



Intel® 64 Fund

“This is market development, except at the end of the day, you also have the financial benefit.”

- Les Vadasz, president, Intel Capital

On December 11, 1998, Laila Partridge, director of Intel Corporate Business Development (CBD) group’s programs using the advanced 64-bit processor, glanced over at her team as they waited to enter the conference room where Intel’s executives were meeting. James Horn had come most recently from Treasury and James Cape from marketing in the Enterprise Server Group. After spending a week locked in a room together, she knew her group as well as her own family, and she could tell that they were edgy. So was she, even though they had the informal backing of most of the executives. They were about to describe the structure and mandate of the new venture capital fund that they had been asked to design.

Intel, the world’s largest semiconductor manufacturer, with 1998 revenues of \$26.3 billion, had been investing in early-stage companies since 1991. At first, the company had funded firms that developed the inputs to its technology, later shifting the emphasis to firms that produced products complementary to its own. While Intel had started by co-investing with venture capital (VC) firms, the later-1990s had seen it investing on its own. By the end of 1998, the CBD’s¹ staff had neared 100 and invested a total of \$838 million in that year alone.² Intel had never, however, established a fund with outside investors before.

By the late 1990s, Intel’s investment strategy was evolving into *“being the preeminent building block supplier to the global Internet economy.”* Intel Capital (the renamed CBD) invested in a wide range of technologies, including networking, online services, clients, and servers, with the aim of accelerating the Internet’s global adoption. Given that Intel sold a wide variety of products involved with the Internet, its opportunities would grow as the number of people who used the Internet increased.

1 In 2000, the name of the group was changed from Corporate Business Development to Intel Capital, to better reflect its activity, which was to make investments in support of Intel’s overall corporate strategy. It will be referred to as Intel Capital throughout.

2 George Moriarity, “The New Smart Money,” *Investment Dealers Digest*, “ November 22, 1999.

Ann Leamon, Manager of the Center for Case Development, prepared this case under the supervision of Sr. Lecturer G. Felda Hardymon as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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Partridge reflected on the charge her group had received from the executives in October 1998: “Establish a special fund with Intel’s OEMs for IA-64.” Or, in other words, figure out a way to use Intel Capital’s resources to support the launch of IA-64, Intel’s next generation high-performance microprocessor architecture. They had developed a plan and a structure. Testing had confirmed the OEMs’ interest. But would it really work?

Corporate Venture Capital

While corporations had a long history of involvement in the venture market, they were generally viewed as fickle. In the past they had not had a long-term perspective, “loading up [on shares] when ebullient public markets provide[d] their own companies a larger capital base to work from—and the IPO promise of the fledgling companies [was] tempting—only to depart when the market conditions sour[ed].”³ This often meant that they could not be relied upon for future cash infusions when the young companies faced challenging times. Entrepreneurs and traditional VCs generally viewed corporate money with suspicion, as the precursor of an acquisition, or derision, as the product of VC-wannabes who typically overpaid for their shares.⁴

By the late 1990s, this perception was changing. In 1998, \$1.1 billion of the \$29.3 billion invested in the venture market came from corporations.⁵ Many of the investing companies had themselves been founded with substantial venture backing, thus acquainting them with the potential pitfalls. One observer commented, “They don’t have a short-sighted vision; they’re in the private equity market to stay.”⁶

Most corporate investment was undertaken to augment internal R&D. Firms in the pharmaceutical industry had long had a VC arm to reduce the time required to find promising drugs. The firms most active in the late-’90s market tended to be technology-oriented—Microsoft, Cisco Systems, Oracle, Intel, GE Capital, Lucent Technologies, AT&T, Cambridge Technology Partners, and Novell—and the investments strategic. Said one player, “[They] are our periscope into what’s happening in the future. [They’re] a good way to get to know people, markets and opportunities better.”⁷

Along with the view toward the future was the issue of complementarity. “Corporations are looking to put money to work in companies that add to their suite of products,” said a private equity investor. “It’s an important part of their overall strategy.”

