FLIR SYSTEMS INC
Form 10-Q
May 02, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended March 31, 2019
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 000-21918

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

Oregon	93-0708501
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
27700 SW Parkway Avenue, Wilsonville, Oregon	97070
(Address of principal executive offices)	(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 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, 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	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth 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

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 April 26, 2019, there were 135,421,141 shares of the registrant's common stock, $0.01 par value, outstanding.

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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 March 31,	
	2019	2018
Revenue	$444,736	$439,618
Cost of goods sold	211,077	221,704
Gross profit	233,659	217,914
Operating expenses:		
Research and development	47,998	44,561
Selling, general and administrative	104,579	107,683
Loss on sale of business	—	10,178
Total operating expenses	152,577	162,422
Earnings from operations	81,082	55,492
Interest expense	5,516	4,052
Interest income	(1,057)	(956)
Other expense (income), net	1,866	(2,219)
Earnings before income taxes	74,757	54,615
Income tax provision	13,009	15,420
Net earnings	$61,748	$39,195
Net earnings per share:		
Basic	$0.46	$0.28
Diluted	$0.45	$0.28
Weighted average shares outstanding:		
Basic	135,541	138,504
Diluted	137,165	140,994

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 March 31,	
	2019	2018
Net earnings	$61,748	$39,195
Other comprehensive (loss) income, net of tax:		
Fair value adjustment on interest rate swap contracts	(807)	—
Foreign currency translation adjustments	(7,440)	13,937
Total other comprehensive (loss) income	(8,247)	13,937
Comprehensive income	$53,501	$53,132

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)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$284,363	$512,144
Accounts receivable, net	356,693	323,746
Inventories	385,316	352,107
Assets held for sale, net	—	2,032
Prepaid expenses and other current assets	101,074	102,618
Total current assets	1,127,446	1,292,647
Property and equipment, net	253,678	247,407
Deferred income taxes, net	97,705	100,620
Goodwill	903,461	904,571
Intangible assets, net	140,551	146,845
Unallocated assets from acquisitions	575,079	14,210
Other assets	108,389	74,942
Total assets	$3,206,309	$2,781,242
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$131,422	$95,496
Deferred revenue	30,238	32,703
Accrued payroll and related liabilities	72,714	81,118
Accrued product warranties	15,747	15,204
Advance payments from customers	25,056	19,691
Accrued expenses	44,220	41,761
Accrued income taxes	5,523	13,855
Other current liabilities	22,277	16,186
Credit facility	100,000	—
Current portion, long-term debt	12,451	—
Total current liabilities	459,648	316,014
Long-term debt	656,891	421,948
Deferred income taxes	19,806	22,927
Accrued income taxes	74,828	76,435
Pension and other long-term liabilities	92,441	67,132
Shareholders’ equity:		
Preferred stock, $0.01 par value, 10,000 shares authorized; no shares issued at March 31, 2019, and December 31, 2018	—	—
Common stock, $0.01 par value, 500,000 shares authorized, 135,380 and 135,516 shares issued at March 31, 2019, and December 31, 2018, respectively, and additional paid-in capital	1,354	1,355
Retained earnings	2,058,680	2,024,523
Accumulated other comprehensive loss	(157,339)	(149,092)
Total shareholders’ equity	1,902,695	1,876,786
Total liabilities and shareholders' equity	$3,206,309	$2,781,242

The accompanying notes are an integral part of these consolidated financial statements.
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FLIR SYSTEMS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands, except for per share amounts)
(Unaudited)

	Common Stock and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Total Shareholders' Equity
Balance, December 31, 2018	$ 1,355	$ 2,024,523	$ (149,092)	$ 1,876,786
Opening balance adjustment[1]	—	3,439	—	3,439
Net earnings	—	61,748	—	61,748
Repurchase of common stock	(16,999)	(7,999)	—	(24,998)
Common stock issued pursuant to stock-based compensation plans, net of shares withheld for taxes	8,708	—	—	8,708
Stock-based compensation	8,290	—	—	8,290
Dividends paid:				
Common stock, $0.17/share	—	(23,031)	—	(23,031)
Other comprehensive loss:				
Fair value adjustment on interest rate swap contracts	—	—	(807)	(807)
Foreign currency translation adjustment	—	—	(7,440)	(7,440)
Balance, March 31, 2019	$ 1,354	$ 2,058,680	$ (157,339)	$ 1,902,695

(1) The Company recorded an immaterial correction which increased both retained earnings and deferred income taxes related to the Company's adoption of Accounting Standards Update 2016-16 "Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16") during the year ended December 31, 2018.

	Common Stock and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Total Shareholders' Equity
Balance, December 31, 2017	$ 91,162	$ 1,856,756	$ (113,360)	$ 1,834,558
Adoption of ASC 606 and ASU 2016-16[2]	—	80,280	—	80,280
Net earnings	—	39,195	—	39,195
Repurchase of common stock	(94,956)	—	—	(94,956)
Common stock issued pursuant to stock-based compensation plans, net of shares withheld for taxes	3,232	—	—	3,232
Stock-based compensation	5,926	—	—	5,926
Dividends paid:				
Common stock, $0.16/share	—	(22,232)	—	(22,232)
Other comprehensive income:				
Foreign currency translation adjustment	—	—	13,937	13,937
Balance, March 31, 2018	$ 5,364	$ 1,953,999	$ (99,423)	$ 1,859,940

(2) The Company adopted Accounting Standards Update 2014-09 "Revenue - Revenue from Contracts with Customers" ("ASU 606") and ASU 2016-16 on January 1, 2018, on a modified retrospective method.

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

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

	Three Months Ended March 31,	
	2019	2018
CASH PROVIDED BY OPERATING ACTIVITIES:		
Net earnings	$61,748	$39,195
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	16,662	16,446
Stock-based compensation arrangements	8,090	5,931
Deferred income taxes	222	4,574
Other, net	(1,328)	(6,696)
(Decrease) increase in cash, net of acquisitions, resulting from changes in:		
Accounts receivable	(25,771)	28,344
Inventories	(17,472)	(8,760)
Prepaid expenses and other current assets	1,944	1,331
Other assets	3,659	(477)
Accounts payable	26,019	(8,150)
Deferred revenue	(4,531)	317
Accrued payroll and other liabilities	(8,057)	(14,760)
Accrued income taxes	(1,722)	(29,435)
Pension and other long-term liabilities	(3,952)	15,316
Net cash provided by operating activities	55,511	43,176
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment, net	(9,140)	(7,099)
Proceeds from sale of assets	2,973	—
Proceeds from sale of business	—	25,920
Business acquisitions, net of cash acquired	(579,556)	(7,070)
Other investments	(5,000)	(9,500)
Net cash (used) provided by investing activities	(590,723)	2,251
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from credit facility and long-term debt, including current portion	723,054	—
Repayment of credit facility	(375,000)	—
Repurchase of common stock	(24,998)	(94,956)
Dividends paid	(23,031)	(22,232)
Proceeds from shares issued pursuant to stock-based compensation plans	9,721	3,497
Tax paid for net share exercises and issuance of vested restricted stock units	(1,013)	(265)
Other financing activities	(419)	(11)
Net cash provided (used) by financing activities	308,314	(113,967)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(883)	1,588
Net decrease in cash and cash equivalents	(227,781)	(66,952)
Cash and cash equivalents, beginning of year	512,144	519,090
Cash and cash equivalents, end of period	$284,363	$452,138

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

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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, 2018.

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, 2019.

Recently Adopted Accounting Pronouncements

Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02, "Leases ("ASC 842"). Effective January 1, 2019, the Company adopted ASC 842 and all the related amendments using the modified retrospective method, using the permitted practical expedients, to those contracts still outstanding as of January 1, 2019. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The most significant impact was the recognition, on a discounted basis, of right-of-use (ROU) assets totaling approximately $31.9 million and lease liabilities totaling approximately $34.2 million under non-cancelable operating leases as of January 1, 2019 and the related new required disclosures. The standard did not have an impact on the Company's consolidated income statements or consolidated statements of cash flows. For additional disclosures required under the new standard refer to Note 9: "Leases".

FASB ASU No. 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). Effective January 1, 2019, the Company adopted 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 also 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 standard did not have an impact on the Company's consolidated financial statements.

FASB ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). Effective January 1, 2019, the Company adopted ASU 2018-02. The standard allows companies to reclassify stranded tax effects in Accumulated other comprehensive earnings (loss) that have been caused by the Tax Cuts and Jobs Act of 2017 (the Act) to Retained earnings for each period in which the effect of the change in the U.S. federal corporate income tax rate is recorded. However, the FASB made the reclassification optional. As a result, the Company assessed the impact of the ASU on its financial statements and did not exercise the option to reclassify the stranded tax effects caused by the Act.

FASB ASU No. 2018-07, "Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07"). Effective January 1, 2019, the Company adopted ASU 2018-07. The standard more closely aligns the accounting for employee and nonemployee share-based payments. The standard did not have a material impact on the Company's consolidated financial statements or disclosures.

