TRANSGENOMIC INC
Form 10-Q
August 15, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

OR

o 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)	91-1789357 (I.R.S. Employer Identification No.)
12325 Emmet Street, Omaha, Nebraska (Address of principal executive offices)	68164 (Zip Code)

(402) 452-5400
(Registrant's telephone number, including area 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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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 x No o

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.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of July 31, 2016, the number of shares of common stock outstanding was 23,547,946.

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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, 2016 (unaudited)	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 421	$ 444
Accounts receivable, net	328	264
Inventories, net	39	50
Other current assets	325	537
Assets held for sale	690	1,987
Total current assets	1,803	3,282
PROPERTY AND EQUIPMENT:		
Equipment	5,592	5,593
Furniture, fixtures & leasehold improvements	1,565	1,565
	7,157	7,158
Less: accumulated depreciation	(6,953)	(6,899)
	204	259
OTHER ASSETS:		
Intangibles, net	1,029	1,170
Other assets	58	105
	$ 3,094	$ 4,816
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 7,814	$ 7,596
Accounts payable	5,620	3,781
Accrued compensation	259	321
Accrued expenses	2,847	3,734
Deferred revenue	111	217
Other liabilities	1,068	1,068
Liabilities held for sale	—	264
Total current liabilities	17,719	16,981
LONG TERM LIABILITIES:		
Common stock warrant liability	1,442	350
Other long-term liabilities	223	305
Total liabilities	19,384	17,636
STOCKHOLDERS' DEFICIT:		
Convertible preferred stock, $0.01 par value, 15,000,000 shares authorized, 214,705 and 4,029,502 shares issued and outstanding, respectively	2	40
Common stock, $0.01 par value, 150,000,000 shares authorized, 23,103,875 and 13,915,691 shares issued and outstanding, respectively	231	139
Additional paid-in capital	201,140	200,403
Accumulated other comprehensive income	—	10
Accumulated deficit	(217,663)	(213,412)
Total stockholders' deficit	(16,290)	(12,820)

	$ 3,094	$ 4,816

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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
NET SALES	$505	$ 442	$741	$ 1,192
COST OF GOODS SOLD	542	465	1,047	930
Gross profit	(37)	(23)	(306)	262
OPERATING EXPENSES:				
Selling, general and administrative	1,436	1,908	3,140	3,712
Research and development	402	468	672	919
	1,838	2,376	3,812	4,631
OPERATING LOSS FROM CONTINUING OPERATIONS	(1,875)	(2,399)	(4,118)	(4,369)
OTHER INCOME (EXPENSE):				
Interest expense, net	(328)	(186)	(497)	(376)
Warrant revaluation	24	(270)	345	(415)
Other, net	—	—	—	(13)
	(304)	(456)	(152)	(804)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2,179)	(2,855)	(4,270)	(5,173)
INCOME TAX BENEFIT	—	(1)	—	(1)
LOSS FROM CONTINUING OPERATIONS	(2,179)	(2,854)	(4,270)	(5,172)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAXES	1,182	(421)	9	(1,144)
NET LOSS	(997)	(3,275)	(4,261)	(6,316)
PREFERRED STOCK DIVIDENDS	—	(331)	(21)	(662)
NET LOSS FROM CONTINUING OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS	(2,179)	(3,185)	(4,291)	(5,834)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS	1,182	(421)	9	(1,144)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$(997)	$ (3,606)	$(4,282)	$ (6,978)
BASIC AND DILUTED LOSS PER COMMON SHARE FROM CONTINUING OPERATIONS	$(0.10)	$ (0.26)	$(0.20)	$ (0.54)
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE FROM DISCONTINUED OPERATIONS	$0.05	$ (0.03)	$—	$ (0.11)
BASIC AND DILUTED LOSS PER COMMON SHARE	$(0.05)	$ (0.30)	$(0.20)	$ (0.65)
BASIC AND DILUTED WEIGHTED-AVERAGE SHARES OF COMMON STOCK OUTSTANDING	21,797,441	12,149,632	21,060,387	10,778,857

See notes to unaudited condensed consolidated financial statements.

