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Current Venture Capital Environment

In 2012, investment for the first three quarters of the year was $20 billion into 2,661 deals, significantly below levels from last year, making it likely that 2012 will fall short of 2011 in terms of both dollars and deal volume.

Venture capitalists invested $6.5 billion in 890 deals in the third quarter of 2012. Quarterly venture capital investment activity declined 11% in terms of dollars and 5% in the number of deals compared to the second quarter of 2012, when $7.3 billion was invested in 935 deals.

The highest level of funding for all industries was the Software industry, ($2.1 billion of investments into 304 deals during Q3).

Life Sciences investment for the first three quarters of 2012 is down 19% in dollars and 12% in deals from the same time period in 2011.

Internet-specific investing fell 12% in dollars and 8% in deals from Q2 with $1.7 billion going into 250 deals but remained well above the billion dollars per quarter level that has been prevalent for the last two years.

Venture investment declined across all stages of development in both dollars and deals in the third quarter of 2012. Seed stage investments fell 22% in dollars and 7% in deals with $178 million invested into 67 deals in the third quarter. Early stage investments also declined, falling 21% in dollars and 7% in deals with $1.7 billion going into 395 deals.

Seed/Early stage deals accounted for 52% of total deal volume in Q3. The average Seed deal in Q3 was $2.7 million, down from $3.2 million in Q2. The average early stage deal was $4.4 million in Q3, down from $5.2 million in the prior quarter.

Expansion stage investment decreased 3% in dollars and 1% in deals in Q3, with $2.6 billion going into 241 deals. Overall, Expansion stage deals accounted for 27% of venture deals in Q3, and the average Expansion stage deal was $10.8 million, down from $11.1 million in the prior quarter.

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Investments in Later stage deals decreased 10% in dollars and 4% in deals to $2.0 billion going into 187 rounds in the third quarter. Later stage deals accounted for 21% of total deal volume in Q3, similar to Q2 when $2.2 billion went into 195 deals. The average Later stage deal in the third quarter was $10.5 million, which is a slight decline from $11.2 million in the prior quarter.

2011 Venture Capital Environment

In 2011, VC firms invested $28.4 Billion in 3,673 deals, which translates to a 22% increase in dollars and a 4% rise in deals over 2010. Clean Technology and Internet Sectors showed double-digit growth in 2011 and while there were increases across the board, there was a 48% decrease in Seed Stage Investments. 2011 Venture Capital investment amounts represent the 3rd highest annual investment total in the past 10 years.

Essex Capital Venture Leasing provides business essential equipment to Venture Capital backed companies at various stages of development from seed and emerging growth to expansion and established stages of development, which include select publicly listed companies and lower middle market companies. We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We source our investments through our principal office located in Santa Barbara, California.

Our goal is to be the leading equipment lessor of choice for venture capital and private equity-backed companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of companies.

We focus our investments in companies active in life sciences, manufacturing and technology. Within the life sciences sub-sector, we generally focus on medical devices, bio-pharmaceutical, drug discovery, drug delivery, health care services, information systems companies and monitoring technologies.

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Our investment objective is to provide business essential equipment to companies backed by top-tier venture capital firms. These deals typically achieve an annual return in the 12% - 20% range. These transactions usually amortize monthly in two to four years and are secured by the underlying assets. The risk is mitigated by requiring collateral, an amortizing transaction, and the involvement of the top-tier VC.

For Example:

When a Venture Capital relationship of ours informs us that they are committed to providing "Company A" with $20 million for 4 years and that there is an opportunity to lease up to $5 million of business essential equipment, Essex Capital would provide an equipment lease for a 3 year term.

By using venture leasing along with venture capital, "Company A" lowers the venture's overall capital cost, builds enterprise value faster and preserves ownership.

These venture capital backed leasing deals typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investment. In some cases, we receive the right to make additional equity investments in connection with future equity financing rounds.

Our portfolio is comprised of venture capital backed companies at various stages of development. Since 2001, our investing emphasis has been primarily on private companies following or in connection with a subsequent institutional round of equity financing, which we refer to as expansion-stage companies and private companies in later rounds of financing and certain public companies, which we refer to as established-stage companies and lower middle market companies. We have also historically focused our investment activities in private companies following or in connection with the first institutional round of financing, which we refer to as emerging-growth companies. We invest primarily in United States based companies.

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Our Thoughts

We believe that demand is currently under served, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to related companies during 2008 and 2009. The venture capital market for the companies in which we invest has been active and continue to show signs of increased investment activity.