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

Note 1. Basis of Presentation - (Continued)
Recently Adopted Accounting Pronouncements - (Continued)
FASB ASU No. 2018-15, “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract” (“ASU 2018-15”). Effective January 1, 2019, the Company adopted ASU 2018-15. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this update. The standard did not have a material impact on the Company’s consolidated financial statements.

Note 2. Revenue
Revenue Recognition
The Company designs, markets and sells products primarily as commercial, off-the-shelf products. Certain customers request different system configurations, based on standard options or accessories that the Company offers. Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company regularly enters into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. In such situations, contract values are allocated to each performance obligation based on its relative estimated standalone selling price. The vast majority of the Company's revenues are recognized at a point in time when goods are transferred to a customer. However, for certain contracts that include highly customized components, if performance does not create an asset with an alternative use and termination for convenience clauses provide an enforceable right to payment for performance completed to date, revenue is recognized over time as the performance obligation is satisfied.

Revenue includes certain shipping and handling costs and is stated net of third party agency fees. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of goods sold. Revenue is recognized net of allowances for returns and net of taxes collected from customers which are subsequently remitted to governmental authorities.

The Company's products are sold with warranty provisions that require it to remedy deficiencies in quality or performance of the Company's products over a specified period of time, generally twelve to twenty-four months, at no cost to its customers. Warranty liabilities are established at the time that revenue is recognized at levels that represent the Company's estimate of the costs that will be incurred to fulfill those warranty requirements.

Provisions for estimated losses on sales or related receivables are recorded when identified. Service revenue is deferred and recognized over the contract period, as is the case for extended warranty contracts, or recognized as services are provided.

See Note 19, "Operating Segments and Related Information - Revenue and Long-Lived Assets by Geographic Area" for information related to the Company’s revenues disaggregated by significant geographical region and operating segment.

Contract Balances
The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables and deferred revenue and advance payments from customers on the Consolidated Balance Sheets. Contract assets and liabilities are reported on a contract-by-contract basis. The Company had no material deferred contract costs recorded on the Consolidated Balance Sheet as of March 31, 2019.

Contract assets: The Company recognizes unbilled receivables as contract assets when the Company has rights to consideration for work completed but has not yet billed at the reporting date. Unbilled receivables are included within accounts receivable, net on the Consolidated Balance Sheets. The balance of unbilled receivables as of March 31, 2019 and December 31, 2018 were $17.7 million and $10.5 million, respectively.

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

Note 2. Revenue - (Continued)
Contract Balances
Contract Liabilities: The Company records contract liabilities when cash payments are received or due in advance of the Company's performance. Contract liabilities include deferred revenue and advance payments from customers. Contract liabilities are classified as either current or long-term in the Consolidated Balance Sheets based on the timing of when the Company expects to recognize revenue. As of March 31, 2019 and December 31, 2018, contract liability balances totaled $69.3 million and $66.4 million, respectively. These balances included amounts classified as long-term as of March 31, 2019 and December 31, 2018 and were $14.0 million and $14.0 million, respectively, and are included within pension and other long-term liabilities in the accompanying Consolidated Balance Sheets. Approximately $20.3 million of revenue recognized during the three month period ended March 31, 2019 was included in the combined opening contract liability balances.

Remaining Performance Obligations
Remaining performance obligations represent the aggregate transaction price allocated to performance obligations with an original contract term greater than one year which are fully or partially unsatisfied at the end of the period. While the remaining performance obligation disclosure is similar in concept to backlog, the definition of remaining performance obligations excludes contracts that provide the customer with the right to cancel or terminate for convenience with no substantial penalty, even if historical experience indicates the likelihood of cancellation or termination is remote. The Company has elected to exclude contracts with customers with an original term of one year or less from remaining performance obligations while these contracts are included within backlog.
As of March 31, 2019, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately $123.6 million. The Company expects to recognize revenue on approximately 84 percent of the remaining performance obligations over the next twelve months, and the remainder recognized thereafter.

Note 3. 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 granted during the year ended December 31, 2016 may be earned based upon the Company's return on invested capital over a three year period. Performance-based restricted stock unit awards granted during the year ended December 31, 2017 may be earned based upon the Company's operating margin performance over a three year period. Performance-based restricted stock unit awards granted during the year ended December 31, 2018 may be earned based upon a combination of the Company's revenue and operating performance over a three year period. Certain shares vested under the performance-based restricted stock unit awards and the market-based restricted stock unit awards must 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 2009 ESPP must be held by employees for a period of at least 18 months after the date of purchase. On April 19, 2019, the Company's shareholders approved the FLIR Systems, Inc. 2019 Employee Stock Purchase Plan ("2019 ESPP"). The final purchase under the 2009 ESPP was on April 30, 2019 and the first offering under the 2019 ESPP commenced on May 1, 2019.

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

Note 3. Stock-based Compensation - (Continued)

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

	Three Months Ended March 31,	
	2019	2018
Cost of goods sold	$847	$695
Research and development	1,708	1,409
Selling, general and administrative	5,535	3,827
Stock-based compensation expense before income taxes	$8,090	$5,931

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

	March 31,	
	2019	2018
Capitalized in inventory	$1,279	$1,057

As of March 31, 2019, the Company had approximately $45.5 million of total unrecognized stock-based compensation costs, net of estimated forfeitures, to be recognized over a weighted average period of two years.

Note 4. 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 March 31,	
	2019	2018
Numerator for earnings per share:		
Net earnings for basic and diluted earnings per share	$61,748	$39,195
Denominator for earnings per share:		
Weighted average number of common shares outstanding	135,541	138,504
Assumed exercise of stock options and vesting of restricted stock awards, net of shares assumed reacquired under the treasury stock method	1,624	2,490
Diluted shares outstanding	137,165	140,994

The effect of stock-based compensation awards for three months ended March 31, 2019, which in the aggregate consisted of 58,000 shares have been excluded for purposes of diluted earnings per share since the effect of their inclusion would have been anti-dilutive. There were no shares excluded for the three months ended March 31, 2018.

Note 5. 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.

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

Note 5. Fair Value of Financial Instruments - (Continued)

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 $0.7 million and $200.0 million of cash equivalents at March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018, and the interest rate swap contract as of March 31, 2019 are disclosed in Note 6, "Derivative Financial Instruments," and are based on Level 2 inputs. The fair value of the Company's borrowings under the Credit Agreement as described in Note 13, "Credit Agreement," as of March 31, 2019 approximates the carrying value. The fair value of the Company’s senior unsecured notes as described in Note 14, "Long-Term Debt," is approximately $427.0 million and $418.8 million based upon Level 2 inputs at March 31, 2019 and December 31, 2018, respectively.

Note 6. 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 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 expense (income), net for the three months ended March 31, 2019 and 2018 were a net gain of $0.3 million and a net loss of $4.7 million, respectively.

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

	March 31, 2019	December 31, 2018
European euro	$69,805	$ 61,452
Canadian dollar	23,456	19,685
British pound sterling	9,430	609
Brazilian real	8,112	8,598
Swedish kronor	6,707	3,608
Norwegian kroner	2,097	—
Australian dollar	1,205	1,131
Other	113	813
	$120,925	$ 95,896

At March 31, 2019, 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):

	March 31, 2019		December 31, 2018	
	Prepaid Expenses and	Other Current Liabilities	Prepaid Expenses and	Other Current Liabilities

	Other Current Assets		Other Current Assets	
Foreign exchange contracts	$730	$ 1,112	$431	$ 951

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

Note 6. Derivative Financial Instruments - (Continued)

Interest Rate Swap Contracts

The Company's outstanding debt at March 31, 2019 consists of fixed rate notes and an unsecured credit facility consisting of a revolving loan facility, a U.S. dollar term loan facility and a Swedish kronor term loan facility, all of which accrue interest at a floating rate. As discussed in Note 13, "Credit Agreement," of the Notes to the Consolidated Financial Statements above, interest expense on the Company's floating rate debt is calculated based on a fixed spread over the applicable Eurocurrency rate (i.e. LIBOR). Therefore, fluctuations in market interest rates will cause interest expense increases or decreases on a given amount of floating rate debt.

The Company is managing its interest rate risk related to certain floating rate debt through a floored amortizing interest rate swap ("floored swap") in which the Company receives floating rate payments subject to a floor of zero percent and makes fixed rate payments. The impact of the floored swap is to fix the floating rate basis for the calculation of interest on the unsecured Swedish kronor term loan at the levels indicated in the table below. The effective interest rate paid is equal to the fixed rates shown below plus the applicable spread then in effect. At March 31, 2019, the effective interest rate on the Swedish kronor term loan which includes the impact of the floored swap was 1.840 percent.

As of March 31, 2019, the following floored swap was outstanding:

Effective Date	Notional Amount (in millions Swedish Kronor)	Fixed Rate	Maturity Date
March 29, 2019	1,390.2	0.59%	March 31, 2024

The floored swap is designated and effective as a cash flow hedge and recorded as an asset or liability in the Company's Consolidated Balance Sheets at fair value. Fair value adjustments are recorded as an adjustment to accumulated other comprehensive earnings, except that any gains and losses on ineffectiveness of the floored swap would be recorded as an adjustment to other expense (income), net. The net fair value carrying amount of the Company's floored swap was a loss of $1.1 million, which has been recorded in prepaid expenses and other current assets, other assets, other current liabilities and pension and other long-term liabilities in the Consolidated Balance Sheet as of March 31, 2019.