Corporate VC differed fundamentally from the classic financial VC, because of its strategic orientation. Financial return played a role, “...validating that the company may have some market impact,” but, as Steve Nachtsheim, vice president and director of Intel Capital, said, “We aren’t depending on it to pay the light bill. You judge your return on how you met your strategic goals and count the money later.”⁸ Corporate VCs typically had one limited partner—the parent company. This allowed a longer time horizon and a lower internal rate of return. A company whose product would

³ Ibid.

⁴ Ibid.

⁵ Ibid.

⁶ Mark Heesen, president NVCA, in Moriarity.

⁷ Mark Boslet, “Something Ventured,” *Dow Jones News Service*, March 1, 2000.

⁸ Les Vadasz in Shawn Neidorf, “Chief of Intel’s Venture Capital Unit Answers Questions about Market,” *San Jose Mercury News*, February 13, 2000, and Dean Takahashi, “Deals & Deal Makers,” *Wall Street Journal*, February 8, 2000.

increase demand for the investor's own production generated a return that was not measured in earnings-per-share. Financial VCs, on the other hand, generally had to generate a return of 25%,⁹ because 25% of that went to the firm itself.

The lower financial returns that corporate VC allowed proved a handicap in recruiting. Financial VCs compensated their employees through a mix of salary and carried interest on investments. In 1998, the median compensation for a senior partner of a VC firm was over \$1 million, only a small portion of which was salary.¹⁰ In a corporate pay structure, employees of the VC department could not be compensated on the same scale. One executive explained, "I can't have the VC guys landing their helicopters on the front lawn when the guy running the \$100 million division in Rochester is making \$75K." Carried interest might also skew the incentives for the employees—financial performance might become more important than strategic value. As a result, corporate VCs found it difficult to retain good people. In one year, 18 people left one of the best corporate VC firms for the higher pay of financial VCs.¹¹ This revolving door challenged entrepreneurs, who wanted lasting relationships with their corporate VCs, in order to leverage both the VC's strategic benefits and its business connections. Ideally, they would work together through multiple financing rounds until the company went public.

Some observers felt that the two issues, strategic orientation and compensation, were linked. "Those professionals [who leave corporate VC] can pursue deals without needing to have a corporate interest behind them, and it is just impossible to match [the] compensation."¹²

Intel Capital

Intel was one of the first technology firms to institutionalize venture capital investing. Leslie Vadasz started the Corporate Business Development group in 1991. Like all corporate VCs at the time, its fundamental aim was to advance the company's strategic interest through business agreements and investment. During the early '90s, Vadasz focused on companies such as makers of manufacturing equipment and chip design software, whose products directly improved Intel's processes.

This emphasis shifted as Vadasz redefined his goal to expanding the "market ecosystem" in which Intel operated. This led him to invest in companies that complemented or expanded Intel's market segment.¹³ In his words, "We realized that if you can align new strategies with that of...complementors—people who complement your product in the marketplace with their products—you can accelerate the development of new market ecosystems. In a fast-moving market, even if that acceleration is no more than two, three, six months, that's a big deal."¹⁴ Expanding on the point, he observed, "You know that Moore's Law—Moore is one of Intel's founders—states that the power of computing will double every 18 months. The market doesn't keep up. We invest in those companies that move the market forward, so that end-users can benefit from the power of those faster, cheaper microprocessors." Intel often provided both investment funds and technical expertise, optimizing the start-up's product to run faster—often 100% faster than before—using Intel's products.

⁹ Moriarity.

¹⁰ William M. Mercer Inc. Performance & Rewards Consulting, in Moriarity.

¹¹ Moriarity.

¹² Michael Frank, general partner., Advanced Technology Ventures, in Moriarity.

¹³ Takahashi.

¹⁴ Neidorf.

