

ALCOA INC.  
Form 8-K  
September 01, 2016

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 8-K**

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

**Date of Report (Date of earliest event reported): September 1, 2016**

**ALCOA INC.**

**(Exact name of Registrant as specified in its charter)**

**Pennsylvania**  
**(State or Other Jurisdiction**  
**of Incorporation)**

**1-3610**  
**(Commission**  
**File Number)**

**25-0317820**  
**(I.R.S. Employer**  
**Identification Number)**

Edgar Filing: ALCOA INC. - Form 8-K

**390 Park Avenue, New York, New York**  
**(Address of Principal Executive Offices)**

**10022-4608**  
**(Zip Code)**

**Office of Investor Relations 212-836-2674**

**Office of the Secretary 212-836-2732**

**(Registrant's telephone number, including area code)**

**(Former Name or Former Address, if Changed Since Last Report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 8.01 Other Events.**

On September 1, 2016, Alcoa Inc. (the Company) and Alumina Limited (Alumina) announced that they have agreed to make certain changes to their Alcoa World Alumina and Chemicals (AWAC) joint venture, which consists of a number of affiliated operating entities that own, operate or have an interest in bauxite mines, alumina refineries and aluminum smelters. The Company owns 60% and Alumina owns 40% of these entities. In conjunction with these amendments, the parties have agreed to terminate their litigation in the Delaware Court of Chancery relating to the Company's pending separation into two standalone, publicly traded companies.

In general, the changes to the joint venture agreements are intended to align more closely the partners' interests in AWAC, while establishing greater strategic flexibility.

Effective upon completion of the Company's separation, the Charter of the Strategic Council of the AWAC joint venture will be amended and restated to expand the matters that require approval by a vote of 80% of the members of the Strategic Council. Such matters will include, among other things, acquisitions, divestitures, expansions, curtailments or closures likely to result in a change in production in excess of 2 million metric tonnes per year of bauxite, 500 thousand metric tonnes per year of alumina or which have a sale price, acquisition price, or project total capital cost of \$50 million or greater; related-party transactions with a total value of \$50 million or more, subject to certain exceptions; financial derivatives, hedges or swap transactions; a decision by any AWAC company to file for insolvency; and changes to the pricing formula in certain offtake agreements that may be entered into between AWAC companies and either the future Alcoa Corporation or Alumina. These changes are intended to enhance the cooperation between the shareholders and promote faster decision-making, joint input on significant decisions, improved information sharing and a more streamlined process for resolving disputes.

In addition, effective on completion of the separation, certain changes will be made to the joint venture agreements to simplify AWAC's dividend and cash management policies. AWAC will generally be required to distribute at least 50% of the prior calendar quarter's net income of each AWAC company, and certain AWAC companies will also be required to pay a distribution every 3 months equal to the amount of available cash above specified thresholds. The future Alcoa Corporation has also agreed that, after the separation, it will obtain a limited amount of debt funding for the AWAC companies to fund growth projects, subject to certain restrictions.

Furthermore, in the event of a change of control of either partner in the future, opportunities for the AWAC partners to engage in expansion and development projects would increase, with each partner having the right to proceed unilaterally with an expansion or development project inside the joint venture if the other partner chooses not to participate. A partner that elects to pursue such an opportunity would pay for the costs related to the project, including for AWAC resources and shared facilities used, and would be entitled to that project's resulting off-take. The exclusivity and non-compete restrictions under the current joint venture

agreements would terminate and be replaced by rights of first offer on expansions and other development projects that either party may choose to undertake outside of the venture.

In addition, in the event of a change of control of Alumina, Alumina or its acquirer will have certain rights to purchase bauxite and alumina from AWAC at market prices for internal consumption purposes, as well as to purchase up to one million metric tons of alumina at market prices for resale to third parties. This could have the effect of establishing a strategic venture partner and long-term customer for AWAC.

The foregoing description of the terms of the settlement does not purport to be complete and is qualified in its entirety by reference to the Form of Amended and Restated Charter of the Strategic Council which will become effective on completion of the Company's separation and the Shareholders' Agreement of Alcoa of Australia Limited, which will be amended and restated effective on completion of the Company's separation. The Form of Amended and Restated Charter of the Strategic Council is filed as Exhibit 10.1 to this Current Report on Form 8-K to this Current Report on Form 8-K, and is incorporated herein by reference.

A joint press release announcing the amendments to the AWAC joint venture and the settlement of the Delaware litigation is attached as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated by reference herein.

#### **Item 9.01. Financial Statements and Exhibits**

Exhibit

<b>Number</b>	<b>Description</b>
10.1	Form of Amended and Restated Charter of the Strategic Council for the AWAC Joint Venture
99.1	Joint Press Release of Alcoa Inc. and Alumina Limited, dated September 1, 2016

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ALCOA INC.

By: /s/ Audrey Strauss

Name: Audrey Strauss

Title: Executive Vice President, Chief  
Legal

Officer and Secretary

Date: September 1, 2016

**EXHIBIT INDEX**

Exhibit

**Number      Description**

10.1      Form of Amended and Restated Charter of the Strategic Council for the AWAC Joint Venture

99.1      Joint Press Release of Alcoa Inc. and Alumina Limited, dated September 1, 2016

0;2016-15 eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows by adding or clarifying guidance on eight specific cash flow issues. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, and for interim periods within that fiscal year. We do not believe ASU No. 2016-15 will have a material effect on our financial position and results of operations.

**Impact of Inflation**

We do not believe that inflation has had a material effect on our current business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, for example, if the cost of our materials or the cost of shipping our products to customers were to incur substantial increases as a result of the rapid rise in the cost of oil, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

**Item 7A. Quantitative and Qualitative Disclosure about Market Risk.**

We are a smaller reporting company, as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and are not required to provide the information required under this item.

42

---



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the  
Board of Directors and Stockholders  
of Transgenomic, Inc.

We have audited the accompanying consolidated balance sheet of Transgenomic, Inc. and Subsidiary (the “Company”) as of December 31, 2016, and the related consolidated statements of operations, comprehensive loss, stockholders’ deficit and cash flows for the year then ended. These 2016 financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2016 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Transgenomic, Inc. and Subsidiary, as of December 31, 2016, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred operating losses and used cash for operating activities for the past several years. This raises substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We also audited the adjustments described in Note 3 that were applied to restate the 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2015 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements taken as a whole.

/s/ Marcum LLP

Marcum LLP  
Hartford, CT  
April 12, 2017





Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders  
Transgenomic, Inc.

We have audited, before the effects of the adjustments to retrospectively apply the change in accounting described in Note 3, the accompanying consolidated balance sheet of Transgenomic, Inc. and Subsidiary (the Company) as of December 31, 2015, and the related consolidated statements of operations, comprehensive loss, stockholders' (deficit) and cash flows for the year then ended (the 2015 financial statements before the effects of the adjustments discussed in Note 3 are not presented herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements, before the effects of the adjustments to retrospectively apply the change in accounting described in Note 3, referred to above present fairly, in all material respects, the consolidated financial position of Transgenomic, Inc. and Subsidiary at December 31, 2015, and the consolidated results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the change in accounting described in Note 3 and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by Marcum LLP.

/s/ Ernst & Young LLP

Hartford, Connecticut  
April 14, 2016

TRANSGENOMIC, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

December 31, 2016 and 2015

(Dollars in thousands except share data)

	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 110	\$ 444
Accounts receivable, net	225	264
Inventories	24	50
Other current assets	105	537
Assets held for sale	31	1,987
Total current assets	495	3,282
<b>PROPERTY AND EQUIPMENT:</b>		
Equipment	5,592	5,593
Furniture, fixtures & leasehold improvements	1,565	1,565
	7,157	7,158
Less: accumulated depreciation and amortization	(7,013 )	(6,899 )
	144	259
<b>OTHER ASSETS:</b>		
Intangibles, net	562	1,170
Other assets	58	105
	\$ 1,259	\$ 4,816
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long term debt	\$ 7,814	\$ 7,596
Accounts payable	6,541	3,781
Accrued compensation	224	321
Accrued expenses	3,546	3,734
Deferred revenue	170	217
Other current liabilities	1,529	1,068
Liabilities held for sale	—	264
Total current liabilities	19,824	16,981
<b>LONG TERM LIABILITIES:</b>		
Common stock warrant liability	582	350
Other long-term liabilities	203	305
Total liabilities	20,609	17,636
<b>STOCKHOLDERS' DEFICIT:</b>		
Preferred stock, \$.01 par value, 15,000,000 shares authorized, 214,705 shares in 2016 and 4,029,502 shares in 2015 issued and outstanding	2	40
Common stock, \$.01 par value, 150,000,000 shares authorized, 26,446,927 shares in 2016 and 13,915,691 shares in 2015 issued and outstanding	264	139
Additional paid-in capital	205,877	200,403
Accumulated other comprehensive income	—	10
Accumulated deficit	(225,493)	(213,412)
Total stockholders' deficit	(19,350)	(12,820)
	\$ 1,259	\$ 4,816

See notes to consolidated financial statements.

46

---

TRANSGENOMIC, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2016 and 2015

(Dollars in thousands except per share data)

	2016	2015
NET SALES	\$ 1,557	\$ 1,929
COST OF GOODS SOLD	1,762	1,940
Gross loss	(205 )	(11 )
OPERATING EXPENSES:		
Selling, general and administrative	6,192	7,055
Research and development	1,422	1,853
	7,614	8,908
OPERATING LOSS FROM CONTINUING OPERATIONS	(7,819 )	(8,919 )
OTHER INCOME (EXPENSE):		
Interest expense, net	(1,038 )	(724 )
Warrant revaluation	788	(205 )
Loss on sale/disposal of assets	(199 )	(14 )
Other, net	(1 )	—
	(450 )	(943 )
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(8,269 )	(9,862 )
INCOME TAX EXPENSE (BENEFIT)	—	—
LOSS FROM CONTINUING OPERATIONS	\$ (8,269 )	\$ (9,862 )
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAXES	653	(23,092 )
NET LOSS	(7,616 )	(32,954 )
PREFERRED STOCK DIVIDENDS	(393 )	(1,324 )
NET LOSS FROM CONTINUING OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS	\$ (8,662 )	\$ (11,186 )
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS	\$ 653	\$ (23,092 )
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$ (8,009 )	\$ (34,278 )
BASIC AND DILUTED LOSS PER COMMON SHARE FROM CONTINUING OPERATIONS	\$ (0.38 )	\$ (0.91 )
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE FROM DISCONTINUED OPERATIONS	\$ 0.03	\$ (1.87 )
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.35 )	\$ (2.78 )
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING	22,689,831	12,321,739

See notes to consolidated financial statements.

TRANSGENOMIC, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
Years Ended December 31, 2016 and 2015  
(Dollars in thousands)

	2016	2015
Net Loss	\$(7,616)	\$(32,954)
Other Comprehensive Loss; foreign currency translation adjustment	—	(330 )
Comprehensive Loss	\$(7,616)	\$(33,284)

See notes to consolidated financial statements.

TRANSGENOMIC, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
Years Ended December 31, 2016 and 2015  
(Dollars in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Outstanding Shares	Par Value	Outstanding Shares	Par Value				
Balance, January 1, 2015	4,029,502	\$ 40	8,084,471	\$ 81	\$ 189,680	\$(183,588 )	\$ 340	\$6,553
Net loss	—	—	—	—	—	(32,954 )	—	(32,954 )
Foreign currency translation adjustment	—	—	—	—	—	—	(330 )	(330 )
Non-cash stock-based compensation	—	—	—	—	644	—	—	644
Private Placement, net	—	—	5,047,411	50	8,920	—	—	8,970
Conversion of convertible promissory notes	—	—	783,809	8	1,159	—	—	1,167
Reversal of dividends on preferred stock	—	—	—	—	—	3,130	—	3,130
Balance, December 31, 2015	4,029,502	\$ 40	13,915,691	\$ 139	\$ 200,403	\$(213,412 )	\$ 10	\$(12,820)
Net loss	—	—	—	—	—	(7,616 )	—	(7,616 )
Foreign currency translation adjustment	—	—	—	—	—	10	(10 )	—
Non-cash stock-based compensation	—	—	—	—	82	—	—	82
Issuance of common shares	—	—	1,320,002	13	493	—	—	506
Private Placement, net	2,365,243	24	—	—	129	—	—	153
Conversion of warrants	—	—	2,280,517	22	323	—	—	345
Conversion of preferred stock and preferred stock dividends	(6,180,040)	(62 )	8,930,717	90	4,447	—	—	4,475
Dividends on preferred stock	—	—	—	—	—	(4,475 )	—	(4,475 )
Balance, December 31, 2016	214,705	\$ 2	26,446,927	\$ 264	\$ 205,877	\$(225,493 )	\$ —	\$(19,350)

See notes to consolidated financial statements.

TRANSGENOMIC, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2016 and 2015  
(Dollars in thousands)

	2016	2015
<b>CASH FLOWS USED IN OPERATING ACTIVITIES:</b>		
Net loss	\$(7,616)	\$(32,954)
Less income (loss) from discontinued operations, net of tax	653	(23,092 )
Loss from continuing operations	(8,269 )	(9,862 )
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	262	489
Stock based compensation and change in liability of stock appreciation rights	52	611
Impairment of patents	304	—
Provision for losses on doubtful accounts	72	67
Provision for losses on inventory obsolescence	—	63
Capitalized interest and other costs	467	—
Warrant revaluation	(788 )	205
Loss on sale/disposal of assets	199	14
Deferred interest	47	70
Changes in operating assets and liabilities:		
Accounts receivable	(33 )	133
Inventories	26	(113 )
Other assets	432	(663 )
Accounts payable	3,085	(365 )
Accrued expenses and other liabilities	(811 )	1,773
Net cash used in continuing operations	(4,955 )	(7,578 )
Net cash provided by (used in) discontinued operations	1,405	(4,800 )
Net cash used in operating activities	(3,550 )	(12,378 )
<b>CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(19 )	(204 )
Proceeds from sale of assets	5	—
Change in other assets	(27 )	(219 )
Net cash used in investing activities, continuing operations	(41 )	(423 )
Net cash provided by investing activities, discontinued operations	1,047	2,210
Net cash provided by investing activities	1,006	1,787
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:</b>		
Proceeds from debt	500	923
Principal payments on capital lease obligations	(3 )	(35 )
Issuance of preferred stock and warrants, net of costs of \$219	1,781	—
Proceeds from exercise of warrants	7	—
Issuance of common stock and related warrants, net	475	8,977
Principal payments on debt	(550 )	(874 )
Net cash flows provided by financing activities	2,210	8,991
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH, discontinued operations	—	435
NET CHANGE IN CASH AND CASH EQUIVALENTS	(334 )	(1,165 )
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	444	1,609
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$110	\$444





SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest	\$—	\$493
------------------------	-----	-------

SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION

Initial valuation of warrant issued in conjunction with Private Placement	\$1,827	\$—
Warrants and note payable converted to equity	807	1,012
Debt settled with issuance of preferred stock and warrants	199	—
Issuance of common stock to vendors for services performed	89	—
Accrued fees associated with issuance of common stock	58	—
Other liability payable for settlement of warrant conversions	462	—

See notes to consolidated financial statements.

51

---

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

## 1. BUSINESS DESCRIPTION

### Business Description.

Transgenomic, Inc., and Subsidiary, (“we”, “us”, “our”, the “Company” or “Transgenomic”) is a biotechnology company advancing personalized medicine for the detection and treatment of cancer and integrated 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 fourth quarter of 2015, we began including a portion of our Laboratory Services segment as discontinued operations, this continued during 2016.