All of the Company's derivative counterparties have investment grade credit ratings. The Company is a party to master netting arrangements that contain features that allow counterparties to net settle amounts arising from multiple separate derivative transactions or net settle in the case of certain triggering events such as a bankruptcy or major default of one of the counterparties to the transaction. The Company has not pledged assets or posted collateral as a requirement for entering into or maintaining derivative positions.

Note 7. Accounts Receivable

Accounts receivable are net of an allowance for doubtful accounts of $5.7 million and $4.3 million at March 31, 2019 and December 31, 2018, respectively.

Note 8. Inventories

Inventories consist of the following (in thousands):

	March 31, 2019	December 31, 2018
Raw material and subassemblies	$218,651	$ 214,164
Work-in-progress	52,748	43,096
Finished goods	113,917	94,847
	$385,316	$ 352,107

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

Note 9. Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in other assets, other current liabilities, and pension and other long-term liabilities on the consolidated balance sheets. The Company does not have any finance leases at March 31, 2019.

Operating lease right-of-use assets (ROU assets) represent the Company's right to use an underlying asset for the lease term and operating lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date of the lease based on the present value of minimum fixed lease payments over the lease term. As most of the leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. ROU assets also include prepaid lease payments made prior to commencement of the lease plus initial capitalized direct costs and exclude tenant improvement allowances. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for minimum fixed lease payments is recognized on a straight-line basis over the lease term.

The Company has elected to apply the short-term lease exemption in accordance with guidance, and therefore, short-term leases (leases with a term of twelve months or less) are not recorded on the balance sheet. The Company has only a small number of leases that qualify for the exemption and the amount of its remaining short-term lease commitments is not significant.

Most of the Company's operating leases are for buildings, warehouses and office space. These leases have remaining lease terms of approximately one year to ten years.

The components of lease expense was as follows (in thousands):

	Three Months Ended March 31, 2019
Operating lease expense	$ 2,635
Short-term lease expense	246
Variable lease expense	514
Total lease expense	$ 3,395

Supplemental cash flow information related to operating leases (in thousands):

	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 2,422
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	$ 300

Supplemental balance sheet information related to operating leases (in thousands):

	March 31, 2019
Operating lease right-of-use assets	$ 30,222

Operating lease liabilities	$ 33,655

As of March 31, 2019, the weighted average remaining lease term for operating leases was 5.3 years and the weighted average discount rate was 4.03% percent.

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

Note 9. Leases - (Continued)

Maturities of lease liabilities as of March 31, 2019 were as follows (in thousands):

Nine months ending December 31, 2019	$6,904
2020	8,300
2021	7,522
2022	4,636
2023	2,619
2024	1,760
Thereafter	5,883
Total lease payments	37,624
Less: imputed interest	(3,969)
Present value of lease liabilities	$33,655

The Company's future minimum lease commitments, net of sub-lease rental income, as of December 31, 2018, under Accounting Standard Codification Topic 840, the predecessor to Topic 842, are as follows:

	Net Operating Leases
2019	$ 10,561
2020	8,270
2021	7,283
2022	4,894
2023	2,934
Thereafter	5,911
Total minimum payments	$ 39,853

Note 10. Property and Equipment

Property and equipment are net of accumulated depreciation of $341.0 million and $333.4 million at March 31, 2019 and December 31, 2018, respectively.

Note 11. Goodwill

The carrying value of goodwill and the activity for the three months ended March 31, 2019 are as follows (in thousands):

Balance, December 31, 2018	$ 904,571
Currency translation adjustments	(1,110)
Balance, March 31, 2019	$ 903,461

See Note 19, "Operating Segments and Related Information" of the Notes to the Consolidated Financial Statements for additional information on the carrying value of goodwill by operating segments.

Note 12. Intangible Assets

Intangible assets are net of accumulated amortization of $103.3 million and $97.7 million at March 31, 2019 and December 31, 2018, respectively.

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

Note 13. Credit Agreement

On March 29, 2019, the Company entered into a Second Amended and Restated Credit Agreement (“Credit Agreement”) with Bank of America, N.A., JPMorgan Chase Bank, N.A., U.S. Bank National Association, Citibank, N.A., MUFG Union Bank, N.A., and the other lenders party thereto. The Credit Agreement amended and restated the Company's existing Amended and Restated Credit Agreement, dated as of May 31, 2016 ("Existing Credit Agreement"). The Credit Agreement provides for a $650.0 million unsecured revolving credit facility, a $100.0 million unsecured term loan facility available in U.S. dollars amortizing at 5.000 percent per annum, and a $150.0 million unsecured term loan facility available in Swedish kronor amortizing at 5.000 percent per annum. The Credit Agreement has a term of five years and matures on March 29, 2024. In connection with the closing of the Credit Agreement, the Company made an initial borrowing of $100.0 million in revolving loans, $100.0 million in term loans in U.S. dollars, and the equivalent of $150.0 million in term loans in Swedish kronor. Additionally, the Company repaid in full all outstanding amounts, consisting of revolving loans in an aggregate principal amount of $375.0 million, under the Existing Credit Agreement.

Note 14. Long-Term Debt

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

	March 31, 2019	December 31, 2018
Unsecured notes	$425,000	$ 425,000
Credit Agreement	249,025	—
Unamortized discounts and issuance costs of unsecured notes	(4,683)	(3,052)
	$669,342	$ 421,948
Current portion, long-term debt	$12,451	$ —
Long-term debt	$656,891	$ 421,948

In June 2016, the Company issued $425.0 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 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.

As discussed in Note 13, "Credit Agreement," of the Notes to the Consolidated Financial Statements above, on March 29, 2019, the Company made an initial borrowing of $100.0 million in term loans in U.S. dollars, and the equivalent of $150.0 million in term loans in Swedish kronor. Both term loans amortize at 5.000 percent per annum with the current portion included in current liabilities.

Note 15. Accrued Product Warranties

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

	Three Months Ended March 31, 2019	2018
Accrued product warranties, beginning of period	$18,583	$18,052
Amounts paid for warranty services	(2,776)	(3,278)
Warranty provisions for products sold	2,414	3,536
Business acquisition	874	—
Currency translation adjustments and other	(37)	202
Accrued product warranties, end of period	$19,058	$18,512

Current accrued product warranties, end of period	$15,747	$15,319
Long-term accrued product warranties, end of period	$3,311	$3,193

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

Note 16. Shareholders' Equity

On February 7, 2019, the Company's Board of Directors authorized the repurchase of up to 15.0 million shares of the Company's outstanding common stock. This authorization expires in February 2021. During the three months ended March 31, 2019, the Company repurchased 0.5 million shares of the Company's common stock through open market transactions under the under the 2019 authorization. The February 2017 authorization by the Company's Board of Directors expired in February 2019.

On March 8, 2019, the Company paid a dividend of $0.17 per share on its outstanding common stock to the shareholders of record as of the close of business on February 22, 2019. The total cash payments for dividends during the three months ended March 31, 2019 were $23.0 million.

Note 17. Contingencies

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

On April 24, 2018, the Company entered into a Consent Agreement with the United States Department of State's Directorate of Defense Trade Controls (“DDTC”) to resolve allegations regarding the unauthorized export of technical data and defense services to dual and third country nationals from certain Company facilities, the failure to properly use and manage export licenses and export authorizations, and failures to report certain payments under 22 CFR Part 130 in potential violation of the International Traffic in Arms Regulation (“ITAR”). The Consent Agreement has a four-year term and provides for: (i) a civil penalty of $30.0 million with $15.0 million of this amount suspended on the condition that the funds have or will be used for Department-approved Consent Agreement remedial compliance measures, (ii) the appointment of an external Special Compliance Official to oversee compliance with the Consent Agreement and the ITAR; (iii) two external audits of the Company’s ITAR compliance program; and (iv) continued implementation of ongoing remedial compliance measures and additional remedial compliance measures related to automated systems and ITAR compliance policies, procedures, and training. During the three-month period ended March 31, 2018, the Company recorded a $15.0 million charge for the portion of the penalty that is not subject to suspension. In April 2018, the Company paid $1.0 million of the $15.0 million charge and as of March 31, 2019, the remaining amount payable of $3.5 million and $10.5 million has been recorded in other current liabilities and pension and other long-term liabilities, respectively. The remaining $14.0 million is payable in annual installments of $3.5 million through April 2022. The Company expects recent and future investments in remedial compliance measures will be sufficient to cover the $15.0 million suspension amount.

As part of the Consent Agreement, DDTC acknowledged that the Company voluntarily disclosed certain of the alleged Arms Export Control Act and ITAR violations, which were resolved pursuant to the Consent Agreement, cooperated in the DDTC's review, and instituted a number of compliance program improvements.

