we update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections with respect to other forward-looking statements.

### Results of Operations

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. 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 as revenue levels are the most significant indicators of business conditions for each of the respective segments and earnings from operations reflect our ability to manage each of our segments as revenue levels change. 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.

Revenue. Consolidated revenue for the three months ended June 30, 2012 decreased by 13.6 percent, from $391.6 million in the second quarter of 2011 to $338.3 million in the second quarter of 2012. Consolidated revenue for the six months ended June 30, 2012 decreased by 10.5 percent, from $767.5 million in the first six months of 2011 to $686.7 million in the first six months of 2012. Each of our operating segments reported decreases in year over year revenues for both the three and six month periods primarily due to continued reductions in demand for our products from the US Government and Middle East government agencies and weaker world-wide economic conditions.

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 2012 to be between 3 percent to 9 percent lower than 2011 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 55.1 percent and 49.9 percent of total revenue for the quarters ended June 30, 2012 and 2011, respectively and 48.9 percent for both the six months ended June 30, 2012 and 2011. The increase in international revenue as a percentage of the total for the three months ended June 30, 2012 compared to the same period in 2011 was primarily the result of lower revenues from US Government customers. Of the $53.3 million decrease in total revenue for the period, $36.0 million, or 67.6 percent, was related to lower revenues from US Government customers. 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, but 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 six months ended June 30, 2012 was $168.3 million and $334.0 million, respectively, compared to cost of goods sold for the three and six months ended June 30, 2011 of $186.1 million and $365.6 million, respectively. The year over year decreases in cost of goods sold primarily relate to the lower year over year revenues. In the three and six months ended June 30, 2012, costs of goods sold included restructuring charges of $3.4 million

primarily for force reductions in our Thermal Vision and Measurement and Detection segments. For the three and six months ended June 30, 2011, costs of goods sold included charges of $3.6 million and $7.3 million, respectively, for the amortization of fair value adjustments on inventory acquired through the acquisition of ICx Technologies in 2010.
Gross profit. Gross profit for the quarter ended June 30, 2012 was $170.0 million compared to $205.4 million for the same quarter last year. Gross profit for the six months ended June 30, 2012 was $352.8 million compared to $401.9 million for the same period of 2011. The decrease in gross profit was due to the lower revenue year over year. Gross margin, defined as gross profit divided by revenue, decreased from 52.5 percent in the second quarter of 2011 to 50.3 percent in the second quarter of 2012, and from 52.4 percent in the first six months of 2011 to 51.4 percent in the first six months of 2012. The decrease in gross margin was primarily due to the product mix and lower factory costs absorption in our Thermal Vision and Measurement segment and restructuring costs in the 2012 periods partially offset by the elimination of 2011 amortization expenses related to fair value adjustments on inventory acquired through the acquisition of ICx Technologies in 2010.
Research and development expenses. Research and development expenses for the second quarter of 2012 totaled $37.5 million, compared to $39.5 million in the second quarter of 2011. Research and development expenses for the first six months of 2012 and 2011 were $74.1 million and $77.1 million, respectively. While research and development expenses declined on an absolute dollar basis for the 2012 periods compared to 2011, as a percentage of revenue, research and development expenses increased to 11.1 percent and 10.8 percent for the three and six month periods ended June 30, 2012, respectively, compared to 10.1 percent and 10.0 percent for the three and six months ended June 30, 2011, respectively. Research and development expenses are expected to remain at the upper end of our anticipated long-term research and development spending relative to sales due to the current sluggish revenue environment. Over the five annual periods through December 31, 2011, our annual research and development expenses have varied between 8.0 and 9.5 percent of revenue.
Selling, general and administrative expenses. Selling, general and administrative expenses were $71.8 million for the quarter ended June 30, 2012, compared to $124.1 million for the quarter ended June 30, 2011. Selling, general and administrative expenses for the first six months of 2012 and 2011 were $149.7 million and $206.7 million, respectively. The decrease in selling, general and administrative expenses for the second quarter of 2012 was attributable to a $39.0 million litigation settlement incurred in 2011, decreased spending in each of our business segments, including lower expenses as a result of cost reduction efforts taken in the third quarter of 2011, and lower corporate legal expenses, partially offset by restructuring costs of approximately $3.4 million incurred in the second quarter of 2012. Selling, general and administrative expenses as a percentage of revenue were 21.2 percent and 31.7 percent for the quarters ended June 30, 2012 and 2011, respectively and 21.8 percent and 26.9 percent for the six months ended June 30, 2012 and 2011, respectively. Over the past five years, our annual selling, general and administrative expenses have varied between 19.2 and 23.8 percent of revenue.
Interest expense. Interest expense for the second quarter and first six months of 2012 was $2.8 million and $5.8 million, respectively, compared to $0.4 million and $0.8 million for the same periods of 2011. The increase in interest expense for the second quarter of 2012 was due to interest expense associated with the $250 million aggregate principal amount of 3.750% senior unsecured notes due September 1, 2016 issued in August 2011.
Income taxes. The income tax provision of $15.7 million for the three months ended June 30, 2012, represents a quarterly effective tax rate of 27.0 percent, which is consistent with the first quarter. We expect the annual effective tax rate for the full year of 2012 to be 26 percent to 28 percent. The effective tax rate is lower than the US Federal tax rate of 35 percent because of the mix of lower foreign jurisdiction tax rates and the effect of federal, foreign and state tax credits.