In addition, lending requirements of traditional lenders have become more stringent due to the significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated market and the financial turmoil affecting the banking system and financial market, which have negatively impacted the debt and equity capital market in the United States and most other markets.

We believe this is an opportune time to be active in the equipment leasing market for venture capital backed companies.

Venture Capital backed companies have reached a more mature stage prior to reaching a liquidity event, therefore we believe our investments provide the debt capital needed to grow or recapitalize during the extended period prior to a liquidity event.

Our Business Strategy

Leverage our Experience and Industry Relationships;
Essex Capital has extensive experience with venture capitalists, commercial lenders, and originators of structured debt and equity investments.

Since its inception, Essex Capital has provided funding in excess of $1 billion dollars and has made a number of equity investments in private and public companies and have developed a network of industry contacts with investors and other participants within the venture capital and private equity communities.

In addition, we have established contacts with leading venture capital and private equity fund sponsors, public and private companies, research institutions and other industry participants, which should enable us to identify and attract well-positioned prospective portfolio companies.

We concentrate our investing activities generally in industries in which we have investment experience. We believe that our experience and focus will enable us to leverage our expertise in structuring prospective investments, to assess the value of both tangible and intangible assets, to evaluate the business prospects and operating characteristics of venture capital backed companies and to identify and originate potentially attractive investments with these types of companies.

- We believe that we can mitigate the risk of loss through the combination of loan principal amortization, cash interest payments, relatively short maturities, security interests in the assets, and on select investment covenants requiring prospective portfolio companies to have certain amounts of available cash at the time of our investment and the continued support from a venture capital or private equity firm at the time we make our investment.

- Historically, our equipment leasing to venture capital backed companies typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investment.

- In addition, in some cases, we receive the right to make additional equity investments in companies in connection with future equity financing rounds.

- We use our relationships to originate investment opportunities.

- Since venture capital and private equity funds typically invest solely in the equity securities of their portfolio companies, we believe that our involvement in providing equipment will be viewed as attractive and complimentary by the portfolio company and by the portfolio company's financial sponsor.

- Most venture capital and private equity fund sponsors encourage their portfolio companies to use debt financing for a portion of their capital needs as a means of potentially enhancing equity returns, minimizing equity dilution and increasing valuations prior to a subsequent equity financing round or a liquidity event.

Our Investments and Operations

- We invest at various stages of development and provide mission critical equipment to venture capital backed companies, from emerging-growth companies, to expansion-stage companies and established-stage companies, including select publicly listed companies and lower middle market companies.

- We generally seek to invest in companies that have been operating for at least six to 12 months prior to the date of our investment.

- We anticipate that such entities may, at the time of investment, be generating revenues or will have a business plan that anticipates generation of revenues within 24 to 48 months.

- Further, we anticipate that on the date of our investment we will generally obtain a lien on available assets, which may or may not include intellectual property, and these companies will have sufficient cash on their balance sheet to operate as well as potentially amortize their debt for at least three to nine months following our investment.

- We generally require that a prospective portfolio company, in addition to having sufficient capital to support leverage, demonstrate an operating plan capable of generating cash flows or raising the additional capital necessary to cover its operating expenses and service its debt, for an additional six to 12 months subject to market conditions.

- We typically structure our leases to provide for amortization of principal over the life of the lease, but may include an interest-only period of three to 12 months for emerging growth and expansion-stage companies and longer for established-stage companies.

- In addition, the majority of our venture capital-backed investments generally have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for potential capital appreciation.

- The warrants typically will be immediately exercisable upon issuance and generally will remain exercisable for the lesser of five to seven years or one to three years after completion of an initial public offering.

- The exercise prices for the warrants varies from nominal exercise prices to exercise prices that are at or above the current fair market value of the equity for which we receive warrants. We may structure warrants to provide minority rights provisions or on a very select basis put rights upon the occurrence of certain events.

- We generally target a total annualized return (including interest and value of warrants) of 12% to 20% for our debt investments.

Equipment Leases

Essex Capital leases mission critical equipment to early-stage portfolio companies. Equipment-based leases are secured by a first priority security interest in only the specific assets financed. These leases are generally for amounts of up to $5.0 million (but may be larger). Rates are dependent upon the stage of the company (early, mid or late), whether the venture backed company is pre-revenue (or not), and typically have an average term of between two and four years. Equipment leases may also include end of term payments and warrants.

The equity-related securities we hold consist primarily of warrants or other equity interests generally obtained in connection with our equipment leases. We typically receive the right to make equity investments in a portfolio company in connection with that company's most recent round of equity financing.

