

April 25, 2016

**Great Basin Scientific (Nasdaq/GBSN)**
**Robert M. Wasserman**

Director of Research

561-208-2905

rwasserman@dawsonjames.com

**Neutral Customer acquisition pace picking up**
*Great Basin makes and markets molecular diagnostic instruments and assays*
**Investment Highlights**

1) **Great Basin recently announced several financial and operational results for their Q1/2016 quarter (ending March)**, including revenues of \$731,000, an increase of 59% year-over-year, and customer count of 222, up 36 from the start of the year. While complete financial results are expected to be released next month, we believe that Great Basin's higher revenues in the first quarter were driven by additional customers for the original assay for C. Diff as well as adoption for the new test, Group B Strep, which was introduced mid-year 2015, and was active in 70 accounts (about 35% of total) on average in the first quarter. Company management also outlined milestones for this year and next, including anticipated launches of its third and fourth diagnostics tests, for Shiga Toxin (*e. coli*) in May of 2016 and Staph ID/R blood culture, the Company's first multiplex panel which is expected to be introduced in June 2016. Great Basin also drew on its recent positive experience with customer acquisition rates to project between 300-325 accounts open by the end of 2016 and 500-550 in the fold by the end of next year. Finally, the Company commented on its stepped-up R&D programs, outlining a product pipeline featuring three new diagnostic assays set to begin clinical trials this year with anticipated clearance and introduction by late-2016 or early 2017, (Group A Strep, Pertussis, and multiplex Foodborne pathogens), and two more (Candida blood infections, *Staph Aureus* pre-surgical screen) also set for the start of clinical trials in 2017 but with regulatory OK not expected until later next year.

2) **Following financial results for Q4/2015 and recent guidance for Q1/2016, we are adjusting our estimates for 2016E and 2017E for Great Basin.** In 2015, the Company posted revenues of \$2.1 million and an operating loss of \$22.4 million, including approximately \$19.7 million in operating expenses. We are estimating that Great Basin will record \$9.75 million in revenues in 2016E, with a net loss of \$21.3 million or (\$5.68) per share, including cost of sales of \$8.0 million and operating expenses (R&D, sales and marketing, and general and

**Current Price \$3.38**
**Price Target N/A**

Estimates	F2014A	F2015E	F2016E
Revenues(\$000s)	\$1,606	\$2,142 E	\$9,750 E
1Q March	349	459 A	731 A
2Q June	402	526 A	
3Q September		546 A	
4Q December		612 A	
Prev. Rev. Estimate (\$000s)		\$2,353	\$16,931

**EPS (diluted) (\$377.63) A (\$5.68) E**

1Q March			
2Q June			
3Q September			
4Q December			
Previous EPS Estimate			
P/E (x)	N/A	N/A	N/A

EBITDA/Share	(\$513.95)	(\$18.43)	(\$5.24)
EV/EBITDA (x)	N/A	N/A	N/A

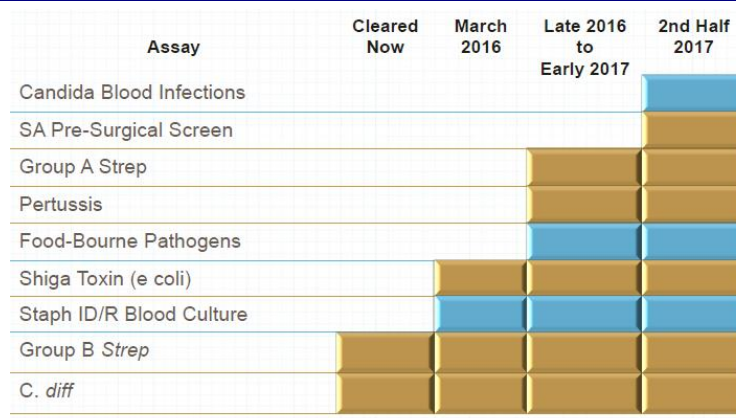
Stock Data	
52-Week Range (Since split)	\$3.03-\$7.85
Shares Outstanding (mil.)	3.3
Market Capitalization (mil.)	\$11.2
Enterprise Value (mil.)	\$10.7
Debt to Capital (12/15)	N/A
Book Value/Share (12/15)	N/A
Price/Book	N/A
Average Trading Volume (3-month)	1,080,000
Insider Ownership	4.1%
Institutional Ownership	0.4%
Short interest	219,500
Dividend / Yield	\$0.00/0.0%


