

FLIR SYSTEMS INC
Form 11-K
June 26, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number 0-21918

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

FLIR Systems, Inc. 401(k) Savings Plan and Trust

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16505 S.W. 72nd Avenue

Portland, Oregon 97224

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive officers:

FLIR Systems, Inc.

16505 S.W. 72nd Avenue

Portland, Oregon 97224

FLIR SYSTEMS, INC.

401(K) SAVINGS PLAN AND TRUST

Financial Statements and Schedule

December 31, 2002 and 2001

(With Independent Auditors Report Thereon)

FLIR SYSTEMS, INC.

401(K) SAVINGS PLAN AND TRUST

December 31, 2002 and 2001

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Independent Auditors Report

The Plan Administrator

FLIR Systems, Inc. 401(k)

Savings Plan and Trust:

We have audited the accompanying statements of net assets available for benefits of FLIR Systems, Inc. 401(k) Savings Plan and Trust (the Plan) as of December 31, 2002 and 2001, and the related statement of changes in net assets available for benefits for the year ended December 31, 2002. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits as of December 31, 2002 and 2001, and the changes in net assets available for benefits for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP

Portland, Oregon

June 13, 2003

FLIR SYSTEMS, INC.

401(K) SAVINGS PLAN AND TRUST

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Investments, at fair value:		
Shares in registered investment companies:		
Janus Advisor International Portfolio	\$ 663,087	\$ 812,978
PIMCO Total Return Fund	4,726,385	2,831,583
Putnam Investors Fund	1,927,199	2,652,767
Putnam Vista Fund	691,190	405,931
Putnam Research Fund	1,427,168	1,602,339
Putnam OTC and Emerging Growth Fund	1,089,406	869,712
Putnam Voyager II Fund		326,149
Putnam International Voyager Fund	735,970	466,468
Putnam Balanced Fund		2,911,476
Putnam Money Market Fund	4,873,437	4,109,549
Putnam Equity Income Fund	593,131	253,058
The George Putnam Fund of Boston	2,536,032	
Putnam Asset Allocation Growth	1,332	
Putnam Asset Allocation Balanced	26,503	
Putnam Asset Allocation Conservative	2,266	
Common and collective trust:		
Putnam S & P 500 Index Fund	2,143,521	1,505,111
Common stock:		
FLIR Systems, Inc.	11,128,404	11,485,991
Participant loans	442,853	441,451
	<u>33,007,884</u>	<u>30,674,563</u>
Total investments		
Receivables:		
Participant contributions	76,327	57,054
Employer contributions	36,565	28,528
	<u>112,892</u>	<u>85,582</u>
Total receivables		
Net assets available for benefits	<u>\$ 33,120,776</u>	<u>\$ 30,760,145</u>

See accompanying notes to the financial statements.

FLIR SYSTEMS, INC.

401(K) SAVINGS PLAN AND TRUST

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31, 2002

Additions:	
Participant contributions	\$ 2,437,303
Rollover contributions	522,941
Employer contributions	1,113,958
Interest and dividend income	563,349
	<hr/>
Total additions	4,637,551
Deductions:	
Benefits and withdrawals paid to participants	3,212,944
	<hr/>
Total deductions	3,212,944
	<hr/>
Net increase	1,424,607
Net realized and unrealized appreciation in fair value of investments	936,024
	<hr/>
Net increase	2,360,631
Net assets available for benefits, beginning of year	30,760,145
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Net assets available for benefits, end of year	<u>\$ 33,120,776</u>

See accompanying notes to the financial statements.

FLIR SYSTEMS, INC.

401(K) SAVINGS PLAN AND TRUST

Notes to Financial Statements

December 31, 2002 and 2001

(1) Plan Description

The following description of the FLIR Systems, Inc. 401(k) Savings Plan and Trust (the Plan) is provided for general information purposes only. More complete information regarding the Plan's provisions may be found in the Plan document.

(a) General

The Plan is a defined contribution plan established by FLIR Systems, Inc. (the Company) under the provisions of Section 401(a) of the Internal Revenue Code (IRC), which includes a qualified cash or deferred arrangement as described in Section 401(k) of the IRC, for the benefit of eligible employees of the Company. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Under the terms of the agreement between the Company and Putnam Fiduciary Trust Company (the Trustee or Putnam), all investments of the Plan are held in a trust by the Trustee. A committee composed of management employees of the Company administers the Plan.