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TRANSGENOMIC, INC. AND SUBSIDIARY
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Loss	$(997)	$(3,275)	$(4,261)	$(6,316)
Other comprehensive loss - foreign currency translation adjustment	—	42	—	8
Comprehensive Loss	$(997)	$(3,233)	$(4,261)	$(6,308)

See notes to unaudited condensed consolidated financial statements.

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TRANSGENOMIC, INC. AND SUBSIDIARY
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
Six Months Ended
June 30, 2016
(Dollars in thousands, except share data)

	Preferred Stock		Common Stock					
	Outstanding Shares	Par Value	Outstanding Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2015	4,029,502	$ 40	13,915,691	$ 139	$ 200,403	$ (213,412)	$ 10	$ (12,820)
Net loss	—	—	—	—	—	(4,261)	—	(4,261)
Foreign currency translation adjustment	—	—	—	—	—	10	(10)	—
Stock-based compensation	—	—	—	—	141	—	—	141
Issuance of common shares	—	—	257,467	2	105	—	—	107
Private placement, net	2,365,243	24	—	—	519	—	—	543
Dividends on preferred stock	—	—	—	—	(4,475)	—	—	(4,475)
Conversion of preferred stock and preferred stock dividends	(6,180,040)	(62)	8,930,717	90	4,447	—	—	4,475
Balance, June 30, 2016	214,705	$ 2	23,103,875	$ 231	$ 201,140	$ (217,663)	$ —	$ (16,290)

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, 2016	2015
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net loss	$(4,261)	$(6,316)
Less income from discontinued operations, net of tax	9	(1,144)
Loss from continuing operations	(4,270)	(5,172)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	189	156
Stock-based compensation	119	322
Provision for losses on doubtful accounts	70	—
Warrant revaluation	(345)	415
Loss on sale of fixed assets	—	14
Deferred interest	47	61
Deferred tax provision	—	81
Changes in operating assets and liabilities:		
Accounts receivable	(134)	301
Inventories	11	—
Other current assets	253	(243)
Accounts payable	1,839	367
Accrued expenses and other liabilities	(613)	(240)
Net cash used in continuing operations	(2,834)	(3,938)
Net cash provided by (used in) discontinued operations	79	(2,074)
Net cash used in operating activities	(2,755)	(6,012)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of property and equipment	(19)	(194)
Other assets	(7)	(46)
Net cash used in continuing operations	(26)	(240)
Net cash provided by discontinued operations	962	—
Net cash provided by (used in) investing activities	936	(240)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(1)	(34)
Issuance of preferred stock, net	1,779	—
Issuance of common stock, net	68	6,209
Proceeds from borrowings	500	923
Principal payment on note payable	(550)	(148)
Net cash flows provided by financing activities	1,796	6,950
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH	—	2
NET CHANGE IN CASH AND CASH EQUIVALENTS	(23)	700
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	444	1,609
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$421	$2,309
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$—	$222

See notes to unaudited condensed consolidated financial statements.

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TRANSGENOMIC, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and Six Months Ended June 30, 2016 and 2015

1. BUSINESS DESCRIPTION
Business Description.

Transgenomic, Inc. (“we”, “us”, “our”, the “Company” or “Transgenomic”) is a biotechnology company advancing personalized medicine for the detection and treatment of cancer and inherited diseases through our proprietary molecular technologies and clinical and research services. A key goal is to bring our Multiplexed ICE COLD-PCR (“MX-ICP”) product to the clinical market through strategic partnerships and licensing agreements, enabling the use of blood and other bodily fluids for more effective and patient-friendly diagnosis, monitoring and treatment of cancer.

MX-ICP is technology proprietary to Transgenomic. It is a reagent that improves the ability to detect genetic mutations. This technology has been validated internally on all currently available sequencing platforms, including Sanger, Next Gen Sequencing and Digital PCR. By enhancing the level of detection of genetic mutations and suppressing the normal or wild-type DNA, several benefits are provided.