In May 2017, the Company submitted an initial notification to DDTC regarding potential violations related to certain export classifications obtained through the commodity jurisdiction process and a final voluntary disclosure in August 2017. The Company also submitted a voluntary self-disclosure regarding the same matter with the United States Department of Commerce Bureau of Industry and Security ("BIS"). DDTC and BIS both acknowledged the submissions and, at the request of the agencies, the Company executed tolling agreements for this matter, suspending the statute of limitations through January 13, 2019 for DDTC and May 15, 2019 for DDTC and BIS, respectively. This matter remains under review by DDTC and BIS.

In June 2017, BIS informed the Company of additional export licensing requirements that restrict the Company’s ability to sell certain 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 sale without a license or 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. BIS subsequently favorably modified these restrictions to reduce the applicability of the restrictions to sales of FLIR's Tau camera cores (as opposed to finished products containing Tau camera cores) to customers in China not identified on a list maintained by the United States Department of Commerce and persons in a country other than those in EAR Country Group A:5 (Supplement No. 1 to

Part 740 of the EAR). If the Company is found to have violated applicable rules and regulations with respect to customers and limitations on the export and 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.

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

Note 17. Contingencies - (Continued)

SkyWatch Product Quality Matters

In March 2016, the Company learned of potential quality concerns with respect to as many as 315 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. The Company identified the cause of these quality issues, notified customers of their option to request repair and modification of their in-field units, and has begun in-field repairs of identified affected 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 on remaining units to be between $4.9 million and $12.1 million. As no single amount within the range is a better estimate than any other amount within the range, the Company has recorded an accrual of $4.9 million in other current liabilities as of March 31, 2019. Factors underlying this estimated range of loss may change from time to time, and actual results may vary significantly from this estimate.

Shareholder Derivative Lawsuit

In October 2018, a shareholder filed a derivative lawsuit in the Circuit Court of the State of Oregon for the County of Multnomah under the caption Stein v. Carter, et al., Case No. 18CV46824, against the Company, as a nominal defendant, and certain current and former directors of the Company. Pointing to the Company’s 2015 settlement with the United States Securities and Exchange Commission of alleged United States Foreign Corrupt Practices Act violations and 2018 settlement with United States Department of State of alleged export control violations, the complaint alleges that the Company’s directors breached their fiduciary duties by failing to ensure that the Company had internal controls in place that would have prevented the alleged underlying misconduct and these settlements. The complaint also asserts claims for corporate waste and unjust enrichment, and seeks unspecified monetary damages from the individual defendants, injunctive relief, disgorgement of director compensation, and attorneys’ fees and costs. Because the complaint is derivative in nature, it does not seek monetary damages from the Company. However, the Company may be required to advance, and ultimately be responsible for, the legal fees and costs incurred by the individual defendants.

On January 16, 2019, the defendants moved to dismiss the complaint. On March 21, 2019, instead of opposing the defendants' motion, the plaintiff filed an amended complaint. On April 25, 2019, the defendants moved to dismiss the amended complaint. A hearing on the motion to dismiss has been set for July 19, 2019.

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 18. Income Taxes

The provision for income taxes was as follows:

	Three Months Ended March 31,	
	2019	2018
Income tax provision	$13,009	$15,420
Effective tax rate	17.4 %	28.2 %

The effective tax rate for the three months ended March 31, 2019, is lower than the United States Federal tax rate of 21.0 percent mainly due to a reduction in previously non-deductible interest expense and excess tax benefits from stock compensation, offset partially by state taxes, higher tax rates applied to income earned in certain foreign jurisdictions, and other discrete items.

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

Note 18. Income Taxes - (Continued)

As of March 31, 2019 and December 31, 2018, the Company has accrued income tax liabilities of $42.9 million related to the transition tax enacted on December 22, 2017 as part of the Tax Cuts and Jobs Act. Of the amounts accrued, none are expected to be due within one year. The remaining transition tax will not accrue interest and will be paid in annual installments beginning in 2020 through 2024.

As of March 31, 2019, the Company had approximately $20.4 million of unrecognized tax benefits, all of which would affect the Company’s effective tax rate if recognized. The Company anticipates approximately $5.1 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 March 31, 2019, the Company had $6.2 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.

During the three-month period ending December 31, 2018, the Swedish Tax Authority (“STA”) issued a reassessment of tax for the year ending December 31, 2012 to one of the Company's non-operating subsidiaries in Sweden. The reassessment concerns the use of tax credits applied against capital gains pursuant to European Union Council Directive 2009/133/EC, commonly referred to as the EU Merger Directive, and assesses taxes and penalties totaling approximately $321.6 million (Swedish kronor 3.0 billion). The Company believes the STA’s assertions in the reassessment are not in accordance with Swedish tax regulations and plans to defend the Company's positions with the STA and through the Swedish court system, as necessary. Consequently, no adjustment to the Company's unrecognized tax benefits has been recorded in relation to this matter.

Management believes that the Company's recorded tax liabilities are adequate in the aggregate for its income tax exposures.

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

	Tax Years:
United States Federal	2015 - 2017
State of California	2014 - 2017
State of Massachusetts	2014 - 2017
State of Oregon	2015 - 2017
Sweden	2012 - 2017
United Kingdom	2014 - 2017
Belgium	2011 - 2017

Note 19. Operating Segments and Related Information

Operating Segments

The Company has three reportable operating segments as follows:

Industrial Business Unit

The Industrial business unit 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 devices that image, measure, and assess thermal energy, gases, and other environmental elements for industrial, commercial, and scientific applications, imaging payloads for Unmanned Aerial Systems ("UAS"), machine vision cameras, people counting and tracking, and thermal imaging solutions for use by consumers in the smartphone and mobile devices markets. Products include thermal imaging cameras, gas detection cameras, firefighting cameras, process automation cameras, and environmental test and measurement devices.

Government and Defense Business Unit

The Government and Defense business unit 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. The segment also 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. Offerings include airborne, land, maritime, and man-portable multi-spectrum imaging systems, radars, lasers, imaging components, integrated multi-sensor system platforms, CBRNE detectors, nano-class UAS solutions, and services related to these systems.

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

Note 19. Operating Segments and Related Information - (Continued)
Operating Segments - (Continued)
Commercial Business Unit
The Commercial business unit develops and manufactures cameras, video recording systems, and video management systems for use in commercial and critical infrastructure, electronics and imaging instruments for the recreational and commercial maritime market, intelligent traffic monitoring and signal control systems, and hand-held and weapon-mounted thermal imaging systems for use in a variety of applications. Products include thermal and visible-spectrum security cameras, digital and networked video recorders, and related software and accessories, a full suite of networked marine 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, traffic cameras, sensors and associated traffic management software, and thermal scopes and handheld thermal cameras.

The Company’s chief operating decision maker ("CODM"), its Chief Executive Officer, evaluates each of its segments’ 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 three segments. Operating income as reviewed by the CODM is revenue less cost of goods sold and operating expenses, excluding general corporate expenses, amortization of purchased intangible assets, amortization of acquisition-related inventory step-up, loss on sale of a business and restructuring and other charges. Net accounts receivable, inventories and demonstration assets for the 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.

Operating segment information is as follows (in thousands):

	Three Months Ended March 31,	
	2019	2018
Revenue—External Customers:		
Industrial	$179,370	$170,658
Government and Defense	173,350	159,331
Commercial	92,016	109,629
	$444,736	$439,618
Revenue—Intersegments:		
Industrial	$6,198	$6,332
Government and Defense	1,512	1,528
Commercial	4,433	4,481
Eliminations	(12,143)	(12,341)
	$—	$—
Segment operating income:		
Industrial	$56,897	$45,455
Government and Defense	48,267	46,182
Commercial	12,948	14,472
	$118,112	$106,109

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

Note 19. Operating Segments and Related Information - (Continued)
Operating Segments - (Continued)
A reconciliation of the Company's consolidated segment operating income to consolidated earnings before income taxes is as follows (in thousands):

	Three Months Ended March 31,	
	2019	2018
Consolidated segment operating income	$118,112	$106,109
Unallocated corporate expenses	(24,562)	(34,948)
Amortization of purchased intangible assets	(5,928)	(5,987)
Amortization of acquisition-related inventory step-up	(6,477)	—
Loss on sale of business	—	(10,178)
Restructuring and other charges	(63)	496
Consolidated earnings from operations	81,082	55,492
Interest and non-operating expenses, net	(6,325)	(877)
Consolidated earnings before income taxes	$74,757	$54,615

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

	March 31, 2019	December 31, 2018
Operating segment assets:		
Net accounts receivable, inventories and demonstration assets:		
Industrial	$263,551	$266,457
Government and Defense	359,195	307,041
Commercial	152,722	137,560
	$775,468	$711,058
Goodwill:		
Industrial	390,599	391,603
Government and Defense	284,649	284,188
Commercial	228,213	228,780
	$903,461	$904,571
Total operating segment assets	$1,678,929	$1,615,629
Assets not allocated:		
Cash and cash equivalents	$284,363	$512,144
Assets held for sale, net	—	2,032
Prepaid expenses and other current assets	67,615	67,413
Property and equipment, net	253,678	247,407
Deferred income taxes	97,705	100,620
Intangible assets, net	140,551	146,845
Unallocated assets from acquisitions	575,079	14,210
Other assets	108,389	74,942
Total assets	$3,206,309	$2,781,242