While Intel invested in companies producing applications that accessed more of the chips' power, it also looked to those that created demand for Intel's products from several steps away. Intel's investment in Verisign was an example of this strategy. Verisign's product enhanced security for on-line transactions but did not create immediate demand for Intel's products. By enabling increased use of the Internet, however, Verisign's technology would stimulate demand for PCs.

In most of its investments, Intel worked with financial VCs, relying on their expertise to guide the start-up's management, introduce it to networks within the business community, and recruit talented employees. Over time, Intel cultivated these relationships. Someone from Intel Capital would approach a VC if none were involved in a deal Intel thought promising, and VCs would approach Intel with deals for which they wanted its backing or view of the market.¹⁵ Intel's investments were made collaboratively between Intel Capital and a business unit that vetted and approved the proposed technology. The actual funds were allocated by Intel Capital's internal investment committee, which included a senior executive from the business unit proposing the investment; Vadasz, the head of Intel Capital, or his deputy; and representatives from the legal and Treasury departments. The Treasury representative monitored financial return issues. Strategic value was always placed ahead of financial results, although never to the point of accepting a negligible return. "From the start, this has never been about return," said one Intel Capital executive. "If we approached these folks [the investment committee] with a purely financial play, we'd be ridiculed."

Despite the focus on strategic goals, Intel's financial success rate was higher than that of private VCs. Almost all of Intel's VC investments succeeded, whereas private VC firms typically expected failure rates higher than 50%. Vadasz stated that of the nearly 400 external investments made by Intel, fewer than ten were total failures. Failure, however, was defined in two ways. The first was conventional: Intel lost its total investment. The other was strategic: although Intel tripled its \$50 million investment in VLSI, Vadasz counted this a failure because Intel products did not get into wireless offerings.

In 1998, as it planned the launch of its new 64-bit processor architecture, Intel decided to adopt a direct VC role and Steve Nachtsheim became the senior executive within Intel Capital driving that project. While Intel's microprocessor lines were frequently upgraded, according to Moore's Law, changing the architecture was much more involved. The architecture determined the length of the instruction set that a microprocessor could handle; going from 32 bits to 64 bits was, in Partridge's words, "like learning how to read a paragraph as opposed to a sentence." The new processor handled twice as much information as the old 32-bit Pentium™ processors, and did so faster. This confronted Intel with several tasks.

First, the 64-bit chip was aimed at the high-end server and workstation market, one in which Intel's expertise was limited. These machines performed such complex operations as data-mining, customer service, customer relationship management and Internet hosting, handling millions of transactions per minute. Intel's expertise traditionally lay in the PC market segment, with less complex system and software architectures. Supporting the IA-64 for data-mining alone meant developing software solution stacks that optimized the performance of different operating systems—NT, LINUX, Monterey, HP UX and others—paired with various databases made by IBM, Sybase, Microsoft, Informix and Oracle. Each pairing required its own solution stack. In order to succeed in this market segment, many solution stacks had to be not just available, but working extremely well. Adoption could be especially slow in this market, said one analyst, as the purchasers would be "high-end corporate customers who generally tend to be more conservative in their buying habits."¹⁶

¹⁵ Takahashi.

¹⁶ Kevin Restivo, "Intel looks to jump start IA-64," *Computer Dealer News*, June 25, 1999, pg. 10.

Intel also knew that software's ability to exploit the extra capabilities of the new chip would lag far behind the availability of the product itself. The last processor transition, when 32-bit chips replaced 16-bits, had started in 1985. Not until Microsoft introduced Windows 95 ten years later did most users gain the benefits of the improvement.¹⁷ The multiple operating systems supporting Intel's 64-bit chip were expected to be available within a year of the chip's broad availability, but Intel recognized the need to continue aiding the development of complete software solutions for the chip.