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 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 consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. The Company has incurred substantial operating losses and has used cash in its operating activities for the past few years. As of December 31, 2016, the Company had negative working capital of approximately \$19.3 million. The Company’s ability to continue as a going concern is dependent upon a combination of completing its planned merger with Precipio Diagnostics, LLC (“Precipio”), generating additional revenue, improving cash collections, potentially selling underutilized assets and/or product lines related to discontinued operations and, if needed, raising necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due. As noted in subsequent events, the Company is suspended from NASDAQ listing. As discussed below as a condition of the merger, the New Precipio common Stock must be approved by the NASDAQ. As a result of the merger, the equity of New Precipio is expected to be in compliance. In

addition, at the time of the merger the Company will execute a reverse stock split. The outcome of these matters cannot be predicted with any certainty at this time and raises substantial doubt that the Company will be able to continue as a going concern for the next twelve months from the date of issuance of these financial statements. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern. There is no assurance that the Company will complete the merger in a timely manner or at all. The merger agreement is subject to many closing conditions and termination rights. The Company also cannot be certain that additional financing, if needed, will be available on acceptable terms, or at all, and its failure to raise capital when needed could limit its ability to continue its operations.

#### Merger Agreement

On October 12, 2016, Transgenomic, New Haven Labs Inc., a wholly owned subsidiary of Transgenomic (“Merger Sub” and, together with Transgenomic, the “Transgenomic Parties”), and Precipio entered into an Agreement and Plan of Merger (as

Table of Contents

TRANSGENOMIC, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Years Ended December 31, 2016 and 2015

amended by the Merger Agreement Amendment (as defined below) the “Merger Agreement”) pursuant to which Precipio will become a wholly owned subsidiary of Transgenomic (the “Merger”), on the terms and subject to the conditions set forth in the Merger Agreement. On February 2, 2017, Transgenomic, Merger Sub and Precipio entered into a First Amendment to Agreement and Plan of Merger (the “Merger Agreement Amendment”) which provided for, among other things, the revision of the exchange ratio set forth in the Merger Agreement, the waiver and removal of certain closing conditions and the authorization of certain actions taken by each of Transgenomic and Precipio since the date the Merger Agreement. The parties expect the Merger to close in the second quarter of 2017. following the Merger, Transgenomic will change its name to Precipio, Inc. (“New Precipio”).

Upon the effectiveness of the Merger (the “Effective Time”), (i) the outstanding common units of Precipio will be converted into the right to receive approximately 160.6 million shares of common stock of New Precipio (“New Precipio common stock”), together with cash in lieu of fractional units, which will result in Precipio common unit holders owning approximately 52% of the issued and outstanding shares of New Precipio common stock on a fully diluted basis, taking into account the issuance of shares of convertible preferred stock of New Precipio (“New Precipio preferred stock”) in the Merger and the private placement as discussed below (the “fully diluted New Precipio common stock”) and (ii) the outstanding preferred units of Precipio will be converted into the right to receive approximately 24.1 million shares of New Precipio preferred stock with an aggregate face amount equal to \$3.0 million (based upon the purchase price of the new preferred stock of New Precipio in the new preferred stock financing), which will result in the Precipio preferred unit holders owning approximately 8% of the fully diluted New Precipio common stock.

The board of managers of Precipio and the boards of directors of Transgenomic and Merger Sub, and Transgenomic, in its capacity as the sole stockholder of Merger Sub, have each approved the Merger Agreement and the board of managers of Precipio and the board of directors of Transgenomic have each recommended that their respective equity holders approve the transactions contemplated by the Merger Agreement. Transgenomic will hold a special meeting of its stockholders to approve the issuance of shares of Transgenomic common stock pursuant to the Merger, as required by Nasdaq Listing Rules, as well as certain other matters (the “Special Meeting”).

The Merger Agreement contains various representations, warranties and covenants of the Transgenomic Parties and Precipio, including, among others, covenants (i) by each of Precipio and Transgenomic to operate its business in the ordinary course, (ii) by each of Precipio and Transgenomic not to engage in certain kinds of transactions during the period between the execution of the Merger Agreement and the completion of the Merger, (iii) by Precipio to have its members approve the Merger and (iv) by Transgenomic to hold the Special Meeting.

Under the Merger Agreement, Precipio and Transgenomic are subject to customary “no shop” provisions that limit their respective abilities to solicit alternative acquisition proposals from third parties or to provide confidential information to third parties, subject to a “fiduciary out” provision that allows Precipio and Transgenomic to provide information and participate in discussions with respect to certain unsolicited written proposals and to terminate the Merger Agreement and enter into an acquisition agreement with respect to a superior proposal in compliance with the terms of the Merger Agreement (a “Superior Proposal”).

Completion of the Merger is subject to various conditions, including, among others: (i) approval of the holders of a majority of Transgenomic’s shares of outstanding common stock, (ii) approval of the requisite amount of the members of Precipio, (iii) approval of an amendment to the Certificate of Incorporation of Transgenomic contemplating the New Preferred Stock Financing (described below) and changing the name of Transgenomic to Precipio, Inc. or such other name as determined by Precipio, (iv) obtaining certain third party consents, (v) the absence of any judgment, injunction, order or decree prohibiting or enjoining the completion of the Merger, (vi) consummation of the New Preferred Stock Financing, (vii) approval of listing of New Precipio common stock on Nasdaq, (viii) the conversion of all outstanding membership interests of Precipio into common units or preferred units which will be converted into New Precipio common stock or New Precipio preferred stock as Merger consideration, as applicable, (ix) increase in the size of the Transgenomic board by two members and the appointment of designees in accordance with the Merger Agreement and (x) the lock-up of certain Transgenomic stockholders and Precipio members.

Upon completion of the merger, New Precipio will be required to meet the initial listing requirements to maintain the listing and continued trading of its shares on Nasdaq. These initial listing requirements are more difficult to achieve than the continued listing requirements. Pursuant to the Merger Agreement, Transgenomic agreed to use its commercially reasonable efforts to cause the shares of Transgenomic common stock being issued in the merger to be approved for listing on Nasdaq at or prior to the effective time of the merger. Based on information currently available to Transgenomic, Transgenomic anticipates that its stock will be unable to meet the \$4.00 (or, to the extent applicable, \$3.00) minimum bid price initial listing requirement at the closing of the merger unless it effects a reverse stock split. On October 31, 2016, the stockholders of Transgenomic authorized the Transgenomic Board to effect a reverse stock split of the shares of Transgenomic common stock at a ratio of between one-for-ten

Table of Contents

TRANSGENOMIC, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Years Ended December 31, 2016 and 2015

to one-for-thirty. In addition, often times a reverse stock split will not result in a trading price for the affected common stock that is proportional to the ratio of the split.

In addition, the obligation of the parties to complete the Merger is subject to certain other conditions, including (i) subject to the standards set forth in the Merger Agreement, the accuracy of the representations and warranties of the other party, (ii) compliance of each party with its covenants in all material respects and (iii) no material adverse effect of either party.

The Merger Agreement contains certain termination rights for both the Transgenomic Parties and Precipio. Either may terminate the Merger Agreement if the Merger is not completed on or before the date that is six months following the date of the Merger Agreement, April 12, 2017. In the Merger Agreement Amendment, this date was extended to June 30, 2017. Moreover, either party may terminate the Merger Agreement if the other party changes its recommendation to its security holders to approve the Merger and the related transactions or enter into an agreement with a third party regarding a Superior Proposal.

If the Merger Agreement is terminated by Precipio or Transgenomic pursuant to (i) the Transgenomic board failing to recommend that Transgenomic's stockholders vote to approve the issuance of New Precipio common stock in connection with the merger; (ii) Transgenomic failing to include in this proxy statement a recommendation by the Transgenomic board to vote in favor of the each of the proposals in this proxy statement; (iii) the Transgenomic board failing to make, withholding, withdrawing, amending, changing, qualifying or publicly proposing to withhold, withdraw, amend, change or qualify in a manner adverse to Precipio, its recommendation that the stockholders of Transgenomic vote in favor and adopt each of the proposals in this proxy statement, knowingly making any public statement inconsistent with such recommendation, failing to recommend against acceptance of any alternate acquisition proposal within ten business days after the public announcement of any such alternate acquisition proposal, approving, adopting, recommending or proposing publicly to approve, adopt or recommend any alternate acquisition proposal, or making any public statement inconsistent with its recommendation; (iv) Transgenomic entering into any letter of intent or similar document or any contract relating to any alternate acquisition proposal or (v) Transgenomic entering into a definitive agreement to effect an alternate acquisition proposal, then Transgenomic shall pay to Precipio, by wire transfer of immediately available funds within three business days after termination of the Merger Agreement, a nonrefundable fee in an amount equal to \$256,500.

If the Merger Agreement is terminated by Transgenomic or Precipio pursuant to (i) Precipio's board of managers failing to recommend that its members vote or act by written consent to approve the merger; (ii) Precipio's board of managers failing to make, withholding, withdrawing, amending, changing, qualifying or publicly proposing to withhold, withdraw, amend, change or qualify in a manner adverse to Transgenomic, its recommendation that the members of Precipio vote in favor of each of the merger, the execution of the Merger Agreement and the consummation of the transaction contemplated therein, knowingly making any public statement inconsistent with such recommendation, failing to recommend against acceptance of any alternate acquisition proposal within ten business days after the public announcement of any such alternate acquisition proposal, approving, adopting, recommending or proposing publicly to approve, adopt or recommend any alternate acquisition proposal, or making any public statement inconsistent with its recommendation; (iii) Precipio entering into any letter of intent or similar document or any contract relating to any alternate acquisition proposal; or (iv) Precipio entering into a definitive agreement to effect an alternate acquisition proposal, Precipio shall pay to Transgenomic, by wire transfer of immediately available funds within three business days after termination of the Merger Agreement, a nonrefundable fee in an amount equal to \$256,500.

In connection with entering into the Merger Agreement, Transgenomic and members and warrant holders of Precipio (collectively, the "Supporting Members"), entered into a voting agreement (the "Precipio Voting Agreement") pursuant to which the Supporting Members agreed to, among other things, (i) authorize and approve the Merger Agreement and the transactions contemplated thereby and (ii) vote against any Acquisition Proposal (as defined in the Merger Agreement). Collectively, the shares held by the Supporting Members represent approximately 71% of Precipio's

issued and outstanding membership interests.

Precipio and certain Transgenomic stockholders (the “Supporting Stockholders”) also entered into a voting agreement (the “Transgenomic Voting Agreement”) pursuant to which the Supporting Stockholders agreed to, among other things, (i) authorize and approve the Merger Agreement and the transactions contemplated thereby and (ii) vote against any Acquisition Proposal (as defined in the Merger Agreement). Collectively, the shares held by the Supporting Stockholders represent approximately 31.84% of Transgenomic’s voting stock.

The Merger Agreement also provides that the combined company will enter into employment agreements with certain employees of Precipio at the Effective Time and that the officers of the combined company will be agreed to by the parties prior to the Effective Time.



Table of Contents

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
Years Ended December 31, 2016 and 2015

Special Meeting of Stockholders

At our 2016 Special Meeting of Stockholders (the “Special Meeting”) held on October 31, 2016, our stockholders approved the proposal to authorize our Board of Directors to, in its discretion, amend our Third Amended and Restated Certificate of Incorporation to effect a reverse stock split of our common stock at a ratio of between one-for-ten to one-for-thirty, such ratio to be determined by our Board of Directors (the “Reverse Split Proposal”). The Reverse Split Proposal was described in detail in our definitive proxy statement filed with the Securities and Exchange Commission on September 22, 2016, as supplemented on October 13, 2016.

The approval of the Reverse Split Proposal by our stockholders provides our Board of Directors with the authority to carry out the reverse stock split, but our Board of Directors is not obligated to do so. If our Board of Directors determines to effect the reverse stock split, it intends to select a reverse stock split ratio that it believes would be most likely to achieve the anticipated benefits of the reverse stock split. Notwithstanding approval of the Reverse Split Proposal by our stockholders, our Board of Directors may, in its sole discretion, abandon the Reverse Split Proposal and determine, prior to the effectiveness of any filing with the Secretary of State of the State of Delaware, not to effect the reverse stock split. If our Board of Directors fails to implement the reverse stock split on or prior to the first anniversary date of the Special Meeting, stockholder approval again would be required prior to implementing any reverse stock split.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation.

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

### Risks and Uncertainties.

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

### Use of Estimates.

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. The key estimates included in the consolidated financial statements include stock option valuations, goodwill and intangible valuations, accounts receivable and inventory valuations, warrant valuations and contractual allowances. Actual results could differ from the estimates and assumptions used in preparing these consolidated financial statements.

### Basis of Presentation.

The accompanying consolidated financial statements are presented in conformity with U.S. generally accepted accounting principles (“GAAP”). All amounts are presented in U.S. Dollars (“\$”). Supplemental cash flows from discontinued operations are presented in Note 3 to the consolidated financial statements “Discontinued Operations.” The Company has evaluated events occurring subsequent to December 31, 2016 for potential recognition or disclosure in the consolidated financial statements and concluded there were no subsequent events that required recognition or disclosure other than those provided in Note 14 “Subsequent Events”.

### Fair Value.

Unless otherwise specified, book value approximates fair value. The Company’s Level 1 financial instruments include cash and cash equivalents. The Company’s Level 3 financial instruments include the common stock warrant liability,

preferred stock warrant liability and conversion feature, and debt. Due to its variable interest component, debt approximates fair value. The common stock warrant liability and Series A Convertible Preferred Stock (“Series A Preferred Stock”) warrant liability and conversion feature are recorded at fair value. See Note 12 “Fair Value”. Cash and Cash Equivalents and Other Current Assets.

TRANSGENOMIC, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2016 and 2015

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

Other current assets of \$0.1 million as of December 31, 2016 consists of prepaid assets. Other current assets as of December 31, 2015 of \$0.5 million includes prepaid assets of \$0.2 million, unbilled receivables 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 for the years ended December 31, 2016 and 2015.

#### Accounts Receivable.

The following is a summary of activity for the allowance for doubtful accounts from continuing operations during the years ended December 31, 2016 and 2015:

	Dollars in Thousands			
	Beginning Balance	Provision	Write Offs	Ending Balance
Twelve months ended December 31, 2016	\$87	\$ 72	\$ (19 )	\$ 140
Twelve months ended December 31, 2015	\$20	\$ 67	\$ —	\$ 87

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 and contractual allowances. The estimate made for doubtful accounts is based on a review of all outstanding amounts on a quarterly basis. The estimate for contractual allowances is based on contractual terms or historical reimbursement rates and is recorded when revenue is recorded. We determine the allowance for doubtful accounts and contractual allowances 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. 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. We write down slow-moving and obsolete inventory by the difference between the value of the inventory and our estimate of the reduced value based on potential future uses, the likelihood that overstocked inventory will be sold and the expected selling prices of the inventory. If our ability to realize value on slow-moving or obsolete inventory is less favorable than assumed, additional write-downs of the inventory may be required. At December 31, 2016 and 2015, our inventories were less than \$0.1 million and were comprised predominantly of raw materials.

#### 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



TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

Depreciation expense related to property and equipment during the years ended December 31, 2016 and 2015 was \$0.1 million and \$0.2 million, respectively. Included in depreciation for each of the years ended December 31, 2016 and 2015 was \$0.1 million related to equipment acquired under capital leases.

