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Bluffing Millions in Financial Backing

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April 23, 2008

Video URL: <http://ecorner.stanford.edu/videos/2002/Bluffing-Millions-in-Financial-Backing>

Inspired by Charles Lindberg's Spirit of St. Louis, X PRIZE founder and space entrepreneur Peter Diamandis explains to interviewer George Zachary of Charles River Ventures that offering a high profile cash reward can often be more financially advantageous - and more aggressive in moving forward a societal push - than simply funding a good idea. Diamandis describes his incredible quest for funding, pitching hundreds of potential benefactors without success. Not to be deterred, he announced the first X PRIZE contest with no competing teams and not a penny of the \$10 million prize money on hand. His unbelievable tale grows even longer as he describes how funding came from a bet placed with a space insurance company, and how he had to scramble for the \$50 thousand premium every month.



Transcript

I remember you telling me about the early days of X PRIZE and how you would finance it. Like that's a great story. So, originally when - people don't believe - the X PRIZE came to me as I was reading a book called, "The Spirit of Saint Louis". Lindbergh wrote this book in 1957 or 1955 that talked about his flight across the Atlantic and I had no idea that Lindbergh actually crossed the Atlantic to win a prize. I thought he woke up one day and he just decided, "Go east, young man." But there was a \$25,000 prize put up by this Frenchman, Raymond Orteig, who wanted to inspire travel between his homeland in Paris and his new found home of New York. And as I'm reading the book, I'm taking notes in the margins and I'm going, "Oh my God!" I'm adding it up, \$400,000 spent to win this \$25,000 prize." I said, "How insanely leveraged is that? 16 times the prize money." And this guy didn't spend a penny to back any of the guys most likely to win. Admiral Byrd, who was the first person to fly to the North Pole, the most likely player to win, had packed large plates of china in the back of his airplane to celebrate when he landed in Paris; not like they wouldn't have china plates in Paris. But he crashes on take off and he spent \$100,000 to try to win this prize. And Lindbergh, the most unlikely guy - in fact the day before he took off from New York, "The New York Times" on May 19, 1927, wrote this editorial that said, "Stop! Don't do this thing. You're going to crash and set back aviation a decade." Well, of course just the opposite happened.

Lindbergh makes the trip. He's called "The Flying Fool." He goes from being "The Flying Fool" to a global hero whose name most school kids still know today. And 33-1/2 hours later, he lands in Paris. Within 18 months of his trip, the number of passengers in the United States went from - increased 30-fold. The number of airplanes quadrupled and the number of pilots tripled. It's huge in aviation because it was a paradigm change. "If he can do it, I can do it." And so that formative moment I said, "That's what we need." At this point, again, giving up on going the government route because I need something to spark these private companies and so the X PRIZE - originally the letter "X" was going to be the name of the person to put the money. It just took me so long to find that person, the "X" stuck around. Yup. So I couldn't - to get to your story on leverage, I

went and I pitched from Fred Smith, to Richard Branson, to - hundreds of CEOs and CMOs on this vision of this highly-leveraged incentive prize and everybody was like, "This is a crazy idea.

It'll never work. Someone's going to die. Why isn't NASA doing this?" And everyone said, "No, no, no, no, no." OK? How many people did you talk to? Hundreds of people, literally. At this point, we announced it under the arch in Saint Louis. What year is that? This is May 18, 1996. I had this concept called, "Line of Super Credibility". This is line of credibility. If you announce something above the level of credibility, it might happen - they might believe it or not, depending on what you do. There's a line of super credibility. If you announce something above the line of super credibility - no matter what you do, people believe it and they're belief makes it happen in some sense.

So, I had not one astronaut, I had 20 astronauts on stage. I had the head of NASA, the head of the FAA, the Lindbergh family, Burt Rutan. I'm announcing this \$10 million prize. No one asked, "Do you have money?" We did not, unfortunately. "Do you have any teams competing?" We did not. And so, we started having teams register and I'm feeling more and more on the hook to raise this \$10 million prize because it's like, "Peter, we're going to be getting there, do you have the money yet?" "I will, I promise you I will." So, you know, insane pressure is the mother of invention, not insanity. This was insane pressure. I ended up being able to raise a small amount of capital from donors in Saint Louis and a friend of mine said, have you heard about a Hole-in-one insurance policy. So, what is that? He said, "Well, you take a bet and you pay a premium and if someone accomplishes a task, they pay off the prize. If they don't, they keep the premium." They meaning the insurance company...

So, we put an end date on the X PRIZE of January 1, 2005. So, you take a bet with an insurance company. So, we bet How did you approach them? So, I went through Aon as a broker, who went to the space insurance underwriters. Who have a certain amount of capacity, traditionally, insuring launches and satellites and they play in a very traditional world. The insurance underwriters went and said to Boeing, "You're going to compete?" "No." "Lockheed?" "No". "Northrop Grumman?" "No". No one's going to win this thing; it's ridiculous. So, they took the bet. And it's not publicly disclosed how much it is but it was in the single digit low millions. But I didn't have \$3 million to pay the insurance premium, but I thought I could raise it.

So, I wrote a policy where I would pay \$50,000 every month with a large balloon payment at the end. So, I would be paying in \$50,000 the last Friday every month and I had this \$50,000 Friday coming. How did you finance that? Begging. Well-worn kneepads. I became very impassioned in fundraising. Our friend Adaio and many of our common friends from Elon And basically going up to folks and saying, "Here's the vision." I would literally finance this thing \$50,000 at a time because if I didn't pay the \$50,000, all the money I'd paid in beforehand would have been evaporated and this thing will be over. They'd keep it. So, I read about one day, I had this large balloon payment coming along. I read about this woman in Anousheh Ansari born in Persia, came here in high school, became a serial entrepreneur, her and her husband started a company called Telecom Technology. They sold to Sonus Networks for a billion dollars.

And in her bio it says, "And her dream is to fly on a sub-orbital flight into space." And I read that thing like four or five times. On a sub-orbital flight into space - and I committed and that moment in time to track her down, and I did. And I was her first meeting when she came back vacationing from Hawaii after selling her company and we named it The Ansari X PRIZE because they put up the money to pay off the rest. And it was so successful. We've taken the X PRIZE now and turned it into an incentive prize organization and we're launching a series of X PRIZES in different areas.