Finally, Intel needed to make a statement. The IA-64's release had been delayed from late 1999 to mid-2000. Other manufacturers already had 64-bit chips on the market, and the delay of Intel's product dampened the computer makers' enthusiasm for it. One source reported that "Silicon Graphics had originally said that it would design all its workstations to run Intel chips. After the delay was announced, it decided to slow the conversion."¹⁸

For all these reasons, Nachtsheim and the other Intel executives knew that it was critical to speed the development of a "business ecosystem"—that is, all the hardware and the software to take advantage of the performance of the IA-64 processor—around the new technology. A special investment fund seemed to make sense as a way to target applications for the IA-64, but no one was quite sure how to structure it. In October 1998, the executives delivered to Laila Partridge the charge to translate "a special fund around the IA-64" into a business reality. Quickly.

Designing the Special Fund

Partridge, who had a Bachelor's Degree in studio art and a decade of banking experience, most recently in mergers and acquisitions, had joined the M&A group in Intel's Treasury department in 1996. In that role, she had become acquainted with Intel Capital's work, and had been tapped for the special fund due to her experience in structuring complex deals. She was joined on the design team by James Horn, an Intel Capital member for the prior two years with experience in the Treasury Department, and James Cape, who had 15 years with Intel, including a stint in the marketing organization of the Enterprise Server Group. The group received periodic support from Will Fellner, from the Enterprise Server Group and Dave Clark of Intel Capital's Workstation Products Group, key business units involved in selling IA-64 processors. Fellner, another 15-year Intel veteran, and Cape were particularly helpful in generating "back channel" support and showing Partridge the organization's ropes. "In a big company like Intel where people move around and there are a lot of reorganizations," Partridge said, "veterans just know how to make things happen. If it hadn't been for these two, we never would have made our deadline." Clark's contribution was less direct but important nonetheless: an "out of the box" thinker, he provided a sounding board for the team's ideas and enlisted support for the project from the operational groups.

Partridge and her group locked themselves in a room for a week in late October to brainstorm. She explained their approach:

Intel has a very programmatic approach to solving problems. We tend to be very systematic, but we're not afraid to go beyond convention if we think that's the best way to get what we need. First we brainstormed a mission statement: 'Invest to enable a complete solution set for IA-64-based platforms at launch and throughout the ramp.' Then we had to figure out what we meant by that.

¹⁷ Anon., "Great leap forward for PC industry," *Irish Times*, May 21, 1999, pg.59.

¹⁸ James DeTar, "Intel Ventures Into Investing to Boost New Merced Chip," *Investor's Business Daily*, August 10, 1999, pg. A6.

Part of the challenge was the indirectness of the IA-64's benefit. "This doesn't *do* the fancy pictures and stuff, it allows other programs to do it," Horn explained. The solution stack would include hardware and software running on high-end servers and workstations that would capitalize on the IA-64's power.

Intel could not directly create the solution stack; it could only enable it. This was complicated by the fact that Intel had very little direct contact with end-users. "Intel makes most of its sales to a very small number of manufacturers," explained Partridge. "We don't have an abundance of direct feedback from the end-users."

To jumpstart the adoption of the new chip, the solution stack had to be available at its introduction (the launch), as well as during the entire adoption period (the ramp). End-users had to be convinced that enough new software and capabilities existed that they should spend the extra money for this next generation of product. Without software in place, Intel risked another long slow ramp-up in technology adoption. The customary market cycle saw a new technology introduced essentially in a vacuum, as applications and software slowly caught up with its capabilities. Cape described the group's goal:

The whole idea was to translate the IA-64 from something that engineers thought was cool because it was fast and fancy to something that made life easier for the end-users. Basically, end-users don't care what the chips ARE, they care what the solutions DO. They wouldn't care if you handed them an abacus as long as it made their lives easier. And we had to do it fast.