We test our property and equipment for impairment when factors are present that indicate the carrying value of an asset (group) may not be recoverable. There was no impairment for the year ended December 31, 2016. During 2015, as part of our review for impairment of long-lived assets, we recorded an impairment charge of approximately \$0.8 million related to property and equipment during the three months ended September 30, 2015. See Note 4 - "Intangible Assets and Other Assets" for further discussion regarding the impairment of our long-lived assets.

#### Goodwill and 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.

We test our intangible assets for impairment when factors are present that indicate the carrying value of an intangible asset (group) may not be recoverable. Impairment occurs when the carrying value is determined to be not recoverable, thereby causing the carrying value of the intangible asset (group) to exceed its fair value. If impaired, the asset's carrying value is reduced to its fair value. During the year ended December 31, 2016 we had impairment charges of \$0.3 million related to our patents.

During 2015, we performed an interim testing of impairment of goodwill and long-lived assets as of September 30, 2015, due to the significant decline in the market price of our stock. As a result of this testing, we recorded impairment charges of \$6.2 million related to our long-lived assets during the three months ended September 30, 2015 but determined that no impairment of goodwill was needed to be recorded. See Note 4 - "Intangible Assets and Other Assets" for further discussion regarding the impairment of our intangible assets. During the fourth quarter of 2015, it was concluded that our Patient Testing business, which met the criteria to be classified as held for sale and reported as discontinued operations as of December 31, 2015, was impaired due to continued declines in financial performance and due to the fact that the likelihood of recoverability of the Patient Testing goodwill through sale of the Patient Testing business was remote. As a result we determined that the goodwill related to the Patient Testing business was impaired as of December 31, 2015. Goodwill impairment charges of \$6.9 million were recorded during 2015. The goodwill and impairment charges are included in the results of our discontinued operations. See Note 3 - "Discontinued Operations" for further discussion regarding the results of discontinued operations.

#### 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 Liability is considered a Level 3 financial instrument. See Note 12 - "Fair Value".

#### Stock Based Compensation.

All stock-based awards 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 December 31, 2016 had vesting periods of one or three years from the date of grant. None of the stock options outstanding at December 31, 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, including stock options. 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.

Income Taxes.

57

---

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

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 Statements 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.

In our Biomarker Identification laboratory, we perform services on a project by project basis. When we receive payment in advance, we recognize revenue when we deliver the service. These projects typically do not extend beyond one year. At December 31, 2016 and 2015, deferred net sales associated with pharmacogenomics research projects, included in the balance sheet in deferred revenue, was \$0.2 million.

Net sales from Patient Testing laboratories are recognized on an individual test basis and, since collectability is not reasonably assured, are recognized when cash is received. There are no deferred net sales associated with our Patient Testing services. Historically, 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. Our Patient Testing revenues are reported as part of discontinued operations (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.

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.

Loss Per Share.

Basic loss per share is calculated based on the weighted-average number of shares of common stock 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, as long as the effect is not anti-dilutive. Options, warrants and conversion rights pertaining to 8,265,584 and 9,963,886 shares of our common stock have been excluded from the computation of diluted earnings per share at December 31, 2016 and 2015, respectively. The options, warrants and conversion rights that were exercisable in 2016 and 2015 were not included because the effect would be anti-dilutive due to the net loss.

A beneficial conversion dividend was incurred in Q1 2016 but not accounted for until Q4 2016. Since the recording of the dividend has no impact on our earnings, we do not believe the omission is material but below are the effects of the dividend on each of our quarterly results.

58

---



TRANSGENOMIC, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2016 and 2015

	Three Months Ended March 31, 2016	
(dollars in thousands except per share data)	As Reported	Beneficial Conversion Adjusted Dividend
NET LOSS	\$ (3,264)	\$ (3,264)
PREFERRED STOCK DIVIDENDS	(21)	(372) (393)
NET LOSS FROM CONTINUING OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS	(2,112)	(372) (2,484)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS	(1,173)	(1,173)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$ (3,285)	(372) \$ (3,657)
BASIC AND DILUTED LOSS PER COMMON SHARE FROM CONTINUING OPERATIONS	\$ (0.10)	\$ (0.12)
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE FROM DISCONTINUED OPERATIONS	\$ (0.06)	\$ (0.06)
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.16)	\$ (0.18)
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING	20,323,333	20,323,333

	Six Months Ended June 30, 2016	
(dollars in thousands except per share data)	As Reported	Beneficial Conversion Adjusted Dividend
NET LOSS	\$ (4,261)	\$ (4,261)
PREFERRED STOCK DIVIDENDS	(21)	(372) (393)
NET LOSS FROM CONTINUING OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS	(4,291)	(372) (4,663)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS	9	9
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$ (4,282)	(372) \$ (4,654)
BASIC AND DILUTED LOSS PER COMMON SHARE FROM CONTINUING OPERATIONS	\$ (0.20)	\$ (0.22)
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE FROM DISCONTINUED OPERATIONS	\$ —	\$ —
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.20)	\$ (0.22)
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING	21,060,387	21,060,387

TRANSGENOMIC, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2016 and 2015

(dollars in thousands except per share data)	Nine Months Ended September 30, 2016	
	As Reported	Beneficial Conversion Adjusted Dividend
NET LOSS	\$(6,187)	\$(6,187 )
PREFERRED STOCK DIVIDENDS	(21 )	(372 ) (393 )
NET LOSS FROM CONTINUING OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS	(6,183 )	(372 ) (6,555 )
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS AVAILABLE TO COMMON STOCKHOLDERS	(25 )	(25 )
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$(6,208)	(372 ) \$(6,580 )
BASIC AND DILUTED LOSS PER COMMON SHARE FROM CONTINUING OPERATIONS	\$(0.28 )	\$(0.30 )
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE FROM DISCONTINUED OPERATIONS	\$—	\$—
BASIC AND DILUTED LOSS PER COMMON SHARE	\$(0.28 )	\$(0.30 )
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING	21,896,943	21,896,943

Recently Issued Accounting Pronouncements.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. 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 generally accepted accounting principles in the U.S. 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). The new 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. This standard is effective for annual periods ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The adoption of ASU 2014-15 did not have a material effect on our consolidated financial statements, however it may affect future disclosures.

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

60

---

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

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.

In August 2016, FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU No. 2016-15 eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows by adding or clarifying guidance on eight specific cash flow issues. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, and for interim periods within that fiscal year. We do not believe ASU No. 2016-15 will have a material effect on our financial position and results of operations.

### 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

TRANSGENOMIC, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2016 and 2015

(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 of 2016, we announced that we had suspended testing services in our Patient Testing laboratory as we reviewed and evaluated 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.

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.

Results of the discontinued operations consisted of the following:

(dollars in thousands)	Years ended	
	December 31, 2016	2015
Net sales	\$2,163	\$18,308
Cost of goods sold	574	12,287
Gross profit	1,589	6,021
Selling, general and administrative expense	1,710	15,187
Research and development expense	167	408
Impairment of long-lived assets	—	13,942
Operating income (loss) from discontinued operations	(288 )	(23,516 )
Gain on settlement of accounts payable	325	—
Gain (loss) on sale of assets/business	1,047	(224 )
Income (loss) from discontinued operations before income taxes	1,084	(23,740 )
Income tax expense (benefit)	431	(648 )
Income (loss) from discontinued operations	\$653	\$(23,092)

The income from discontinued operations for the year ended December 31, 2016, includes approximately \$1.0 million in proceeds received from the sale of assets of our discontinued Patient Testing business and approximately \$0.3 million of a gain resulting from a settlement of accounts payable with a vendor.

In addition during the 2016 the Company determined it was going to continue providing services related to its oncology testing. As such, revenues previously reported in discontinued operations for the year ended December 31, 2015 were reclassified to continuing operations. The result was, revenue from continuing operations increased and loss from discontinued operations increased by \$0.3 million for the year ended December 31, 2015. There was no effect on net loss or stockholders’ deficit for 2015.



TRANSGENOMIC, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2016 and 2015

Assets and liabilities of the discontinued operations are classified as assets held for sale and liabilities held for sale in the consolidated balance sheets and consisted of the following:

Dollars in  
 Thousands  
 December  
 31, 31,  
 2016 2015

ASSETS

Accounts receivable, net	\$—	\$ 1,905
Other current assets	31	82
Total Assets	\$31	\$ 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 years ended December 31, 2016 and 2015. The allowance for doubtful accounts from discontinued operations are included in the assets held for sale in the consolidated balance sheets.

	Dollars in Thousands			
	Beginning Balance	Provision	Write Offs	Ending Balance
Twelve months ended December 31, 2016	\$14,664	\$ —	\$(14,664)	\$—
Twelve months ended December 31, 2015	\$7,927	\$ 9,447	\$(2,710)	\$14,664

4. INTANGIBLE ASSETS AND OTHER ASSETS

During the year ended December 31, 2016, we recorded impairment charges of \$0.3 million related to our patents. In 2015, we performed an impairment test as of September 30, 2015 due to the significant decline in the market price of our stock. As a result of this testing, we recorded impairment charges related to our long-lived assets of approximately \$7.0 million during the three months ended September 30, 2015. The impairment charges included \$0.8 million related to property and equipment and \$6.2 million related to amortizable intangibles. Long-lived intangible assets and other assets consisted of the following:

	Dollars in Thousands		
	December 31, 2016		
	Cost	Accumulated Amortization	Net Book Value
Patents	\$233	\$ 26	\$ 207
Intellectual property	672	317	355
	\$905	\$ 343	\$ 562





Table of ContentsTRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
Years Ended December 31, 2016 and 2015

	Dollars in Thousands		
	December 31, 2015		
	Cost	Accumulated Amortization	Net Book Value
Patents	\$773	\$ 67	\$ 706
Intellectual property	671	207	464
	\$1,444	\$ 274	\$ 1,170

	Estimated Useful Life
Patents	13.5 years
Intellectual property	7 years

During the year ended December 31, 2016, we impaired patents having a carrying value of \$0.3 million. This cost is included in our research and development expense in our accompanying consolidated statements of operations. Also during 2016, we assigned and sold certain patents having a carrying value of \$0.2 million. This cost is included in our loss on sale/disposal of assets in our accompanying consolidated statements of operations.

Amortization expense for intangible assets was \$0.2 million and \$0.1 million during the years ended December 31, 2016 and 2015, respectively. Amortization expense for intangible assets for each of the five succeeding fiscal years is expected to be \$0.1 million, \$0.1 million, \$0.1 million, less than \$0.1 million and less than \$0.1 million for the years ended December 31, 2017, 2018, 2019, 2020 and 2021, respectively.

Other assets include security deposits.

TRANSGENOMIC, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2016 and 2015

## 5. DEBT

	Dollars in Thousands	
	Year Ended December 31,	
	2016	2015
Revolving Line <sup>(1)</sup>	\$ 3,243	\$ 3,025
Term Loan <sup>(2)</sup>	4,000	4,000
Convertible Promissory Note <sup>(3)</sup>	571	571
Total debt	7,814	7,596
Current portion of long term debt	(7,814 )	(7,596 )
Long term debt, net of current maturities	\$ —	\$ —

(1) Revolving Line of Credit. Amounts advanced under the Revolving Line initially bore interest at an annual rate equal to the greater of (a) 4.25% or (b) the Wall Street Journal prime rate plus 1%. Interest is payable on a monthly basis, with the balance payable at the maturity of the Revolving Line. Under the Amendment to the Loan Agreement, which we entered into on August 2, 2013, amounts advanced under the Revolving Line bear interest at an annual rate equal to the greater of (x) 6.25% or (y) the Wall Street Journal prime rate plus 3%. The current interest rate is 6.75%. As discussed below under Additional Terms, the interest rate is subject to increase if there is a default under the Loan Agreement. Under the Loan Agreement, we paid the Lenders an upfront fee of \$20,000, and will pay the Lenders an additional commitment fee of \$20,000 on each one year anniversary of March 13, 2013, the Effective Date, during the term of the Revolving Line. In addition, a fee of 0.5% per annum is payable quarterly on the unused portion of the Revolving Line. The Revolving Line matures on November 1, 2017.

(2) Term Loan. We received \$4.0 million under the Term Loan on the Effective Date. Pursuant to the terms of the Loan Agreement, as amended by the Sixth Amendment (as defined in “-Revolving Line and Term Loan” below), we made a principal payment of approximately \$148,000 on April 1, 2015 and were not be obligated to make monthly payments of principal to the Lenders until April 1, 2016. Pursuant to the Eighth Amendment of the Loan Agreement, the maturity date of the Loan Agreement was extended until November 1, 2017 and no principal payments on the Term Loan are due until such date. The current interest rate is 9.1%. As discussed below, the interest rate is subject to increase if there is a default under the Loan Agreement.

We paid the Lenders an upfront fee of \$40,000 for the Term Loan, and will pay the Lenders an additional final payment of \$120,000 at maturity or prepayment of the Term Loan. In addition, if we repay the Term Loan prior to maturity, we will pay the Lenders a prepayment penalty of 1% of the total outstanding balance under the Term Loan.

## Additional Terms

The Loan Agreement contains affirmative and negative covenants. Under the Loan Agreement, we are required to maintain a minimum liquidity ratio and achieve a minimum amount of revenue, and we also agreed not to (i) pledge or otherwise encumber our assets other than to the Lenders, (ii) enter into additional borrowings or guarantees, (iii) repurchase our capital stock, or (iv) enter into certain mergers or acquisitions without the Lenders’ consent. Additionally, the Loan Agreement contains a subjective acceleration clause at the discretion of the Lenders. As of December 31, 2016, we were not in compliance with the Loan Agreement, as amended by the Ninth Amendment, due to the fact that events of default existed, including our failure to make the required monthly interest payments during the second half of 2016.

To secure the repayment of any amounts borrowed under the Revolving Line and the Term Loan, we granted the Lenders a security interest in all of our assets. The occurrence of an event of default under the Loan Agreement could result in the acceleration of our obligations under the Loan Agreement and would increase the applicable interest rate under the Revolving Line or Term Loan (or both) by 5%, and permit the Lenders to exercise remedies with respect to the collateral under the Loan Agreement. At December 31, 2016, our applicable interest rates have been increased by 5%.

(3) Convertible Promissory Notes. The Notes accrue interest at a rate of 6% per year and matured on December 31, 2016.

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

Revolving Line and Term Loan.

On March 13, 2013 (the “Effective Date”), we entered into a Loan and Security Agreement with affiliates of Third Security, LLC, a related party, (the “Lenders”) for (a) a revolving line of credit (the “Revolving Line”) with borrowing availability of up to \$4.0 million, subject to reduction based on our eligible accounts receivable, and (b) a term loan (the “Term Loan” and together with the Revolving Line, the “Loan Agreement”) of \$4.0 million. Proceeds were used to pay off a three year senior secured promissory note payable to PGxHealth, LLC, which was entered into on December 29, 2010 in conjunction with our acquisition of the FAMILION family of genetic tests, and for general corporate and working capital purposes.

On August 2, 2013, we entered into an amendment to the Loan Agreement (the “Amendment”). The Amendment, which became effective as of June 30, 2013, reduced our future minimum revenue covenants under the Loan Agreement and modified the interest rates applicable to the amounts advanced under the Revolving Line.

On November 14, 2013, we entered into a second amendment to the Loan Agreement (the “Second Amendment”). The Second Amendment, which became effective as of October 31, 2013, reduced our future minimum revenue covenant under the Loan Agreement.