**Price target and ratings changes over the past 3 yrs:**

Initiated - May 26, 2015 - Buy - Price Target \$10

Updated - December 26, 2015 - Rating lowered to Neutral

administrative) of \$23 million. Our revenue estimates are based primarily on contributions from currently marketed assays for *C. diff* and Group B strep, while recently cleared tests for Shiga Toxin and Staph ID/R panel are expected to have somewhat lesser impact this year. For 2017E, we are estimating that a full product portfolio of diagnostic assays (see product pipeline chart to the right – *Source: Great Basin Scientific*) will help bring revenues up to \$25 million, and combined with improved gross margins forecast at 52% and lower operating expenses of \$22.0 million as fewer resources are needed for R&D, will help lower net losses next year to \$9.2 million. Our estimates assume year-end customer placements of 300 for 2016E and 500 for 2017E. Operating cash burn for this year is expected to be within the range of current cash and restricted cash on hand, although additional fundraising efforts may be required next year unless the Company approaches break-even results sooner than expected.



**3) Positive catalysts for this year for Great Basin investors are expected to center around the Company’s diagnostic assays product pipeline**, specifically completing necessary clinical trials, filing FDA marketing approval, final approval for the new test, and ultimately launching the new products into the marketplace. Customer acquisitions counts, particularly if greater-than-anticipated, may also provide positive catalysts for Great Basin.

### Conclusion/Stock Valuation

Great Basin shares have held steady this month following a recent reverse stock split at the end of March, responding to favorable developments in the areas of product approvals, customer acquisition, balance sheet enhancement, and improved capital structure. Further down the road, we believe both growth- and value-oriented investors can find Great Basin shares attractive due to a much-bolstered balance sheet, a growing customer base in its target small- to medium-sized hospital market, two new diagnostic assays soon ready to launch and as many as five more potentially cleared and ready to launch by 2017. However, we are maintaining our Neutral rating on GBSN shares for the time being until share trading volatility is reduced to some degree.

### Catalysts/Investor Timeline

- 1) Q1/2016 (March) quarterly earnings announcement – May 2016
- 2) New Product Marketing launches – Staph ID/R (June 2016) and Shiga Toxin (*e. Coli*) (May 2016)
- 3) New Product 510(k) applications submitted to FDA – Group A Strep, Pertussis, *Staph Aureus* Pre-Surgical Screening, Candida blood infections and Foodborne pathogens diagnostic assays – H2/2016 through H1/2017
- 4) Upcoming Medical and Investment Conferences – Ongoing 2016-2017
- 5) Additional clinical trials initiated – 5-6 diagnostic assays - 2017

## Risk Factors

**In addition to normal economic and market risk factors that impact most equities and the common risks shared by Great Basin with other companies in the industry, we believe an investment in GBSN involves the following risks:**

- **FDA and regulatory risks** – Great Basin is subject to regulatory review for its ongoing research and development activities, as well as manufacturing facilities, principally with the US Food and Drug Administration but also potentially with other international regulatory agencies as well.
- **Need to defend patents, trade secrets and other intellectual property** – At present, GBSN holds certain intellectual property related to its molecular diagnostic tests and analyzer system. The Company may need to defend its intellectual property in the US and overseas in the future, particularly as its medical device and related diagnostic tests become commercially successful.
- **Need to raise additional capital** - Currently, GBSN has enough cash on hand to fund ongoing research and development programs and product commercialization activities through late 2016, approximately. However, the Company does not have a history of profitable operations and unforeseen events including potential delays in product sales, clinical programs and regulatory approvals could require GBSN to raise additional capital through the sale of equity within a shorter time-frame, therefore potentially diluting current shareholders. In addition, at present the Company has a large number of warrants which may be exercised in the future, which could dilute current shareholders to a large degree.
- **Limited stock liquidity** – Trading volume in GBSN shares has been relatively heavy in recent weeks, however future events could lead to reduced trading volume for these shares, and as such, news regarding GBSN, its target market, partners and/or competitors could lead to significant volatility in the stock price.
- **Competitive Markets** – The Company competes in its target medical device markets with a number of other manufacturers, some of which represent much larger companies. There can be no assurance that the Company will be able to successfully launch new tests into these competitive markets in the future.

