



Kal McBride put a lens on a reconnaissance camera at Salvador Imaging in Colorado Springs. The specialized digital cameras have helped the company secure several big contracts with defense giants.

(JERILEE BENNETT, THE GAZETTE)

MAKING A DEAL TO AID CHARITY

Founder of Springs high-tech camera firm hit his goal in firm's sale

By WAYNE HEILMAN
THE GAZETTE
September 2, 2007 - 8:32AM

After a severe illness nearly killed him in 2003, David Gardner dedicated his life to God and began looking for ways to live his faith.

That search prompted the technology entrepreneur to regain control of a company he had just sold and funnel the profits into a Christian foundation that works in Honduras.

Then, Gardner got even more ambitious. He set a goal of selling his company within three years for \$20 million so his Salvador Foundation could boost its annual giving from about \$60,000 to \$1 million.

He met that goal at the end of July by selling Salvador Imaging Inc. to Photon Dynamics Inc.

"This wouldn't have happened without about a miracle a week, and sometimes two, over the past three years," said Gardner, Salvador's founder and president. "When I was sick, I could either sit here and whine or take whatever was left of my life to serve God."

Gardner declined to name his illness. He calls his recovery the first of many miracles that culminated in the Salvador sale, making him believe that he survived for a reason.

"I started Salvador, which means savior in Spanish, because I was good at making cameras and that is what God put me here to do," Gardner said.

Salvador employs 17 in northwest Colorado Springs to make high-speed, high-resolution digital cameras — capable of capturing a bullet hitting an apple or a bomb exploding as it hits a target. The cameras are used by industrial, medical and military customers.

Many of those employees have stayed with Gardner through three companies, each focused on the same type of products. Gardner said Salvador Imaging will remain in the Springs and operate as a subsidiary of California-based Photon Dynamics.

Gardner "is very cerebral and I think he is a genius. He has come up with tremendous innovations for the industry," said J.R. Long, a staff electrical engineer who was a co-owner of Salvador Imaging.

CYCLICAL BUSINESS APPROACH

Gardner's career path has been one of starting companies, selling them, then buying them back.

His first start-up was Silicon Mountain Design Inc. in 1992. He launched the firm without a business plan, any business knowledge or money, getting an early contract with Eglin Air Force Base in Florida to photograph F-15 aircraft dropping bombs.

By 1999, the company was generating \$10 million a year in sales, expanding beyond the military market to assembly lines, where its cameras are still used to check for product defects. Gardner and partner Robert Thorp agreed in mid-1999 to sell Silicon Mountain Design for \$11.5 million to Dalsa Corp., a Canadian competitor, with both companies talking about the "synergies" they believed the deal would create.

Those hopes disappeared nine months later when Gardner sued Dalsa for breach of contract over the sale. The suit was settled out of court after two months; terms were not disclosed.

From there, Gardner and Silicon Mountain Design's other co-founders started Summit Imaging Inc. in late 2001 with \$1 million from Photon Dynamics in exchange for a contract to supply the company with Summit cameras.

Eighteen months later, Photon Dynamics bought Summit for \$1.7 million to cut the cost of the cameras it was then buying for \$50,000 each, Gardner said. Photon Dynamics was Summit's largest customer, accounting for about 80 percent of sales, he said.

About that same time, Gardner became ill while on a business trip to Europe. He said that at one point he was told he had six months to live. Instead, his symptoms disappeared and he made a full recovery.

After he recovered, Photon Dynamics President Jeff Hawthorne asked Gardner to move to California and join his executive team. Instead, Gardner asked him to spin off Gardner's former company, Summit, into a new firm he would control. Hawthorne agreed and advanced \$800,000 for start-up expenses.

SALVADOR IMAGING'S BEGINNINGS

Almost immediately, the new spin-off company, now called Salvador Imaging, won a contract to make cameras for defense giant General Dynamics Corp., another of the miracles Gardner said has helped make his company and foundation an overnight success.

The real breakthrough for Salvador has been its development of night-vision cameras that display higher-resolution images in color, rather than the grainy green-colored images now produced by most night-vision gear. Salvador has won contracts with defense giants Lockheed Martin Corp. and Raytheon Co. to manufacture the cameras.

To complete those contracts, Salvador formed a joint venture in April with a familiar partner: Photon Dynamics. The deal would allow Salvador to expand and produce thousands of cameras. Photon Dynamics owned the venture, but agreed to pay Salvador a royalty that would go to Gardner's Christian foundation, Gardner said.

Gardner said Hawthorne approached him a few months later about buying Salvador to simplify the relationship. He said he told Hawthorne he would sell the company only if got \$20 million for it. Gardner planned to use the proceeds to fund his foundation.

"He told me he needed a few days to think about it and when he called back, I was expecting to get a low-ball offer. Instead, he agreed," Gardner said.

Hawthorne said Photon Dynamics paid a premium for Salvador based on the potential revenue and expected growth the company's technology is expected to generate. He estimated the markets Salvador and Photon Dynamics are targeting already top \$500 million a year.

"We haven't disclosed how the value was set, but we bought the company because of its technology and markets it can go into, including military, medical and industrial inspection," Hawthorne said. "The logic behind our valuation is based on the revenue potential and growth potential of this technology."

WORKING FOR CHARITY

For all the business dealings involving Salvador Imaging and Photon Dynamics, it's the charitable work that has Gardner most excited.

The sale of Salvador Imaging to Photon will give Salvador Foundation \$2.7 million in cash this year and 1.08 million shares of Photon Dynamics stock, worth \$11.5 million when the deal was completed July 31. The foundation also will get a \$5.3 million promissory note.

Gardner started the foundation in 2005 to help Nelly Madore, an illegal Mexican immigrant in Colorado Springs who faced deportation, and her ill daughter. Since then, Salvador Foundation has started a revolving loan fund in Honduras that has financed a tortilla factory, fish farm and coffee plantation, Gardner said. The charity also has made donations to the Colorado School for the Deaf and the Blind and an organization that helps the homeless in Austin, Texas, he said.

The sale of Salvador Imaging has temporarily put Gardner, and eventually the foundation, among the largest stockholders in Photon Dynamics. How that investment will pay off could be a gamble — Photon's stock is trading near an 8-year low and has lost more than half of its value in the past 18 months.

The company has struggled with profitability in recent quarters. Photon Dynamics delayed its latest quarterly financial report in July, saying it expects to write off up to \$8 million in the March-to-June quarter and restate previous financial statements because it underpaid customs duties in Asia on imported warranty parts.

Gardner said he isn't worried that Photon Dynamics will default on the note or its stock will plunge because the company had more than \$80 million in cash at the end of the January-to-March quarter.

Stock analysts are split on the company's prospects. Matt Penkun of D.A. Davidson & Co. predicts it will return to profitability next year. Gary Hsueh of CIBC World Markets expects losses to continue throughout 2008 but move closer to break-even.

Penkun said the Salvador Imaging purchase is an attempt to diversify away from "extremely bumpy markets." He said Salvador's military contracts "may be worth" a premium price.
CONTACT THE WRITER: 636-0234 or wayneh@gazette.com