Securenet inc essay

SecureNet INC, a software enterprise that focuses on the e-commerce security, is trying to raise a first round of funding in October 2000. The company has been unsuccessful in attracting funding from venture capitalists, and raised a small round seeds from local investors in Virginia. In the following two month, SecureNet financed a $250, 000 bridge loan from an Angel investor called Trio LLC. Trio has proposed to offer a $ 1. 4 million a Series A funding of convertible preferred stock. Right now, Richard Goodson, the CEO of SecureNet must decide whether to accept the offer from Trio LLC, or come back to find other VC investors.

Goodson are considering the decision base on two main dimensions. First is the investing experience of Trio LLC. As a General Partner, VC firms are responsible to monitoring and helping the portfolio companies. Therefore, a more experienced manage teams will provide more professional advices to the portfolio companies. Second is the funding amount. Although $1. 4 million of series A funding is nearly 40% of company’s equity, SecureNet may still need additional funding to build the sale forces and revenue.

Looking for other venture capitalists that can offer more funding might be a preferential consideration. Question Solution 1. All the calculation will be showed in Table 1 in appendix. In the part one, the price per share prior to Series A funding will be $4. 38, and the value of SecureNet before Series A funding is $3, 113, 966. In the part two, based on the convertible preferred stock price at $4. 38, the total investment for purchasing preferred stock is $1. 9 ($1. 4 +0. 5) million.

Therefore, the price per share after Series A funding will be $4. 8, and the fully diluted share count will be 1, 144, 741 shares, thus the value of SecureNet after Series A funding will be $5, 013, 965. 58. 2. Based on the information from the Table 2 in appendix, we can calculate the number of shares that another investor can purchase within $3 million funding. With the price of $8 and $1 per share, the investor can purchase 375, 000 and 3, 000, 000 shares. Under the $8 per share, due to this price is higher than the $4. 38 per share; the anti-dilution protection did not touch off.

Therefore, Trio's stock purchasing amount keeps the same, and due to the new purchasing, Trio LLC's ownership percentage decreased to 28. 5% from 37. 9%. However, the price per share of $1 is below $4. 38, therefore based on the rule from term sheet, Trio LLC adjustment the shock purchasing amount to 1, 900, 000 shares; its ownership percentage still decreased from 37. 9% to 33. 9%. 3. The biggest incentive for Goodson is the huge amount of option pool. This employee stock pool are set aside as incentive compensation for employees, and usually is 15% of fully diluted share count.

From the term sheet, Trio LLC set 450, 998 shares in the option pool which is far more than the 15%. Also from the capitalization table in the case, we can see that the granted option for him is also very considerable. Also the immediate cash flow is another incentive for Goodson. Right now, SecureNet's financial situation can only last for few months, and after that they will face a revenue problem. I do not think these are sufficient incentives, because the high percentage of option pool looks like benefiting the company, but actually it may dilute founder's share by distribution.

Also, the most important thing is that, Trio's funding is not enough for company, these money can only support few months longer. 4. I think the term sheet is in favour of Angel investors. " The company may reserve up to 450, 988 shares of common…. to employees, officers and consultants. " As I mentioned before, although the high percentage of option pool looks like benefiting the company, it may dilute founder's share by distribution, thus founder's power will be reduced.

Also, in rules of " Events of Noncompliance and Remedies", it mentioned that " Upon the occurrence of the event of noncompliance, holders of a majority of the preferred may demand immediate redemption of all or any part of their preferred…" This specific rule will become a trouble for SecureNet if it matches the noncompliance condition, and this rule gives a significant benefit for the Angel Investor. 5. The $1. 4 million funding are not enough to purchasing 40% of equity in SecureNet INC.

The result of around 40% is coming from two parts, one is the $1. 4 million funding, and another part is from $0. million repayment of bridge loan which convert into investment to purchasing preferred stocks. 6. If I were Goodson, I will absolutely reject the offer from Trio LLC. Regardless of all other factors, $1. 4 million Series A funding is far below the operation and research cost. Although suffering the Internet Bubble, the market condition is still flourished in 2000. The average amount investment of deal is $13. 9 million in that year. Following increasing numbers of companies are considering the E-security, there are more opportunities expanded to SecureNet.

Also, finding a more experience venture capitalists can increase the operation efficiency and get more stable investment in continuous rounds. Last but not least, I am very confidence with company's technology and product advantages. Recommendation " First there is a mountain, then there is no mountain, then there is. " We first meet a problem, and we solve it, then we discover another problem. Everyone will meet thousands of problem is their lives, one by one, the result of previous problem may affect the following one. Same as doing business, companies meet problems again and again.

Always focusing on the long term, we should make decisions that will benefit more following problems rather than only this one. In this case, Goodson meet a problem of financing the Series A funding, and he also find out a solution for it. However, the solution of accepting the $1. 4 million funding from Trio LLC is only focusing on the short term. With the forward consideration of problems in the future, Goodson should reject this solution and look for a better one; especially when the market situations are good for the company.