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

Note 19. 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 March 31, 2019			
	Industrial	Government and Defense	Commercial	Total
United States	$101,211	$ 109,304	$ 32,211	$242,726
Europe	31,308	26,596	42,556	100,460
Asia	34,434	17,386	6,959	58,779
Middle East/Africa	3,769	17,407	6,096	27,272
Canada/Latin America	8,648	2,657	4,194	15,499
	$179,370	$ 173,350	$ 92,016	$444,736

	Three Months Ended March 31, 2018			
	Industrial	Government and Defense	Commercial	Total
United States	$86,296	$ 95,133	$ 44,015	$225,444
Europe	35,543	17,203	44,777	97,523
Asia	34,057	18,351	8,965	61,373
Middle East/Africa	3,664	27,184	5,559	36,407
Canada/Latin America	11,098	1,460	6,313	18,871
	$170,658	$ 159,331	$ 109,629	$439,618

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

	March 31, 2019	December 31, 2018
United States	$1,308,819	$720,885
Europe	445,145	446,704
Other foreign	227,194	220,386
	$1,981,158	$1,387,975

Major Customers

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

	Three Months Ended March 31,	
	2019	2018
United States government	$137,493	$118,955

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

Note 20. Business Acquisitions and Divestitures

Business Acquisitions

On March 26, 2018, the Company completed a transaction to acquire 100% of the outstanding stock of Fishing Hot Spots, a privately held technology company for approximately $7.1 million in cash. During the third quarter of 2018, the Company finalized the purchase price allocation and recorded $2.2 million of identified intangible assets and goodwill of $4.7 million in the Commercial business unit.

On April 3, 2018, the Company completed a transaction to acquire 100% of the outstanding stock of Fishidy, Inc., a privately held startup technology company for approximately $7.1 million in cash. During the third quarter of 2018, the Company finalized the purchase price allocation and recorded $3.8 million of identified intangible assets and goodwill of $4.6 million in the Commercial business unit.

On September 10, 2018, the Company completed a transaction to acquire 100% of the outstanding stock of Acyclica, Inc., a privately held software developer for automotive roadway and intersection data generation and analysis for approximately $10.3 million, including an estimate for contingent consideration pursuant to the stock purchase agreement. The allocation of the purchase price to identified intangible assets and goodwill is subject to the final determination of the valuation of the assets acquired and liabilities assumed. The primary areas of the purchase price allocation that are not yet finalized relate to the valuation of intangible assets and related taxes. The final allocation of the purchase price to the assets acquired and liabilities assumed will be completed when the final assessments of the intangible assets and related taxes are completed during the first half of 2019. Goodwill and intangibles will be recorded in the Commercial business unit. The preliminary unallocated purchase price of approximately $9.9 million, including an estimate for contingent consideration pursuant to the stock purchase agreement, has been reported in unallocated assets from acquisitions as of March 31, 2019.

On October 16, 2018, the Company acquired substantially all of the outstanding shares of SeaPilot AB, a privately held technology company for approximately $4.6 million in cash. The allocation of the purchase price to identified intangible assets and goodwill is subject to the final determination of the valuation of the assets acquired and liabilities assumed. The primary areas of the purchase price allocation that are not yet finalized relate to the valuation of intangible assets and related taxes. The final allocation of the purchase price to the assets acquired and liabilities assumed will be completed when the final assessments of the intangible assets and related taxes are completed during the first half of 2019. Goodwill and intangibles will be recorded in the Commercial business unit. The preliminary unallocated purchase price of approximately $4.3 million has been reported in unallocated assets from acquisitions as of December 31, 2018.

On January 28, 2019, the Company completed its acquisition of 100% of the outstanding stock of Aeryon Labs Inc., a privately held developer of high-performance UAS for the global military, public safety, and critical infrastructure markets for approximately $210.6 million in cash. The allocation of the purchase price to identified intangible assets and goodwill is subject to the final determination of the valuation of the assets acquired and liabilities assumed. The primary areas of the purchase price allocation that are not yet finalized relate to the valuation of intangible assets and related taxes. The final allocation of the purchase price to the assets acquired and liabilities assumed will be completed when the final assessments of the intangible assets and related taxes are completed during the second half of 2019. Goodwill and intangibles will be recorded in the Government and Defense business unit. The preliminary unallocated purchase price of approximately $192.8 million has been reported in unallocated assets from acquisitions as of March 31, 2019.

On March 4, 2019, the Company completed its acquisition of 100% of the outstanding stock of Endeavor Robotics Holdings, Inc. a privately held developer of battle-tested, tactical unmanned ground vehicles for the global military, public safety, and critical infrastructure markets for approximately $386.8 million in cash. The allocation of the purchase price to identified intangible assets and goodwill is subject to the final determination of the valuation of the assets acquired and liabilities assumed. The primary areas of the purchase price allocation that are not yet finalized relate to the valuation of intangible assets and related taxes. The final allocation of the purchase price to the assets acquired and liabilities assumed will be completed when the final assessments of the intangible assets and related taxes are completed during the second half of 2019. Goodwill and intangibles will be recorded in the Government and Defense business unit. The preliminary unallocated purchase price of approximately $368.0 million has been reported in unallocated assets from acquisitions as of March 31, 2019.

The business acquisitions listed above 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.

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

Note 20. Business Acquisitions and Divestitures - (Continued)

Divestitures of the Consumer and Small and Medium-Sized Security Businesses

On February 6, 2018 the Company sold the Consumer and Small and Medium-sized ("SMB") Security businesses within the Commercial business unit for total cash consideration of approximately $28.8 million. As a result of this combined sale, the Company recognized a total pre-tax loss of approximately $37.3 million (approximately $23.6 million in year ended December 31, 2017 and approximately $13.7 million in the year ended December 31, 2018). This disposal did not qualify as discontinued operations and therefore, its operating results were included in the Company’s continuing operations for all periods presented through the date of the sale.

Note 21. Subsequent Events

On April 18, 2019, the Company’s Board of Directors declared a quarterly dividend of $0.17 per share on its common stock, payable on June 7, 2019, to shareholders of record as of the close of business on May 24, 2019. The total cash payment of this dividend will be approximately $23.0 million.

On May 1, 2019, the Company acquired the outstanding stock of New England Optical Systems, Inc., a privately-held engineering and manufacturing company engaged in the design and production of technologically advanced infrared optical assemblies. The transaction consideration includes an initial $22.0 million cash payment with up to an additional $12.0 million paid over a two-year period, dependent upon achieving certain milestones. The acquisition will be reported within the Company’s Industrial Business Unit, further expanding its vertically integrated manufacturing strategy.

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. 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. Backlog is not an absolute indicator of future revenue because a portion of the orders in backlog could be canceled at the customer's discretion. While the backlog is subject to order cancellations, we have not historically experienced a significant amount of order cancellations.

Revenue. Consolidated revenue for the three months ended March 31, 2019, increased by 1.2 percent year over year, from $439.6 million in the first quarter of 2018 to $444.7 million in the first quarter of 2019. Increases in revenues for the three month period in our Industrial and Government and Defense business units were partially offset by declines in the Commercial business unit.

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. We currently expect total annual revenue for 2019 to be higher than 2018 revenue, however, 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 45.4 percent and 48.7 percent of total revenue for the quarters ended March 31, 2019 and 2018, 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 months ended March 31, 2019 were $211.1 million compared to cost of goods sold for the three months ended March 31, 2018 of $221.7 million. The decrease in cost of goods sold for the three month periods is primarily related to the decline in our Commercial business unit, which was largely a result of our divestiture of the Consumer and Small and Medium-sized ("SMB") Security businesses as announced in February 2018.

Gross profit. Gross profit for the quarter ended March 31, 2019, was $233.7 million compared to $217.9 million for the same quarter last year. Gross margin, defined as gross profit divided by revenue, increased from 49.6 percent in the first quarter of 2018 to 52.5 percent in the first quarter of 2019. The increase in gross margin for the three and nine month periods was primarily due to product mix in the Government and Defense business unit and product mix and productivity improvement in the Industrial business unit.

Research and development expenses. Research and development expenses for the first quarter of 2019 totaled $48.0 million, compared to $44.6 million in the first quarter of 2018. Research and development expenses as a percentage of revenue were 10.8 percent for the three months ended March 31, 2019 and 10.1 percent for the three months ended March 31, 2018. 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, 2018, 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 approximate range, on an annual basis, for the foreseeable future.

Selling, general, and administrative expenses. Selling, general, and administrative expenses were $104.6 million and $107.7 million for the quarters ended March 31, 2019 and 2018, respectively. The decrease in selling, general, and administrative expenses year over year is primarily attributed to a $15 million regulatory settlement recorded in the first quarter of 2018 partially offset by acquisition related expenses for acquisitions occurring in the first quarter of 2019. Selling, general, and administrative expenses as a percentage of revenue were 23.5 percent and 24.5 percent for the quarters ended March 31, 2019 and 2018, respectively. Over the past five annual periods through December 31, 2018, our annual selling, general and administrative expenses have varied between 19.4 percent and 21.8 percent of revenue, and excluding the impact of the $15.0 million regulatory settlement cost described above, we currently expect these expenses to remain within that approximate range, on an annual basis, for the foreseeable future.