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Investment Criteria

These criteria, while not inclusive, provide general guidelines for our investment decisions that we believe are important in achieving our investment objective with respect to prospective portfolio companies.

- Portfolio Composition
  While we generally focus our investments in venture capital and private equity-backed companies, we seek to diversify across various financial sponsors as well as across various stages of companies' development and various industry sub-sectors in the United States.

- Portfolio companies rely on venture capital or private equity investors to raise additional capital to satisfy their obligations or to raise sufficient additional capital to reach the next stage of development. Without venture capital or private equity investors, these companies may be less financially sophisticated, have less access to independent members to serve on their boards, and ultimately become less successful.

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Benefits of Venture Debt

Essex Capital partners with venture capital firms and entrepreneurial companies, working as a strategic partner to satisfy equipment needs in a less dilutive and constrictive way than traditional equity-based or bank financing options can provide.

Seeking appropriate levels of debt capital offers companies at all stages of their lifecycle a useful, low-cost way to extend their financing horizons. In the long run, trading off paying interest on loans often can be less expensive than financing your whole operation exclusively with equity funding. Debt financing can also provide a competitive advantage over your peers as well as a critical insurance policy leading into your next round of financing.

This is not to say that venture debt should entirely supplant equity capital; debt is intended to complement equity.

For Example:
Equity Capital Only:
A technology company seeks a financing round totaling $15 million, $5 million of which is to purchase equipment. The company raises the entire $15 million in equity financing from a syndicate of venture capital and private equity sponsors. As a result, the company must relinquish approximately 45% ownership—equaling a $33.33 million post-valuation.

Debt –and- Equity Capital:
The same company, with the same financing goals, raises only $10 million from venture capitalists and private equity sponsors and $5 million from Essex Capital Corporation in the form of venture debt through an equipment lease. Here, the company would surrender only 36% ownership, equaling a $28.33 million post-valuation.

By seeking an alternative, complementary source of capital beyond traditional equity financing, the company has 9% less ownership dilution and achieves a lower overall cost of capital. The savings can translate into tens of millions of dollars at an IPO or merger for management teams and investors alike.

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Why Choose Essex Capital

Essex Capital Corporation's expertise, combined with a commitment to personal service, has built our reputation as a value-added partner providing flexible, dependable and timely financing. We work closely with our clients to deliver sophisticated and customized solutions that meet their specific needs in situations where dilution and timing are a crucial factor. We have relationships with some of the country's leading venture capital and equity sponsors.

Significant Investment Experience

Essex Capital has developed deep relationships with venture capital and private equity sponsors, experienced operating executives, lawyers, accountants, executive recruiters, and industry analysts. Our relationships create a valuable networking infrastructure that benefits our clients at all stages of their business development.

Product Offerings

Essex Capital Corporation brings sophistication, flexibility and creativity to deliver customized financing solution designed to provide less dilutive terms than traditional equity based financing and without the constraints placed by bank financings.

Investment Size and Structure

We offer financing solutions designed to serve each company's specific equipment leasing needs. Our leases range from $250,000 to $5 million for business essential equipment. We structure our deals to foster long-term growth, ensure financial stability and maximize shareholder value.

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Investment Objective

Our investment objective is to generate current income from venture capital leases and capital appreciation from the warrants we receive.

- **Opportunity for Enhanced Returns**

  To enhance our loan portfolio returns, in addition to interest, we obtain warrants to purchase the equity of our portfolio companies, as additional consideration. The warrants we obtain generally include a "cashless exercise" provision to allow us to exercise these rights without requiring us to make any additional cash investment. Obtaining warrants in our portfolio companies has allowed us to participate in the equity appreciation of our portfolio companies, which we expect will enable us to generate higher returns for our investors.

- **Direct Origination**

  We originate transactions directly, as well as from direct referral from top-tier Venture Capital Firms.

Trusted name.

Essex Capital has originated over $1 billion in equipment leases since 1993. Many of these companies are backed by one or more venture capital or private equity firms, thus creating a network of Target Industry companies and equity sponsors who know of and have worked with Essex Capital. We believe that the Essex Capital brand is a competent, knowledgeable and active leader in the leasing marketplace and will continue to result in a significant number of referrals and prospective investment opportunities.

Stages of Development of Venture Capital and Private Equity-backed Companies

Below is a typical development curve for a company and the various milestones along the development curve where we believe an equipment leases may be a preferred financing solution:

- **Investment Criteria**

  We have identified several criteria that we believe have proven, and will prove, important in achieving our investment objective with respect to prospective portfolio companies. These criteria provide general guidelines for our investment decisions.