(b) Eligibility

Employees are eligible to participate in the Plan if the employee is not covered by a collective bargaining agreement, is not a nonresident alien, and has attained the age of 18. Qualifying employees may begin to participate in the Plan at the first quarterly enrollment date after employment.

(c) Contributions

Eligible employees may contribute an amount between 1% and 100% of compensation as defined by the Plan, not to exceed the maximum amount allowed under the federal tax laws. The Company may, at the discretion of management, make a matching and/or profit sharing contribution to the Plan. In 2002, the discretionary matching contributions were equal to 50% of the employees' contributions of up to 15% of compensation. The Company matching contributions to the Plan are allocated based on participant-elected allocation percentages.

(d) Vesting

Participants are fully vested in their contributions, transfers from other qualified plans and the earnings thereon. Vesting in the participant's share of Company matching and discretionary profit sharing contributions and the earnings thereon is based on years of continuous service, according to the following schedule:

<u>Years of service</u>	<u>Percentage</u> <u>vested</u>
Less than 1	0%
1	34%
2	67%
3	100%

(Continued)

FLIR SYSTEMS, INC.

401(K) SAVINGS PLAN AND TRUST

Notes to Financial Statements

December 31, 2002 and 2001

Prior to completing three years of service, a participant becomes 100% vested in the participant's share of Company matching contributions and the earnings thereon upon reaching age 55, death, or total and permanent disability while employed.

(e) Participant Loans

Participants may borrow the lesser of \$50,000 or 50% of their vested account balance, subject to a \$2,500 minimum and other certain restrictions. As the participant repays these loans, the proceeds, including interest, are returned to the participant's account. Loans are repayable through payroll deductions over periods ranging up to five years. Prior to June 1, 2000, participants were allowed to repay loans over periods greater than five years if for the purchase of a primary residence. The interest rate on loans is the prime rate on the first business day of the month in which the participant requests the loan plus 1.0%. Interest rates on outstanding loans at December 31, 2002 ranged from 6.25% to 11.0%, with maturities through 2025.

(f) Benefits

Upon termination of service due to death, disability, or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or annual installments over a period not to exceed the beneficiary's assumed life expectancy. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.

(g) Withdrawals

Except upon death, total disability, termination, or retirement, withdrawal of participant balances requires approval of the Plan Administrator. Such approval is limited to cases of financial hardship, as allowed by the IRC.

(h) Participant Accounts

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Individual accounts are maintained for each of the Plan's participants to reflect the participant's contributions, the Company's matching contributions and an allocation of the Plan's net earnings and related administrative expenses. Allocation of earnings is based on the proportion of the participant's account balance to the total of all participants' account balances within each investment option period.

(i) Breaks in Service and Forfeited Accounts

A one-year break in service occurs in any plan year during which a participant does not have more than 1,000 hours of service. Upon returning to the Company before five one year breaks in service, a participant's nonvested account balance will be restored, provided any vested amounts distributed are repaid to the Plan. Any forfeiture of nonvested portions of the Company's contribution account balance is utilized to offset Company contributions. During 2002 and 2001, forfeitures totaling approximately \$88,000 and \$59,000, respectively, were used to reduce employer contributions. At December 31, 2002 and 2001, approximately \$20,000 and \$102,000, respectively, were available to reduce future employer contributions.

(Continued)

FLIR SYSTEMS, INC.

401(k) SAVINGS PLAN AND TRUST

Notes to Financial Statements

December 31, 2002 and 2001

(j) Investment Options

Participants may direct their elective contributions, including Company matching contributions, and any related earnings, into 14 mutual funds offered by Putnam and FLIR Systems, Inc. common stock. Changes to contribution allocations may be made by participants on a daily basis. Exchanges between investment options may also be made by participants on a daily basis; however, exchange involving FLIR Systems, Inc. common stock are subject to the Company's insider trading policy.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan's management to make estimates and assumptions that affect the accompanying financial statements and disclosures. Actual results could differ from those estimates.

