

Carol Cain: Small business

CAROL CAIN: Silicon Valley tempts Detroit firm

Mobius founder wants to stay here, but funding's elusive

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It's been held up as a poster child of sorts for successful high-tech companies in Michigan.

It's been feted by the state, celebrated by the University of Michigan, even featured in a Wall Street Journal article.

It's the sort of story people in high places in state and local governments like to talk about as representing the future of Michigan's new economy: A young person (in this case a university student) has an idea for a company, finds support for it within the university setting, starts a firm, takes it to market and, voila, a successful high-tech firm is born.

And that's been the story thus far of Detroit-based **Mobius Microsystems Inc.**

One might think life couldn't be more beautiful at Mobius, an upstart firm that designs and sells patented intellectual property to microchip makers. Its first product was a clocking device that uses radio frequencies to drive microprocessors in video games and other electronics.

Alas, beauty is always in the eye of the beholder, and in this case that beholder is Michael McCorquodale, 30, chief executive officer and cofounder.

He started Mobius in 2002 while a doctoral student in electrical engineering at the University of Michigan, partnering with his faculty adviser, Rich Brown, now a dean at the University of Utah, in creating the company.

Despite the accolades, McCorquodale assumes the company will likely be forced to close up shop in Michigan and move operations to Silicon Valley, where the grass may not be greener, but the dollars are certainly more flush.

RAISING MONEY

Venture capital: A fund-raising technique for companies willing to exchange equity in their firm for cash to grow or expand. Venture capital firms usually require a higher return on their investment and finance businesses typically in the \$500,000-and-up range.

Angel investors: Usually want less control of your company and don't mind a slower rate of return. They frequently invest in new companies.

Source:
VentureWorthy.com

Specifically, more flush with venture capital dollars available for semiconductor businesses, which McCorquodale has been on the frustrating hunt for the past few years in Michigan.

Money chase

If you'd been along on the ride that McCorquodale's been on the past few years, making nonstop pitches to venture capitalists and angel investors to try to score the big one and coming up short, you'd understand his frustration.

Though he's been successful at gaining \$2 million in venture capital, his firm needs another \$5.5 million to grow to the next level.

The firm has been wined and dined recently by other states like California, Illinois and Ohio -- all anxious to persuade it to relocate.

The State of Michigan got wind and in November, granted Mobius a \$4.4-million, 10-year tax abatement to stay put. As a result, the firm moved from Ann Arbor to Grand Park Centre at 28 Adams in Detroit. The company has 10 employees and expects to grow to 500 by 2015.

McCorquodale declines to reveal the company's revenues, but says that because of its product development costs the company likely won't be profitable until 2007.

The company also opened an office on Palo Alto, Calif., last fall. McCorquodale knows how much more capital there is available for semiconductor firms.

And as is usually the case, venture capitalists and angel investors prefer to invest in firms located near them.

"Most of the venture capital is on the coasts," he laments. "I'd prefer to stay here, but don't think it will work out that way."

He mentions the excellent pool of highly trained engineers here as well as the more affordable costs of doing business as compelling reasons to stay. But he needs capital to survive.

Though he's not pointing fingers at anyone or any governmental group ("it's not the state's responsibility to finance us") he simply believes he's exhausted all avenues for venture capital here.

Just a few weeks ago, he was about to throw in the towel and move to California when he heard about the Midwest Venture Summit.

One last shot

On Friday, his was among 29 companies (the only one from Michigan) that presented at the Midwest Venture Summit in Chicago, hosted by the **Illinois Venture Capital Association**, an annual event dedicated to bringing promising early-stage companies before venture capitalists and angel investors wanting to invest.

To give you an idea of the power of the summit, last year's event attracted 450 attendees (many of them venture capitalists or angel investors) and resulted in more than \$30 million in investments in companies that attended.

"We went looking for venture financing," McCorquodale says, adding Sunday, "It went well. In fact, better than I expected."

He came back with four potential leads ("three from the Midwest, one from California"), and adds he likely won't know the full scope of their investment (if at all) for another two months, which is usually how long it takes for these things to flesh out.

When asked for his assessment of Mobius's situation, McCorquodale says: "I still think it's likely we'll be forced to move."

Contact Mobius at 313-420-5400.

*Carol Cain hosts "Michigan Matters" on **WWJ-TV** (Channel 62) 11 a.m. Sundays and **WKBD-TV** (Channel 50) 7:30 a.m. Saturdays. If you have information on your business, please mail it to Small Business, Detroit Free Press, 600 W. Fort St., Detroit 48226, fax it to 313-222-5992 or e-mail it to cain@freepress.com.*