Segment Operating Results
Thermal Vision and Measurement
Thermal Vision and Measurement operating results are as follows (in millions):

| | Three Months Ended June 30, | Six Months Ended June 30, |
|---|---|---|

| | 2012 | 2011 | 2012 | 2011 |
|---|---|---|---|---|
| Revenue | $142.6 | $164.8 | $298.4 | $309.8 |
| Earnings from operations | 27.4 | 47.1 | 66.7 | 84.3 |
| Operating margin | 19.2 % | 28.6 % | 22.4 % | 27.2 % |
| Backlog, end of period | | | 158 | 160 |

13

Revenue for the three and six months ended June 30, 2012 decreased by 13.5 percent and 3.7 percent, respectively, compared to the same periods of 2011 primarily due to lower revenues from the cores and components product line and products for the predictive maintenance and building markets. The revenue decline was experienced in all geographies due to world-wide economic weaknesses and lower demand from cores and components customers in the United States. The decline in earnings from operations for both the three months and six months ended June 30, 2012 compared to the same periods in 2011 was primarily due to the flow through of lower revenues combined with the adverse impact of changes in product mix, lower absorption of factory costs and the incurrence of approximately $3.2 million of restructuring costs in the second quarter of 2012. Backlog at June 30, 2012 was essentially flat compared to June 30, 2011; however, backlog increased by $20 million during the three months ended June 30, 2012.

Raymarine

Raymarine operating results are as follows (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | $47.2 | $50.2 | $93.8 | $100.7 |
| Earnings from operations | 5.7 | 7.2 | 9.6 | 14.7 |
| Operating margin | 12.1 % | 14.4 % | 10.2 % | 14.5 % |
| Backlog, end of period | | | 6 | 7 |

Revenue for the three and six months ended June 30, 2012 decreased by 6.0 percent and 6.9 percent, respectively, compared to the same periods of 2011, primarily due to lower revenue in Europe markets partially offset by higher sales in the United States. The decrease in earnings from operations for the three months ended June 30, 2012 compared to the same period in the prior year was primarily due to the reduced sales and approximately $1.4 million of restructuring costs incurred in the second quarter of 2012; for the six month period ended June 30, 2012, the decrease in earnings was primarily due to the reduced sales, the second quarter restructuring costs, expenses incurred in the first quarter of 2012 related to changes made in our European sales organization and costs associated with a building move.