**Great Basin Scientific, Inc.**  
**Consolidated Statements of Operations**

Robert M. Wasserman

FYE December	2013	2014	Q1/2015A	Q2/2015A	Q3/2015A	Q4/2015A	2015A	2016E	2017E
Revenue	\$760,646	\$1,606,254	\$458,730	\$525,506	\$545,934	\$611,870	\$2,142,040	\$9,750,000	\$25,000,000
Cost of sales	<u>2,185,992</u>	<u>3,968,185</u>	<u>966,593</u>	<u>1,299,948</u>	<u>1,102,727</u>	<u>1,444,147</u>	<u>4,813,415</u>	<u>8,000,000</u>	<u>12,000,000</u>
Gross profit (loss)	(1,425,346)	(2,361,931)	(507,863)	(774,442)	(556,793)	(832,277)	(2,671,375)	1,750,000	13,000,000
Operating Expenses:									
Research and development	3,345,693	4,609,913	1,503,558	1,902,296	2,878,316	2,201,498	8,485,668	8,000,000	6,000,000
Sales and marketing	2,618,901	2,301,610	806,118	919,699	1,481,140	1,800,363	5,007,320	7,000,000	7,500,000
General and administrative	1,866,875	2,928,186	1,060,652	1,276,555	1,795,766	2,108,460	6,241,433	8,000,000	8,500,000
Other one-time	<u>22,768</u>	<u>(8,166)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total operating expenses	<u>7,854,237</u>	<u>9,831,543</u>	<u>3,370,328</u>	<u>4,098,550</u>	<u>6,155,222</u>	<u>6,110,321</u>	<u>19,734,421</u>	<u>23,000,000</u>	<u>22,000,000</u>
Operating income (loss)	(9,279,583)	(12,193,474)	(3,878,191)	(4,872,992)	(6,712,015)	(6,942,598)	(22,405,796)	(21,250,000)	(9,000,000)
Other income (expense), net									
Interest expense	(284,323)	(1,136,054)	(305,582)	(309,785)	(253,220)	(10,888,858)	(11,757,445)	(250,000)	(350,000)
Interest income	3,876	3,176	4,297	9,035	4,746	115	18,193	200,000	150,000
Other income (expense)	<u>0</u>	<u>(8,396,169)</u>	<u>(66,994,149)</u>	<u>24,335,676</u>	<u>20,016,848</u>	<u>(1,111,246)</u>	<u>(23,752,871)</u>	<u>0</u>	<u>0</u>
Income (loss) before tax	(9,560,030)	(21,722,521)	(71,173,625)	19,161,934	13,056,359	(18,942,587)	(57,897,919)	(21,300,000)	(9,200,000)
Income tax expense (benefit)	<u>1,250</u>	<u>5,297</u>	<u>1,250</u>						
Net income (loss)	(9,561,280)	(21,727,818)	(71,173,625)	19,160,684	13,056,359	(18,942,587)	(57,897,919)	(21,300,000)	(9,200,000)
Cumulative preferred stock dividends	<u>(2,533,470)</u>	<u>(2,533,470)</u>					<u>(1,250)</u>		
Net loss to common stockholders	<u>(12,094,750)</u>	<u>(24,261,288)</u>	<u>(71,173,625)</u>	<u>19,160,684</u>	<u>13,056,359</u>	<u>(18,942,587)</u>	<u>(57,899,169)</u>	<u>(21,300,000)</u>	<u>(9,200,000)</u>
Net loss per share - basic	<u>(\$3,664.76)</u>	<u>(\$1,160.61)</u>	<u>(\$489.70)</u>	<u>\$105.05</u>	<u>\$12.17</u>	<u>(\$5.15)</u>	<u>(\$377.63)</u>	<u>(\$5.68)</u>	<u>(\$1.60)</u>
Net loss per share - diluted	<u>(\$3,664.76)</u>	<u>(\$1,160.61)</u>	<u>(\$489.70)</u>	<u>\$24.97</u>	<u>\$10.12</u>	<u>(\$5.15)</u>	<u>(\$459.77)</u>	<u>(\$5.68)</u>	<u>(\$1.60)</u>
Shares outstanding - basic	3,300	20,904	145,340	182,389	1,072,653	3,675,169	1,131,502	3,750,000	5,750,000
Shares outstanding - diluted	3,300	20,904	145,340	767,405	1,289,597	3,675,169	1,131,502	3,750,000	5,750,000
Key ratios:									
Revenue growth	N/A	111.2%	31.4%	30.6%	33.4%	37.4%	33.4%	355.2%	156.4%
Gross margins	-187.4%	-147.0%	-110.7%	-147.4%	-102.0%	-136.0%	-124.7%	17.9%	52.0%
R&D/revenues	439.8%	287.0%	327.8%	362.0%	527.2%	359.8%	396.1%	82.1%	24.0%
Sales & marketing/revenues	344.3%	143.3%	175.7%	175.0%	271.3%	294.2%	233.8%	71.8%	30.0%
General & admin/revenues	245.4%	182.3%	231.2%	242.9%	328.9%	344.6%	291.4%	82.1%	34.0%
Depr, amort & stock-based comp.	\$966,041	\$1,455,220	\$358,313	\$384,000	\$400,000	\$410,000	\$1,552,313	\$1,600,000	\$1,800,000
Tax Rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cash Flow/share	(\$2,604.39)	(\$568.14)	(\$26.29)	(\$26.27)	(\$6.12)	(\$4.74)	(\$28.80)	(\$5.25)	(\$1.29)
EBITDA/share	(\$2,519.42)	(\$513.95)	(\$24.22)	(\$24.62)	(\$5.88)	(\$1.78)	(\$18.43)	(\$5.24)	(\$1.25)

