

TRANSGENOMIC INC
Form 10-Q
August 12, 2011
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2011

Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 000-30975

TRANSGENOMIC, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

911789357

(I.R.S. Employer
Identification No.)

12325 Emmet Street, Omaha, Nebraska

(Address of principal executive offices)

(402) 452-5400

(Registrant's telephone number, including area code)

68164

(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).) Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer

☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller Reporting Company

☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

As of August 12, 2011, the number of shares of common stock outstanding was 49,319,672.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TRANSGENOMIC, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share data)

	June 30, 2011 (unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$2,639	\$3,454
Accounts receivable (net of allowances for bad debts of \$1,387 and \$334, respectively)	7,194	7,601
Inventories (net of allowances for obsolescence of \$520 and \$518, respectively)	3,309	3,344
Other current assets	860	635
Total current assets	14,002	15,034
PROPERTY AND EQUIPMENT:		
Equipment	10,118	9,820
Furniture, fixtures & leasehold improvements	3,723	3,479
	13,841	13,299
Less: accumulated depreciation	(12,070)	(11,697)
	1,771	1,602
OTHER ASSETS:		
Goodwill	6,275	6,275
Intangibles (net of accumulated amortization of \$843 and \$519, respectively)	8,522	8,962
Other assets	130	154
	\$30,700	\$32,027
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$1,400	\$1,360
Accrued compensation	1,006	875
Short term debt and current maturities of long term debt	1,728	989
Accrued liabilities	3,681	3,231
Contractual obligation	1,573	1,628
Current portion of lease obligations	217	170
Preferred stock dividend payable	300	—
Total current liabilities	9,905	8,253
LONG TERM LIABILITIES:		
Long term debt less current maturities	7,406	8,640
Preferred stock conversion feature	7,600	1,983
Preferred stock warrant liability	3,000	2,351
Other long-term liabilities	1,008	843
Total liabilities	28,919	22,070
Redeemable Series A convertible preferred stock, \$.01 par value, 3,879,307 shares authorized, 2,586,205 shares issued and outstanding	1,670	1,457
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value, 15,000,000 shares authorized, 2,586,205 shares issued and outstanding	—	—
	498	498

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Common stock, \$.01 par value, 100,000,000 shares authorized, 49,299,672 and 49,289,672 shares issued and outstanding, respectively

Additional paid-in capital	140,502	139,730
Accumulated other comprehensive income	1,731	1,589
Accumulated deficit	(142,620)	) (133,317)
Total stockholders' equity	111	8,500
	\$30,700	\$32,027

See notes to unaudited condensed consolidated financial statements.

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TRANSGENOMIC, INC. AND SUBSIDIARY

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
NET SALES	\$7,667	\$5,095	\$15,148	\$10,537
COST OF GOODS SOLD	3,112	2,608	6,406	5,166
Gross profit	4,555	2,487	8,742	5,371
OPERATING EXPENSES:				
Selling, general and administrative	5,589	3,033	9,946	5,464
Research and development	579	512	1,135	1,339
Restructuring Charges	11	—	35	—
	6,179	3,545	11,116	6,803
LOSS FROM OPERATIONS	(1,624	) (1,058	) (2,374	) (1,432
OTHER INCOME (EXPENSE):				
Interest income (expense), net	(240	) 1	(478	) 1
Expense on preferred stock	(4,239	) —	(6,266) —
Other, net	1	—	232	—
	(4,478	) 1	(6,512	) 1
LOSS BEFORE INCOME TAXES	(6,102	) (1,057	) (8,886	) (1,431
INCOME TAX EXPENSE (BENEFIT)	(104	) 89	(110	) 38
NET LOSS	\$(5,998	) \$(1,146	) \$(8,776	) \$(1,469
PREFERRED STOCK DIVIDENDS AND ACCRETION	(267	) —	(527) —
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$(6,265	) \$(1,146	) \$(9,303	) \$(1,469
BASIC AND DILUTED LOSS PER COMMON SHARE	\$(0.13	) \$(0.02	) \$(0.19	) \$(0.03
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING	49,299,672	49,206,339	49,296,339	49,198,005

See notes to unaudited condensed consolidated financial statements.

