

VALUING EARLY STAGE TECHNOLOGY AND LIFE SCIENCE COMPANIES

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Early stage high technology and life science companies inherently require sophisticated and unique approaches for determining their value. Cogent Valuation ("Cogent") are experts in valuing the intellectual assets and R&D components of early stage companies which often have some of the following characteristics: ongoing losses, no commercializable product, little or no revenues, labor-intensive R&D work as a primary function, and an inability to obtain loans. Cogent's Early Stage Technology Company Valuation Paradigm specifically addresses and overcomes the limitations of more traditional valuation approaches to:

- Render Fairness Opinions
- Determine Exchange Ratios for M&A and Equity Allocation Purposes
- Assess Relative Value of Entities for Acquisition Purposes
- Design and Value Securities for Financings and Corporate Finance
- Price Stock Options for Newly Formed and Established Companies
- Value Stock for Estate and Gift Tax Planning Purposes

This industry specific valuation paradigm requires the interpretation of correlations arising between the market capitalization of equity and book value, total invested capital, expected long-term cash flows, and product development phase. Each valuation requires extensive research on the industry, M&A activity, IPOs, secondary offerings, security analyst reports, press releases, business news, SEC filings and prospectuses of comparable companies. Armed with this market data, Cogent applies some combination of the following four valuation approaches to client companies:

- Market Capitalization Ratios
- Modified Discounted Cash Flow
- Development Phase
- Analysis of Private Equity/Venture Financings.

First, Cogent does not experience the conflicts that may arise from providing financing or auditing services. Second, Cogent can render the transactional fairness opinion as well as the corporate and technology valuation in one step. Third, because Cogent is comprised of seasoned valuation specialists, we can render and support our expert opinion on even the most esoteric structures to effect corporate finance transactions. For these reasons, Cogent's expertise can be critical to evolving ventures in drug design, medical diagnostic products, Internet technology, multimedia content and other software applications. Following is a description of certain transactions to which Cogent has lent its expertise:

Company specializes in the development of interactive multimedia applications for the fine arts industry. The transaction involved the merger of two companies that were comprised of virtually the same shareholders where value contributed from both entities had to be ascertained by:

- valuation and determination of exchange ratios for several classes of stock;
- equity allocation analysis to determine relative value of entities post-merger
- pricing of stock options for newly combined company;
- rendering of a fairness opinion on the transaction to the Board of Directors.

Company is engaged in developing novel diagnostic products for the clinical testing industry. Engagement involved technologies held within a business unit to be spun out to a shareholder as a portion of his consideration for a firm wide buyout. The divestiture analysis included the following:

- allocation of equity between disparate parties;
- valuation of pre-market diagnostic technologies.

Company develops drug compounds for use by biotechnology companies engaged in the pursuit of developing therapeutic drugs. The investor, a major industrial manufacturer, required:

- sensitivity analysis for future rounds of financing
- equity allocation among classes and series of stock and the pricing of options.

Company is engaged in the development of dermatologic drugs and transdermal delivery systems. After completing a bridge financing that included the issuance of two distinct types of warrant to the new investors, management required:

- corporate valuation giving consideration to an impending IPO;
- pricing of warrants for original issue discount tax considerations.