**Balance Sheets**

	12/31/14	12/31/15
<i>Assets:</i>		
Cash	\$2,017,823	\$4,787,759
Restricted Cash		13,800,000
Accounts receivable	267,485	411,390
Inventory	457,094	1,133,142
Prepaid expenses & other	<u>376,778</u>	<u>564,910</u>
Total current	\$3,119,180	\$20,697,201
Property and equipment, net	4,237,467	7,741,991
Intangible assets and other	<u>216,580</u>	<u>119,171</u>
TOTAL ASSETS	7,573,227	28,558,363
<i>Liabilities:</i>		
Accounts payable	\$1,369,169	\$2,432,459
Accrued expenses	612,359	1,313,149
Current portion of notes payable	49,994	5,693
Notes payable - related party	441,667	2,138,717
Current portion of capital lease obligations	<u>947,422</u>	<u>1,305,426</u>
Total current	3,420,611	7,195,444
Notes payable, net of current portion	5,693	525,000
Capital lease obligations, net of current	2,156,837	851,410
Derivative liability	<u>9,998,636</u>	<u>43,181,472</u>
Total liabilities	15,581,777	51,753,326
Stockholders' equity (deficit)	<u>(8,008,550)</u>	<u>(23,194,963)</u>
TOTAL LIAB & EQ	\$7,573,227	\$28,558,363

**Net sales by test (\$000s)**

	2014A	2015E	2016E	2017E
Customer placements - Year-en	84	186	300	500
C. difficile	\$1,606	\$2,000	\$4,500	\$9,000
Group B strep	0	142	2,500	5,000
Shiga Toxin (e. coli)	0	0	1,000	2,500
Staph ID/R Blood Culture	0	0	1,000	4,000
Pertussis	0	0	250	1,000
Group A strep	0	0	250	1,000
Foodborne pathogens	0	0	250	1,500
SA Pre-Surgical screen	0	0	0	500
Candida blood infections	0	0	0	500
Total revenues	\$1,606	\$2,142	\$9,750	\$25,000

\* Assumes Group B strep product launch Q2/2015, Shiga Toxin and Staph ID/R launch Q2/2016 launches for Foodborne pathogens, Group A Strep and Pertussis late 2016 or early 2017, and launches for Candida Blood infections and SA Pre-surgical screen in H2/2017

Source: Dawson James Securities, Inc. estimates; Company documents

**Important Disclosures:**

**Price Chart:**



Price target and ratings changes over the past 3 years:

Initiated – May 26, 2015 – Price Target \$10  
 Updated – December 26, 2015 – Rating lowered to Neutral

Dawson James Securities, Inc. (the “Firm”) is a member of the Financial Industry Regulatory Authority (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”).

The Firm does not make a market in the securities of the profiled company. The Firm has received investment banking compensation from this company (GBSN) in the past and may seek compensation for investment banking services in the future. The Firm has not received any other compensation from the profiled company in the last 12 months.

Neither the research analyst(s) whose name appears on this report nor any member of his (their) household is an officer, director or advisory board member of these companies. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future. As of March 31, 2016, the Firm as a whole, however, did not beneficially own 1% or more of any class of common equity securities of the subject company.

The Firm, its officers, directors, analysts or employees may effect transactions in and have long or short positions in the securities (or options or warrants related to those securities) of the companies subject to this report. The Firm may effect transactions as principal or agent in those securities.

Analysts receive no direct compensation in connection with the Firm's investment banking business. All Firm employees, including the analyst(s) responsible for preparing this report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of the Firm and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

Although the statements in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice.

**Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISK FACTORS” sections of this report.**

The securities of the company discussed in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.

**Ratings Definitions:**

- 1) **Buy:** the analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** the analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	16	67%	10	63%
Market Perform (Neutral)	8	33%	6	75%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>24</b>	<b>100%</b>	<b>16</b>	<b>67%</b>

**Analyst Certification:**

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.