Partridge elaborated on their approach:

We wanted to invest in enabling technology, companies like TimesTen that increased the speed with which applications could access memory and take technical advantage of IA-64's features. TimesTen is a great showcase for this product—because it reconfigures databases in a more intelligent way, it has great applications for industries like telecoms. For instance, in the pause between when you hit the "send" on your cell phone and the call is connected, the system is actually verifying your account data. TimesTen products, using the IA-64, can reduce that pause to almost nothing.

Both Horn and Partridge reiterated that the emphasis continued to be placed solely on strategic fit:

We thought we should invest in these companies not because we wanted to own them—we've got enough money that we could buy them if we wanted—but because we wanted the technology out there. They were all going to use the IA-64 eventually; we just helped them do it more quickly. And it gave us more software options when we launched the product.

Bringing in Other Investors

Intel would put \$100 million in this fund. The company did not, however, want to be in it alone. From the start, the group had known that Intel's key manufacturers (Original Equipment Manufacturers, or OEMs) needed to be involved. Partridge explained, "It's that feedback thing again. We were looking for people with expertise in building and using software solution stacks—and the OEMs actually touched the end-users. They'd be able to provide incredible insights about the solutions and technologies that would be relevant to the end-users." The creation of IA-64 solutions would be mutually beneficial. In addition, the OEMs were interested in doing this sort of investing but lacked the internal organization to pursue it., They faced limited resources, though, and a

multitude of places to employ them. Partridge said, "We thought we could maybe get three OEMs to put in approximately \$20 million each."

Intel's OEMs were all computer manufacturers, but the group decided to concentrate on those that sold a high volume of servers and workstations running Intel's architecture to business users. The experience of these firms would improve the fund's ability to choose technology appropriate to the high-powered enterprise users at which the IA-64 was targeted.

The discussion then turned to end-users, as Horn explained:

We started thinking, "Why not raise additional funds from the actual end-users?" If we included key Fortune 500 users of information technology, especially the CIOs [chief information officers] who were in it every day, we could gain a much better understanding of the pressing needs of end-users. After all, only they really knew what a solution stack is. If anyone understood what we needed to do, it was these folks.

The group realized that customers would have to be chosen carefully. Systems integrators, service companies that installed and programmed computer systems, were discarded in favor of traditional industrial firms and consumer-goods producers. They approached dot-coms but then backed off. "They had different priorities," said Partridge, "they wanted eyeballs; they'd just gone public. But also they were too busy just taking care of business to look into evaluating technology. They were just trying to meet the demand on their systems."

Six different broad industry categories would be represented, with participation restricted to one firm from each. This would give a sense of exclusivity to participation and also make the customer more open with information because, for instance, one automaker would not have to worry that another would steal its ideas for using technology. The participants would be the CIOs, not the business development or treasury people. "We wanted insight into the uses of technology, and to pick up trends in IT [information technology] ahead of the market," Partridge explained. "We didn't want someone just giving us money; we wanted the input of the CIO and senior IT staff."

With the concept firmly in hand, the group unlocked the door. It had been a long week. Now it was time to gather input on the idea.

Input

The team first ran the idea past Nachtsheim. "Interesting out-of-the-box thinking, this thing with the CIOs," he observed. "Test it."

The team started its testing by talking with advisors about the fund's structure. It had to allow the greatest impact while minimizing Intel's legal and financial exposure.

The legal and treasury position had been clearly defined going into the project: Intel could not be an investment advisor in the manner of a general partner in a traditional venture capital fund. The group also realized that corporate VCs were often perceived as being willing to invest for strategic benefit even in the absence of a compelling financial return. "We were worried," said Partridge, "that the OEMs and the CIOs might be concerned that Intel would invest for its own benefit in a company that offered them little in the way of strategic interest or financial return." Each investor in the fund had to be able to decide on each individual deal. Horn explained, "So we added the concept of 'opt in/opt out.' The OEMs could choose to participate or not in a deal, and we'd act as the coordinating member."