Loss on sale of business. During the first quarter of 2018, we recorded an additional pre-tax loss on the sale of our Consumer and SMB Security businesses of $10.2 million. See Note 20, "Business Acquisitions and Divestitures," of the Notes to the Consolidated Financial Statements for additional information.

Interest expense. Interest expense for the three months ended March 31, 2019, was $5.5 million, compared to $4.1 million for the same period of 2018. Interest expense for the three month period in 2019 was primarily associated with the $425 million aggregate principal amount of our 3.125 percent senior unsecured notes and interest on amounts drawn under our credit facility. Interest expense for the same period in 2018 was primarily associated with the $425 million aggregate principal amount of our 3.125 percent senior unsecured notes.

Income taxes. Our income tax provision of $13.0 million for the three months ended March 31, 2019, represents an effective tax rate of 17.4 percent. Our income tax provision for the three months ended March 31, 2018 was $15.4 million, which represented an effective tax rate of 28.2 percent. The effective tax rate for the three months ended March 31, 2019 is lower than the United States Federal tax rate of 21 percent mainly due to a reduction in previously non-deductible interest expense and excess tax benefits from stock compensation, offset partially by state taxes, higher tax rates applied to income earned in certain foreign jurisdictions, and other discrete items.

During 2018, the Swedish Tax Authority (“STA”) issued a reassessment of tax for the year ending December 31, 2012 to one of our non-operating subsidiaries in Sweden. The reassessment concerns the use of tax credits applied against capital gains pursuant to European Union Council Directive 2009/133/EC, commonly referred to as the EU Merger Directive, and assesses taxes and penalties totaling approximately $321.6 million (Swedish kronor 3.0 billion). We believe the STA’s assertions in the reassessment are not in accordance with Swedish tax regulations and plan to defend our positions with the STA and through the Swedish court system, as necessary. Consequently, no adjustment to our unrecognized tax benefits has been recorded in relation to this matter.

Segment Operating Results

The Company is currently organized into three reportable segments. The three reportable segments continue to be the Industrial business unit, Government and Defense business unit and the Commercial business unit. See Note 19, “Operating Segments and Related Information,” of the Notes to the Consolidated Financial Statements for a description of each operating segment, including the types of products and services from which each operating segment derives its revenues.

Industrial

Industrial business unit operating results are as follows (in millions, except percentages):

	Three Months Ended March 31,	
	2019	2018
Revenue	$179.4	$170.7
Earnings from operations	56.9	45.5
Operating margin	31.7 %	26.6 %
Backlog, end of period	173	179

Industrial business unit revenue for the quarter ended March 31, 2019 increased by 5.1 percent compared to the same period of 2018. The increase in revenue for the three month period ended March 31, 2019, compared to the same period of 2018, was predominately attributable to strong growth across the cooled cores and UAS product lines partially offset by volume declines in the Integrated Imaging Systems (IIS) business. The increases in earnings from operations and corresponding operating margin for the three month period ended March 31, 2019, compared to the same period of 2018, were predominately attributable to favorable product mix in the OEM cores business and productivity initiatives to improve manufacturing efficiency across all divisions. The decline in backlog during the three months ended March 31, 2019 is primarily attributed to productivity initiatives executed during the period to reduce lead times for customer deliveries of our machine vision and volume hand-held product lines.

Government and Defense

Government and Defense business unit operating results are as follows (in millions, except percentages):

	Three Months Ended March 31,	
	2019	2018
Revenue	$173.4	$159.3
Earnings from operations	48.3	46.2
Operating margin	27.8 %	29.0 %
Backlog, end of period	451	357

Government and Defense business unit revenue for the quarter ended March 31, 2019 increased by 8.8 percent compared to the same period of 2018. The increase in both revenue and earnings from operations for the three month period ended March 31, 2019, compared to the same period of 2018, was primarily driven by increased volumes of UAS products and surveillance systems as well as the partial period revenue related to the acquisitions of Aeryon Labs Inc. and Endeavor Robotics Holdings Inc. during the quarter ended March 31, 2019. The decline in operating margin for the three month period ended March 31, 2019, compared to the same period of 2018 is also attributed to the inclusion of the results from these acquisitions. See Note 20, "Business Acquisitions and Divestitures," for further information. The increase in year-over-year backlog is primarily driven by timing of orders and subsequent timing of deployment of major programs in addition to the first quarter of 2019 acquisitions as noted above.

Commercial

Commercial business unit operating results are as follows (in millions, except percentages):

	Three Months Ended March 31,	
	2019	2018
Revenue	$92.0	$109.6
Earnings from operations	12.9	14.5
Operating margin	14.1 %	13.2 %
Backlog, end of period	48	60

Commercial business unit revenue for the quarter ended March 31, 2019 decreased by 16.1 percent compared to the same period of 2018. The decrease in both revenue and earnings from operations for the three month period ended March 31, 2019 compared to the same period of 2018 was primarily due to the divestiture of our Consumer and SMB Security business during the first quarter of 2018 and volume declines in our Outdoor and Tactical Systems ("OTS") business. The decrease in year over year backlog is primarily attributed to a shift to non-current backlog for certain orders as well as volume declines in the OTS business.

Liquidity and Capital Resources

At March 31, 2019, we had a total of $284.4 million in cash and cash equivalents, $95.2 million of which resided in the United States and $189.2 million at our foreign subsidiaries, compared to cash and cash equivalents at December 31, 2018, of $512.1 million, of which $327.0 million resided in the United States and $185.1 million at our foreign subsidiaries. The decrease in cash and cash equivalents during the three months ended March 31, 2019, was primarily due to cash used for business acquisitions of $579.6 million, common stock repurchases of $25.0 million, dividend payments of $23.0 million, a minority interest investment of $5.0 million and capital expenditures of $9.1 million, partially offset by cash provided from operations of $55.5 million, net proceeds of $348.1 million from our revolving credit facility and long-term debt, and proceeds of $9.7 million from shares issued under our stock compensation plans.

Cash provided by operating activities during the three months ended March 31, 2019 totaled $55.5 million, which primarily consisted of net earnings, adjusted for depreciation and amortization, stock-based compensation, other non-cash items and changes in working capital. The increase of cash provided by operating activities in 2019 over 2018 was due to an increase in net income and working capital improvements.

Cash used by investing activities for the three months ended March 31, 2019 totaled $590.7 million, which consisted primarily of business acquisitions, a minority interest investment and capital expenditures in the ordinary course of business.

Cash provided by financing activities for the three months ended March 31, 2019 totaled $308.3 million, which primarily consisted of cash provided from net proceeds from our revolving credit facility and long-term debt, and proceeds from shares issued under our stock compensation plans, partially offset by repurchases of shares of our common stock and the payment of quarterly dividends.

On March 29, 2019, we entered into a Second Amended and Restated Credit Agreement (“Credit Agreement”) with Bank of America, N.A., JPMorgan Chase Bank, N.A., U.S. Bank National Association, Citibank, N.A., MUFG Union Bank, N.A., and the other lenders party thereto. The Credit Agreement amended and restated the Company's existing Amended and Restated Credit Agreement, dated as of May 31, 2016 ("Existing Credit Agreement"). The Credit Agreement provides for a $650.0 million unsecured revolving credit facility, a $100.0 million unsecured term loan facility available in U.S. dollars amortizing at 5.000 percent per annum, and a $150.0 million unsecured term loan facility available in Swedish kronor amortizing at 5.000 percent per annum. The Credit Agreement has a term of five years and matures on March 29, 2024. In connection with the closing of the Credit Agreement, we made an initial borrowing of $100.0 million in revolving loans, $100.0 million in term loans in U.S. dollars, and the equivalent of $150.0 million in term loans in Swedish kronor. Additionally we repaid in full all outstanding amounts, consisting of revolving loans in an aggregate principal amount of $375.0 million, under the Existing Credit Agreement.

We have the right, subject to certain conditions, including approval of additional commitments by qualified lenders, to increase the availability under the revolving credit facility by an additional $200.0 million until March 29, 2024. 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 fluctuate depending on the type and tenor of the borrowing, with the most common being a Eurocurrency rate loan based on the published Eurocurrency rate (i.e. LIBOR) in which the loan is denominated. Any amounts outstanding under the Credit Agreement bear interest, at our election, at either (A) the rate of interest paid for deposits in the relevant currency (the "Eurocurrency Base Rate") plus an applicable margin between 1.000 percent to 1.375 percent, or (B) the highest of (i) the federal funds rate plus 0.500%, (ii) the prime lending rate of Bank of America, N.A. or (iii) the Eurocurrency Base Rate plus 1.000%, in each case plus an applicable margin between 0.000% and 0.375%, depending on our consolidated total leverage ratio. At March 31, 2019, the borrowing rate on the revolving loan was 3.749 percent per annum, the borrowing rate on the U.S. dollar term loan was 3.851 percent per annum and the borrowing rate on the Swedish kronor term loan was 1.243 percent per annum. The Credit Agreement requires us to pay a commitment fee on the amount of unused revolving commitments at a rate, based on our consolidated total leverage ratio, which ranges from 0.125 percent to 0.200 percent of unused revolving commitments. At March 31, 2019, the commitment fee on the amount of unused revolving credit was 0.175 percent per annum. The Credit Agreement contains one financial covenant that requires maintenance of a consolidated total leverage ratio with which we were in compliance at March 31, 2019. The credit facilities available under the Credit Agreement are unsecured. The Credit Agreement also contains language providing for the adoption of a LIBOR successor rate consistent with market practice.

