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CIA Adventures in Venture Capital

Hill Experts Reviewing Agency's \$28 Million In-Q-Tel Offshoot for Value

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Three years after the CIA began pouring millions of dollars into an unclassified venture capital fund called In-Q-Tel, Congress has convened a panel of technical experts to determine whether the initiative is worth the money in the face of emerging Internet technologies.

Their conclusions, due at the end of this month, could have broad implications for the U.S. intelligence community, a collection of agencies that spend about \$30 billion a year but still find themselves struggling to keep pace with rapid advances in computers and telecommunications.

"All the early signs are very positive about In-Q-Tel," CIA spokesman Bill Harlow said yesterday. "There's a lot of interest within the agency about the technologies in which they're investing."

In-Q-Tel's 1998 creation marked a radical departure for the top secret CIA precisely because it was not secret. The fund, fueled by \$28 million a year in federal subsidies, rented office space in Rosslyn and Palo Alto, Calif., the heart of Silicon Valley, and went looking for commercial technologies.

"If anything, my biggest problem is keeping people away," Gilman Louie, In-Q-Tel's president and chief executive officer, said in a recent interview at the fund's modular, high-tech headquarters 29 floors above the Potomac.

To date, the nonprofit In-Q-Tel has invested in 16 companies, from Mohomine Inc., which makes software for converting "unstructured" data on computer hard drives into digital databases, to SafeWeb, whose Triangle Boy software will expand upon anonymous Web surfing technology offered by the firm.



FILE PHOTO BY TYLER MALLORY FOR THE WASHINGTON POST

In-Q-Tel Chief Executive Officer Gilman Louie says his "biggest problem is keeping people away." He has invested in 16 high-tech firms.

In typical unbureaucratic fashion, In-Q-Tel decided to invest \$1 million in Triangle Boy's development after one of its representatives struck up a conversation with a SafeWeb executive at a Silicon Valley bar.

In-Q-Tel's proponents inside and outside the intelligence community believe the fund's real power lies in its ability to link the bureaucratic, buttoned-up CIA with the entrepreneurial, free-flowing private sector.

Louie himself is a former computer game impresario and toy company executive who revels in his role as intelligence community iconoclast. Other In-Q-Tel executives have joined the funds from companies such as Amazon.com, Panasonic, Disney and Spectrum Holobyte.

"Our mission is to go out and find the stuff that has commercial application that also has analogies to what the agency is doing," said Louie, a San Francisco native who splits his time between coasts.

With an investment fund well below \$100 million, In-Q-Tel would rank as only a small

player in the venture capital market. But Louie said no other venture capital player can offer high-tech startups what it can: the ability to test their technologies inside the CIA, one of the largest data repositories in the world.

Louie called the fund a "venture catalyst" and said its role has evolved from identifying promising commercial technologies to helping the CIA apply them to the agency's data management problems.

Another distinct In-Q-Tel advantage, Louie said, is that its portfolio is not riddled with losers from the past year's high-tech market shakeout. "I can still do deals," Louie said. "I can be swifter than the venture funds."

One of In-Q-Tel's latest investments is in software developed by Systems Research & Development of Las Vegas to catch card counters at casinos by analyzing data about relationships and previous transactions. The software originally was designed to catch employees who internally misuse computer networks.

In-Q-Tel has also invested in NetOwl, an advanced search engine developed by SRA International Inc. of Fairfax that mines data using natural speech patterns instead of key words.

An article from the Defense Intelligence Journal posted recently on the CIA's Web site states that the agency created In-Q-Tel because its technological ability to innovate—the ability that produced the U-2 and SR-71 reconnaissance aircraft in the 1950s and 1960s—had largely disappeared by the 1990s.

"The agency's leadership recognized that the CIA did not, and could not, compete for [information technology] innovation and talent with the same speed and agility that those in the commercial marketplace, whose businesses are driven by 'Internet time' and profit, could."