Surveillance

Surveillance operating results are as follows (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | $119.5 | $141.5 | $234.1 | $291.3 |
| Earnings from operations | 40.8 | 46.5 | 75.7 | 97.8 |
| Operating margin | 34.2 % | 32.8 % | 32.3 % | 33.6 % |
| Backlog, end of period | | | 249 | 254 |

Revenue for the three and six months ended June 30, 2012 decreased by 15.5 percent and 19.6 percent, respectively, compared to the same periods of 2011, primarily due to decreases in revenue from US government customers and Middle Eastern government customers. The decline in revenues and the change in product mix of the segment, partially offset by a decrease in operating expenses, resulted in the decline in earnings from operations for both the three and six month periods ended June 30, 2012, compared to the same periods in 2011.

Detection

Detection operating results are as follows (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | $15.7 | $17.2 | $35.1 | $35.1 |
| Loss from operations | (1.8) | (3.0) | (0.3) | (6.9) |
| Operating margin | (11.2)% | (17.5)% | (0.9)% | (19.6)% |
| Backlog, end of period | | | 23 | 22 |

Revenue for three months ended June 30, 2012 decreased by 8.8 percent compared to the same period of 2011, primarily due to lower research and development contract revenues, partially offset by a slight increase in product revenues. The loss from operations for the three and six months ended June 30, 2011 included the amortization of fair value adjustments on inventory of $2.1 million and $4.2 million, respectively. The elimination of the inventory adjustment and lower operating expenses partially offset by restructuring costs of approximately $2.2 million incurred in the second quarter of 2012, were the main factors contributing to the lower year over year loss from operations and the improved operating margins.

Integrated Systems

Integrated Systems operating results are as follows (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | $13.3 | $17.8 | $25.4 | $30.6 |
| Earnings (loss) from operations | 0.3 | 0.2 | (0.1) | (0.2) |
| Operating margin | 2.5% | 0.9% | (0.3)% | (0.6)% |
| Backlog, end of period | | | 62 | 46 |

Revenue for the three and six months ended June 30, 2012 decreased by 25.6 percent and 16.8 percent, respectively, compared to the same periods of 2011, primarily due to a large program contract that was recognized in the second quarter of 2011. Backlog at June 30, 2012 reflects an increase of approximately $16 million compared to both June 30, 2011 and March 31, 2012 due to several large program contracts booked in the second quarter of 2012.

Liquidity and Capital Resources

At June 30, 2012, we had a total of $429.8 million in cash and cash equivalents, $238.1 million of which was in the United States and $191.7 million at our foreign subsidiaries, compared to $263.6 million in the United States and $177.2 million at our foreign subsidiaries at December 31, 2011. The increase in cash and cash equivalents was primarily due to cash provided from operations and cash proceeds from our stock-based compensation programs, partially offset by $90.2 million spent for the repurchase of 4.0 million shares of our common stock, capital expenditures of $26.4 million, and dividends paid of $21.5 million during the period.

Cash provided by operating activities totaled $126.2 million for the six months ended June 30, 2012 primarily due to net earnings, adjusted for non-cash charges for depreciation and amortization and stock-based compensation, and net collections of our accounts receivable, partially offset by net increases in other working capital components.

On February 8, 2011, we signed 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. We have the right, subject to certain conditions including approval of additional commitments by qualified lenders, to increase the line of credit by an additional $150 million until October 8, 2016. The Credit Agreement allows us and certain designated subsidiaries to borrow in US dollars, euro, Swedish Kronor, pound sterling and other agreed upon currencies. The Credit Agreement requires us to pay a commitment fee on the amount of unused credit at a rate, based on the Company's leverage ratio, which ranges from 0.25 percent to 0.40 percent. The Credit Agreement contains two financial covenants that require the maintenance of certain leverage ratios with which we were in compliance at June 30, 2012. The five-year revolving line of credit available under the Credit Agreement is not secured by any of our assets.

At June 30, 2012, we had no amounts outstanding under the Credit Agreement and the commitment fee on the amount of unused credit was 0.25 percent. We had $10.1 million of letters of credit outstanding at June 30, 2012, which reduced the total available credit under the Credit Agreement.