- **Portfolio Composition**

  We have made, and plan to make, investments in venture capital and private equity-backed development-stage companies.

- **Continuing Support from Venture Capital & Private Equity Investors**

  We typically invest in companies in which one or more established venture capital and private equity investors have previously invested and continue to make a contribution to the management of the business. We believe that established venture capital and private equity investors can serve as a committed partner and will assist their portfolio companies and their management teams in creating value.

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- **Company Stage of Development**

  While we invest in companies at various stages of development, we require that prospective portfolio companies be beyond the seed stage of development and have received at least their first round of venture capital or private equity financing. We expect a prospective portfolio company to demonstrate its ability to advance technology and increase its revenue and operating cash flow over time. The anticipated growth rate of a prospective portfolio company will be a key factor in determining the value that we ascribe to any warrants that we may acquire in connection with making debt investments.

- **Operating Plan**

  We generally require that a prospective portfolio company, in addition to having sufficient access to capital to support leverage, demonstrate an operating plan capable of generating cash flows or the ability to raise the additional capital necessary to cover its operating expenses and service its debt. We expect that the enterprise value of a prospective portfolio company should substantially exceed the principal balance of debt borrowed by the company.

- **Liquidation Value of Assets**

  The prospective liquidation value of the assets collateralizing our leases is an important factor in our credit analysis. We emphasize both tangible assets, such as accounts receivable, inventory, equipment and real estate, and intangible assets, such as intellectual property, networks and databases and future revenue streams. In some cases, rather than obtaining a lien on intellectual property we may receive a negative pledge covering a company's intellectual property.

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- **Terms**

  Although terms vary based on the portfolio company and other conditions, the typical repayment term is between 24 and 48 months. The amortization schedule will vary, but there is typically some form of an interest only period and, in some cases, a balloon payment at the end of the term.

- **Warrants and Equity Participation Rights**

  We generally receive warrants having terms consistent with the most recent or next round of venture capital and private equity capital financing. We do not view the upside appreciation potential of warrants as a means to mitigate risk, but rather to ensure that the compensation we receive is appropriate for the level of risk being undertaken. We also may seek to receive equity participation rights to invest in a future round of a portfolio company's equity capital financing.

- **Experienced Management of Portfolio Companies**

  We generally require that our portfolio companies have a successful and experienced management team. We also require the portfolio companies to have in place proper incentives to induce management to succeed and to act in concert with our interests as investors.

- **Exit Strategy**

  We analyze the potential for that company to increase the liquidity of its equity through a future event that would enable us to realize appreciation in the value of our warrants or other equity interests. Liquidity events typically include an IPO or a sale of the company.

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Investor FAQ’s:

- Essex Capital was founded in 1993.

- Essex Capital is headquartered in Santa Barbara, California

- Essex Capital does not have Sub-prime exposure.

- Essex Capital does not have Real Estate exposure

- Essex Capital provides equipment-leasing options to companies in all stages of the company lifecycle including early and emerging companies with existing venture capital as well as publicly traded companies.

- Essex Capital’s equipment financing, in addition to traditional venture capital or private equity funds minimizes dilution and lowers the cost of capital, particularly for those companies that have not yet achieved positive cash flow. For publicly traded companies, Essex Capital provides similar types of credit facilities when access to public capital is lacking or if companies are sensitive to equity ownership dilution from private investment in public equity.

- Venture debt, also known as structured senior debt with warrants, is growth capital obtained through a loan by a company and is typically used for operating expenses. Venture leasing, or equipment financing, is a specific type of venture debt which is used to purchase equipment, land and other tangible assets. Most often, venture debt is used by companies currently backed by venture capital or private equity funds. Essex Capital, on the other hand, provides venture debt to companies throughout the company lifecycle, financing early-stage startups, emerging growth companies, later-stage, and publicly traded companies, all of which are in need of additional capital without sacrificing company valuation.

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- Venture debt is designed to complement traditional venture capital funding, which allows those companies to achieve superior performance, minimize dilution for shareholders and increase the potential to gain "first-to-market advantage" over competitors. Venture debt can provide the additional capital needed to reach important product-development milestones or enter the next equity fundraising event with a higher valuation.

- Essex Capital assists companies throughout their entire life cycle, specializing in providing venture debt to companies backed by leading Venture Capital and Private Equity firms.

- Essex Capital offers equipment specific venture leasing for business essential equipment, from $250,000 to $5 million.