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TRANSGENOMIC, INC. AND SUBSIDIARY

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Six Months Ended June 30, 2011

(Dollars in thousands except per share data)

	Common Stock				Accumulated	
	Outstanding	Par	Additional	Accumulated	Other	Total
	Shares	Value	Paid-in	Deficit	Comprehensive	
			Capital		Income (Loss)	
Balance, January 1, 2011	49,289,672	\$498	\$139,730	\$(133,317)	\$ 1,589	\$8,500
Net loss	—	—	—	(8,776)	(8,776)	(8,776)
Other comprehensive income (loss):						
Foreign currency translation adjustment, net of tax	—	—	—	—	142	142
Comprehensive loss					(8,634)	
Non-cash stock-based compensation	—	—	765	—	—	765
Issuance of shares for employee stock options	10,000	—	7	—	—	7
Preferred stock accretion	—	—	—	(227)		(227)
Dividends on preferred stock	—	—	—	(300)	—	(300)
Balance, June 30, 2011	49,299,672	498	140,502	(142,620)	\$ 1,731	\$111

See notes to unaudited condensed consolidated financial statements.

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TRANSGENOMIC, INC. AND SUBSIDIARY

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Six Months Ended June 30,	
	2011	2010
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net loss	\$(8,776	) \$(1,469
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	992	378
Non-cash, stock based compensation	765	(50
Provision for losses on doubtful accounts	1,227	2
Provision for losses on inventory obsolescence	48	67
Preferred stock revaluation	6,266	—
Changes in operating assets and liabilities:		
Accounts receivable	(769	) 565
Inventories	2	62
Prepaid expenses and other current assets	215	147
Accounts payable	(196	) (99
Accrued liabilities	276	404
Other long term liabilities	24	(47
Long term deferred income taxes	13	13
Net cash flows provided by (used in) operating activities	87	(27
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of property and equipment	(216	) (108
Change in other assets	(139	) (18
Net cash flows used in investing activities	(355	) (126
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(156) —
Issuance of common stock	7	42
Principal payment on note payable	(495) —
Net cash flows provided by (used in) financing activities	(644	) 42
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH	97	(115
NET CHANGE IN CASH AND CASH EQUIVALENTS	(815	) (226
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,454	5,642
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$2,639	\$5,416
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$480	\$—
Income taxes, net	13	2
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Acquisition of equipment through capital leases	\$390	\$—
Dividends payable on preferred stock	300	—
See notes to unaudited condensed consolidated financial statements.		

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TRANSGENOMIC, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended June 30, 2011 and 2010

A. BUSINESS DESCRIPTION

Business Description.

Transgenomic, Inc. is a global biotechnology company specializing in high sensitivity genetic variation and mutation analysis, providing products and services in DNA mutation detection and discovery for clinical research, clinical molecular diagnostics and pharmacogenomics analyses.

Laboratory Services:

Molecular Clinical Reference Laboratory. The molecular clinical reference laboratory specializes in genetic testing for oncology, hematology and inherited disorders. Located in New Haven, Connecticut and Omaha, Nebraska the molecular clinical reference laboratories are certified under the Clinical Laboratory Improvement Amendment (CLIA) as high complexity labs and our Omaha facility is accredited by CAP (College of American Pathologists).

Pharmacogenomics Research Services. Pharmacogenomics research services are provided by our Contract Research Organization located in Omaha, Nebraska. This lab specializes in pharmacogenomic, biomarker and mutation discovery research serving the pharmaceutical and biomedical industries world-wide for disease research, drug and diagnostic development and clinical trial support.

Instrument Related Business:

Bioinstruments. Our proprietary product is the WAVE® System which has broad applicability to genetic variation detection in both molecular genetic research and molecular diagnostics. There is a worldwide installed base of over 1,500 WAVE Systems as of June 30, 2011. We also distribute bioinstruments produced by other manufacturers ("OEM Equipment") through our sales and distribution network. Service contracts to maintain installed systems are sold and supported by technical support personnel.

