

[The comeback](#)[Articles - October 2008](#)**How Flir came back from the brink of bankruptcy to become a \$4.3 billion company that has left its competition in the dust.****BY ABRAHAM HYATT**

Jim Faraudo, operations vice president of Flir, with a infrared imaging system.

PHOTOS BY LEAH NASH

March 1, 2000, was a cold, windy, overcast day in Portland. It had rained the day before and more rain was forecast for the weekend. Around the country — in Oregon and Massachusetts and Minnesota and New York — Flir corporate board members were picking up their phones and dialing into an emergency conference call.

Over the previous year, news about the then-Portland-based maker of infrared camera systems had not been good: The stock price was down; big cuts were being made. Flir president and CEO Ken Stringer blamed the situation on complications from a recent acquisition and a decrease in government contracts for the company's flagship optical systems.

Now Stringer had called the board together to tell them news that was horrifically worse: There had been accounting problems. Big problems. Revenue and earnings had been overstated by \$7.9 million over several previous quarters. The next week the company was slated to release its fourth-quarter and annual report for 1999. And it was filled with numbers that were false.

The fallout was swift and brutal. Stringer, the company CFO, controller, treasurer and independent accounting firm PricewaterhouseCoopers were either fired or resigned. Shareholders filed class-action lawsuits. The Securities and Exchange Commission started an investigation. The company's stock

dropped 70% to 45 cents. NASDAQ threatened to de-list them. Flir came very close to bankruptcy.

But instead of flaming out, company executives performed a dramatic rescue. And eight years later, Flir, now based in Wilsonville, has become one of the largest and most successful public companies in Oregon. Last year its market value of \$4.3 billion ranked third behind Nike and Precision Castparts among Oregon companies with the highest market value. This year it expects to post at least \$1.1 billion in revenue, a 41% increase from last year. It has about 1,800 employees (1,200 in the U.S.) at nine facilities around the globe.

To say that infrared cameras “see” heat is an oversimplification. They actually detect energy in the electromagnetic field that atoms give off. In other words, infrared technology can show the difference between minus 20 degrees and minus 30 degrees as well as it can spot a person on a battlefield in the blackest night. Or a body in a smoke-filled room during a house fire. Or a bad electrical connection in a wall. Or even, according to some studies, breast cancer.

Flir was founded by a Portland State University professor in 1978 and spent the first few decades of its life in the Oregon Business Park in Southwest Portland. The name is pronounced “fleeer” and stands for “forward looking infrared.” Its first infrared camera system was a black box about the size of a lunch pail. The stabilizing element of the optical system was cooled with liquid nitrogen that had to be poured in through a hole in the top of the box.

The company quickly began advancing its technology during the 1980s. Stringer, a U of O grad who would become CEO in 1998, was hired in 1984. In 1988 Flir became profitable and was selling systems to law enforcement, firefighters and customers around the world.

The early 1990s saw more growth. Revenue in 1992, the year before Flir went public, was \$32.5 million; four years later it had grown to \$66 million. Then came 1997 and the company’s first major acquisition: Agema Infrared Systems of Sweden. Flir took a major financial hit that year because of the purchase. Two years later it bought another company: Inframetrics of North Billerica, Mass. That was a bad move. Flir executives were quickly overwhelmed by the complexity and scope of integrating the acquisitions.

The following March Stringer dropped his bombshell and all hell broke loose. Newspaper headlines were filled with news of lawsuits, investigations and resignations.

At a meeting with shareholders in August, Flir’s interim CEO, John C. Hart, sounded shocked as well as worried about the future, according to newspaper reports. He didn’t mince words. “Where we have been is completely unacceptable,” he told shareholders.

Another piece of news came out of that meeting. The company was naming a new CEO: Earl Lewis, the CEO of a Massachusetts company called Thermo Instrument Systems who had joined Flir’s board of directors in late 1999. And he was, in his characteristically understated way, slightly more upbeat. Flir, he was reported saying, “has a good probability of doing better.”