This solution, while elegant, set a practical limit on the number of investors. Managing a group larger than four or five such investors on 30+ investments would be unwieldy at best. Looking for guidance on that practical issue, the team learned that one of the legal advisors had worked on a similar fund with a previous employer, but knew of no others. Said Partridge:

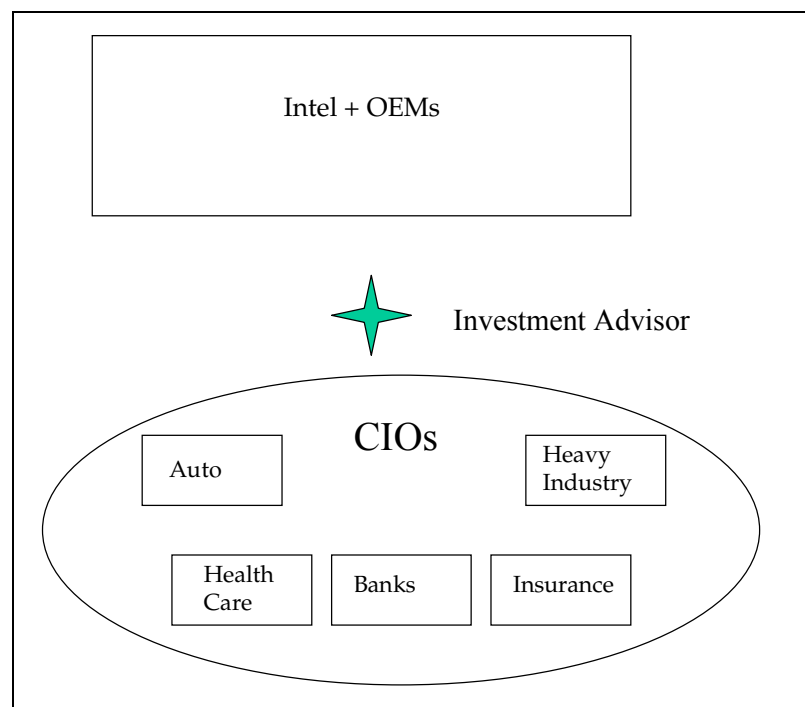
Joe Barbeau, one of our lawyers, said he'd go off and think about how various structures might work to integrate both the opt in/opt out feature and the sheer number of participants—we were thinking, after all, of six customers and three OEMs, in addition to the Intel people. He called back to say that no, there was just no way to have such a large group without a general partnership structure. We were sitting there in the conference room, and everyone just went silent. You could feel all the energy and excitement just drain out, like someone had opened the plug. So I thanked him and hung up.

Horn continued the story: "But that's Laila. She looked around this room full of dispirited people and said, 'Let's put the structure aside and get on with the other details. The concept of CIOs and OEMs as joint investors is just too sound; we'll make it work. We'll think of something.' And sure enough, she did."

Two days later, while working on other issues in the same conference room, Partridge interrupted a conversation saying, "I've got it! What if we split them—have the OEMs in one group and the CIOs in another? And have an investment advisor opt in or out on behalf of the CIOs? That way, the CIOs' financial interests are represented by someone without a strategic agenda." Recounting the story, she recalled, "We talked first to the internal lawyers, then the external guys, and both agreed that a two-tiered structure with someone else as an investment advisor would work. We left at the end of that day and our feet didn't even touch the ground."

The initial structure looked like this:

Figure 1: IA-64 Fund Concept



source: company information.

The next question was who should play the role of investment advisor. VCs would have the deal-evaluation skills, but they would be restricted to focus only on the financial aspect of the deal. Investment banks offered another possibility, and the incentives and skills might be more in line.

