2236 Cathedral Avenue
Washington, D.C. 20008
1-202-483-7521 (P)
1-202-478-0170 (F)
www.wyndstorm.com

September 11, 2008

To: Senator John Kerry
From: Marian Sabety
CC: Gregory Willis
RE: Wyndstorm Venture Capital Raise Experience

Thank you for the opportunity to share my experience in raising capital from venture capital firms in the last three years. I hope that what I convey provides you insight into issues that impact the ability for women to successfully fund their enterprises with Venture Capital support.

Please note that at the end of my statement, I have considerations and suggestions, which may take me slightly over my 5 minute allotment.

Let me first express my deep and heartfelt confidence in the American tradition of growing businesses through entrepreneurship. I have spent over twenty-five years in the high tech industry in senior positions at United Technologies, AT&T, Sprint, WorldCom, SAIC, and Stanford Research Institute. I always wanted to start and run my own company—largely out of my strong desire to be on the leading edge of technology development.

In 2006, I founded Wyndstorm Corporation, the ideas-to-revenues company that provides leading internet entertainment technologies, used by marketing companies to promote products via the web. These technologies include specialized cartoon figures used for inter-personal interaction in a website, or computer-based phone-calling using an internet connection, or computer gaming between multiple gamers, and other web entertainment that your kids enjoy, but likely confound you.

Four years ago, I watched this market take-off, as Wyndstorm worked with clients in Asia and Europe to develop entertainment software for mobile phone companies addressing the youth market, typically spending 4-5 hours per day chatting and playing online. This was one year before the social networking craze hit the U.S. Wyndstorm's first social network was showcased at a trade show in late, 2005 (interestingly, it was built for an ad agency that provided grass-roots marketing services to the Joe Biden primary campaign). At that time, FaceBook was still a Harvard student skunk-works. In mid-2006, we built the first social network that combined free phone-calling between members—at least 1 year before FaceBook announced this feature.

By 2007, Rupert Murdoch spent billions of dollars to acquire MySpace. Wyndstorm technology was on the front edge of this explosion. To keep pace, I needed to raise money—largely for marketing and sales.

By this time, I had amassed a board of advisors and angel investors. My board included Lawrence McLernon, founder of Litel, a mid-west telephone company, subsequently sold to create Qwest; Richard T. Liebhaber, SVP Operations and Board member of MCI; and Patrick Gross, Co-Founder of American Management Systems and Board member of Waste Management and Capital One; General Michael Hagee, retired Commandant of the Marine Corps, and a General Counsel who taught entrepreneurship at Columbia University Business School after he launched Orion Satellite Corporation.

My board introduced me to 50 VCs—and those 50 begat another 50, which begat another 50 and so on——not one said yes. I hardened to “we pass” e-mails followed by an announcement that a competitor got funded by the very same VC 2-3 months later.

The only nibble I received was Sequoia Capital, which invited me to meet 3 times (think Silicon Valley VC and think, Google, Netscape, Apple, Oracle, Symantec, LinkedIn, etc.). Sequoia passed, but provided huge insight into VC practices. By this spring, I had pitched to well over 200 VCs, with no nibble. , even though I am operating company, with products that serve the hottest market in Wall Street, with two patents, with proof-of-concept customers, with a qualified management team, and a pipeline that includes Avon, Shell, Remington, Barr Laboratories, Mayo Clinic, Hadassah, and others. I have received zero term sheets. Not one. Companies all around me have been funded $2, 3, 4, 5, 10+Million—this even includes a VC chartered only to fund companies operating in Washington, D.C.—nothing.

Out of VC options, and at no minor expense, I became a public company (OTC: BB, trading as WYND), so that I can leverage the capital markets to fund my company. I continue to be angel-funded, and I am now in productive discussions with investment firms in Europe, as the climate and culture appear to overlook whatever issues or hurdles U.S. VCs seem to have. I am so close to breaking through at this point, that the prospect of losing more than half my company to a VC, who typically replace the management which created the business, at a fraction of the value reflected by their sweat equity value in bringing the company forward, is distasteful at this point.

Watch for us! This is one woman-owned company that will beat the odds!

Thank you for your interest, and your concern on these matters. If you give me another 1, or 2, minutes, I’d like to share some insight in three areas that I believe need some scrutiny:

1-Male-domination Of the 200 VC presentations I’ve made, only one had a woman in the room—and even then, she was mute…..Taken it a different way, of the 600 individuals to whom I pitched, 1 was a woman. While there’s substantial progress in women gaining ground in corporate management ranks, I find it shocking that the VC bastion remains so decidedly male-dominated. Less than 1% of women-owned companies are VC-funded (San Jose Mercury News, 2007). This is upside down from the fairness principles that guide all other areas of our economy, and must be stopped.

2- Competitive intelligence practices VCs invest in friend’s projects—further extending the club model. My experience with Sequoia Capital brought this home hard. Sequoia scheduled me for meeting #3, saying the third meeting lays the groundwork for funding discussions. I was asked to meet with “someone who knows your space”—so I sung my heart out on pricing, on margins, on sales rates, on advertising rates, on cost-of-goods, on technical details, etc. I arrived back home to a “we pass” e-mail. The person to whom I pitched was named to the board of LinkedIn two months later, a competitor funded by Sequoia—my third pitch was nothing but competitive intelligence. I have now found this to be common practice. Competitive intelligence-gathering undermines innovation leverage of small companies. It’s wrong and must be stopped.

3- Unregulated banking practices Most VCs require $5 million in “trailing revenue” to trigger their interest (that’s $2-400,000 revenue per month over 1-2 years). On this basis, the concept of venture funding for small businesses is misleading. In fact, VCs operate and contract fairly closely to banking institutions, and should therefore fall under guidelines and scrutiny of that sector. Naturally, for insider-friends, these rules are bent constantly. It's wrong that VCs should primarily benefit insiders, making this a rigged system—it's wrong and it must be monitored, just like banking institutions.

Billions of VC dollars can be awarded to start-up businesses, unlocking enormous business expansion if ventures can truly be funded when they need funding most—not after $5M in trailing revenues. It is heartening to see that enlightened legislators like those on this committee, are willing to find ways to release resources to those building our economy. In the last year, I created 7 technology jobs—and forecast 10 additional jobs in 2009—this does not include the 10-15 jobs which will be created by vendors with whom we partner. Company leaders like me and my colleagues are passionate about making their businesses grow, fueling other small companies with whom they partner, and delivering intellectual assets, jobs, and value to America's economy. We merely want a level playing field.

Suggestions for Consideration:
VCs with portfolio companies that target and benefit from government contracts must be regulated to adhere to the equal opportunity guidelines of this country—taxpayer money should not be awarded to firms that discriminate.

VCs must be incented to increase women at their partner levels and investment in women-owned companies, accomplishing several key objectives:

- Incent the creation of a VC executive management culture that represents the same standards and guidelines for equality in the workplace to which corporations VCs fund must comply.

- Incent engendering greater acceptance of women-owned, or women-led businesses, using the leverage of tax and government contracting guidelines, so that women-owned companies have a fighting chance at bringing their companies forward and creating jobs.

- Incent funding of small businesses with the same guidelines and set-asides as government guidelines for government SBA programs, so that women and minority-owned companies can begin to compete favorably in the marketplace so that this glass ceiling can be broken, too.

Thank you for your interest, and your concern on these matters.