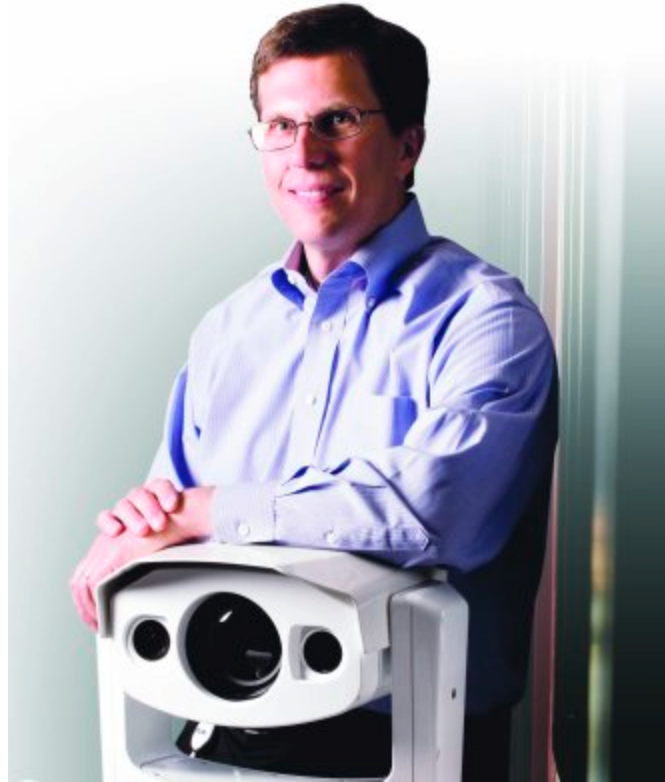
He was right — very right. Eight years later Lewis, 64, says he knew the odds of survival were good if the company was able to address its basic weaknesses.

“Underneath this very difficult series of events, there was a good company. I’ve seen companies come out of that before with the right kind of guidance,” he says. “I was naive in thinking we could do it quicker, but I did feel the business was a good solid business underneath some bad decisions. And so we went to work on it.”

Flir had a laundry list of problems that needed solving. In mid 2000, it cut 90 engineering and manufacturing jobs in its Portland facility. It settled the class-action shareholder lawsuit in 2001 for \$6 million. It hired the accounting firm Arthur Andersen (which would collapse under its own accounting scandals several years later). It went after the source of its biggest woes: the problems that former auditor PricewaterhouseCoopers described to the SEC as “material weaknesses in internal controls.” It breathed a sigh of relief as the SEC investigation culminated in a lawsuit directed only at the former executives. And finally the company, led by Lewis, rebuilt its executive team.

“That change in management was probably the biggest deal,” says senior VP for corporate strategy Tony Trunzo of the changes the company went through.

While the company was reorganizing itself internally, things on the outside couldn’t have been better. Despite the crisis, fourth-quarter sales in 2000 were at a historic high. Annual revenue was up from 1999. And business was just beginning to grow.



Tony Trunzo of Flir with the Voyager, which is used for maritime thermal imaging.

Sept. 11 and Iraq war expanded Flir markets, though Lewis downplays the effect of 9/11. There wasn't as much business from homeland security efforts as the company thought there would be, he says. They envisioned infrared systems at every dam, border crossing and security-sensitive location and began developing products to meet that demand. It never materialized. But people and agencies were still buying Flir products. Rescuers at Ground Zero and the Pentagon used its devices. And as the armed forces geared up for Iraq, they bought even more from Flir. Annual revenue grew 22% to \$214 million in 2001 and by double-digit percentage points every year since.



Alongside government and consumer systems, Flir supplies BMW with night-vision cameras (shown here) that are used in many of its cars.

Government contracts have always been Flir's bread and butter, making up between 40% and 50% of the company's business each year. As the years have gone by, those numbers have grown dramatically: the Office of National Drug Control Policy, Department of Defense, Army, Navy, Coast Guard, Marines, U.S. Special Operations Command, United Arab Emirates, Colombian Ministry of Defense, Mexican Navy, Royal Danish Air Force, Greece's Hellenic Port Police, Canadian Department of National Defense, Japanese National Police Agency, Republic of Korea.

Back in 2001, the contract price tags were in single-digit million-dollar range. Year after year that's changed. This year, between January and August, Flir announced \$429 million in new contracts and another \$358 million in contract extensions.

It's those kinds of numbers that make analysts giddy and executives bullish. But what happens if the national political landscape changes and suddenly the Department of Defense is spending less in Iraq and Afghanistan?

"There are a lot of people in the aerospace industry waiting with bated breath to see how the election is going to turn out," says Nisbet of JSA Research.

"[Flir is] well positioned, but when you talk about wars and presidential elections it does give some concern," says Michael Ciarmoli, a defense industry analyst with Pennsylvania's Boenning and Scattergood.

Flir plays a very quiet role in state and national politics. Its executives and the company's political action committee give modestly to federal senators and representatives on both sides of the aisle, most of who sit on defense-related committees. A change in the White House in January will mean some kind of change — no matter which party wins — in defense spending.

Trunzo knows that: "We're going to keep growing. Not by 20% or 30%. But we'll still grow."

Lewis and Trunzo say the company's strength lies in its ability to reach more than just one market. What it makes can be divided into the three categories: thermography systems, which are used in commercial and industrial products that combine imaging and temperature measurement; night-vision systems for the commercial market; and high-performance night-vision and surveillance systems for foreign and domestic government agencies. It's a consumer base that spans helicopters, soldiers, general contractors, boats and BMW, which uses night vision in some cars.

Those multiple markets equate to strength, says Lewis. "If someone comes and attacks us in the boating market, OK, we'll fight them. But if they're going to fight us in all 15 markets, we think we'd give them an awful hard time," he says.

While there is strength to that diversity, Ciarmoli says it could someday become a weakness. Ciarmoli thinks Flir has done a good job of "conquering the low hanging fruit" of the low-cost markets, but to grow significantly it needs to focus on the really big government contracts. "They need to displace the prime players. They need to win orders of magnitude," he says.

Trunzo disagrees with that theory. He says diversity gives Flir two advantages: lower costs and improved research and development. Every year, Flir has been able to drop the price of some its key systems by thousands of dollars, thanks in part to small acquisitions that have allowed it to vertically integrate. But lower costs, particularly in the government market, have also come from what Trunzo describes as a unique research and development process that turns successful, well-tested consumer products into Department of Defense-worthy systems. Consumers fund the development process; the relatively tiny Flir uses that technology to compete with world's largest defense contractors, like Lockheed Martin and L-3 Communications.

How cheap can Flir go? "Our competitors would love to know how low we think we can get. Let's just say we have a lot of room to

grow and still sustain a healthy profit margin," Trunzo says with a smile.

On a recent summer day, there were no storm clouds over Flir's 154,000-square-foot corporate and manufacturing headquarters in Wilsonville. Bright sun streamed into modest offices. On the manufacturing floor blue-jacketed men and women worked quietly over the innards of domed machines that would someday grace the undersides of helicopters. Later that month and thousands of miles away in the bustling financial centers of Chicago and New York, defense industry analysts would look at Flir's \$35 stock price and would type — as they had for many months — words such as "outperform" and "aggressive growth" into research reports about Flir.

Flir's calendar in the coming months is marked with significant steps: Nov. 5, Election Day; Jan. 1, when the company joins a handful of other Oregon companies in the billion-dollar-plus-revenue club; March 1, the nine-year anniversary of that fateful call to board members. Or perhaps it's time to take that final date off the calendar. The company has long since proven itself. As Ciarmoli says after reviewing the future weaknesses and strengths of Flir, "They're going to continue to be sitting in a very sweet spot."

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