Participant Selection

Nachtsheim had advised the group to approach Intel's Board of Advisors regarding participation of CIOs. This group, consisting of 10 to 15 chief information officers (CIOs) from blue-chip producers of consumer goods and services, met quarterly with Intel to discuss end-user needs. Horn said, "We wanted to include customers who handled a wide variety of needs on the part of their own customers, and those who were key players in the IT field. That seemed to indicate the Board of Advisors. Andy Smith, the Intel person who managed those relationships, was just great and got us in to talk with some of these folks in almost no time."

These conversations could not be made as a pitch for a fund, because Intel could not run a fund. Partridge recalled their strategy:

We structured it as a 'what if.' All we wanted was feedback on if it was compelling, interesting, or a non-starter. Our pitch had three angles; first, we said they'd get input into software solutions coming down the pike, so that instead of adapting to a final IA-64 technology, they could influence it before it got to that stage. Secondly, they'd reduce their adoption costs for the IA-64. Big companies incur these costs all the time to create custom programs or run patches around their legacy systems. The third aspect was that, because the IA-64 was intended to support and enhance the internet infrastructure, as well as enterprise applications, they'd get insight into the emerging companies that Intel and its OEMs thought were technically interesting.

The group addressed several CIOs from the advisory group. Cape said:

Most were really interested. They loved the concept of exclusivity and the fact that we wanted the CIO, not someone from finance. They really wanted the access to new technology. Many of them had already done something like this in an ad-hoc way, but they didn't have a structured program. Most had investment programs to do exactly this—to sell them interesting stuff

Finding the investment advisor proved surprisingly challenging. Intel thought that the fund offered an opportunity for an investment bank to leverage its relationship with the big firms who would participate. Additionally, the bank would receive carried interest and it could invest, but there would be no fee. In December, the group contacted Morgan Stanley Dean Witter (MSDW). "We felt MSDW was a perfect match," Horn said. "They had a VC group and their Technology Investment Banking group, with about 75 professionals, was one of the premier names in Silicon Valley investment banking."

MSDW had its own internal approval process that focussed on the time commitments of senior professionals, but, on the other hand, the prospect of a stronger business relationship with Intel was appealing. "We stewed for a while," said Horn, "but finally MSDW came through. Both the VC and the Technology Investment Banking group invested in the fund as well." Tim Sullivan, of the Technology Investment Banking arm and Guy de Chazal of the VC group commented, "The Intel 64

Fund creates a unique opportunity for global users to take advantage of new technologies to innovate how they do business in the new worldwide Internet economy.”¹⁹

The Structure

With the agreement of MSDW, the group finished the design of the Intel® 64 Operating Fund LLC. It would comprise two parts: one with Intel and the OEMs; the other, called the EAF (Early Adopter Fund) would include the customers, led by MSDW (see **Exhibit 1**). Intel would act as the coordinating member of its part, sourcing and presenting the deals without making any recommendations. It would contribute \$100 million. The OEMs, of which there would be between three and five, would put in \$20 million each and could opt in or out of each deal.

The EAF would be structured much more like a conventional financial fund. Its eight or ten members (up from the six originally proposed) would contribute \$2-5 million each. This portion of the fund would be blind; if MSDW decided the deal was worthwhile, it would add the EAF’s money to the pool. Returns would be paid on the basis of funds contributed.

The process, as the group designed it, would run as follows:

1. Intel Capital would decide to fund a firm as part of its normal business practices.
2. If the firm was involved in IA-64 technology, the deal would be offered to the IA-64 Fund.
3. The investment committee of the IA-64 Fund would evaluate the deal. This group (one representative from each OEM, two from EAF, and one from Intel) would handle the pool of approximately \$180 million. At least two representatives (Intel and another party) had to approve any deal.

If the fund chose not invest, Intel Capital would do so for its own account.

Operating Issues

Partridge knew that recruiting investors for the EAF would be a challenge. She had already addressed the Board of Advisors, while Fellner had met with several members of Intel’s European Advisory Board, and they knew that the biggest challenge would be finding the right contacts. The Intel field representatives would have to be included in making introductions, but that had to be handled delicately.