On January 27, 2014, we entered into a third amendment to the Loan Agreement (the “Third Amendment”). Pursuant to the Third Amendment, the Lenders agreed to waive certain events of default under the Loan Agreement, and the parties amended certain provisions of the Loan Agreement, including the minimum liquidity ratio that we must maintain during the term of the Loan Agreement.

On March 3, 2014, we entered into a fourth amendment to the Loan Agreement (the “Fourth Amendment”). Pursuant to the terms of the Fourth Amendment, we were not required to make any principal or interest payments under the Term Loan for the period from March 1, 2014 through March 31, 2015. The interest on the debt that was deferred and not paid was capitalized as part of the Term Loan. The amount of interest that was capitalized from March 1, 2014 to March 31, 2015 was \$0.4 million.

On October 22, 2014, we entered into a fifth amendment to the Loan Agreement (the “Fifth Amendment”). Pursuant to the Fifth Amendment, the parties amended certain provisions of the Loan Agreement, including reducing the minimum liquidity and revenue covenants under the Loan Agreement. The Fifth Amendment also reduced the aggregate amount that we may borrow under the Revolving Line from \$4.0 million to \$3.0 million.

On April 1, 2015, we entered into a sixth amendment to the Loan Agreement (the “Sixth Amendment”). Pursuant to the Sixth Amendment, among other things, (a) the Lenders waived specified events of default under the terms of the Loan Agreement, (b) commencing April 1, 2015, we began making monthly interest payments with respect to the Term Loan to the Lenders, (c) we were not be obligated to make monthly payments of principal under the Term Loan to the Lenders until April 1, 2016, (d) we made an initial prepayment of a portion of the Term Loan balance in the amount of approximately \$148,000 on April 1, 2015 and made one or more additional prepayments to the Lenders under the Loan Agreement upon the occurrence of certain events, as defined in the Loan Agreement, and (e) we were not required to comply with the minimum liquidity ratio under the terms of the Loan Agreement until the earliest to occur of a specified event, as defined in the Loan Agreement, or March 31, 2016. The Sixth Amendment also extended the time period in which we had to provide certain reports and statements to the Lenders and amended the circumstances

pursuant to which could engage in certain sales or transfers of our business or property without the consent of the Lenders.

As of June 30, 2015, we were in compliance with all financial covenants of the Loan Agreement, but were not in compliance with the restrictions limiting the amount that we may borrow under the Revolving Line. Accordingly, on August 10, 2015, we received a waiver from the Lenders relating to this non-compliance and paid the Lenders an aggregate of \$0.7 million, which brought us back into compliance with the terms of the Revolving Line.

On September 4, 2015, we entered into a seventh amendment to the Loan Agreement (the “Seventh Amendment”). The Seventh Amendment, among other things, (a) provided that the Lenders waived specified events of default under the terms of the Loan Agreement, (b) reduced our future minimum revenue covenants under the Loan Agreement, (c) reduced our borrowing availability under the Revolving Line to approximately \$2.3 million and (d) limited our borrowing base under the Loan Agreement to the amount of the Revolving Line.

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

On January 6, 2016, we entered into an eighth amendment to the Loan Agreement (the “Eighth Amendment”). The Eighth Amendment, among other things, (1) provided that the Lenders waived specified events of default under the terms of the Loan Agreement, (2) reduced our future minimum revenue covenants under the Loan Agreement, (3) extended the maturity date of the Loan Agreement until November 1, 2017, and (4) provided for the repayment of an overadvance of \$750,000 previously provided by the Lenders to us pursuant to the Loan Agreement.

During the first quarter of 2016, the overadvance that existed at December 31, 2015 was repaid to the Lenders and \$0.2 million was received from certain of the Lenders and another lender affiliate in connection with the equity offering made on January 6, 2016.

On June 6, 2016, we entered into a ninth amendment to the Loan Agreement (the “Ninth Amendment”). The Ninth Amendment, among other things, (a) provided that the Lenders waived specified events of default under the terms of the Loan Agreement, (b) amended the prepayment terms of the Loan Agreement, (c) provided for the reduction of amounts available under the Revolving Line upon the prepayment or repayment of certain amounts by us, (d) removed the minimum liquidity ratio and minimum net revenue financial covenants applicable to us under the Loan Agreement, (e) amended the circumstances pursuant to which we may engage in certain sales or transfers of our business or property without the consent of the Lenders, and (f) capitalized certain amounts owed by us to the Lenders and added such overdue amounts to the outstanding principal amount of the Revolving Line.

On February 2, 2017, we entered into a termination and tenth amendment to the Loan Agreement (the “Tenth Amendment”). The Tenth Amendment, among other things, (i) provides that the Lenders will waive specified events of default under the terms of the Loan Agreement until the effective time of the Merger (or the termination of the Merger Agreement in accordance with its terms), (ii) provides for the conversion of all outstanding indebtedness owed to the Lenders under the Loan Agreement (the “Outstanding Indebtedness”) into shares of Transgenomic common stock and preferred stock (collectively, the “Conversion Shares”) effective as of the closing date of the Merger and (iii) the termination of the Loan Documents (as defined in the Loan Agreement) and the termination and release of all security interests and liens of the Lenders in the Collateral (as defined in the Loan Agreement) in each case immediately following the conversion of the Outstanding Indebtedness into Conversion Shares.

The effectiveness of certain provisions in the Tenth Amendment, including provisions relating to conversion of the Conversion Shares and termination of the Loan Documents, is conditioned on, among other things, the consummation of the Merger, and, in the event that the Merger is not consummated, these provisions in the Loan Agreement Amendment will terminate.

In connection with the Tenth Amendment, the Lenders have agreed to convert the outstanding principal and accrued interest under the Loan Agreement into (i) approximately 10.4 million shares of New Precipio common stock immediately prior to the effectiveness of the Merger at a price equal to \$0.50 per share and (ii) 24.1 million shares of New Precipio preferred stock. As of December 31, 2016, the outstanding amount owed under the Loan Agreement was approximately \$7.2 million of principal and \$0.6 million of accrued interest. The issuance of the Conversion Shares is subject to the approval of the Transgenomic stockholders in accordance with NASDAQ Capital Market listing rules

Convertible Promissory Notes.

On December 31, 2014, we entered into an Unsecured Convertible Promissory Note Purchase Agreement (the “Note Purchase Agreement”) with an accredited investor (the “Investor”) pursuant to which we agreed to issue and sell to the Investor in a private placement an unsecured convertible promissory note (the “Initial Note”). We issued the Initial Note in the aggregate principal amount of \$750,000 to the Investor on December 31, 2014. Pursuant to the terms of the Initial Note, interest accrued at a rate of 6% per year and the Initial note was set to mature on December 31, 2016 (the “Maturity Date”). Under the Note, the outstanding principal and unpaid interest accrued was convertible into shares of our common stock as follows: (i) commencing upon the date of issuance of the Initial Note (but no earlier than January 1, 2015), the Investor was entitled to convert, on a one-time basis, up to 50% of the outstanding principal and unpaid interest accrued under the Initial Note, into shares of our common stock at a conversion price equal to the lesser of (a) the average closing price of the common stock on the principal securities exchange or securities market on which our common stock is then traded (the “Market”) for the 20 consecutive trading days immediately preceding the date of conversion, and (b) \$2.20 (subject to adjustment for stock splits, stock dividends, other distributions, recapitalizations and the like); and (ii) commencing February 15, 2015, the Investor was entitled to convert, on a one-time basis, any or all of the remaining outstanding principal and unpaid interest accrued under the Initial Note, into shares of our common stock at a conversion price equal to 85% of the average closing price of our common stock on the Market for the 15 consecutive

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

trading days immediately preceding the date of conversion. The Initial Note has been converted in full into 502,786 shares of our common stock, in accordance with the terms of the Initial Note.

On January 15, 2015, we entered into the Note Purchase Agreement with seven accredited investors (the “Additional Investors”) and, on January 20, 2015, issued and sold to the Additional Investors, in a private placement, notes (the “Additional Notes”) in an aggregate principal amount of \$925,000. We also issued, to our placement agent for the Notes, a convertible promissory note in an aggregate principal amount equal to 5% of the proceeds received by us, or \$46,250 (the “Agent Note”). The Additional Notes and Agent Note have the same terms and conditions as the Initial Note. As of December 31, 2016, \$400,000 of the aggregate principal amount of the Additional Notes, and accrued interest thereon, has been converted into an aggregate of 281,023 shares of our common stock.

On the Maturity Date, the then outstanding aggregate amount owed on the Additional Notes and Agent Note of approximately \$0.6 million, including accrued interest, became due. Pursuant to the terms of the Initial Note, our failure to pay any principal or interest within 10 days of the date such payment is due will constitute an event of default (the “Prospective Event of Default”).

On January 10, 2017, the Additional Investors and our placement agent executed a waiver of the Prospective Event of Default, pursuant to which, they agreed to waive the Prospective Event of Default on the condition that the Company and the Additional Investors enter into definitive documentation evidencing the terms for an extended maturity date of the Additional Notes and the Agent Note on or before January 16, 2017 (the “Waiver Deadline”).

On January 13, 2017, all but one Additional Investor exercised their conversion rights relating to their respective Additional Notes, including the Agent Note, and converted an aggregate principal amount of \$446,250, and accrued interest thereon, into 416,135 shares of our common stock. The Waiver Deadline was extended with respect to the remaining Additional Investor who did not exercise conversion rights (the “Non-Converting Investor”) so that the parties could continue to discuss a resolution of the Prospective Event of Default relating to such Non-Converting Investor’s Additional Note with an outstanding principal amount due of \$125,000.

On January 17, 2017, the Non-Converting Investor agreed to extend the Maturity Date of its Additional Note pursuant to an amendment to the Additional Note (the “Amendment”). The Amendment provides that two-thirds of the outstanding principal amount of the Additional Note must be paid upon the earlier to occur of the close of the Company’s merger with Precipio Diagnostics, LLC or June 16, 2017 (such applicable date, the “Deferred Maturity Date”). The remaining one-third of the principal amount outstanding on the Additional Note must be paid on the six month anniversary of the Deferred Maturity Date (the “Extended Maturity Date”).

The aggregate minimum principal maturities of the debt for the following fiscal years are as follows (dollars in thousands):

2017	\$7,814
Total	\$7,814

## 6. CAPITAL LEASES

The following is an analysis of the property acquired under capital leases.

Dollars in Thousands



Classes of Property	Asset Balances at	
	December 31, 2016	December 31, 2015
Equipment	\$828	\$ 828
Less: Accumulated amortization	(796 )	(725 )
Total	\$32	\$ 103

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2016.

Year ending December 31:

	Dollars in Thousands
2017	\$ 1
Total minimum lease payments	\$ 1
Less: Amount representing interest	—
Present value of net minimum lease payments	\$ 1

The short term portion of our capital leases is included in accrued expenses on the Balance Sheet. Included in depreciation for both of the years ended December 31, 2016 and 2015 was \$0.1 million related to equipment acquired under capital leases.

## 7. COMMITMENTS AND CONTINGENCIES

Transgenomic is subject to a number of claims of various amounts, which arise out of the normal course of business. In addition to the claims described in this Note 7, Transgenomic is delinquent on the payment of outstanding accounts payable amounting to approximately \$0.6 million with certain of Transgenomic's vendors and suppliers who have taken or have threatened to take legal action to collect such outstanding amounts.

On February 25, 2016, UNMC filed a lawsuit against Transgenomic in the District Court of Douglas County, Nebraska, for breach of contract and seeking recovery of \$0.7 million owed by Transgenomic to UNMC. A \$0.4 million and \$0.7 million liability has been recorded and is reflected in accrued expenses at December 31, 2016 and December 31, 2015. Transgenomic and UNMC entered into a settlement agreement dated February 6, 2017, which included, among other things, a mutual general release of claims, and Transgenomic's agreement to pay \$0.4 million to UNMC in installments over a period of time. As of March 15, 2017, Transgenomic's initial payment due to UNMC under the settlement agreement is delinquent. Transgenomic and UNMC are currently in discussions to extend the date of Transgenomic's initial payment due to UNMC.

In addition, on April 13, 2016, Fox Chase filed a lawsuit against Transgenomic in the Court of Common Pleas, alleging, among other things, breach of contract, tortious interference with present and prospective contractual relations, unjust enrichment, fraudulent conversion and conspiracy and seeking punitive damages in addition to damages and other relief. This lawsuit relates to a license agreement between Transgenomic and Fox Chase (the "License Agreement") as well as the assignment of certain of Transgenomic's rights under the License Agreement to IDT pursuant to the IDT Agreement. Pursuant to the terms of the IDT Agreement, Transgenomic agreed to indemnify IDT with respect to certain of the claims asserted in the Fox Chase proceeding. On July 8, 2016, the Court of Common Pleas sustained Transgenomic's preliminary objections to several of Fox Chase's claims and dismissed the claims for tortious interference, fraudulent conversion, conspiracy, punitive damages and attorney's fees. Accordingly, the case has been narrowed so that only certain contract claims and an unjust enrichment claim remain pending against Transgenomic. Transgenomic believes that it has good and substantial defenses to the claims asserted by Fox Chase. Transgenomic is unable to determine whether any loss will occur or to estimate the range of such potential loss; therefore, no amount of loss has been accrued by Transgenomic as of the date of filing of this Annual Report on Form 10-K. Furthermore, there is no guarantee that Transgenomic will prevail in this suit or receive any damages or other relief if it does prevail.

On June 23, 2016, Mount Sinai filed a lawsuit against Transgenomic in the Supreme Court of the State of New York, County of New York, alleging, among other things, breach of contract and, alternatively, unjust enrichment and quantum merit, and seeking recovery of \$0.7 million owed by Transgenomic to Mount Sinai for services rendered. Transgenomic and Mount Sinai entered into a settlement agreement dated October 27, 2016, which included, among other things, a mutual general release of claims, and Transgenomic's agreement to pay approximately \$0.7 million to Mount Sinai in installments over a period of time. A \$0.7 million liability has been recorded and is reflected in accrued expenses at December 31, 2016. Effective as of February 1, 2017, Transgenomic and Mount Sinai agreed to amend the terms of their settlement agreement to extend the date of Transgenomic's initial payment due to Mount Sinai.

On December 19, 2016, Todd Smith (“Smith”) filed a lawsuit against Transgenomic in the District Court of Douglas County Nebraska, alleging breach of contract and seeking recovery of \$2.2 million owed by Transgenomic to Smith for costs and damages arising from a breach of Transgenomic’s obligations pursuant to lease agreement between the parties. Transgenomic and Smith are currently in discussions to determine a mutually agreeable means by which to settle the outstanding liability.

TRANSGENOMIC, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2016 and 2015

On February 21, 2017, XIFIN, Inc. (“XIFIN”) filed a lawsuit against us in the District Court for the Southern District of California alleging breach of written contract and seeking recovery of approximately \$0.27 million owed by us to XIFIN for damages arising from a breach of our obligations pursuant to a Systems Services Agreement between us and XIFIN, dated as of February 22, 2013, as amended and restated on September 1, 2014. On April 4, 2017, XIFIN filed an application for an entry of default by the clerk of the court against us. A \$0.21 million liability has been recorded and is reflected in accrued expenses at December 31, 2016.

We and Science Park Development Corporation (“SPDC”) entered into that certain Lease dated as of December 31, 2011, as modified by the First Amendment to Lease dated as of June 18, 2013, as further modified by a letter agreement dated as of February 2, 2015, as modified by the Second Amendment to Lease dated as of June 26, 2015 (the “SPDC Lease”). In November 2016, SPDC alleged that we defaulted on our obligations under the SPDC Lease. Specifically, SPDC alleges that we failed to pay approximately \$0.4 million in rental payments due under the SPDC Lease and that we vacated a portion of the leased premises in violation of the terms of the SPDC Lease. SPDC has not filed a claim against us in connection with these allegations. Transgenomic and SPDC entered into a settlement agreement dated March 6, 2017, which included, among other things, a mutual general release of claims, and Transgenomic’s agreement to pay approximately \$0.4 million to SPDC in installments over a period of time. CPA Global provides us with certain patent management services. On February 6, 2017, CPA Global claimed that we owe CPA Global approximately \$0.2 million for certain patent maintenance services rendered. CPA Global has not filed claims against us in connection with this allegation. A liability of approximately \$0.2 million has been recorded and is reflected in accrued expenses at December 31, 2016.

On March 9, 2016, counsel for Edge BioSystems, Inc. (“EdgeBio”) sent a demand letter on behalf of EdgeBio to us in connection with the terms of that certain Asset Purchase Agreement dated September 8, 2015 (the “EdgeBio Agreement”). EdgeBio alleges, among other things, that certain customers of EdgeBio erroneously remitted payments to us, that such payments should have been paid to EdgeBio and that we failed to remit these funds to EdgeBio in violation of the terms of the EdgeBio Agreement. On September 13, 2016, we received a demand for payment letter from EdgeBio’s counsel alleging that the balance due to EdgeBio is approximately \$0.1 million. A liability of approximately \$0.1 million has been recorded and is reflected in accrued expenses at December 31, 2016.

On February 17, 2017, Jesse Campbell (“Campbell”) filed a lawsuit individually and on behalf of others similarly situated against us in the District Court for the District of Nebraska alleging we have a materially incomplete and misleading proxy relating to a potential merger and that the merger agreement’s deal protection provisions deter superior offers. As a result, he alleges that we have violated Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereafter. Although we intend to defend the lawsuit, there can be no assurance regarding the ultimate outcome of this case. Given the uncertainty of litigation, the legal standards that must be met for, among other things, class certification and success on the merits, we are unable to estimate the amount of loss, or range of possible loss, at this time that may result from this action. In the event that a settlement is reached related to these matters, the amount of such settlement may be material to our results of operations and financial condition and may have a material adverse impact on our liquidity.

Rent expense under all operating leases was \$0.2 million in each of 2016 and 2015. We lease certain equipment, vehicles and operating facilities under non-cancellable operating leases, some of which have escalation clauses that expire on various dates through 2022, for which, we have recorded a straight-line liability of \$0.2 million in accrued liabilities on the consolidated balance sheets at December 31, 2016. Future minimum lease payments under non-cancellable operating leases, including non-cancellable lease associated with discontinued operations, are as follows (dollars in thousands):

2017	\$226
2018	230
2019	235
2020	239

2021 244  
thereafter 144  
Total \$1,318

70

---

TRANSGENOMIC, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2016 and 2015

At December 31, 2016, firm commitments to vendors totaled less than \$0.1 million.

#### 8. INCOME TAXES

The Company's provision for income taxes from continuing operations for the years ended December 31, 2016 and 2015 relates to income taxes in states, foreign countries and other local jurisdictions and differs from the amounts determined by applying the statutory Federal income tax rate to loss before income taxes for the following reasons:

	Dollars in Thousands	
	2016	2015
Benefit at federal rate	\$(2,812 )	\$(3,449 )
Increase (decrease) resulting from:		
State income taxes—net of federal benefit	(301 )	(320 )
Miscellaneous permanent differences	6	163
Liability warrants	(268 )	70
Capitalized transaction cost	244	—
State, net operating loss expiration/true-up	25	(187 )
Other—net	—	(119 )
Valuation allowance	3,106	3,842
Total income tax expense (benefit)	\$—	\$—

	Dollars in Thousands	
	2016	2015
Federal:		
Current	\$ —	\$ —
Deferred	—	—
Total Federal	\$ —	\$ —
State:		
Current	\$ —	\$ —
Deferred	—	—
Total State	\$ —	\$ —
Foreign:		
Current	\$ —	\$ —
Deferred	—	—
Total Foreign	\$ —	\$ —
Total Tax Provision	\$ —	\$ —

The Company's deferred income tax asset from continuing operations at December 31, 2016 and 2015 is comprised of the following temporary differences:

TRANSGENOMIC, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2016 and 2015

	Dollars in Thousands	
	2016	2015
Deferred Tax Asset:		
Net operating loss carryforward	\$ 60,276	\$ 51,449
Research and development credit carryforwards	918	918
Other	116	585
	61,310	52,952
Less valuation allowance	(61,310 )	(52,902 )
Deferred Tax Asset	\$—	\$ 50
Deferred Tax Liability:		
Property and equipment	—	50
Deferred Tax Liability	\$—	\$ 50
Net Deferred Asset (Liability)	\$—	\$—

At December 31, 2016, we had total unused federal tax net operating loss carryforwards of \$167.9 million. The expiration dates are as follows (amounts in thousands):

2018	\$ 1,838
2019	8,181
2020	9,662
2021	8,228
2022	16,862
2023	16,173
2024	17,390
2025	8,153
2026	6,792
2027	3,238
2028	1,272
2029	591
2031	2,784
2032	8,358
2033	12,097
2034	7,591
2035	15,147
2036	23,499
Total	\$ 167,856

Of these federal net operating loss carryforwards, \$1.2 million were obtained in the acquisition of Annovis, Inc. and may be subject to certain restrictions. Remaining net operating loss carryforwards could be subject to limitations under section 382 of the Internal Revenue Code of 1986, as amended. At December 31, 2016, we had unused state tax net operating loss carryforwards of approximately \$62.0 million that expire at various times beginning in 2018. At December 31, 2016, we had unused research and development credit carryforwards of \$0.9 million that expire at various times between 2018 and 2028. As a result of the asset purchase agreement in November of 2015 which included the stock of our subsidiary Transgenomic Limited, the Company no longer has foreign operating loss carryforwards. We will continue to assess the recoverability of deferred tax assets and the related valuation allowance.

To the extent we begin to generate income in future years and it is determined that such valuation allowance is no longer required, the tax benefit of the remaining deferred tax assets will be recognized at such time. It is likely that the proposed Merger will be a change in control that will limit the use of the net operating loss carryforwards.



TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

We had no material interest or penalties during fiscal 2016 or fiscal 2015, and we do not anticipate any such items during the next twelve months. Our policy is to record interest and penalties directly related to income taxes as income tax expense in the Consolidated Statements of Operations. We file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. We have statutes of limitation open for Federal income tax returns related to tax years 2012 through 2016. We have state income tax returns subject to examination primarily for tax years 2012 through 2016. To the extent the Company has tax attribute carryforwards, the tax years in which the attribute was generated may still be adjusted upon examination by the Internal Revenue Service, state or foreign tax authorities to the extent utilized in a future period. Open tax years related to foreign jurisdictions remain subject to examination. Our primary foreign jurisdiction is the United Kingdom, which has open tax years for 2011 through 2015.

During November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes", which simplifies the presentation of deferred income taxes. This ASU requires that deferred tax assets and liabilities be classified as non-current in a statement of financial position.

#### 9. EMPLOYEE BENEFIT PLAN

We maintain an employee 401(k) retirement savings plan that allows for voluntary contributions into designated investment funds by eligible employees. We match the employee's contributions at the rate of 100% on the first 3% of contributions and 50% on the next 2% of contributions. We may, at the discretion of our Board of Directors, make additional contributions on behalf of the Plan's participants. Contributions to the 401(k) plan were \$0.1 million and \$0.4 million for the years ended December 31, 2016 and 2015, respectively. Effective January 1, 2017, we discontinued matching employee 401(k) contributions.

#### 10. STOCKHOLDERS' EQUITY

##### Common Stock.

Pursuant to our Third Amended and Restated Certificate of Incorporation, as amended, we currently have 150,000,000 shares of common stock authorized for issuance.

On February 2, 2012, we entered into definitive agreements with institutional and other accredited investors and raised approximately \$22.0 million in a private placement financing (the "Private Placement"), which includes an aggregate of \$3.0 million in convertible notes (the "Convertible Notes") issued in December 2011 to entities affiliated with Third Security, LLC (the "Third Security Investors"), a related party, that automatically convert into shares of our common stock and warrants to purchase such common stock on the same terms as all investors in the Private Placement.

Pursuant to the applicable purchase agreement, we issued an aggregate of 1,583,333 shares of our common stock at a price per share of \$12.00, as well as five-year warrants to purchase up to an aggregate of 823,333 shares of common stock with an exercise price of \$15.00 per share. In connection with the conversion of the Convertible Notes, the Third Security Investors received an aggregate of 250,000 shares of common stock and 125,000 warrants on the same terms as all investors in the Private Placement. Craig-Hallum Capital Group LLC served as the sole placement agent for the offering. In consideration for services rendered as the placement agent in the offering, we agreed to (i) pay to the placement agent cash commissions equal to \$1,330,000, or 7.0% of the gross proceeds received in the offering, (ii) issue to the placement agent a five-year warrant to purchase up to 31,666 shares of our common stock (representing 2% of the shares sold in the Private Placement) with an exercise price of \$15.00 per share and other terms that are the same as the terms of the warrants issued in the Private Placement; and (iii) reimburse the placement agent for reasonable out-of-pocket expenses, including fees paid to the placement agent's legal counsel, incurred in connection with the offering, which reimbursable expenses were not to exceed \$125,000. The costs incurred to complete the Private Placement were recorded as a reduction in equity in the amount of \$1.5 million. Net proceeds from this

offering have been used for general corporate and working capital purposes, primarily to accelerate development of several of our key initiatives.

On January 24, 2013, we entered into a Securities Purchase Agreement with certain institutional and other accredited investors pursuant to which we: (i) sold to the investors an aggregate of 1,383,333 shares of our common stock at a price per share of \$6.00 for aggregate gross proceeds of approximately \$8.3 million; and (ii) issued to the investors warrants to purchase up to an aggregate of 691,656 shares of our common stock with an exercise price of \$9.00 per share (the "Offering"). The warrants may be exercised, in whole or in part, at any time from January 30, 2013 until January 30, 2018 and contain both cash and "cashless exercise" features. The Third Security Investors purchased an aggregate of 500,000 shares of common stock and warrants to purchase an aggregate of 250,000 shares of common stock in the Offering on the same terms as the other investors. We used the net proceeds from the Offering for general corporate and working capital purposes.

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

In connection with the Offering, we entered into a registration rights agreement with the investors (the “Registration Rights Agreement”). The Registration Rights Agreement required that we file with the Securities and Exchange Commission (the “SEC”) a registration statement to register for resale the shares of common stock sold and the shares of common stock issuable upon exercise of the warrants by March 16, 2013. The registration statement was filed with the SEC on March 15, 2013 and was declared effective by the SEC on March 29, 2013.

The January 2013 common stock transaction required the repricing and issuance of additional common stock warrants to the holders of warrants issued in the February 2012 common stock and warrant sale. The exercise price of the warrants decreased from \$15.00 per share to \$12.96 per share and the number of shares issuable upon exercise of the warrants increased from 948,333 to 1,097,600.

On October 22, 2014, we entered into a Securities Purchase Agreement with certain accredited investors (the “October 2014 Investors”), pursuant to which we, in a private placement, issued and sold to the October 2014 Investors (the “2014 Private Placement”) an aggregate of 730,776 shares of our common stock at a price per share of \$3.25 for an aggregate purchase price of approximately \$2.375 million, and warrants to purchase up to an aggregate of 365,388 shares of our common stock with an initial exercise price of \$4.00 per share that are exercisable for the period from April 22, 2015 through April 22, 2020. In connection with the 2014 Private Placement, we also issued a warrant to purchase up to an aggregate of 9,230 shares of our common stock to one advisor. The warrants issued in the 2014 Private Placement include both cash and “cashless exercise” features.

The 2014 Private Placement required the repricing and issuance of additional common stock warrants to the holders of warrants issued in the February 2012 common stock and warrant sale. The exercise price of the warrants decreased from \$11.73 per share to \$10.86 per share and the number of shares issuable upon exercise of the warrants increased from 1,212,665 to 1,309,785.

On December 31, 2014, we entered into the Note Purchase Agreement with the Investor pursuant to which we agreed to issue and sell the Initial note to the Investor (the “Note Private Placement”). See Note 6 “Debt-Convertible Promissory Notes” for additional information regarding the terms of the Initial note.

Pursuant to the terms of the Note Purchase Agreement, we are subject to certain registration obligations and we may be required to effect one or more other registrations to register for resale the shares of our common stock issued or issuable under the Initial Note in connection with certain “piggy-back” registration rights granted to the Investor. The Note Private Placement required the repricing and issuance of additional common stock warrants to the holders of warrants issued in the February 2012 common stock and warrant sale. The exercise price of the 2012 warrants decreased from \$10.86 per share to \$10.25 per share and the number of shares issuable upon exercise of the warrants increased from 1,309,785 to 1,387,685.

On January 15, 2015, we entered into the Note Purchase Agreement with the Additional Investors and, on January 20, 2015, issued and sold to the Additional Investors, in a private placement, the Additional Notes in an aggregate principal amount of \$925,000 (the “Additional Note Private Placement”). The Additional Notes have the same terms and conditions as the Initial Note.

Craig-Hallum acted as the sole placement agent for the sale and issuance of the Additional Notes. In connection with the sale and issuance of the Additional Notes, we issued to Craig-Hallum an unsecured convertible promissory note, upon the same terms and conditions as the Notes, in an aggregate principal amount equal to 5% of the proceeds received by us pursuant to the sale and issuance of the Additional Notes, or \$46,250. As of the date of filing of this Annual Report, the Placement Agent Note remains outstanding.

The Additional Note Private Placement required the repricing and issuance of additional common stock warrants to the investors in our February 2012 common stock and warrant financing. The exercise price of these warrants decreased from \$10.25 per share to \$9.59 per share and the number of shares issuable upon exercise of the warrants increased from 1,387,685 to 1,483,161.

On February 27, 2015, we entered into a purchase agreement with Craig-Hallum Capital Group LLC (the “Underwriter”) relating to our sale and issuance of 3,573,899 shares of our common stock and corresponding warrants to

purchase up to 714,780 shares of our common stock (the “2015 Offering”). Each share of common stock was sold in combination with a warrant to purchase 0.20 of a share of common stock. The purchase price to the public for each share of common stock and accompanying warrant was \$1.95.

The purchase price paid by the Underwriter to us for the common stock and accompanying warrants was \$1.8135. The net proceeds from the 2015 Offering, after deducting the Underwriter’s discount and other estimated 2015 Offering expenses, were approximately \$6.2 million.

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

The accompanying warrants are exercisable immediately upon their initial issuance date at an exercise price of \$2.24 per share and will expire five years from the date of issuance. The exercise price will also be subject to adjustment in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events affecting our common stock.

The 2015 Offering required the repricing and issuance of additional common stock warrants to the investors in our February 2012 common stock and warrant financing. The exercise price of these warrants decreased from \$9.59 per share to \$7.56 per share and the number of shares issuable upon exercise of the warrants increased from 1,483,161 to 1,881,396.

On June 30, 2015, we entered into a Securities Purchase Agreement with certain accredited investors (the "July 2015 Investors") pursuant to which, on July 7, 2015, we sold to the July 2015 Investors, and the July 2015 Investors purchased from us, (a) an aggregate of approximately 1.5 million shares of our common stock at a price per share of \$1.42, (b) warrants (the "Series B Warrants") to purchase up to an aggregate of 0.7 million shares of our common stock with an exercise price of \$0.01 per share, and (c) warrants (the "Series A Warrants" and, together with the Series B Warrants, the "July 2015 Warrants") to purchase up to an aggregate of 1.2 million shares of our common stock, with an exercise price of \$1.66 per share (collectively, the "July 2015 Offering"). The purchase price for the Series B Warrants was \$1.42 per share of our common stock subject to the Series B Warrants. Each of the July 2015 Warrants has a term of 5 and 1/2 years. The Series B Warrants were immediately exercisable, all of which were exercised in December 2016. The Series A Warrants will be exercisable beginning on January 7, 2016, six months from the date of issuance. The aggregate gross proceeds to us from the July 2015 Offering were approximately \$3.0 million.

Craig-Hallum Capital Group LLC (the "2015 Placement Agent") served as the sole placement agent for the Offering. In consideration for services rendered as the placement agent in the July 2015 Offering, we (a) paid to the 2015 Placement Agent cash commissions equal to approximately \$212,783, or 7.0% of the gross proceeds received in the July 2015 Offering; (b) issued to the 2015 Placement Agent a five-year warrant to purchase up to 107,033 shares of our common stock with an exercise price of \$1.66 per share and which is subject to other terms that are the same as the terms of the Series A Warrants; and (c) reimbursed the 2015 Placement Agent for reasonable out-of-pocket expenses, including fees paid to the 2015 Placement Agent's legal counsel, incurred in connection with the July 2015 Offering, which reimbursable expenses did not exceed \$50,000.

The July 2015 Offering required the repricing and issuance of additional common stock warrants to the investors in our February 2012 common stock and warrant financing. The exercise price of these warrants decreased from \$7.56 per share to \$6.50 per share and the number of shares issuable upon exercise of the warrants increased from 1,881,396 to 2,188,177.

On January 6, 2016, we entered into a Securities Purchase Agreement (the "SPA") with certain accredited investors (the "2016 Investors"), pursuant to which, on January 8, 2016, we sold to the 2016 Investors, and the 2016 Investors purchased from us (the "January 2016 Offering"), an aggregate gross amount of approximately \$2.2 million of units (the "Units") consisting of (a) an aggregate of 2,365,243 shares (the "A-1 Preferred Shares") of our Series A-1 Convertible Preferred Stock (the "A-1 Preferred"), and (b) warrants (the "2016 Warrants") to purchase up to an aggregate of 1,773,929 shares of our common stock, with an initial value of \$1.8 million. The gross amount of \$2.2 million included \$2.0 million of cash proceeds and \$0.2 million of debt settled with the issuance of preferred stock and warrants. Each Unit was sold to the 2016 Investors at a purchase price of \$0.93 per Unit. The A-1 Preferred Shares are convertible into shares of our common stock at an initial rate of 1-for-1, which conversion rate is subject to further adjustment as set forth in our Certificate of Designation of Series A-1 Convertible Preferred Stock, which was filed with the Secretary of State of the State of Delaware on January 8, 2016 (the "Series A-1 Certificate of Designation"). We determined there was a beneficial conversion feature ("BCF") in connection with this issuance and valued the BCF at \$0.4 million. The holders of the A-1 Preferred were able to convert at any time following the issuance. Accordingly, we recorded a dividend totaling \$0.4 million during 2016 related to this beneficial conversion, which was recorded against additional

paid in capital. Pursuant to the terms of the Series A-1 Certificate of Designation, the holders of the A-1 Preferred Shares will generally be entitled to that number of votes as is equal to the product obtained by multiplying: (i) the number of whole shares of our common stock into which the A-1 Preferred may be converted as of the record date of such vote or consent, by (ii) 0.93, rounded down to the nearest whole number. Therefore, every 1.075269 shares of A-1 Preferred will generally initially be entitled to one vote. In May 2016, 2,150,538 of the A-1 Preferred Shares were converted into 2,150,538 shares of our common stock. At December 31, 2016, there were 214,705 A-1 Preferred Shares outstanding.

The 2016 Warrants were immediately exercisable upon issuance, have a term of five years and have an exercise price of \$1.21 per share of our common stock. Each 2016 Warrant includes both cash and “cashless exercise” features and an exchange feature whereby the holder of the 2016 Warrant may exchange (the “Exchange Right”) all or any portion of the 2016 Warrant for a number of shares of our common stock equal to the quotient obtained by dividing the “Exchange Amount” by the closing bid price of our common stock on the second trading day prior to the date the 2016 Warrant is exchanged (the “Exchange Price”). Under the 2016 Warrants, the “Exchange Amount” is based upon a Black Scholes option pricing model, and the aggregate Exchange

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

Amount under all of the 2016 Warrants will be \$1.4 million, subject to adjustment to the extent that the risk-free U.S. Treasury rate fluctuates between the date of issuance of the 2016 Warrants and the date the 2016 Warrants are exchanged. Each 2016 Warrant provides that the number of shares that may be issued upon exercise of the Exchange Right is limited to the number of shares that may be purchased pursuant to the terms of the 2016 Warrant, unless we have previously obtained stockholder approval or approval from The Nasdaq Stock Market LLC to issue any additional shares of our common stock (the "Additional Shares") pursuant to the Exchange Right (the "Required Approvals"). For any Exchange Right exercised more than 90 days following the issuance of the 2016 Warrants, if we have not obtained either of the Required Approvals, we will be required to pay the 2016 Warrant holder an amount in cash for any Additional Shares that we cannot issue without the Required Approvals based on the Exchange Amount.

The 2016 Warrants further provide that, to the extent the closing bid price of our common stock on the second trading day prior to the date the 2016 Warrant is exchanged is less than \$0.50, the Exchange Price will be deemed to be equal to \$0.50, and, in addition to issuing shares of our common stock based on this Exchange Price, we will be required to pay to the 2016 Warrant holder an amount in cash equal to the product obtained by multiplying (a) \$0.50 minus the closing bid price of our common stock on the second trading day prior to the date the 2016 Warrant is exchanged, by (b) the aggregate number of shares of our common stock issued to the 2016 Warrant holder by the Company in such exchange at an Exchange Price equal to \$0.50. Therefore, if the Required Approvals are obtained, based on the Exchange Amount of \$1,436,882 (which, as noted above, is subject to adjustment to the extent that the risk-free U.S. Treasury rate fluctuates between the date of the issuance of the 2016 Warrants and the date the 2016 Warrants are exchanged), the maximum number of shares of our common stock issuable pursuant to the Exchange Right in the 2016 Warrants will be 2,873,765. In addition, if, for example, assuming an Exchange Amount of \$1,436,882, the closing bid price of our common stock on the second trading day prior to the date the 2016 Warrants are exchanged is \$0.25, we would be required to pay to the 2016 Warrant holders cash in an aggregate amount of \$718,441 in addition to issuing the 2016 Warrant holders 2,873,765 shares. During the year ended December 31, 2016, 1,006,419 of the 2016 Warrants were exchanged for 1,613,353 shares of our common stock and cash due of \$0.5 million. As of December 31, 2016, the \$0.5 million due to a 2016 Investor is included in other current liabilities on our consolidated balance sheet.

In accordance with the terms of the SPA, we amended that certain Series A Warrant to purchase up to an aggregate of 1,161,972 shares of our common stock previously issued by us to an affiliate of one of the 2016 Investors on July 7, 2015 (the "Original Warrant"), as previously reported by us on our Amendment No. 1 to Current Report on Form 8-K/A, filed with the SEC on July 7, 2015 (as so amended, the "Amended Warrant"). The Amended Warrant amends the Original Warrant to provide that the Amended Warrant is subject to the same terms and conditions as the 2016 Warrants and, therefore, includes both cash and "cashless exercise" features and an Exchange Right whereby the number of shares issuable pursuant to the Exchange Right is equal to the "Amended Warrant Exchange Amount", which is based on a Black Scholes option pricing model, and will be \$941,197, subject to adjustment to the extent that the risk-free U.S. treasury rate fluctuates between the date of issuance of the Amended Warrant and the date the Amended Warrant is exchanged. The Amended Warrant is exercisable for up to 1,161,972 shares of our common stock in the event we have obtained either of the Required Approvals with respect to the Amended Warrant. In the event the Amended Warrant holder exercises the Amended Warrant more than 90 days following the issuance of the Amended Warrant, if we have not obtained either of the Required Approvals, we will be required to pay the Amended Warrant holder an amount in cash for the shares of our common stock that we cannot issue under the Amended Warrant pursuant to such exercise without the Required Approvals based on the Amended Warrant Exchange Amount.

The Amended Warrant also provides that, to the extent the closing bid price of our common stock on the second trading day prior to the date the Amended Warrant is exchanged is less than \$0.50, the Exchange Price will be deemed

to be equal to \$0.50, and, in addition to issuing shares of our common stock based on this Exchange Price (assuming receipt of the Required Approvals), we will be required to pay to the Amended Warrant holder an amount in cash equal to the product obtained by multiplying (a) \$0.50 minus the closing bid price of our common stock on the second trading day prior to the date the Amended Warrant is exchanged, by (b) the aggregate number of shares of our common stock issued to the Amended Warrant holder by us in such exchange at an Exchange Price equal to \$0.50. Therefore, if the Required Approvals are obtained, based on the Amended Warrant Exchange Amount of \$941,197 (which, as noted above, is subject to adjustment to the extent that the risk-free U.S. Treasury rate fluctuates between the issuance of the Amended Warrant and the date the Amended Warrant is exchanged), the maximum number of shares of our common stock issuable pursuant to the Exchange Right in the Amended Warrant will be 1,882,395. In addition, if, for example, assuming an Amended Warrant Exchange Amount of \$941,197, the closing bid price of our common stock on the second trading day prior to the date the Amended Warrant is exchanged is \$0.25, we would be required to pay to the Amended Warrant holder cash in an aggregate amount of \$470,599 in addition to issuing the Amended Warrant holder 1,882,395 shares.

In connection with entering into the SPA, we also entered into a Registration Rights Agreement, dated January 8, 2016, with the 2016 Investors. Pursuant to the terms of the Registration Rights Agreement, we were required to file with the SEC a registration statement to register for resale the shares of our common stock issuable upon conversion of the A-1 Preferred Shares and the shares



TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

of our common stock issuable upon exercise of the 2016 Warrants and the Amended Warrant by January 25, 2016. We filed the required registration statement with the SEC on January 25, 2016.

Craig-Hallum (the "Placement Agent") served as the sole placement agent for the January 2016 Offering. In consideration for services rendered as the Placement Agent in the January 2016 Offering, we (1) paid to the Placement Agent cash commissions equal to approximately \$140,000, or 7.0% of the gross proceeds received in the January 2016 Offering, excluding any proceeds received from Third Security, LLC or any of its affiliates; (2) issued to the Placement Agent, for a price of \$50, a five-year warrant to purchase up to 107,527 shares of our common stock at an exercise price of \$1.21 per share (the "Agent Warrant"), which is subject to the same terms as the 2016 Warrants except that the Agent Warrant was not exercisable until July 8, 2016 and does not contain the Exchange Right; and (3) reimbursed the Placement Agent for reasonable out-of-pocket expenses, including fees paid to the Placement Agent's legal counsel, incurred in connection with the January 2016 Offering, which reimbursable expenses did not exceed \$50,000.

The January 2016 Offering and the payment of all accrued and unpaid dividends on the Series A Preferred Stock and Series B Preferred Stock in the form of shares of our common stock at a rate of \$1.00 per share of our common stock discussed under "-Conversion of Preferred Stock" below required the repricing and issuance of additional common stock warrants to the holders of warrants issued in the Private Placement. The exercise price of these warrants decreased to \$4.39 per share and the number of shares issuable upon exercise of the warrants increased from 2,188,177 to 3,239,827.

On May 31, 2016, we issued to a vendor an aggregate of 78,000 shares of our common stock and, on June 14, 2016, we issued to a second vendor an aggregate of 64,153 shares of our common stock. Such shares of common stock were issued to the vendors in lieu of an aggregate cash amount of approximately \$89,000 owed by us to such vendors for services previously performed by such vendors which was the fair value of the services provided. We issued the shares to the vendors in transactions exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act and/or Regulation D promulgated thereunder and in reliance on similar exemptions under applicable state laws. The offering of the shares to the vendors did not involve a public offering, and no general solicitation or advertisement was made in connection with the offering of the shares to the vendors.

On June 7, 2016, we entered into an At the Market Offering Agreement (the "ATM Agreement") with Craig-Hallum, as sales agent, pursuant to which we may offer and sell, from time to time, through Craig-Hallum, up to \$3,500,000 of shares (the "Shares") of our common stock. Any Shares offered and sold in the offering will be issued pursuant to our effective shelf registration statement on Form S-3 (File No. 333-201907) and the related prospectus previously declared effective by the SEC on February 13, 2015, as supplemented by a prospectus supplement, dated June 7, 2016, that we filed with the SEC pursuant to Rule 424(b)(5) under the Securities Act of 1933, as amended (the "Securities Act"). The number of shares eligible for sale under the ATM Agreement will be subject to the limitations of General Instruction I.B.6 of Form S-3.

Under the terms of the ATM Agreement, we will pay Craig-Hallum a placement fee of 3.25% of the gross sales price of the Shares, unless Craig-Hallum acts as principal, in which case we may sell Shares to Craig-Hallum as principal at a price to be agreed upon by us and Craig-Hallum. We will also reimburse Craig-Hallum for certain expenses incurred in connection with the ATM Agreement, and agreed to provide indemnification and contribution to Craig-Hallum with respect to certain liabilities, including liabilities under the Securities Act and the Securities Exchange Act of 1934, as amended.

During the year ended December 31, 2016, we sold 1,177,849 shares under the ATM Agreement. The average sales price per common share was \$0.42 and the aggregate net proceeds from the sales totaled \$0.5 million.

During the year ended December 31, 2016, the issuance of shares to our vendors and the sale of shares under the ATM Agreement required the repricing and issuance of additional common stock warrants to the holders of warrants issued in the Private Placement. The exercise price of these warrants decreased to \$4.23 per share and the number of shares issuable upon exercise of the warrants increased from 3,239,827 to 3,362,276.

**Common Stock Warrants.**

During the year ended December 31, 2016, we issued warrants to purchase 3,055,555 shares of common stock and warrants were exercised or exchanged for 2,280,517 shares of common stock. Included in the warrants issued in 2016 were 1,174,099 warrants issued due to repricing requirements of the Private Placement and 1,881,456 warrants issued in connection with the January 2016 Offering. During the year ended December 31, 2015, we issued warrants to purchase 3,466,841 shares of common stock and none of the issued warrants were exercised. Included in the warrants issued in 2015 were 800,492 warrant issued due

TRANSGENOMIC, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2016 and 2015

to repricing requirements of the Private Placement and 2,666,349 warrants issued in connection with the 2015 Offering and the July 2015 Offering. During the twelve months ended December 31, 2015, warrants to purchase 431,027 shares of common stock expired. Warrants to purchase an aggregate of 6,696,287 shares of common stock were outstanding at December 31, 2016.