To manage the interest rate risk arising from the variability in interest expense attributable to amounts drawn under the Swedish kronor term loan, we entered into a floored amortizing interest rate swap with a Swedish kronor notional amount equivalent to $150.0 million. The interest rate swap was designated, and effective, as cash flow hedges.

We had $11.0 million of letters of credit outstanding under the Credit Agreement at March 31, 2019, which reduced the total availability under the revolving commitments under the Credit Agreement.

In June 2016, we issued $425.0 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 3.750 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 8, 2017, our Board of Directors authorized the repurchase of up to 15.0 million shares of our outstanding common stock. This authorization expired on February 8, 2019. On February 7, 2019, 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 7, 2021. As of March 31, 2019, a total of 0.5 million shares have been repurchased under the February 7, 2019 authorization.

As of March 31, 2019 and December 31, 2018, the Company has accrued income tax liabilities of $42.9 million related to the transition tax enacted on December 22, 2017 as part of the Tax Cuts and Jobs Act. Of the amounts accrued, none are expected to be due within one year. The remaining transition tax will not accrue interest and will be paid in annual installments beginning in 2020 through 2024.

We have not provided United States, state or foreign income taxes for earnings generated after January 1, 2018 by certain subsidiaries outside the United States as we currently intend to reinvest the earnings in operations and other activities outside of the United States indefinitely. Should we subsequently elect to repatriate such foreign earnings, we would need to accrue and pay state and foreign income taxes, thereby reducing the amount of our cash. United States taxes would generally not be payable due to changes made by the Tax Act.

During 2018, the Swedish Tax Authority (“STA”) issued a reassessment of tax for the year ending December 31, 2012 to one of our non-operating subsidiaries in Sweden. The reassessment concerns the use of tax credits applied against capital gains pursuant to European Union Council Directive 2009/133/EC, commonly referred to as the EU Merger Directive, and assesses taxes and penalties totaling approximately $321.6 million (Swedish kronor 3.0 billion). We believe the STA’s assertions in the reassessment are not in accordance with Swedish tax regulations and plan to defend our positions with the STA and through the Swedish court system, as necessary. Consequently, no adjustment to our unrecognized tax benefits has been recorded in relation to this matter.

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 March 31, 2019, we did 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.

Recently Issued Accounting Pronouncements

In November 2018, the FASB issued ASU No. 2018-18, "Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606" ("ASU 2018-18"). The standard clarifies that certain transactions between collaborative arrangement participants should be accounted for under ASC 606, when one participant is a customer, and specifies that a distinct good or service is the unit of account for evaluating whether the transaction is with a customer. The standard also provides some guidance on presentation of transactions not in the scope of ASC 606. The standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted as long as a company has already adopted the guidance in ASC 606. The Company plans to adopt the standard as of January 1, 2020 and is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

Critical Accounting Policies and Estimates

Preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Management believes the most complex and sensitive judgments, because of their significance to the consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Readers should refer to Management's Discussion and Analysis and the critical accounting policies and its use of estimates as reported in Note 1, "Nature of Business and Significant Accounting Policies" and Note 14, "Contingencies" of the Notes to the Consolidated Financial Statements included in the Form 10-K for the fiscal year ended December 31, 2018. Actual results in these areas could differ materially from management's estimates. There have been no significant changes in the Company's assumptions regarding critical accounting estimates during the first three months of 2019.

Contractual Obligations

There were no material changes to the Company's contractual obligations outside the ordinary course of its business during the quarter ended March 31, 2019, other than the $100 million borrowed under the revolving credit facility and $250 million borrowed under the term loan facility and related interest under the Credit Agreement, as described above in "Liquidity and Capital Resources."

Contingencies

See Note 17, "Contingencies," of the Notes to the Consolidated Financial Statements for 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 March 31, 2019, 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, 2018, other than the following:

Interest Rate Risk

The Company's exposure to changes in market interest rates relates primarily to interest paid on the Company's floating rate long-term debt. The Company's floating rate long-term debt consists of amounts borrowed under our revolving loan facility that bears interest at the respective Eurocurrency rate (i.e. LIBOR) plus a scheduled spread. Fluctuations in market interest rates will cause interest expense increases or decreases on such long-term debt.

As our risk management objectives include mitigating the risk of changes in cash flows attributable to changes in the designated three-month Eurocurrency rate on the Company's Swedish kronor term loan, the Company entered into a floored amortizing interest rate swap for the aggregate notional amount borrowed changes in the cash flows of the interest rate swap is expected to exactly offset the changes in cash flows attributable to fluctuations in the three-month Eurocurrency-based interest payments. The net effect of the swap is to convert the floating interest rate basis to a fixed rate of 0.59 percent.

See Note 6, "Derivative Financial Instruments - Interest Rate Swap Contracts," Note 13, "Credit Agreement," and Note 14, "Long-Term Debt," of the Notes to the Consolidated Financial Statements and Item 2 of Part I, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for additional information on the Company's interest rate risk.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2019, 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 have been no changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company implemented internal controls to ensure it adequately evaluated its contracts and properly assessed the impact of the new accounting standard related to leases on the Company's financial statements to facilitate the adoption on January 1, 2019. There were no significant changes to the Company's internal control over financial reporting due to the adoption of the new standard.

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 17, “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, 2018, 2017 and 2016, approximately 29 percent, 26 percent and 25 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. A failure to pass budget appropriations, adopt continuing funding resolutions or other budgetary decisions limiting or delaying federal government spending, could reduce government spending on our products and services and have a material adverse effect on our business and our operating results.
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.
Considerable uncertainty exists regarding how future budget and program decisions will unfold, including the defense spending priorities of the United States government agencies. If annual appropriations bills are not timely enacted for fiscal year 2020 or beyond, the United States government may continue to operate under a continuing resolution. This could restrict new contract or program starts, presenting resource allocation challenges and placing limitations on some planned program budgets. We may also face another United States government shutdown of unknown duration. If a prolonged government shutdown of the Department of Defense were to occur, it could result in program cancellations, disruptions and/or stop work orders and could limit the United States government’s ability effectively to progress programs and to make timely payments, limit our ability to obtain necessary export licenses to ship internationally, and limit our ability to perform on our United States government contracts and successfully compete for new work. Consequently, significant delays or reductions in appropriations; long-term funding under a continuing resolution; an extended debt ceiling breach or government shutdown; and/or future budget and program decisions, among other items, may negatively impact our business and could have a material adverse effect on our financial condition and results of 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 and non-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 our long-term competitiveness. 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, 2018, 2017 and 2016, international sales accounted for 47 percent, 47 percent and 46 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 any applicable 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;

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- 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
- instability in economic or political conditions, inflation, recession, actual or anticipated military or political conflicts, and potential impact due to the upcoming exit of the United Kingdom (the "U.K.") from the European Union (the "EU"), colloquially referred to as "Brexit".

Some of these factors recently have had an adverse impact on our sales and operations and increased our 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 United States 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, we are 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.

On April 24, 2018, we entered into a Consent Agreement with the United States Department of State’s Directorate of Defense Trade Controls (“DDTC”) to resolve allegations regarding the unauthorized export of technical data and defense services to dual and third country nationals in certain of our facilities, the failure to properly use and manage export licenses and export authorizations, and failures to report certain payments under 22 CFR Part 130 in potential violation of ITAR. The Consent Agreement has a four-year term and provides for: (i) a civil penalty of $30 million with $15 million of this amount suspended on the condition that the funds have or will be used for Department-approved Consent Agreement remedial compliance measures, (ii) the appointment of an external Special Compliance Official to oversee compliance with the Consent Agreement and the ITAR; (iii) two external audits of our ITAR compliance program; and (iv) continued implementation of ongoing remedial compliance measures and additional remedial compliance measures related to automated systems and ITAR compliance policies, procedures, and training. During the three-month period ended March 31, 2018, we recorded a $15 million charge for the portion of the penalty that is not subject to suspension. As of December 31, 2018, the remaining amounts payable of $3.5 million and $10.5 million have been recorded in other current liabilities and pension and other long-term liabilities, respectively. We expect recent and future investments in remedial compliance measures will be sufficient to cover the $15 million suspension amount.

As part of the Consent Agreement, DDTC acknowledged that we voluntarily disclosed certain of the alleged Arms Export Control Act and ITAR violations (which were resolved pursuant to the Consent Agreement), cooperated in DDTC’s review, and instituted a number of compliance program improvements.

