Clearing Economic Hurdles

Griffin, Arxan Secure Additional Financing

The two young technology companies – Griffin Analytical and Arxan – profiled in *BizVoice* throughout this year are located just one floor apart in the Purdue Technology Center building. They also share a common and important trait – the ability to raise money.

In the time between our magazine writing deadline and delivery to your desk, Griffin will likely have closed on Series A financing. What started two years ago with co-founders Dennis Barket and Garth Patterson pursuing their goal of creating a miniaturized mass spectrometer for high quality chemical analysis in the field is now a nine-person company growing toward a core team of 12. Griffin will ship its first actual unit in mid-September to the Defense Science and Testing Laboratory, part of the Ministry of Defense in Great Britain.

Arxan, taking software security to new levels, has closed on Series B funding. A six-month effort to raise $5 million led to an upgraded target of $8 million and a final total of $8.25 million. A Washington, D.C.-area venture capital firm is the lead investor. The company is headquartered in California, but vice president Eric Davis leads research efforts in West Lafayette.

In the money

Griffin has established a track record of financial success, beginning with first-place honors and $35,000 in three business plan competitions. Local angel investors and $250,000 from Purdue Research Foundation's TRASK fund were followed earlier this year by a $500,000 investment from Rose-Hulman Ventures.

The company has also excelled at the federal government funding that has been so elusive for many Indiana companies. Three additional Phase I SBIR (Small Business Innovation Research) grants have been earned, two from the National Science Foundation and one with the Department of Defense. Work has been completed on two previous SBIRs, with Phase II funding now in place for one and the Phase II application being considered for the other.

Griffin Analytical co-founder Garth Patterson, left, with Sam Florance, director of the Purdue Gateways program.

"We become better at the deliverable," Barket explains of the repeated SBIR application process. "Phase II (with awards up to $750,000) is why we do the SBIR program. There are also other ways to get government contracts."

Patterson says some people simply aren't aware of the SBIR opportunities. Others have a mistaken perception that the government is only interested in funding high-risk programs.

"There are actually different levels of risk," he notes. "And the Department of Defense has expectations of commercial sales. A lot of people don't realize that. It's not just high-risk, but commercialization of products."

Barket and Patterson got an early start, while still in graduate school and beginning formation of the company, on the grant-seeking process. Working through the Small Business Administration, local Small Business Development Center, university resources and Industrial Research Liaison Program, the first federal award was in place at the time of the company formation.

Core team

The additions to the Griffin team allow for a more cohesive work environment. It doesn't lessen the load for anyone, but allows a more focused approach.

"I call it a pleasantly hectic, chaotic environment," Barket says. Patterson adds, "At no point

is there not enough work to do. We've got a good team that is excited to work here and very capable. That's a great combination."

One of the new team members is Mark Gregory, vice president of manufacturing and operations. His work experiences include a number of years with what was then United Medical Manufacturing, one of the first medical device firms in central Indiana. He spent the last three years with iPower Technologies, an Anderson-based Delco Remy spin-off that focuses on opportunities in distributed generation.

Two factors, he says, prompted his move to Griffin.

"It's an exciting technology in a market that seems to be very active," Gregory asserts. "Second, it's a nice fit with my background in instrumentation and design." As for his early experiences on the job, "There is a lot of activity, good things going on and not as many scary things as you usually see."

Due to a struggling economy, Gregory says it wasn't that difficult to find qualified employees for the medical device start-up in the mid-1980s. The major challenge then, however, remains the same today.

"It looks like there just isn't the seed money, or certain levels of seed, to allow companies to take the next step. It's always been very hard to find in Indiana."

Griffin has found early money both within the state and outside. It's where the next few rounds of major financing come from that may ultimately determine its future. Although Barket reasons that the company isn't a known factor yet on a regional or national basis, both he and Patterson have seen the aggressive recruiting approaches from other states when attending conferences.

"If we were proactive, I don't think it would be very hard to get someone to listen. But we're committed to making a go of it here in Indiana," he asserts. Citing a great deal of progress in the state in the last five years, he adds, "To compete globally, we need to have high-tech companies start and thrive here."

Arxan development

The Series B funding for Arxan, following the beta release of its EnforcIT™ product earlier in the year, is another step in the company's evolution.

"We feel like it's a validation of our company and management team. The market right now is very risk averse," Davis says. "This will allow us to expand our technical team, our business development efforts and our research here in West Lafayette."

A successful internship program, in which students conduct software protection analysis, will continue through the traditional academic year with retention of some people on a part-time basis and the addition of others.

Another federal contract will bring Phase I SBIR funding and additional work.

"We'll be able to do more of the same work with the new contract," Davis describes. "We'll also support the engineering process and provide technical review of (future versions) the product before it is released."

In looking at the lack of overall SBIR money coming to the state, Davis says the Purdue Research Park and other similar facilities are not part of the problem. The difficulty is that a number of traditional manufacturers will not quality for the programs unless they make changes in the way they do business.

A lawyer, he finds the "hoops pretty easy" for the Phase I applications. The scenario changes somewhat with Phase II awards and other direct government contracts.

"It gets increasingly more difficult as the money goes up. It requires a lot more accounting, but we have our accounting system set up now to handle that. Each contract probably has about 100 federal acquisition regulations and you have to understand those."

The Energize Indiana regional tour came to West Lafayette in early August. Griffin's Dennis Barket, right, talks with John Rusek of Swift Enterprises Ltd., another Purdue Research Park tenant.

Eric Davis of Arxan Technologies, left, shares some insights with Lt. Gov. Joe Kernan.

Company depth

The early venture capital money sent Arxan's base of operations to California. It prevents direct overtures to Davis from Midwest states, but he's certainly aware of particularly the Michigan advertisements and efforts to attract new companies.

"The two things we have here in Indiana are uniquely talented technology people and a work ethic that exceeds either coast," according to Davis. A continued maturation of the Purdue Research Park, he says, will benefit all.

"The more companies that are out here, the better it is for everyone. If you're the only show in town, it's hard to get people to move their family here. If something goes wrong, they have to pick up and move again. A good base of companies will give them options."

INFORMATION LINK

Resources: Griffin Analytical Technologies at (765) 775-1701 or www.griffinanalytical.com

Arxan Technologies at (765) 775-1004 or www.arxan.com