Bioconsumables. The installed WAVE base and some OEM platforms generate a demand for consumables that are required for the continued operation of the bioinstruments. We develop, manufacture and sell these consumable products. In addition, we manufacture and sell consumable products that can be used on multiple, independent platforms. These products include SURVEYOR® Nuclease and a range of chromatography columns.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation.

The consolidated financial statements include the accounts of Transgenomic, Inc. and its wholly-owned subsidiary. All intercompany balances and transactions have been eliminated in consolidation.

Risks and Uncertainties.

Certain risks and uncertainties are inherent in our day-to-day operations and to the process of preparing our financial statements.

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. In addition, estimates and assumptions associated with the determination of the fair value of certain assets and related impairments require considerable judgment by management. Actual results could differ from the estimates and assumptions used in preparing these consolidated financial statements.

Fair Value.

Unless otherwise specified, book value approximates fair market value. The preferred stock conversion feature and warrant liability are recorded at fair value. See Footnote L.

Basis of Presentation.

The condensed consolidated balance sheet as of December 31, 2010 was derived from our audited balance sheet as of that date. The accompanying consolidated financial statements as of and for the three and six months ended June 30,

2011 and 2010

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TRANSGENOMIC, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Six Months Ended June 30, 2011 and 2010

are unaudited and reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. These unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2010 contained in our Annual Report on Form 10-K. The results of operations for the interim periods presented are not necessarily indicative of the results for the entire year.

Cash and Cash Equivalents.

Cash and cash equivalents include cash and investments with original maturities at acquisition of three months or less. Such investments presently consist of temporary overnight investments.

Concentrations of Cash.

From time to time, we may maintain a cash position with financial institutions in amounts that exceed federally insured limits. We have not experienced any losses on such accounts as of June 30, 2011.

Accounts Receivable.

The following is a summary of activity for the allowance for doubtful accounts during the three and six months ended June 30, 2011 and 2010:

	Dollars in Thousands			
	Beginning Balance	Provision	Write Offs	Ending Balance
Three Months Ended June 30, 2011	\$716	\$779	\$(108)	\$1,387
Three Months Ended June 30, 2010	\$279	\$16	\$—	\$295
Six Months Ended June 30, 2011	\$334	\$1,228	\$(175)	\$1,387
Six Months Ended June 30, 2010	\$310	\$(11)	\$(4)	\$295

While payment terms are generally 30 days, we have also provided extended payment terms of up to 90 days in certain cases. We operate globally and some of the international payment terms may be greater than 90 days. Accounts receivable are carried at original invoice and shown net of allowance for doubtful accounts and contractual allowances. The estimate made for doubtful accounts is based on a review of all outstanding amounts on a quarterly basis. We determine the allowance for doubtful accounts and contractual allowances by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Inventories.

Inventories are stated at the lower of cost or market net of allowance for obsolete inventory. Cost is computed using standard costs for finished goods and average or latest actual cost for raw materials and work in process, which approximates the first-in, first-out (FIFO) method.

The following is a summary of activity for the allowance for obsolete inventory during the three and six months ended June 30, 2011 and 2010:

	Dollars in Thousands			
	Beginning Balance	Provision	Write Offs	Ending Balance
Three Months Ended June 30, 2011	\$520	\$41	\$(41)	\$520
Three Months Ended June 30, 2010	\$478	\$67	\$(9)	\$536
Six Months Ended June 30, 2011	\$518	\$49	\$(47)	\$520
Six Months Ended June 30, 2010	\$507	\$65	\$(36)	\$536

We determine the allowance for obsolete inventory by evaluating quarterly the inventory for items deemed to be slow moving or obsolete. Included in our provision is the foreign currency impact of the consolidation of our subsidiary.

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TRANSGENOMIC, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Six Months Ended June 30, 2011 and 2010

Property and Equipment.

Property and equipment are carried at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the related assets as follows:

Leasehold improvements	1 to 10 years
Furniture and fixtures	3 to 7 years
Production equipment	3 to 7 years
Computer equipment	3 to 7 years
Research and development equipment	2 to 7 years

Depreciation expense related to property and equipment during the six months ended June 30, 2011 and 2010 was \$0.4 million and \$0.2 million, respectively. Included in depreciation for the six months ended June 30, 2011 was less than \$0.1 million related to capital leases. We did not have any capital leases in the second quarter of 2010.