Historically, our operations were organized and reviewed by management along our major product lines and presented in two business segments: Laboratory Services and Genetic Assays and Platforms. Beginning with the quarter ended September 30, 2015, our operations are now organized as one business segment, our Laboratory Services segment, and during the second half of 2015, we began presenting our Genetic Assays and Platforms segment and a portion of our Laboratory Services segment in discontinued operations.

Our current Laboratory Services business consists of our laboratory in Omaha, Nebraska, which is focused on providing genetic analytical services related to Oncology and pharmacogenomics research services supporting Phase II and Phase III clinical trials conducted by pharmaceutical and biotechnology companies. Our laboratory employs a variety of genomic testing service technologies, including our proprietary MX-ICP technology. Our laboratory in Omaha is certified under the Clinical Laboratory Improvement Amendments (“CLIA”) as a high complexity laboratory and is accredited by the College of American Pathologists.

Our condensed consolidated balance sheets, statements of operations and statements of cash flows for all periods presented reflect our former Genetic Assays and Platforms activities and Patient Testing business as discontinued operations (See Note 3 - “Discontinued Operations”).

Going Concern.

The condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America (“GAAP”) applicable for a going concern, which assume that we will realize our assets and discharge our liabilities in the ordinary course of business. We have incurred substantial operating losses and have used cash in our operating activities for the past few years. As of June 30, 2016, we had negative working capital of $15.9 million. Our ability to continue as a going concern is dependent upon a combination of generating additional revenue, improving cash collections, potentially selling underutilized assets and, if necessary, raising additional financing to meet our obligations and pay our liabilities arising from normal business operations when they come due. The outcome of these matters cannot be predicted with any certainty at this time and raises substantial doubt that we will be able to continue as a going concern. These condensed consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should we be unable to continue as a going concern. We cannot be certain that additional financing will be available on acceptable terms, or at all, and our failure to raise capital when needed could limit our ability to continue our operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation.

The accompanying condensed consolidated financial statements are presented in conformity with GAAP. All amounts are presented in U.S. Dollars ("$"). Supplemental cash flows from discontinued operations are presented in Note 3 - "Discontinued Operations". We have evaluated events occurring subsequent to June 30, 2016 for potential recognition or disclosure in the consolidated financial statements and concluded there were no subsequent events that required recognition or disclosure.

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TRANSGENOMIC, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Three and Six Months Ended June 30, 2016 and 2015

The condensed consolidated balance sheet as of December 31, 2015 was derived from our audited balance sheet as of that date. There has been no change in the balance sheet from December 31, 2015. The accompanying condensed consolidated financial statements as of and for the three and six months ended June 30, 2016 and 2015 are unaudited and reflect all adjustments (consisting of only normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. These unaudited condensed 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, 2015 contained in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the "SEC") on April 14, 2016. The results of operations for the interim periods presented are not necessarily indicative of the results for fiscal year 2016.

Certain prior year amounts have been reclassified to conform to the current year presentation in our condensed consolidated financial statements, which consists of the effects of reclassifications from the presentation of our discontinued operations.

Principles of Consolidation.

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

Risks and Uncertainties.

Certain risks and uncertainties are inherent in our day-to-day operations and in the process of preparing our financial statements. The more significant of those risks are presented below and throughout the notes to the unaudited condensed consolidated financial statements.

Use of Estimates.

The preparation of condensed 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 condensed consolidated financial statements.

Fair Value.

Unless otherwise specified, book value approximates fair market value. The common stock warrant liability is recorded at fair value. See Note 9 - "Fair Value" for additional information.

Cash and Cash Equivalents and Other Current Assets.

Cash and cash equivalents include cash and investments with original maturities at the date of acquisition of three months or less. Other current assets as of June 30, 2016 of $0.3 million include prepaid assets of $0.1 million and other receivables of $0.2 million.

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, 2016.

Accounts Receivable.