Another complication was location. She wanted the fund to be as global as possible, but, as she put it “here we are, pretty much stuck on North America.” Fellner and Horn were contemplating a trip to Japan, and Partridge had already made some exploratory phone calls. “Japan was going to be hard,” she said. “The attitude of the CIOs there was ‘give us a box and a service contract.’ They didn’t want to know how it worked. But some firms were interested in participating just for the business relationship with Intel.”

Europe, on the other hand, had a longer experience with venture investing. “The problem we encountered with Europe,” said Horn, “was that a lot of mergers were going on in the big firms we

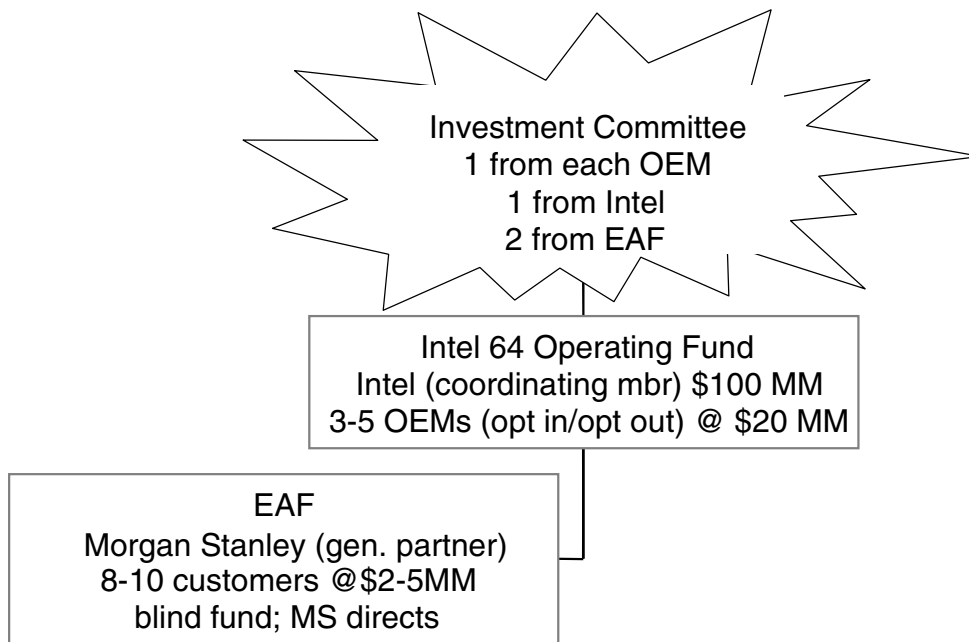
¹⁹ Intel Corp., “Intel: Tech leaders & corporate users form \$0.25 bn investment fund targeting Intel’s IA-64 architecture,” *M2 Presswire*, May 11, 1999.

were considering. The companies were distracted and the IT resources were totally involved in integrating merged systems.”

The U.S. had yielded five or six strongly interested companies. “Our biggest challenge seems to be within the organizations we address,” Horn observed. “We talk to the CIOs and they love it. But it has to be approved by the folks in Treasury or VC, which slows things down.”

The last aspect the group knew it would have to address was how to keep the OEMs interested. The fund would be closed after the executive group approved it. The group had proposed a private website on which members could share their thoughts and find profiles of investments in the pipeline. The other proposal was for semi-annual technology conferences that would present the portfolio companies to the IT executives in the fund. Information could flow freely between the small companies inventing IA64 applications, the large customers that would use them, the OEMs manufacturing the boxes, and Intel. Additional benefits might include business relationships among the small companies themselves.

The door opened. Horn grinned at Partridge reassuringly. “Laila, we’ve done this a thousand times. They’re not going to find any holes in it. It’ll work, don’t worry.” She wished she could share his confidence.

Exhibit 1: Proposed Structure of the Intel 64 Operating Fund LLC

Source: casewriter.