(b) Investment Valuation

The Plan's investments in shares of registered investment companies are stated at fair value which is based on the quoted market price of the underlying investments. The FLIR Systems, Inc. Common Stock Fund is stated at the quoted fair value of the Company's common stock. Participant loans are valued at cost.

The Plan assets are invested in various investments. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits.

(c) Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recognized as earned on the accrual basis. Dividend income is recorded on the ex-dividend date.

(d) Net Realized and Unrealized Appreciation in Fair Value of Investments

Net realized and unrealized appreciation consists of the net change in unrealized appreciation during the year on investments held at the end of the year and the realized gain and loss on investments sold during the year.

Brokerage fees are added to the acquisition cost of assets purchased and subtracted from the proceeds of assets sold.

(e) Payment of Benefits

Benefit payments to participants are recorded upon distribution.

(Continued)

FLIR SYSTEMS, INC.

401(k) SAVINGS PLAN AND TRUST

Notes to Financial Statements

December 31, 2002 and 2001

(f) Administrative Expenses

Administrative expenses are allocated to participants and included in net realized and unrealized appreciation in fair value of investments on the statement of changes in net assets available for benefits.

(3) Investments

Net realized and unrealized appreciation (depreciation) of investments is comprised of the following for the year ended December 31, 2002:

Shares in registered investment companies	\$ (3,034,563)
FLIR Systems, Inc. common stock	3,970,587
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	\$ 936,024
	<hr/>

(4) Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated August 9, 2002, that the Plan is qualified and that the trust established under the Plan is tax-exempt, under the appropriate sections of the IRC.

(5) Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts. The Company may elect, at its discretion, to make a complete distribution of the assets or to continue the trust created by the Plan and distribute benefits in such a manner as though the Plan has not been terminated.

(6) Related Party Transactions

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Certain Plan investments are shares in registered investment companies managed by Putnam. Putnam is the Trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions.

FLIR SYSTEMS, INC.

401(k) SAVINGS PLAN AND TRUST

Schedule H Line 4i Schedule of Assets (Held at End of Year)

December 31, 2002

Identity of issue, borrower, lessor, or similar party	Description of investment, including maturity date, rate of interest, collateral, par, or maturity value	Current Value
	Shares in registered investment companies:	
Janus Funds	Janus Advisor International Portfolio	\$ 663,087
Pacific Investment Management Company	PIMCO Total Return Fund	4,726,385
* Putnam Fiduciary Trust Company	Putnam Investors Fund	1,927,199
* Putnam Fiduciary Trust Company	Putnam Vista Fund	691,190
* Putnam Fiduciary Trust Company	Putnam Research Fund	1,427,168
* Putnam Fiduciary Trust Company	Putnam OTC and Emerging Growth Fund	1,089,406
* Putnam Fiduciary Trust Company	Putnam International Voyager Fund	735,970
* Putnam Fiduciary Trust Company	Putnam Money Market Fund	4,873,437
* Putnam Fiduciary Trust Company	Putnam Equity Income Fund	593,131
* Putnam Fiduciary Trust Company	The George Putnam Fund	2,536,032
* Putnam Fiduciary Trust Company	Putnam Asset Allocation Growth	1,332
* Putnam Fiduciary Trust Company	Putnam Asset Allocation Balanced	26,503
* Putnam Fiduciary Trust Company	Putnam Asset Allocation Conservative	2,266
	Common and collective trust:	
* Putnam Fiduciary Trust Company	Putnam S&P 500 Index Fund	2,143,521
	Common stock:	
* FLIR Systems, Inc.	FLIR Systems, Inc. common stock	11,128,404
* Participants	Participant loans (6.25% to 11.0% maturing through 2025)	442,853
	Total investments	<u>\$ 33,007,884</u>

* Represents a party-in-interest transaction as of December 31, 2002.

Note: Cost is calculated on a moving average basis.

See accompanying independent auditors' report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

FLIR SYSTEMS, INC. 401(K) SAVINGS PLAN AND TRUST

Date: June 25, 2003

FLIR SYSTEMS, INC.

(Plan Sponsor)

By:

/s/ STEPHEN M. BAILEY

Stephen M. Bailey

Sr. Vice President, Finance and Chief Financial Officer

(Principal Accounting and Financial Officer

and Duly Authorized Officer)