Goodwill.

Goodwill is the excess of the purchase price over fair value of assets acquired and is not amortized. Goodwill is tested for impairment annually. We perform this impairment analysis during the fourth quarter of each year or when a significant event occurs which may impact goodwill. Impairment occurs when the carrying value is determined to be not recoverable thereby causing the carrying value of the goodwill to exceed its fair value. If impaired, the asset's carrying value is reduced to its fair value. We recorded no impairment charges related to goodwill as of December 31, 2010. No events have transpired in the six months ended June 30, 2011 that would require reevaluation of this conclusion.

Intangibles.

Intangibles include intellectual property, patents and acquired products.

1. Intellectual Property.

Initial costs paid to license intellectual property from independent third parties are capitalized and amortized using the straight-line method over the license period. Ongoing royalties related to such licenses are expensed as incurred.

2. Patents.

We capitalize legal costs, filing fees and other expenses associated with obtaining patents on new discoveries and amortize these costs using the straight-line method over the shorter of the legal life of the patent or its economic life beginning on the date the patent is issued.

3. Acquired Products.

As a part of the FAMILION acquisition we acquired technology, in process technology, trademarks/tradenames and third party relationships. These costs will be amortized straight line over their estimated economic life of seven to eight years. See Footnote E.

These assets are treated as long-lived assets. Long-lived assets will be tested for impairment on an annual basis or when a significant event occurs, which may impact impairment. We review quarterly the carrying value of our long-lived assets to assess recoverability and impairment. We recorded no impairments as of June 30, 2011 or December 31, 2010.

Other Long Term Assets.

Other long term assets include US security deposits and deferred tax assets.

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TRANSGENOMIC, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Six Months Ended June 30, 2011 and 2010

Stock Based Compensation.

All stock options awarded to date have exercise prices equal to the market price of our common stock on the date of grant and have ten-year contractual terms. Unvested options as of June 30, 2011 had vesting periods of one or three years from date of grant. None of the stock options outstanding at June 30, 2011 are subject to performance or market-based vesting conditions.

We measure and recognize compensation expense for all stock-based awards made to employees and directors, including stock options. Compensation expense is based on the calculated fair value of the awards as measured at the grant date and is expensed ratably over the service period of the awards (generally the vesting period).

During the three months ended June 30, 2011, we recorded compensation expense of \$0.8 million within the selling, general and administrative expense. During the six months ended June 30, 2011, we recorded compensation expense of \$0.8 million within the selling, general and administrative expense as a result of the vesting of options exercisable for the purchase of 3.6 million shares. During the six months ended June 30, 2010, we recorded compensation expenses of less than \$0.1 million within selling, general and administrative expense as a result of the vesting of options exercisable for the purchase of 1.3 million shares. As of June 30, 2011, there was \$1.2 million of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of nearly three years.

The fair value of the options granted during the quarters ended June 30, 2011 and 2010 was estimated on their respective grant dates using the Black-Scholes option pricing model. We granted 2.2 million stock options during the second quarter of 2011. These stock options were granted to our entire employee base with the bulk being granted to our senior management team. The Black-Scholes model was used with the following assumptions: risk-free interest rates of 1.87% based on the U.S. Treasury yield in effect at the time of grant; dividend yields of zero percent; expected lives of four years, based on expected exercise activity behavior; and volatility of 105% based on the historical volatility of our stock over a time that is consistent with the expected life of the option. A small group of senior executives hold the majority of the stock options and are expected to hold the options for five years. Forfeitures of 1.10% have been assumed.

There were 75,000 stock options granted during the quarter ended June 30, 2010. The Black-Scholes model was used with the following assumptions: risk-free interest rates of 1.98% based on the U.S. Treasury yield in effect at the time of grant; dividend yields of zero percent; expected life of five years, based on historical exercise activity behavior; and volatility of 102.69% based on the historical volatility of our stock over a time that is consistent with the expected life of the option. A small group of senior executives held the majority of the stock options and are expected to hold the options until they are vested. Forfeitures of 2.2% were assumed in the calculation.

Income Taxes.

Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities at each balance sheet date using tax rates expected to be in effect in the year the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent that it is more likely than not that they will not be realized. Our policy is to record interest and penalties directly related to income taxes as income tax expense in the Consolidated Statement of Operations.

Net Sales Recognition.

Revenue is realized and earned when all of the following criteria are met:

- Persuasive evidence of an arrangement exists
- Delivery has occurred or services have been rendered
- The seller's price to the buyer is fixed or determinable, and
- Collectability is reasonably assured.

Net sales of products are recognized in accordance with the terms of the sales arrangement. Such recognition is based on receipt of an unconditional customer order and transfer of title and risk of ownership to the customer, typically

upon shipment of the product under a purchase order. Our sales terms do not provide for the right of return unless the product is damaged or defective. Net sales from certain services associated with the analytical instruments, to be performed subsequent to shipment of the products, is deferred and recognized when the services are provided. Such services, mainly limited to installation and training services that are not essential to the functionality of the instruments, typically are performed in a timely manner subsequent to shipment of the instrument. We also enter into various service contracts that cover installed instruments. These contracts cover specific time periods and net sales associated with these contracts are deferred and recognized ratably over the service period. At June 30, 2011 and

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TRANSGENOMIC, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Six Months Ended June 30, 2011 and 2010

2010, deferred net sales, mainly associated with our service contracts, included in the balance sheet in accrued liabilities, was approximately \$1.4 million for each of the periods.

Net sales from our Molecular Clinical Reference Laboratory Services are recognized on an individual test basis and takes place when the test report is completed, reviewed and sent to the client less the reserve for insurance, Medicare and Medicaid contractual adjustments. There are no deferred net sales associated with our Molecular Clinical Reference Laboratory. Adjustments to the allowances, based on actual receipts from third party payers, are recorded upon settlement.

In our Pharmacogenomics Research Services Group, we perform services on a project by project basis. When we get payment in advance we recognize revenue when we deliver the service. These projects typically do not extend beyond one year. At June 30, 2011 and 2010, deferred net sales associated with the pharmacogenomics research projects included in the balance sheet in other accrued liabilities, was \$0.1 million and less than \$0.1 million, respectively.

Taxes collected from customers and remitted to government agencies for specific net sales producing transactions are recorded net with no effect on the income statement.

Research and Development.

Research and development and various collaboration costs are charged to expense when incurred.

Preferred Stock.

We entered into a Series A Convertible Preferred Stock Purchase Agreement on December 29, 2010, as discussed in Note L, selling shares of preferred stock and issuing warrants to purchase a certain number of shares of Series A Preferred Stock. The Series A Preferred Stock meets the definition of mandatorily redeemable stock as it is preferred capital stock which is redeemable at the option of the holder and should be reported outside of equity. Preferred stock is accreted to its redemption value. The warrants do not qualify to be treated as equity, and accordingly, are recorded as a liability. A preferred stock conversion feature is embedded within the Series A Preferred Stock that meets the definition of a derivative. The preferred stock, warrant liability and preferred stock conversion feature are all recorded separately and were initially recorded at fair value using the Black Scholes model. We are required to record these instruments at fair value at each reporting date and changes will be recorded as an adjustment to earnings. The warrant liability and preferred stock conversion feature are considered level three financial instruments. See Footnote L.

Translation of Foreign Currency.

Our foreign subsidiary uses the local currency of the country in which it is located as their functional currency. Its assets and liabilities are translated into U.S. dollars at the exchange rates in effect at the balance sheet date.

Cumulative translation gain of approximately \$0.1 million is reported as accumulated other comprehensive income on the accompanying consolidated balance sheet as of June 30, 2011. Cumulative translation losses of \$0.2 million were reported as accumulated other comprehensive income for the six months ended June 30, 2010. Revenues and expenses are translated at the average rates during the period. For transactions that are not denominated in the functional currency, we recognized \$0.1 million as foreign currency transaction loss in the determination of net loss for the six months ending June 30, 2011 and \$0.5 million as foreign currency transaction loss in the determination of net loss for the six months ending June 30, 2010.

Other Income.