The following is a summary of activity for the allowance for doubtful accounts from continuing operations during the three and six months ended June 30, 2016 and 2015:

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TRANSGENOMIC, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Three and Six Months Ended June 30, 2016 and 2015

	Dollars in Thousands			
	Beginning Balance	Additions	Deductions	Ending Balance
Three Months Ended June 30, 2016	$108	$ 49	$ —	$ 157
Three Months Ended June 30, 2015	$20	$ —	$ —	$ 20
Six Months Ended June 30, 2016	$87	$ 70	$ —	$ 157
Six Months Ended June 30, 2015	$20	$ —	$ —	$ 20

While payment terms are generally 30 days, we have also provided extended payment terms in certain cases. Accounts receivable are carried at original invoice amount and shown net of allowance for doubtful accounts. 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 by regularly evaluating individual payor receivables and considering a payor's financial condition, credit history, reimbursement rates and current economic conditions. Accounts receivable are written off when deemed uncollectible and after all collection efforts have been exhausted. Recoveries of accounts receivable previously written off are recorded as a reduction in bad debt expense 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. At June 30, 2016, our net inventories were less than $0.1 million and were comprised predominantly of raw materials.

The following is a summary of activity for the allowance for obsolete inventory during the three and six months ended June 30, 2016 and 2015:

	Dollars in Thousands			
	Beginning Balance	Additions	Deductions	Ending Balance
Three Months Ended June 30, 2016	$63	$ —	$ —	$ 63
Three Months Ended June 30, 2015	$—	$ —	$ —	$ —
Six Months Ended June 30, 2016	$63	$ —	$ —	$ 63
Six Months Ended June 30, 2015	$—	$ —	$ —	$ —

We determine the allowance for obsolescence by evaluating inventory quarterly for items deemed to be slow moving or obsolete.

Property and Equipment.

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using 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 in continuing operations related to property and equipment was less than $0.1 million for each of the three month periods ended June 30, 2016 and 2015. Depreciation expense was $0.1 million for each of the six month periods ended June 30, 2016 and 2015. Depreciation expense during each period includes depreciation related to equipment acquired under capital leases.

Intangible Assets.

Intangible assets include intellectual property and patents.

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.

Stock-Based Compensation.

All stock-based awards to date have exercise prices equal to the market value of the shares at the date of grant and have 10-year contractual terms. Unvested awards as of June 30, 2016 had vesting periods of up to three years from the date of grant. None of the awards outstanding at June 30, 2016 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. Compensation expense, net of estimated forfeitures, is based on the calculated fair value of the awards as measured at the grant date and is expensed over the service period of the awards.

During the three and six months ended June 30, 2016, we recorded compensation expense for all stock awards of less than $0.1 million and $0.1 million, respectively, within selling, general and administrative expense. During the three and six months ended June 30, 2015, we recorded compensation expense for all stock awards of $0.2 million and $0.3 million, respectively. As of June 30, 2016, the unrecognized compensation expense related to unvested stock awards was $0.2 million, which is expected to be recognized over a weighted-average period of 1.2 years.

We granted stock options to purchase an aggregate of zero and 14,000 shares of our common stock during the three and six months ended June 30, 2016, respectively. The fair value of the stock options granted was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions: risk-free interest rates of 1.91% based on the U.S. Treasury yield in effect at the time of grant; dividend yields of zero percent; expected lives of 6.00 years, based on expected exercise activity behavior; and volatility of 85% based on the historical volatility of our common stock over a time that is consistent with the expected life of the options.

Included in our stock awards outstanding as of June 30, 2016 were stock appreciation rights (“SARs”) to purchase 98,333 shares of our common stock. The SARs were issued solely to our executive officers and will vest over three years from the date of grant.

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.

In our Biomarker Identification laboratory, we perform services on a project by project basis. When we receive payment in advance, we initially defer the revenue and recognize it when we deliver the service. These projects typically do not extend beyond one year. At each of June 30, 2016 and December 31, 2015, deferred net sales associated with pharmacogenomics research projects included in the balance sheet in deferred revenue was $0.1 million.

Net sales from Patient Testing laboratories, reported as part of discontinued operations, are recognized on an individual test basis and take 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 Patient Testing services. Adjustments to the allowances, based on actual receipts from third party payers, are reflected in the estimated contractual allowance applied prospectively. In the fourth quarter of 2015, we adjusted our contractual allowance rates to better reflect the reimbursement level we expect to achieve on Patient Testing billings. The adjustment negatively impacted our Patient Testing revenues for all periods after the third quarter of 2015. (See Note 3 - “Discontinued Operations”).

Net sales of Genetic Assays and Platforms products, reported as discontinued operations (See Note 3 - “Discontinued Operations”) 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.

Common Stock Warrants.

Certain of our issued and outstanding warrants to purchase common stock do not qualify to be treated as equity and, accordingly, are recorded as a liability (“Common Stock Warrant Liability”). We are required to present these instruments at fair value at each reporting date and any changes in fair values are recorded as an adjustment to earnings. The Common Stock Warrant Liabilities are considered Level Three financial instruments for purposes of fair value measurement. See Note 9 - “Fair Value” for additional information.

Loss Per Share.

Basic loss per share is calculated based on the weighted-average number of common shares outstanding during each period. Diluted loss per share includes 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 10,721,464 and 8,286,963 shares of our common stock have been excluded from the computation of diluted loss per share at June 30, 2016 and 2015, respectively, because the effect is anti-dilutive due to the net loss.

Recent Accounting Pronouncements.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (“ASU No. 2014-09”). This guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to a customer. ASU No. 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. In July 2015, the FASB decided to defer the effective date of this new accounting guidance by one year. As a result, ASU No. 2014-09 will be effective for us for all annual and interim reporting periods beginning after December 15, 2017 and early adoption would be permitted as of the original effective date. The new standard permits the use of either the retrospective or cumulative effect transition method. We do not expect to early adopt this guidance and we have not selected a transition method. We are currently evaluating the impact this guidance will have on our financial condition, results of operations and cash flows.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40)(“ASU No. 2014-15”). This guidance addresses management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. We do not expect to early adopt this guidance and do not believe that the adoption of this guidance will have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard amends the recognition of lease assets and lease liabilities by lessees for those leases currently classified as operating leases and amends disclosure requirements associated with leasing arrangements. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. We are currently assessing the impact that the adoption of this ASU will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The new standard simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, statutory tax withholding requirements, forfeitures and classification on the statement of cash flows. This guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2016; however, early adoption is permitted. We do not expect to early adopt this guidance and are currently evaluating the impact this guidance will have on our financial condition, results of operations and cash flows.

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3. DISCONTINUED OPERATIONS

On September 8, 2015, we entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with Edge BioSystems, Inc. (“Edge Bio”), pursuant to which we sold our manufacturing, marketing and selling of high quality polymer and silica based beads and resin and chromatography columns business (collectively, the “Columns Business”). The Columns Business was part of our former segment, Genetic Assays and Platforms. Pursuant to the Asset Purchase Agreement, Edge Bio acquired substantially all of the assets used solely in connection with the Columns Business and assumed certain liabilities of the Columns Business for a total cash purchase price of approximately $2.1 million (the “Asset Sale”), which was paid on September 8, 2015 upon the closing of the Asset Sale. During the year ended December 31, 2015, we recorded a gain on the sale of the Columns Business of $1.5 million.

On November 25, 2015, we entered into an Asset Purchase Agreement (the “Purchase Agreement”) with ADSTEC Corporation (“ADSTEC”) and ADS Biotec Inc., a wholly-owned subsidiary of ADSTEC (“Buyer”), pursuant to which we sold (1) to ADSTEC our facilities located in Glasgow, Scotland and on Irvington Road in Omaha, Nebraska (together, the “Facilities”) and all of our stock, inventory and raw materials located at the Facilities (collectively, the “Inventory”), and (2) to Buyer (a) all of the remaining assets relating to our Genetic Assays and Platforms business segment (the “Business”), other than the Inventory (the “Purchased Assets”), and (b) all of the ordinary shares of Transgenomic Limited, a wholly-owned subsidiary of ours (the “Shares”).

Pursuant to the Purchase Agreement, ADSTEC and Buyer acquired the Facilities, the Inventory, the Purchased Assets and the Shares for an aggregate purchase price of approximately $300,000, and Buyer assumed our financial and human resources commitments related to the Business (the “Transaction”). During the year ended December 31, 2015, we recorded a loss on the Transaction of $1.7 million.

Together, the Asset Sale and the Transaction represent the divestiture of our Genetic Assays and Platforms business, resulting in a strategic shift that had a major effect on our operations and financial results. Therefore, the divested operations of our Genetic Assays and Platforms business meet the criteria to be reported as discontinued operations. During the fourth quarter of 2015, our Board of Directors took actions to begin the process of divesting our Patient Testing business in New Haven, Connecticut. In March 2016, we announced that we had suspended testing services in our Patient Testing laboratory as we review and evaluate various strategic alternatives for that business. As a result of these actions, as of December 31, 2015, our Patient Testing business met the criteria to be reported as discontinued operations. We anticipate that we will complete the divestiture of the Patient Testing business during 2016.
The related assets, liabilities, results of operations and cash flows for both the Genetic Assays and Platforms business and Patient Testing business are classified as assets held for sale, liabilities held for sale and discontinued operations for all periods presented.

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Results of the discontinued operations consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Net sales	$574	$6,598	$1,677	$12,361
Cost of goods sold	11	3,703	1,194	6,777
Gross profit	563	2,895	483	5,584
Selling, general and administrative expense	344	3,165	1,369	6,415
Research and development expense	—	108	68	224
Operating income (loss) from discontinued operations	219	(378)	(954)	(1,055)
Gain on sale of business/assets	963	—	963	—
Income (loss) from discontinued operations before income taxes	1,182	(378)	9	(1,055)
Income tax expense	—	43	—	89
Income (loss) from discontinued operations, net of taxes	$1,182	$(421)	$9	$(1,144)

Income from discontinued operations for both the three and six month periods ended June 30, 2016, includes approximately $1.0 million in proceeds received from the sale of assets of our discontinued Patient Testing business. Assets and liabilities of the discontinued operations are classified as assets held for sale and liabilities held for sale in the condensed consolidated balance sheets and consisted of the following:

	Dollars in Thousands	
	June 30, 2016	December 31, 2015
ASSETS		
Accounts receivable, net	$647	$ 1,905
Other current assets	43	82
Total Assets	$690	$ 1,987
LIABILITIES		
Accrued compensation	$—	$ 264
Total Liabilities	$—	$ 264

The following is a summary of activity for the allowance for doubtful accounts from discontinued operations during the three and six months ended June 30, 2016 and 2015. The allowance for doubtful accounts from discontinued operations is included in the assets held for sale in the condensed consolidated balance sheets.

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	Dollars in Thousands			
	Beginning Balance	Additions	Deductions	Ending Balance
Three Months Ended June 30, 2016	$14,542	$ —	$ (4,080)	$10,462
Three Months Ended June 30, 2015	$9,173	$ 1,198	$ (1,965)	$8,406
Six Months Ended June 30, 2016	$14,664	$ —	$ (4,202)	$10,462
Six Months Ended June 30, 2015	$7,927	$ 2,730	$ (2,251)	$8,406

4. INTANGIBLES AND OTHER ASSETS

We review our amortizable long-lived assets for impairment annually or whenever events indicate that the carrying amount of the asset (group) may not be recoverable. An impairment loss may be needed if the sum of the future undiscounted cash flows is less than the carrying amount of the asset (group). The amount of the loss would be determined by comparing the fair market value of the asset to the carrying amount of the asset (group).

Long-lived intangible assets as of June 30, 2016 and December 31, 2015 consisted of the following:

	Dollars in Thousands		
	June 30, 2016		
	Cost	Accumulated Amortization	Net Book Value
Patents	695	76	619
Intellectual property	672	262	410
	$1,367	$ 338	$ 1,029

	Dollars in Thousands		
	December 31, 2015		
	Cost	Accumulated Amortization	Net Book Value
Patents	980	274	706
Intellectual property	671	207	464
	$1,651	$ 481	$ 1,170