On August 19, 2011, we issued $250 million aggregate principal amount of our 3.750% senior unsecured notes due September 1, 2016 (the "Notes"). The net proceeds from the issuance of the Notes were approximately $247.7 million, after deducting underwriting discounts and offering expenses, which are being amortized over a period of five years. Interest is payable on the Notes semiannually in arrears on March 1 and September 1, which commenced March 1, 2012. The proceeds from the Notes are being used for general corporate purposes, which may include working capital and capital expenditure needs, business acquisitions and repurchases of our common stock.

A Swedish subsidiary has a 30 million Swedish Kronor (approximately $4.3 million) line of credit. At June 30, 2012, the Company had no amounts outstanding on this line of credit. The 30 million Swedish Kronor line of credit is secured primarily by accounts receivable and inventories of the Sweden subsidiary and is subject to automatic renewal on an annual basis.

Cash used by financing activities of $105.6 million for the six months ended June 30, 2012 primarily related to the repurchase of 4.0 million shares of our common stock and the payment of dividends, partially offset by cash provided from our stock-based compensation plans.

On February 9, 2011, our Board of Directors authorized the repurchase of up to 20.0 million shares of our outstanding common stock. As of June 30, 2012, there were approximately 9.9 million shares still authorized for repurchase under this authorization, which expires on February 9, 2013.

We believe that our existing cash combined with the cash we expect to generate from operating activities and our available credit facilities and financing available from other sources will be sufficient to meet our cash requirements for the foreseeable future. We do not have any significant capital commitments for the current year nor are we aware of any significant events or conditions that are likely to have a material impact on our liquidity.

Critical Accounting Policies and Estimates

The Company reaffirms the critical accounting policies and our use of estimates as reported in our Form 10-K for the year ended December 31, 2011. As described in Note 1 to the Consolidated Financial Statements included in the Form 10-K, the determination of fair value for stock-based compensation awards requires the use of management’s estimates and judgments.

Contractual Obligations

As of June 30, 2012, there have been no material changes to our contractual obligations outside the ordinary course of our business since December 31, 2011.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As of June 30, 2012, 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, 2011.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2012, the Company carried out 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, as such term is defined in Rule 13a-15(e). 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 June 30, 2012 that 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

There has been no material change in the risk factors previously disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which was filed with the Securities and Exchange Commission on February 29, 2012.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended June 30, 2012, the Company repurchased the following shares:

| Period | Total Number of Shares Purchased[1] | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| May 1 to May 31, 2012 | 2,213,148 | $21.69 | 2,213,148 | |
| June 1 to June 30, 2012 | 786,852 | $21.35 | 786,852 | |
| Total | 3,000,000 | $21.60 | 3,000,000 | 9,864,755 |

[1] All shares were purchased in open market transactions.

All share repurchases are subject to applicable securities law, and are at times and in amounts as management deems appropriate. On February 9, 2011, our Board of Directors authorized the repurchase of up to 20.0 million shares of our outstanding common stock. This authorization will expire on February 9, 2013.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not Applicable.

### Item 5. Other Information

None.

17

Item 6. Exhibits

| Number | Description |
|---|---|
| 31.1 | Principal Executive Officer Certification Pursuant to Sarbanes-Oxley Act of 2002, Section 302. |
| 31.2 | Principal Financial Officer Certification Pursuant to Sarbanes-Oxley Act of 2002, Section 302. |
| 32.1 | Principal Executive Officer Certification Pursuant to Sarbanes-Oxley Act of 2002, Section 906. |
| 32.2 | Principal Financial Officer Certification Pursuant to Sarbanes-Oxley Act of 2002, Section 906. |
| 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 |

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 August 6, 2012

/s/ ANTHONY L. TRUNZO
Anthony L. Trunzo
Sr. Vice President, Finance and Chief Financial Officer
(Duly Authorized and Principal Financial Officer)