Other income consists primarily of interest income from cash and cash equivalents invested in overnight instruments. Other income in the six months ended June 30, 2011 includes an award of a federal grant under the Qualifying Therapeutic Discovery Project related to COLD-PCR, Surveyor Scan kit development for key cancer pathway gene mutations and mtDNA damage assays. Other income related to this federal grant was \$0.2 million, net of consulting fees. Other income for the three months ended June 30, 2011 was less than \$0.1 million. Other income for the three and six months ending June 30, 2010 was less than \$0.1 million.

Comprehensive Income.

Accumulated other comprehensive income at June 30, 2011 and December 31, 2010 consisted of foreign currency translation adjustments, net of applicable tax of zero. We deem our foreign investments to be permanent in nature and do not provide for taxes on currency translation adjustments arising from converting investments in a foreign currency to U.S. dollars.

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TRANSGENOMIC, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Six Months Ended June 30, 2011 and 2010

Earnings Per Share.

Basic earnings per share is calculated based on the weighted average number of common shares outstanding during each period. Diluted earnings per share include shares issuable upon exercise of outstanding stock options, warrants or conversion rights that have exercise or conversion prices below the market value of our common stock. Options, warrants and conversion rights pertaining to 18,504,943 and 10,763,324 shares of our common stock have been excluded from the computation of diluted earnings per share at June 30, 2011 and 2010, respectively. The options, warrants and conversion rights that were exercisable in 2011 and 2010 were not included because the effect would be anti-dilutive due to the net loss.

Recently Issued Accounting Pronouncements.

In October 2009, the FASB issued ASU No. 2009-13, Revenue Recognition (ASC 605): Multiple-Deliverable Revenue Arrangements (a consensus of the FASB Emerging Issues Task Force); effective for years beginning after June 15, 2010. Vendors often provide multiple products and/or services to their customers as part of a single arrangement. These deliverables may be provided at different points in time or over different time periods. The existing guidance regarding how and whether to separate these deliverables and how to allocate the overall arrangement consideration to each was originally captured in EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, which is now codified at ASC 605-25, Revenue Recognition – Multiple-Element Arrangements. The issuance of ASU 2009-13 amends ASC 605-25 and represents a significant shift from the existing guidance that was considered abuse-preventative and heavily geared toward ensuring that revenue recognition was not accelerated. The application of this new guidance is expected to result in accounting for multiple-deliverable revenue arrangements that better reflects their economics as more arrangements will be separated into individual units of accounting. Our adoption of ASU No. 2009-13 did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-14, Software (ASC 985): Certain Revenue Arrangements That Include Software Elements (a consensus of the FASB Emerging Issues Task Force); effective for years beginning after June 15, 2010. ASU 2009-14 modifies the existing scope guidance in ASC 985-605, Software Revenue Recognition, for revenue arrangements with tangible products that include software elements. This modification was made primarily due to the changes in ASC 605-25 noted previously, which further differentiated the separation and allocation guidance applicable to non-software arrangements as compared to software arrangements. Prior to the modification of ASC 605-25, the separation and allocation guidance for software and non-software arrangements was more similar. Under ASC 985-605, which was originally issued as AICPA Statement of position 97-2, Software Revenue Recognition, an arrangement to sell a tangible product along with software was considered to be in its scope if the software was more than incidental to the product as a whole. Our adoption of ASU No. 2009-14 did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued guidance to amend the disclosure requirements related to fair value measurements, effective for years beginning after December 15, 2010. The guidance requires the disclosure of roll forward activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level Three fair value measurements). We adopted the new disclosure provisions with the filing of our Form 10-Q for the three months ended March 31, 2011.

C. INVENTORIES

Inventories (net of allowances for obsolescence) consisted of the following:

	Dollars in Thousands	
	June 30, 2011	December 31, 2010
Finished goods	\$1,940	\$2,119

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Raw materials and work in process	1,544	1,531	
Demonstration inventory	345	212	
	\$3,829	\$3,862	
Less allowance for obsolescence	(520) (518)
Total	\$3,309	\$3,344	

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TRANSGENOMIC, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Six Months Ended June 30, 2011 and 2010

D. INTANGIBLES AND OTHER ASSETS

Long Lived intangible assets and other assets consisted of the following: