

“JOBS Act Implementation Update”

Testimony of

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April 11, 2013

Before the

Small Business Committee

United States House of Representatives

**The Honorable David Schweikert, Committee Chairman
The Honorable Yvette Clarke, Ranking Member**

Good morning, Chairman Schweikert, Ranking Member Clarke, and members of the Committee. It is an honor and privilege to be here today to share my experiences and knowledge with the committee.

My name is Kevin Rustagi, and I am an American entrepreneur and product designer.

As an alumnus of the Massachusetts Institute of Technology, I've had the privilege of working with firms such as Apple on the iPhone 5 and GE during my undergraduate career. Over time, the entrepreneurship community at MIT drew me to the world of high-tech, high-growth early stage startups. I opted for a multi-year deferral from Stanford Business School to explore startup opportunities.

Since then, I have been a student of the modern economy and sought to start ventures using highly mobile labor and capital. As such, I have experience with loans from family and business partners, angel investing with accredited investors, and most recently, donation-based funding through Kickstarter.com. I am also an active member of the young startup community, acting as a sounding board in the early venture space.

A recent company that I co-founded, Ministry of Supply (MoS), creates high-tech business apparel for men and held the record in the fashion category on Kickstarter for the latter half of 2012 by taking pre-orders for our new space-age dress shirts. Our goal was \$30,000. In 33 days, we raised over 14 times that for a total of \$429,000. Since inception, we have created 14 new jobs.

Though new technologies such as viral marketing and rapid prototyping are highly effective, the need for accessible funding and backing remains as pertinent and challenging as ever.

Today, I aim to discuss how funding has played a role in my ventures as of late, and how access to new methods of fundraising, as cited in the Jumpstart Our Business Startups Act, or the JOBS Act, would greatly increase every entrepreneur's chance of success in starting new ventures, thereby stimulating the creation of new jobs and economic growth.

Kickstarter and 'going viral'

Kickstarter is one of the web's primary curated crowd-donation sites, and is known for taking only a 5% cut of donations to a project. As with MoS's high-tech dress shirts, the site has in part evolved into a pre-order destination for new consumer products.

Despite its focus on early creative projects, launching on Kickstarter requires substantive concept development. For example, multiple prototypes are generally required for market adoption. Started in late 2010, MoS raised angel funding

before going on Kickstarter to increase our odds of success. We waited one-and-a-half years to launch on Kickstarter, engaging a viral PR strategy using social media to raise awareness. Surprisingly effective, our story was featured online in Australia, India, Sweden, China, and the United States, sparking pre-orders in over two-dozen countries.

With global traction and roughly 100,000 views of our videos, we experienced what is known in the startup world as 'going viral'.

Involuntarily rejecting crowd-investors

As a young company, we used the money from pre-orders to feverishly grow, but we required further funding to build a new supply chain and hire new employees. Given the buzz from Kickstarter, we had multiple offers from investors around the world. However, many were smaller investors (in the \$1,000 - \$15,000 range). Absent sufficient regulation, legal precedent, and vetting tools, we experienced the deep irony of having to turn them away.

Albeit ultimately fruitful, the company's continued search for angel funding has taken valuable time away from vital product and business development.

The difference between equity-based and donation based funding

Donation-based funding remains the holy grail of early stage ventures, due to its ability to help bootstrap a business without dilution. Crowd donation is based on goodwill; equity based funding is based on a mutual higher expected value.

While donation-based is ideal, real-world constraints necessitate a more continuous stream of funding, especially in environments with disjointed demand and a difficult path to profitability. Equity-based funding is simply a much more reliable model because there is a higher tangible monetary benefit for both the venture and the investor.

Different levels of funding are required for different stages

One of the greatest challenges entrepreneurs face with funding is dilution. If they are forced to sell shares when their company is worth less, they give up more shares. If I need to raise \$200,000, but my company is worth only \$400,000, I would be forced to give up half of my company that I can't get back. This not only impacts founders, but also all future stakeholders.

When companies have to pursue angel funding in a less robust market, as we did with our interest in consumer products, they are subject to often-difficult negotiations with potential investors. There is now less of the pie to be shared. Crowd investing would allow for a smoothing effect here, balancing the playing field.

The timing of the JOBS Act and the global stage

The startup community is very excited about the JOBS Act. Colleagues of mine are eager to test out models that will allow them to work on their projects. Crowd investing would allow entrepreneurs to take on projects with greater ease.

MassChallenge, a Boston-based startup competition, has been recognized by the White House as a key partner in the Startup America initiative. Last year, 1,237 companies applied for 125 finalist spots, garnering free office space and a summer program with mentors with several companies receiving a cut of \$1,000,000 in prize money. They received applications from 35 countries. MassChallenge, like the marketplace, is judged solely based on traction and market adoption. Competition is now a highly global democracy. America must stay competitive.

Supporting a culture of entrepreneurship and innovation

America holds a nearly unparalleled legacy of entrepreneurship and innovation. My grandfather, Merton Purvis, was one of over 1,200 PhDs at Bell Labs at its peak in the 1960s – widely considered to be one of the most innovative organizations in modern history. Since then, startups have taken its place as America's innovation engine. Support for startups must match the speed of global competition.

Programs like Startup Chile provide funding to startups willing to locate in Chile for 7 months, demonstrating the rest of the world's desire for the latest new high-tech and high-growth jobs. Other nations are at the forefront, while America demurs. Sound regulation for the JOBS Act will change that.

Would crowd investing be used?

In short, yes. Angel investing's limitations are connections and the liquid market. In venture capital, it is the idea of being 'proven.' In crowd-donation, too long before or after a certain stage of development, and the donation community may not accept your story. Moreover, crowd investing provides a unique tool. The entrepreneurs I have met over the past 6 years are extremely resourceful and, if given effective new crowd-funding tools, would make quick use of them.

Conclusion

Crowd investing within the JOBS Act demonstrates America's continued commitment to developing the next generation of small businesses and startups. It will provide a real opportunity to strengthen the economy from the ground up. It remains vital to consider all elements of this, including items that are still caught up in legislation, especially the Startup Visa.

New businesses are difficult ventures to undertake, and anything that safely and effectively puts the advantage in the hands of the innovator is greatly desired and beneficial to the economy. Crowd investing through the JOBS Act will be a unique and exciting way to promote new businesses.

As I've noted, I have used a variety of tools in creating new ventures, both for product design and business development. My hope is that my colleagues and I can continue to create new ventures in a way that leads and inspires the world. I eagerly await the day that I can fully utilize crowd funding and crowd investing to help create successful new ventures.

I thank you for this opportunity to explain relevant concerns of the startup community surrounding the JOBS Act and crowd investing.