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 Brexit

Brexit has created uncertainty about the future relationship between the U.K. and the EU. A draft withdrawal agreement was published in November 2018 but was rejected by the British Parliament and we are still uncertain about the final agreements they will reach on topics such as financial laws and regulations, tax and free trade agreements, immigration laws, and employment laws. The EU and U.K. have agreed to a further delay to Brexit until October 31, 2019, while the U.K. could leave earlier if a withdrawal agreement is ratified by the British Parliament. We have significant operations and a substantial workforce in Europe, a portion of which reside in the U.K. and therefore enjoy certain benefits based on the U.K.’s membership in the EU. The lack of clarity about Brexit and the future U.K. laws and regulations creates uncertainty for us, as the outcome of these negotiations may affect our business and operations. Additionally, there also is a risk that other countries may decide to leave the EU. The uncertainty surrounding Brexit not only potentially affects our business in the U.K. and the EU, but may have a material adverse effect on global economic conditions and the stability of global financial markets, which in turn could have a material adverse effect on our business, financial condition, and results of operations. Additionally, any development that has the effect of devaluing the European euro or British pound sterling could meaningfully reduce the value of our assets and reduce the usefulness of liquidity alternatives denominated in that currency, such as our multicurrency credit facility.

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 may be required from United States government agencies under the ITAR, the 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. 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 us directly. In addition, the Consent Agreement and related submissions and other communications concerning our licensing posture overall have led to heightened scrutiny of export licenses for products in our markets and, in some cases, highlight DDTC’s focus on the manner in which we handle exports of our products, technical data and services subject to the ITAR. In addition, concerns with respect to potential diversion of certain of our 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 our 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 of our 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 our 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 our 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. For example, there is uncertainty around the implementation of Brexit and its impact on us and global economic conditions generally.

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 diverse 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.

Amounts included in our backlog may not result in actual revenues or translate into profits

Many contracts are subject to cancellation or suspension on short notice at the discretion of the customer, and the contracts in our backlog are subject to changes in the scope of services to be provided as well as adjustments to the costs relating to the contract. We have historically experienced variances in the components of backlog related to delivery delays or cancellations resulting from customer-specific circumstances, external market factors and economic factors beyond our control, and we may experience more delays or cancellations in the future. Accordingly, there is no assurance that backlog will actually be realized. If our backlog fails to materialize, we could experience a reduction in revenues and a decline in profitability, which could result in a deterioration of our financial position and liquidity.

Significant tariffs, restrictions on imports or other trade barriers between the United States and various countries, most significantly China, may impact our revenue and results of operations

In July 2018, the Office of the U.S. Trade Representative announced a list of Chinese imports that currently face tariffs of between ten and twenty-five percent. These tariffs currently affect some of the components of our products we import from China, and we may raise our prices on those products due to the tariffs or share the cost of such tariffs with our customers, which could harm our operating performance or cause our customers to seek alternative suppliers. It is possible that further tariffs may be imposed on our other imports, or that our business will be impacted by retaliatory trade measures taken by China or other countries in response to existing or future tariffs, causing us to raise prices or make changes to our operations, any of which could materially harm our revenue or operating results. In addition, we may seek to shift some of our manufacturing supply chain to other countries, which could result in disruption to our operations.

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, controls, and risk transfer mechanisms, there can be no assurance that such actions will be sufficient to prevent disruptions to critical systems, unauthorized release of confidential information, corruption of data, or financial loss.

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 eleven 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, and changes in the rate at which we can obtain indebtedness, any of 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. Our indebtedness may use LIBOR as a benchmark for establishing the interest rate. LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform. The consequences of these developments cannot be entirely predicted, but if LIBOR is no longer available or if our lenders have increased costs due to changes in LIBOR, it could adversely impact our interest expense, results of operations and cash flows.

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.

We are effectively self-insured against many potential liabilities

Although we maintain insurance policies with respect to a broad range of risks, including automobile liability, general liability, workers' compensation and employee group health, these policies do not cover all possible claims and certain of the policies are subject to large deductibles. Accordingly, we are effectively self-insured for a substantial number of actual and potential claims. In addition, if any of our insurance carriers defaulted on its obligations to provide insurance coverage by reason of its insolvency or for other reasons, our exposure to claims would increase and our profits would be adversely affected. Our estimates for unpaid claims and expenses are based on known facts, historical trends and industry averages, utilizing the assistance of actuarial services. The determination of such estimated liabilities and their appropriateness are reviewed and updated at least quarterly. However, these liabilities are difficult to assess and estimate due to many relevant factors, the effects of which are often unknown, including the severity of an injury or damage, the determination of liability in proportion to other parties, the timeliness of reported claims, the effectiveness of our risk management and safety programs and the terms and conditions of our insurance policies. Our accruals are based upon known facts, historical trends and our reasonable estimate of future expenses, and we believe such accruals are adequate. However, unknown or changing trends, risks or circumstances, such as increases in claims, a weakening economy, increases in medical costs, changes in case law or legislation or changes in the nature of the work we perform, could render our current estimates and accruals inadequate. In such case, adjustments to our balance sheet may be required and these increased liabilities would be recorded in the period that the experience becomes known. Insurance carriers may be unwilling, in the future, to provide our current levels of coverage without a significant increase in insurance premiums and/or collateral requirements to cover our obligations to them. Increased collateral requirements may be in the form of additional letters of credit and/or cash, and an increase in collateral requirements could significantly reduce our liquidity. If insurance premiums increase, and/or if insurance claims are higher than our estimates, our profitability could be adversely affected.

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, in the United States and in foreign jurisdictions.

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. For example, during the three-month period ending December 31, 2018, the Swedish Tax Authority (“STA”) issued a reassessment of tax for the year ending December 31, 2012 to one of the Company's non-operating subsidiaries in Sweden. The reassessment concerns the use of tax credits applied against capital gains pursuant to European Union Council Directive 2009/133/EC, commonly referred to as the EU Merger Directive, and assesses taxes and penalties totaling approximately $321.6 million (Swedish kronor 3.0 billion). We believe the STA’s assertions in the reassessment are not in accordance with Swedish tax regulations and plan to defend our positions with the STA and through the Swedish court system, as necessary. Consequently, no adjustment to our unrecognized tax benefits has been recorded in relation to this matter. We believe that our recorded tax liabilities are adequate in the aggregate for its income tax exposures.

New tax legislation, commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”), was enacted on December 22, 2017. The Tax Act, among other things, (i) permanently reduces the U.S. corporate income tax rate to 21 percent beginning in 2018, (ii) provides for a five year period of 100 percent bonus depreciation followed by a phase-down of the bonus depreciation percentage, and (iii) provides for more general changes to the taxation of corporations, including changes to the deductibility of interest expense, the adoption of a modified territorial tax system, assessing a repatriation tax or “toll-charge” on undistributed earnings and profits of U.S.-owned foreign corporations, and introducing certain anti-base erosion provisions. The long-term impact of the Tax Act on the general economy cannot be reliably predicted at this time and continues to require rule-making and interpretation in a number of areas.

The Tax Act requires complex computations not previously required by U.S. tax law. As such, the application of certain accounting guidance is currently evolving. Further, compliance with the Tax Act and the accounting for certain provisions require accumulation of information not previously required or regularly produced. As additional interpretative guidance is issued by the applicable authorities, we will continue our analysis on the application of the Tax Act and may need to revise our current estimates in future periods. The revisions to our current estimates could materially affect our results of operations, cash flow and financial position.

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

During the three months ended March 31, 2019, 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 Plan or Programs
February 1 to February 28, 2019	95,581	$ 52.31	95,581	
March 1 to March 31, 2019	403,088	49.61	403,088	
Total	498,669	$ 50.13	498,669	14,501,331

All share repurchases are subject to applicable securities law, and are at times and in amounts as management deems appropriate. These repurchases were through open market transactions under the authorization by our Board of Directors on February 7, 2019 to repurchase of up to 15.0 million shares of our outstanding common stock. This authorization will expire on February 7, 2021.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Number	Description
2.1	Agreement and Plan of Merger, by and among FLIR Detection, Inc., Echo Robotic Merger Sub, Inc., Endeavor Robotic Holdings, Inc., Arlington Capital Partners III, L.P. and FLIR Systems, Inc., dated as of February 8, 2019 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on February 13, 2019 (File Number 000-21918)).
10.1	Second Amended and Restated Credit Agreement, dated as of March 29, 2019, by and among FLIR Systems, Inc., certain subsidiaries of FLIR Systems, Inc., as designated borrowers, Bank of America, N.A., as administrative agent, JPMorgan Chase Bank, N.A. and U.S. Bank National Association, as co-syndication agents, Citibank, N.A. and MUFG Union Bank, N.A., as co-documentation agents, and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on April 1, 2019 (File Number 000-21918)).
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	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.
32.2	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.
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 May 2, 2019 /s/ Carol P. Lowe
Carol P. Lowe
Executive Vice President and Chief Financial Officer
(Duly Authorized and Principal Financial Officer)