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Zacks Small-Cap Research

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CombiMatrix Cp (CBMX-NASDAQ)

CBMX: Strathman Litigation Risk Now a Non-Issue

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	07/07/2014
Current Price (04/28/15)	$1.88
Target Price	**$3.50**

OUTLOOK

Molecular diagnostics company CBMX has offered a variety of genetic tests for various indications but just recently shifted the majority of its focus for growth on chromosomal microarray analysis (CMA) in the prenatal setting. A relatively novel genetic testing method, CMA has gained more attention due to two recent NEJM-published studies and a recommendation from an influential trade association supporting its use in prenatal analysis. CBMX is positioning itself to exploit an industry shift away from the current standard testing method towards CMA by expanding distribution, entering into key partnerships and leveraging competitive advantages. Early indications are that this plan is already bearing fruit.

SUMMARY DATA

52-Week High	**$2.88**
52-Week Low	**$1.09**
One-Year Return (%)	**-32.37**
Beta	**0.12**
Average Daily Volume (sh)	**90,587**
Shares Outstanding (mil)	**13**
Market Capitalization ($mil)	**$24**
Short Interest Ratio (days)	**1.55**
Institutional Ownership (%)	**12**
Insider Ownership (%)	**2**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**15.5**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Blend**
Industry	**Instru-Scientfc**

ZACKS ESTIMATES

Revenue
(in 000s of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	1,822 A	1,941 A	2,062 A	2,217 A	8,042 A
2015	2,430 E	2,497 E	2,807 E	3,171 E	10,905 E
2016					16,331 E
2017					22,135 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.18 A	-$0.23 A	-$0.23 A	-$0.15 A	-$0.79 A
2015	-$0.14 E	-$0.14 E	-$0.14 E	-$0.12 E	-$0.54 E
2016					-$0.23 E
2017					-$0.17 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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WHAT'S NEW….

Strathman Will Not Pursue Further Litigation
This morning (4/28/15) CombiMatrix announced that they and Michael Strathman, the plaintiff (and former employee of CBMX) in the lawsuit against the company, have consummated a settlement agreement. In return for CBMX agreeing to not pursue reimbursement of legal costs, Strathman has relinquished his rights to continue the litigation. This includes any potential appeals to the final decision by the Superior Court of California, which was issued in early March in favor of CBMX, as well as retraction of plaintiff's motion to vacate that judgment.

As a reminder, Strathman filed the lawsuit in early 2011, claiming CombiMatrix filed false insurance claims related to a prior lawsuit. The lawsuit was dismissed by the court later in 2011. An appeals court reversed this decision in late 2012 and the case was then remanded to the Superior Court of California.

Strathman filed an amended complaint and, following an unsuccessful motion by CBMX for the court to rule in their favor without a trial, on January 6, 2015 the Superior Court issued a tentative ruling in favor of CombiMatrix and against all claims of Michael Strathman. The court specifically determined that the defendants had no fraudulent intent. Plaintiff subsequently filed an objection to the ruling.

Then on March 12th CombiMatrix announced that the Superior Court of California had issued a final decision in favor of CombiMatrix (and the two other defendants named in the lawsuit) and against Strathman. This was the third ruling in CBMX's favor.

The lawsuit has hung over CombiMatrix like a dark cloud given the ambiguity of potential damages if the company came out on the losing end. Court documents suggested that damages could be as much as $75 million. As we noted following the Court's decisions in CBMX's favor in January and March, we felt perceived risks related to this lawsuit were overblown and were a significant headwind to appreciation of the share price towards what we believe is fair value, approximately $3.50. This morning's news of the settlement now means any risk related to this litigation is now a non-issue.

We are maintaining our Buy recommendation and $3.50 per share price target.

FINANCIAL MODEL

CombiMatrix Corporation

	2014 A	Q1E	Q2E	Q3E	Q4E	2015 E	2016 E	2017 E	2018 E
Prenatal microarrays	$5,072	$1,589	$1,748	$2,112	$2,442	$7,891	$13,759	$19,541	$27,130
YOY Growth	*42.8%*	*41.6%*	*43.2%*	*60.9%*	*72.5%*	*55.59%*	*74.36%*	*42.02%*	*38.84%*
All microarrays	$7,318	$2,246	$2,313	$2,619	$2,995	$10,173	$15,871	$21,675	$29,264
YOY Growth	*26.1%*	*31.0%*	*29.2%*	*42.6%*	*51.5%*	*39.02%*	*56.00%*	*36.57%*	*35.01%*
Non-microarrays	$575	$144	$144	$147	$136	$572	$300	$300	$300
YOY Growth	*42.6%*	*89.4%*	*24.4%*	*-15.4%*	*-34.9%*	*-0.61%*	*-47.51%*	*0.00%*	*0.00%*
Total	**$7,893**	**$2,390**	**$2,457**	**$2,767**	**$3,131**	**$10,745**	**$16,171**	**$21,975**	**$29,564**
YOY Growth	*27.2%*	*33.5%*	*28.9%*	*37.6%*	*43.2%*	*36.13%*	*50.50%*	*35.89%*	*34.54%*
Diagnostic Svcs	$7,893.0	$2,390.1	$2,457.2	$2,766.6	$3,131.1	$10,745.0	$16,171.1	$21,974.8	$29,564.2
YOY Growth	*27.2%*	*33.5%*	*28.9%*	*37.6%*	*43.2%*	*36.13%*	*50.50%*	*35.89%*	*34.54%*
Royalties	$149.0	$40.0	$40.0	$40.0	$40.0	$160.0	$160.0	$160.0	$160.0
YOY Growth	*-8.6%*	*25.0%*	*14.3%*	*-21.6%*	*29.0%*	*7.38%*	*0.0%*	*0.0%*	*0.0%*
Total Revenues	$8,042.0	$2,430.1	$2,497.2	$2,806.6	$3,171.1	$10,905.0	$16,331.1	$22,134.8	$29,724.2
YOY Growth	*26.3%*	*33.4%*	*28.7%*	*36.1%*	*43.0%*	*35.6%*	*49.8%*	*35.5%*	*34.3%*
Cost of Services	$4,432.0	$1,362.4	$1,412.9	$1,604.6	$1,775.3	$6,155.2	$8,619.2	$11,185.2	$14,368.2
Gross Income	$3,610.0	$1,067.7	$1,084.3	$1,202.0	$1,395.8	$4,749.8	$7,711.9	$10,949.6	$15,356.0
Services Margin	*43.8%*	*43.0%*	*42.5%*	*42.0%*	*43.3%*	*43.6%*	*46.7%*	*49.1%*	*51.4%*
R&D	$725.0	$194.0	$201.0	$194.0	$187.0	$776.0	$918.0	$971.0	$888.0
% R&D	*9.0%*	*8.0%*	*8.0%*	*6.9%*	*5.9%*	*7.1%*	*5.6%*	*4.4%*	*3.0%*
SG&A	$11,525.0	$2,520.0	$2,710.0	$2,756.0	$2,767.0	$10,737.0	$12,476.9	$14,299.1	$16,794.2
% SG&A	*143.3%*	*103.7%*	*108.5%*	*98.2%*	*87.3%*	*98.5%*	*76.4%*	*64.6%*	*56.5%*
Patent amort. & royalties	$114.0	$26.0	$26.0	$26.0	$26.0	$104.0	$120.0	$110.0	$110.0
Goodwill impairment	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($8,754.0)	($1,612.3)	($1,792.7)	($1,716.0)	($1,746.2)	($6,867.2)	($5,803.0)	($4,430.5)	($2,436.2)
Operating Margin	*-108.9%*	*-66.3%*	*-71.8%*	*-61.1%*	*-55.1%*	*-63.0%*	*-35.5%*	*-20.0%*	*-8.2%*
Total Other income	$47.0	($25.0)	($10.0)	($15.0)	($20.0)	($70.0)	($150.0)	($175.0)	($150.0)
Pre-Tax Income	($8,707.0)	($1,637.3)	($1,802.7)	($1,731.0)	($1,766.2)	($6,937.2)	($5,953.0)	($4,605.5)	($2,586.2)
Taxes	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Preferred Dividends	$0	$0	$0	$33	$0	$33	$0	$0	$0
Net Income	($8,707.0)	($1,637.3)	($1,802.7)	($1,764.0)	($1,766.2)	($6,970.2)	($5,953.0)	($4,605.5)	($2,586.2)
YOY Growth	*-28.7%*	*-18.0%*	*-30.1%*	*-29.9%*	*9.2%*	*-19.9%*	*-14.6%*	*-22.6%*	*-43.8%*
Net Margin	*-108.3%*	*-67.4%*	*-72.2%*	*-62.9%*	*-55.7%*	*-63.9%*	*-36.5%*	*-20.8%*	
EPS	($0.79)	($0.14)	($0.14)	($0.14)	($0.12)	($0.54)	($0.32)	($0.17)	($0.09)
YOY Growth	*-74.5%*	*-24.2%*	*-39.1%*	*-38.9%*	*-17.8%*	*-32.0%*	*-40.8%*	*-47.2%*	*-43.8%*
Diluted Shares O/S	11,029	11,830	12,700	12,700	14,700	12,983	18,742	27,446	27,446

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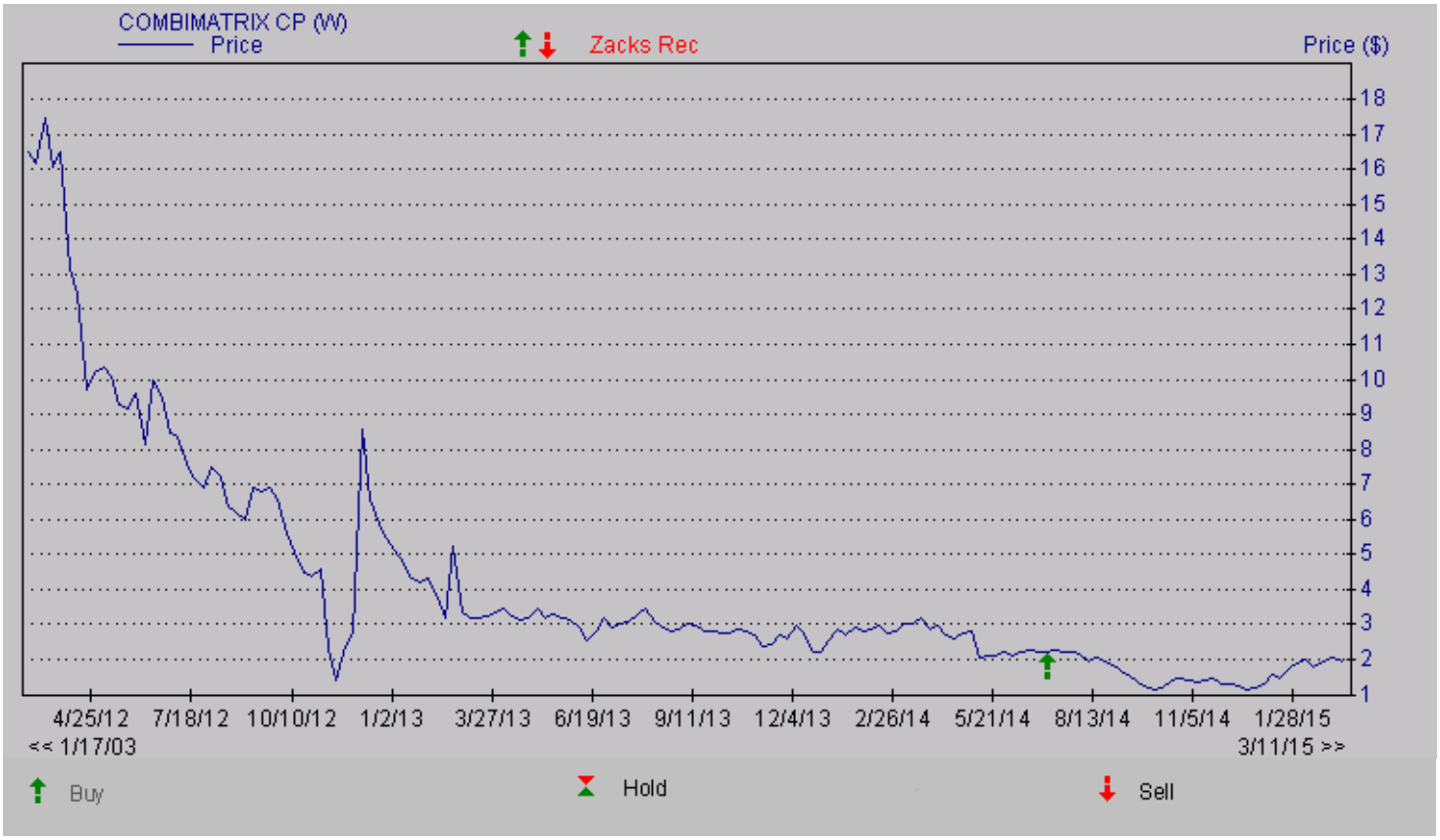

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