Warrant Holder	Issue Year	Expiration	Underlying Shares	Exercise Price
Various Institutional Holders <sup>(1)</sup>	2012	February 2017	2,919,043	\$4.23
Affiliates of Third Security, LLC <sup>(1)</sup>	2012	February 2017	443,233	\$4.23
Various Institutional Holders <sup>(2)</sup>	2013	January 2018	441,655	\$9.00
Affiliates of Third Security, LLC <sup>(2)</sup>	2013	January 2018	250,000	\$9.00
Various Institutional Holders <sup>(3)</sup>	2014	April 2020	374,618	\$4.00
Various Institutional Holders <sup>(4)</sup>	2015	February 2020	714,780	\$2.24
Various Institutional Holders <sup>(5)</sup>	2015	December 2020	122,433	\$1.66
Various Institutional Holders <sup>(6)</sup>	2015	January 2021	1,161,972	\$1.21
Affiliates of Third Security, LLC <sup>(7)</sup>	2016	January 2021	161,026	\$1.21
Various Institutional Holders <sup>(7)</sup>	2016	January 2021	107,527	\$1.21
			6,696,287	

These Warrants were issued in connection with the Private Placement completed in February 2012 and are classified as a liability in our financial statements. See Footnote 12 - "Fair Value". These warrants also contain (1) certain anti-dilution provisions that provide for an adjustment to the exercise price and number of shares issuable upon exercise of the warrant in the event that we engage in certain issuances of shares of our common stock at a price lower than the exercise price of the warrant.

(2) These warrants were issued in connection with the Offering, which was completed in January 2013.

(3) These warrants were issued in connection with the 2014 Private Placement, which was completed in October 2014.

(4) These warrants were issued in connection with the 2015 Offering, which was completed in February 2015.

(5) These warrants were issued in connection with the July 2015 Offering, which was completed in July 2015.

(6) These warrants were originally issued in connection with the July 2015 Offering, which was completed in July 2015, and were amended in connection with the January 2016 Offering, which was completed in January 2016.

(7) These warrants were issued in connection with the January 2016 Offering, which was completed in January 2016. Preferred Stock Series A.

The Company's Board of Directors is authorized to issue up to 15,000,000 shares of preferred stock in one or more series, from time to time, with such designations, powers, preferences and rights and such qualifications, limitations and restrictions as may be provided in a resolution or resolutions adopted by the Board of Directors. The authority of the Board of Directors includes, but is not limited to, the determination or fixing of the following with respect to shares of such class or any series thereof: (i) the number of shares; (ii) the dividend rate, whether dividends shall be cumulative and, if so, from which date; (iii) whether shares are to be redeemable and, if so, the terms and amount of any sinking fund providing for the purchase or redemption of such shares; (iv) whether shares shall be convertible and, if so, the terms and provisions thereof; (v) what restrictions are to apply, if any, on the issue or reissue of any additional preferred stock; and (vi) whether shares have voting rights. The preferred stock may be issued with a preference over the common stock as to the payment of dividends. We have no current plans to issue any additional preferred stock. Classes of stock such as the preferred stock may be used, in certain circumstances, to create voting impediments on extraordinary corporate transactions or to frustrate persons seeking to effect a merger or otherwise to gain control of the Company. For the foregoing reasons, any additional preferred stock issued by the Company could have an adverse effect on the rights of the holders of the common stock.

On December 29, 2010, we entered into a transaction with the Third Security Investors, pursuant to the terms of a Series A Convertible Preferred Stock Purchase Agreement (the "Series A Purchase Agreement"), in which we: (i) sold an aggregate of 2,586,205 shares of Series A Preferred Stock at a price of \$2.32 per share; and (ii) issued Series A Warrants to purchase up to an aggregate of 1,293,102 shares of Series A Preferred Stock having an exercise price of \$2.32 per share (the sale of Series A Preferred Stock and issuance of the Series A Warrants hereafter referred to together as the "Financing"). The Series A Warrants may be

78

---

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

exercised at any time from December 29, 2010 until December 28, 2015 and contain a “cashless exercise” feature. The gross proceeds from the Series A financing were \$6.0 million. The \$0.2 million of costs incurred to complete the Series A financing were recorded as a reduction in the value of the Series A Preferred Stock. We used the net proceeds from the financing to acquire the FAMILION family of genetic tests from PGxHealth, a subsidiary of Clinical Data, Inc. Until the November 2011 modifications, the Series A Preferred Stock met the definition of mandatorily redeemable stock as it was preferred capital stock that was redeemable at the option of the holder through December 2015 and was reported outside of equity. The Series A Preferred Stock was to be accreted to its redemption value of \$6.0 million. Until the November 2011 modifications, the Series A Warrants did not qualify to be treated as equity and, accordingly, were recorded as a liability. A preferred stock anti-dilution feature is embedded within the Series A Preferred Stock that met the definition of a derivative.

In connection with the Series A financing, we filed a Certificate of Designation of Series A Convertible Preferred Stock (the “Series A Certificate of Designation”) with the Secretary of State of the State of Delaware, designating 3,879,307 shares of our preferred stock as Series A Preferred Stock. As of December 31, 2013, the Series A Preferred Stock, including the Series A Preferred Stock issuable upon exercise of the Series A Warrants, was convertible into shares of our common stock at a rate of 4-for-1, which conversion rate is subject to further adjustment as set forth in the Series A Certificate of Designation. Giving effect to the reverse split of our stock in January 2014, the conversion rate was adjusted to 1-for-3. Certain rights of the holders of the Series A Preferred Stock are senior to the rights of the holders of our common stock. The Series A Preferred Stock has a liquidation preference equal to its original price per share, plus any accrued and unpaid dividends thereon. The holders of the Series A Preferred Stock are entitled to receive quarterly dividends, which accrue at the rate of 10% of the original price per share per annum, whether or not declared, and which shall compound annually and shall be cumulative. In any calendar quarter in which we have positive distributable cash flow as defined in the Series A Purchase Agreement, we are required to pay from funds legally available a cash dividend in the amount equal to the lesser of 50% of such distributable cash flow or the aggregate amount of dividends accrued on the Series A Preferred Stock.

Generally, the holders of the Series A Preferred Stock are entitled to vote together with the holders of common stock, as a single group, on an as-converted basis. However, the Series A Certificate of Designation provides that we shall not perform some activities, subject to certain exceptions, without the affirmative vote of a majority of the holders of the outstanding shares of Series A Preferred Stock. The holders of the Series A Preferred Stock, along with the holders of the Series B Preferred Stock, also are entitled to elect or appoint, as a single group, two directors of the Company. In connection with the Series A financing, we also entered into a registration rights agreement with the Third Security Investors (the “Registration Rights Agreement”). Pursuant to the terms of the Registration Rights Agreement, the Company has granted certain demand, “piggyback” and S-3 registration rights covering the resale of the shares of common stock underlying the Series A Preferred Stock issued pursuant to the Series A Purchase Agreement and issuable upon exercise of the Series A Warrants and all shares of common stock issuable upon any dividend or other distribution with respect thereto.

In November 2011, we entered into a transaction with the Third Security Investors, pursuant to an Agreement Regarding Preferred Stock (the “Amendment Agreement”), in which the Third Security Investors agreed to (i) waive their rights to enforce the anti-dilution and redemption features of the Series A Preferred Stock and (ii) at the next annual stockholders’ meeting, vote to amend the Series A Certificate of Designation to remove the anti-dilution and redemption features of the Series A Preferred Stock. In exchange, the Company issued shares of common stock to the Third Security Investors having an aggregate market value of \$0.3 million.

As a result of the Amendment Agreement, the values of the Series A Preferred Stock and Series A Warrants, including the Series A Preferred Stock conversion feature and Series A Warrant liability, were reclassified into stockholders’ equity as of the date of the Amendment Agreement.

Preferred Stock Series B.

On March 5, 2014, we entered into a Series B Convertible Preferred Stock Purchase Agreement (the “Series B Purchase Agreement”) with affiliates of Third Security, LLC (the “2014 Third Security Investors”), pursuant to which we, in a private placement, sold and issued an aggregate of 1,443,297 shares of our Series B Preferred Stock, par value \$0.01 per share (the “Series B Preferred Stock”), at a price per share of \$4.85 for an aggregate purchase price of approximately \$7.0 million. Each share of Series B Preferred Stock issued pursuant to the Series B Purchase Agreement is initially convertible into shares of our common stock at a rate of 1-for-1, which conversion rate is subject to further adjustment as set forth in the Certificate of Designation of Series B Convertible Preferred Stock.

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

In connection with the Series B financing, we also entered into a Registration Rights Agreement, dated March 5, 2014, with the 2014 Third Security Investors, pursuant to which we granted certain demand, “piggy-back” and S-3 registrations rights covering the resale of the shares of common stock underlying the Series B Preferred Stock issued pursuant to the Series B Purchase Agreement and all shares of common stock issuable upon any dividend or other distribution with respect thereto.

The Series B financing required the repricing and issuance of additional common stock warrants to the holders of warrants issued in the Private Placement. The exercise price of the warrants decreased from \$12.96 per share to \$11.73 per share and the number of shares issuable upon exercise of the warrants increased from 1,097,600 to 1,212,665.

#### Conversion of Preferred Stock Series A and B.

On January 6, 2016, the Company entered into a Conversion Agreement (the “Conversion Agreement”) with the holders (the “Preferred Holders”) of all of the Company’s outstanding shares of Series A Convertible Preferred Stock, par value \$0.01 per share (the “Series A Preferred Stock”), and Series B Preferred Stock, pursuant to which, among other things, the Preferred Holders: (a) elected to convert all of the outstanding shares of Series A Preferred Stock and Series B Preferred Stock into shares of our common stock, in each case in accordance with the terms thereof, and (b) agreed that all accrued and unpaid dividends on the Series A Preferred Stock and Series B Preferred Stock would be paid by the Company in shares of our common stock at a rate of \$1.00 per share of our common stock (collectively, the “Conversion”).

The outstanding shares of Series A Preferred Stock were convertible into shares of our common stock at a rate of 1-for-3, and the outstanding shares of Series B Preferred Stock were convertible into shares of our common stock at a rate of 1-for-1. Prior to the entry into the Conversion Agreement, there were 2,586,205 shares of Series A Preferred Stock outstanding, which were converted into 862,057 shares of our common stock, and 1,443,297 shares of Series B Preferred Stock outstanding, which were converted into 1,443,297 shares of our common stock, for an aggregate of 2,305,354 shares of our common stock issued upon conversion of the Series A Preferred Stock and Series B Preferred Stock (the “Conversion Shares”). At the time of the entry into the Conversion Agreement, there were \$3.7 million in accrued and unpaid dividends on the outstanding shares of Series A Preferred Stock, which were converted, in accordance with the Conversion Agreement, into 3,681,590 shares of our common stock, and \$0.8 million in accrued and unpaid dividends on the outstanding shares of Series B Preferred Stock, which were converted, in accordance with the terms of the Conversion Agreement, into 793,235 shares of our common stock, for an aggregate of 4,474,825 shares of our common stock issued pursuant to the accrued and unpaid dividends on the Series A Preferred Stock and Series B Preferred Stock. Therefore, in connection with the full conversion of the Series A Preferred Stock and Series B Preferred Stock, plus the conversion of all accrued and unpaid dividends thereon, we issued an aggregate of 6,780,179 shares of our common stock to the Preferred Holders on January 6, 2016.

Following the conversion of the shares of Series A Preferred Stock and Series B Preferred Stock into common stock, no shares of Series A Preferred Stock or Series B Preferred Stock remain outstanding.

#### Preferred Stock Dividends.

We had cumulative undeclared dividends on our Series A Preferred Stock and Series B Preferred Stock of zero and \$4.4 million at December 31, 2016 and 2015, respectively. Since dividends should generally not be recognized as a liability until declared, we had a recorded liability of zero for these undeclared dividends.

For the year ended December 31, 2016 and 2015, we had undeclared dividends. In accordance with the FASB’s Accounting Standards Codification Topic 260-10-45-11, “Earnings per Share”, these dividends were added to the net loss per share calculation.

11. EQUITY INCENTIVE PLAN

The Company's 2006 Equity Incentive Plan (the "Plan") allows the Company to make awards of various types of equity-based compensation, including stock options, dividend equivalent rights ("DERs"), stock appreciation rights ("SARs"), restricted stock, restricted stock units, performance units, performance shares and other awards, to employees and directors of the Company. The Company was authorized to issue 1,666,666 shares under the Plan; provided, that no more than 1,250,000 of such shares may be used for grants of restricted stock, restricted stock units, performance units, performance shares and other awards. The Plan expired on July 12, 2016 and as of that date the Company can no longer make additional awards under the Plan. During 2017, the Company intends to present a successor plan to the Transgenomic stockholders for approval.

80

---



TRANSGENOMIC, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2016 and 2015

The Plan is administered by the Compensation Committee of the Board of Directors (the “Committee”), which has the authority to set the number, exercise price, term and vesting provisions of the awards granted under the Plan, subject to the terms thereof. Either incentive or non-qualified stock options may be granted to employees of the Company, but only non-qualified stock options may be granted to non-employee directors and advisors. However, in either case, the Plan requires that stock options must be granted at exercise prices not less than the fair market value of the common stock on the date of the grant. Options issued under the plan vest over periods as determined by the Committee and expire 10 years after the date the option was granted.

For the years ended December 31, 2016 and 2015, we recorded compensation expense of \$0.1 million and \$0.6 million, respectively within selling, general and administrative expense. As of December 31, 2016, there was \$0.1 million of unrecognized compensation expense related to unvested stock awards, which is expected to be recognized over a weighted average period of approximately 1.0 years.

The fair value of the options and SARs granted during 2016 was estimated on their respective grant dates using the Black-Scholes option pricing model. The Black-Scholes model was used with the following assumptions: risk-free interest rates of 1.13% to 1.92%, based on the U.S. Treasury yield in effect at the time of grant; dividend yields of zero percent; expected lives of six years, based on historical exercise activity; and volatility of 85% to 86% for grants made during the year ended December 31, 2016 based on the historical volatility of our stock over a time that is consistent with the expected life of the option.

The fair value of the options granted during 2015 was estimated on their respective grant dates using the Black-Scholes option-pricing model. The Black-Scholes model was used with the following assumptions: risk-free interest rates of 1.32% to 1.91%, based on the U.S. Treasury yield in effect at the time of grant; dividend yields of zero percent; expected lives of four to six years, based on historical exercise activity; and volatility of 83% to 86% for grants made during the year ended December 31, 2015 based on the historical volatility of our stock over a time that is consistent with the expected life of the option.

The weighted average grant date fair value per share of options granted during the years ended December 31, 2016 and 2015 was \$0.60 and \$0.96 respectively.

#### Stock Options.

The following table summarizes stock option activity under the Plan during the year ended December 31, 2016:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2016	1,107,794	\$ 3.45
Granted	25,250	0.84
Forfeited	(395,018 )	2.91
Expired	—	—
Outstanding at December 31, 2016	738,026	\$ 3.59
Exercisable at December 31, 2016	537,091	\$ 4.26

All stock options outstanding were issued to employees, officers or outside directors.

As of December 31, 2016, 720,128 outstanding options were vested or expected to vest. The weighted average exercise price of these options was \$3.55 and the aggregate intrinsic value was zero with a remaining weighted average contractual life of 7.5 years.

As of December 31, 2016, 537,091 options were exercisable with a weighted average exercise price of \$4.26 and an aggregate intrinsic value of zero. The weighted average contractual life of these options was 7.2 years.

No options were exercised in 2016 or 2015.

The total fair value of awards that vested during 2016 and 2015 was \$0.6 million and \$0.8 million, respectively.

#### Stock Appreciation Rights (“SARs”).

The following table summarizes SARs activity under the Plan during the year ended December 31, 2016:



TRANSGENOMIC, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2016 and 2015

	Number of SARs	Weighted Average Exercise Price
Outstanding at January 1, 2016	98,333	\$ 4.14
Granted	—	—
Forfeited	(15,000 )	3.15
Expired	—	—
Outstanding at December 31, 2016	83,333	\$ 4.32
Exercisable at December 31, 2016	83,333	\$ 4.32

All SARs outstanding were issued to officers.

As of December 31, 2016, 83,333 outstanding and exercisable SARs shares were vested or expected to vest. The weighted average exercise price of these options was \$4.32 and the aggregate intrinsic value was zero with a remaining weighted average contractual life of 6.7 years. There were no SARs shares exercised in 2016 or 2015. During the year ended December 31, 2016, the SARs liability decreased by less than \$0.1 million. At December 31, 2016, a liability of less than \$0.1 million was recorded in accrued expenses.

## 12. FAIR VALUE

FASB guidance on fair value measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements for our financial assets and liabilities, as well as for other assets and liabilities that are carried at fair value on a recurring basis in our consolidated financial statements. FASB guidance establishes a three-level fair value hierarchy based upon the assumptions (inputs) used to price assets or liabilities. The three levels of inputs used to measure fair value are as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2—Observable inputs other than those included in Level 1, such as quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets; and

Level 3—Unobservable inputs reflecting our own assumptions and best estimate of what inputs market participants would use in pricing the asset or liability.

### Debt

Our debt is considered a Level 3 liability for which book value approximates fair value due to the variable interest rate it bears.

### Common Stock Warrant Liabilities.

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.

#### 2012 Warrant Liability

The 2012 Warrant Liability represents the fair value of the 3.4 million warrants issued in February 2012 (as adjusted pursuant to the terms of the 2012 warrants). We are required to record these instruments at fair value at each reporting date and changes are recorded as a non-cash adjustment to earnings. The gains or losses included in earnings are reported in other income (expense) in our Statement of Operations. Management does not believe that this liability will be settled by a use of cash.

The 2012 Warrant Liability is considered a Level 3 financial instrument and is valued using a Monte Carlo simulation. This method is well suited to value options with non-standard features, such as anti-dilution protection. A Monte Carlo simulation model uses repeated random sampling to simulate significant uncertainty in inputs. Assumptions and inputs used in the valuation of the common stock warrants are broken down into four sections: Static Business Inputs; Static Technical Inputs; Simulated Business Inputs; and Simulated Technical Inputs.



TRANSGENOMIC, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended December 31, 2016 and 2015

Static Business Inputs include: Our equity value, which was estimated using our stock price of \$0.28 as of December 31, 2016; the amount of the down-round financing, the timing of the down-round financing, the expected exercise period of 0.10 years from the valuation date and the fact that no other potential fundamental transactions are expected during the term of the common stock warrants.

Static Technical Inputs include: volatility of 67% based on implied and historical rates over the expected term and the risk-free interest rate of 0.44% based on the 1-month U.S. Treasury yield.

Simulated Business Inputs include: the probability of down-round financing, which was estimated to be 25% for simulated equity values below the down-round financing cut-off point.

Simulated Technical Inputs include: our equity value in periods 1-10 follows a geometric Brownian motion and is simulated over 10 independent six-month periods; a down-round financing event was randomly simulated in an iteration based on the 25% discrete probability of a down-round financing for those iterations where our simulated equity value at the expected timing of down-round financing was below the down-round financing cut-off point.

During the year ended December 31, 2016, the changes in the fair value of the liability measured using significant unobservable inputs (Level 3) was comprised of the following:

	Dollars in Thousands For the Year Ended December 31, 2016
Balance at January 1, 2016	\$ 350
Total gains or losses:	
Recognized in earnings	(350 )
Balance at December 31, 2016	\$ —

#### 2016 Warrant Liability

The 2016 Warrant Liability represents the fair value of the 1.8 million warrants issued in January 2016, of which, 0.8 million warrants remain outstanding as of December 31, 2016. We are required to record these instruments at fair value at each reporting date and changes are recorded as a non-cash adjustment to earnings. The gains or losses included in earnings are reported in other income (expense) in our Statement of Operations.

The 2016 Warrant Liability is considered a Level 3 financial instrument and is valued using a binomial lattice simulation model. This method is well suited to valuing options with non-standard features. Assumptions and inputs used in the valuation of the common stock warrants include; our equity value, which was estimated using our stock price of \$0.28 as of December 31, 2016; volatility of 91%; and a risk-free interest rate of 1.70%.

During the year ended December 31, 2016, the changes in the fair value of the liability measured using significant unobservable inputs (Level 3) were comprised of the following:

	Dollars in Thousands For the Year Ended December 31, 2016
Balance at January 1, 2016	\$ —
Additions	1,827
Deductions from warrant conversions	(807 )

Total gains or losses:

Recognized in earnings (438 )

Balance at December 31, 2016 \$ 582

The change in unrealized gains or losses of Level 3 liabilities is included in earnings and is reported in other income (expense) in our Statement of Operations.

83

---

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

13. OPERATING SEGMENT AND GEOGRAPHIC INFORMATION

We have one operating segment as of December 31, 2016, Laboratory Services. Our revenues from continuing operations are primarily generated from pharmacogenomics research services supporting Phase II and Phase III clinical trials conducted by pharmaceutical and biotechnology companies.

Based on location of end customers, all of our revenues from continuing operations are attributed to the United States. All of our long-lived assets are also located within the United States.

14. SUBSEQUENT EVENTS

Amendment to Merger Agreement

As previously reported on October 13, 2016, Transgenomic, Merger Sub, and Precipio entered into the “Merger Agreement pursuant to which Precipio will become a wholly-owned subsidiary of Transgenomic (the “Merger”), on the terms and subject to the conditions set forth in the Merger Agreement. Following the Merger, Transgenomic will change its name to Precipio, Inc. (“New Precipio”).

On February 2, 2017, Transgenomic, Merger Sub and Precipio entered into a First Amendment to Agreement and Plan of Merger (the “Merger Agreement Amendment”) which provided for, among other things, the following: (a) the authorization of a line of credit up to \$250,000 provided by Precipio to Transgenomic pursuant to an unsecured promissory note (as discussed below under the caption “Bridge Financing”); (b) the revision of the exchange ratio set forth in the Merger Agreement to provide that issued and outstanding common units of Precipio prior to the effective time of the Merger will be converted into the right to receive an amount of shares of New Precipio common stock (“New Precipio common stock”) equal to 80% of the issued and outstanding shares of New Precipio common stock (not taking into account the issuance of shares of convertible preferred stock of New Precipio (“New Precipio preferred stock”) in the Merger or related private placement); (c) the waiver as a condition to the closing of the Merger of the continual listing of the existing shares of Transgenomic’s common stock on the Nasdaq Capital Market; (d) the extension of the deadline pursuant to which a “shelf” registration statement on Form S-3 or other appropriate form is required to be filed by New Precipio with the Securities Exchange Commission to June 1, 2017; (e) the authorization for certain indebtedness of New Precipio to remain outstanding as of the effective date of the Merger; (f) the authorization of certain actions taken by each of Transgenomic and Precipio since the date the Merger Agreement; (g) the removal from the Merger Agreement of certain conditions to closing of the Merger; and (h) the extension of the date that either Transgenomic or Precipio may terminate the Merger Agreement if the Merger has not been consummated to June 30, 2017.

Conversion of Unsecured Convertible Promissory Notes

On January 20, 2015, Transgenomic entered into a series of Unsecured Convertible Promissory Notes with seven accredited investors (the “Investors”) in the principal amount of \$925,000 (the “Notes”). Pursuant to the terms of the Notes, interest accrues at a rate of 6% per year and is due and payable by Transgenomic on December 31, 2016 (the “Maturity Date”). Transgenomic also issued, to its placement agent for the Notes, a convertible promissory note, upon the same terms and conditions as the Notes, in an aggregate principal amount equal to 5% of the proceeds received by Transgenomic, or \$46,250 (the “Agent Note”). The Notes are convertible into shares of Transgenomic’s common stock at the option of the Investors and as of December 31, 2016 \$400,000 of the aggregate principal amount of the Notes, and accrued interest thereon, has been converted into an aggregate of 281,023 shares of Transgenomic’s common stock. On the Maturity Date, the then outstanding aggregate amount owed on the Notes and Agent Note of \$638,016 (\$571,250

in principal amount and \$66,766 of accrued interest) became due. Pursuant to the terms of the Notes, Transgenomic's failure to pay any principal or interest within 10 days of the date such payment is due would constitute an event of default (the "Prospective Event of Default").

On January 10, 2017, the Investors executed a waiver of the Prospective Event of Default, pursuant to which, the Investors agreed to waive the Prospective Event of Default on the condition that Transgenomic and the Investors enter into definitive documentation evidencing the terms for an extended Maturity Date of the Notes and the Agent Note on or before January 16, 2017 (the "Waiver Deadline").

On January 13, 2017, all but one Investor exercised their conversion rights relating to their respective Notes, including the Agent Note, and agreed to convert an aggregate amount of \$499,359 of principal and interest due under the Notes and Agent Note into 416,133 shares of Transgenomic's common stock. The Waiver Deadline was extended with respect to the remaining Investor



TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

who had exercised conversion rights (the “Non-Converting Investor”) so that the parties could continue to discuss a resolution of the Prospective Event of Default relating to such Investor’s Note with an outstanding amount due of \$139,876 as of January 13, 2017 (\$125,000 in principal amount and \$14,876 of accrued interest).

On January 17, 2017, the Non-Converting Investor agreed to extend the Maturity Date of its Note pursuant to an amendment to the Note (the “Amendment”). The Amendment provides that two-thirds of the outstanding principal amount of the Note must be paid upon the earlier to occur of the close of Transgenomic’s merger with Precipio or June 16, 2017 (such applicable date, the “Deferred Maturity Date”). The remaining one-third of the principal amount outstanding on the Note must be paid on the six month anniversary of the Deferred Maturity Date (the “Extended Maturity Date”).

On the applicable Deferred Maturity Date, all accrued and unpaid interest on the Note as of the Deferred Maturity Date will be converted into shares of Transgenomic’s common stock at a conversion price based on the average closing price of Company common stock on The Nasdaq Stock Market LLC (“Nasdaq”) for the 20 consecutive trading days immediately preceding the date of conversion, but in no event will the conversion price be less than \$0.25 per share. Interest that accrues on the remaining principal amount of the Note from the Deferred Maturity Date will be payable on the Extended Maturity Date, unless the Note is converted in which case such interest will be payable in shares of Transgenomic’s common stock as part of the conversion.

In exchange for extending the Maturity Date of the Note, Transgenomic will issue to the Non-Converting Investor on the applicable Deferred Maturity Date a warrant to purchase shares of Transgenomic’s common stock having an aggregate value of \$6,250 with an exercise price to be determined as of the date of issuance of the warrant based on the average closing price of Company common stock on Nasdaq for the 20 consecutive trading days immediately preceding the date of issuance of the warrant, subject to the approval of Nasdaq if necessary. The warrant will expire two years from the date of issuance.

#### Delisting from Nasdaq

As previously disclosed, on February 17, 2017, Transgenomic received written notification from the staff of Nasdaq that, as a result of Transgenomic’s inability to maintain certain Nasdaq continued listing requirements, Nasdaq had determined to delist Transgenomic’s shares from Nasdaq. Accordingly, trading in Transgenomic’s shares was suspended, and on February 22, 2017, Transgenomic’s shares began trading on the OTCQB exchange under the ticker “TBIO”.

#### Amendment to Loan and Security Agreement

On February 2, 2017, Transgenomic entered into the Termination and Tenth Amendment (the “Loan Agreement Amendment”) to its Loan and Security Agreement, dated March 13, 2013, with Third Security Senior Staff 2008 LLC, as administrative agent and a lender, and the other lenders party thereto (collectively, the “Lenders”), as amended, for a revolving line of credit and a term loan (as so amended, the “Loan Agreement”). The Loan Agreement Amendment, among other things, (i) provides that the Lenders will waive specified events of default under the terms of the Loan Agreement until the effective time of the Merger (or the termination of the Merger Agreement in accordance with its terms), (ii) provides for the conversion of all outstanding indebtedness owed to the Lenders under the Loan Agreement (the “Outstanding Indebtedness”) into shares of Transgenomic common stock and preferred stock (collectively, the “Conversion Shares”) effective as of the closing date of the Merger and (iii) the termination of the Loan Documents (as defined in the Loan Agreement) and the termination and release of all security interests and liens of the Lenders in the Collateral (as defined in the Loan Agreement) in each case immediately following the conversion of the Outstanding Indebtedness into Conversion Shares.

The effectiveness of certain provisions in the Loan Agreement Amendment, including provisions relating to conversion of the Conversion Shares and termination of the Loan Documents, is conditioned on, among other things, the consummation of the Merger, and, in the event that the Merger is not consummated, these provisions in the Loan Agreement Amendment will terminate.

As noted above, in connection with the Loan Agreement Amendment, the Lenders have agreed to convert the outstanding principal and accrued interest under the Loan Agreement into (i) approximately 10.4 million shares of New Precipio common stock immediately prior to the effectiveness of the Merger at a price equal to \$0.50 per share and (ii) 24.1 million shares of New Precipio preferred stock. As of December 31, 2016, the outstanding amount owed under the Loan Agreement was \$7.2 million of principal and \$0.6 million of accrued interest. The issuance of the Conversion Shares is subject to the approval of the Transgenomic stockholders in accordance with Nasdaq Capital Market listing rules.

The Lenders are affiliates of Third Security, LLC, whose affiliates hold more than 10% of the outstanding voting stock of Transgenomic. Additionally, Doit L. Koppler II, a director of Transgenomic, is affiliated with Third Security, LLC and its affiliates.

Legal Proceedings

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

Transgenomic is subject to a number of claims of various amounts that arise out of the normal course of its business. In addition to the claims described in this Note 14, Transgenomic is delinquent on the payment of outstanding accounts payable amounting to approximately \$0.6 million with certain of its vendors and suppliers who have taken or have threatened to take legal action to collect such outstanding amounts.

On February 25, 2016, UNMC filed a lawsuit against Transgenomic in the District Court of Douglas County, Nebraska, for breach of contract and seeking recovery of \$0.7 million owed by Transgenomic to UNMC.

Transgenomic and UNMC entered into a settlement agreement dated February 6, 2017, which included, among other things, a mutual general release of claims, and Transgenomic's agreement to pay \$0.4 million to UNMC in installments over a period of time. As of March 15, 2017, Transgenomic's initial payment due to UNMC under the settlement agreement is delinquent. Transgenomic and UNMC are currently in discussions to extend the date of Transgenomic's initial payment due to UNMC. A \$0.4 million and \$0.7 million liability has been recorded and is reflected in accrued expenses at December 31, 2016 and December 31, 2015.

In addition, on April 13, 2016, Fox Chase filed a lawsuit against Transgenomic in the Court of Common Pleas, alleging, among other things, breach of contract, tortious interference with present and prospective contractual relations, unjust enrichment, fraudulent conversion and conspiracy and seeking punitive damages in addition to damages and other relief. This lawsuit relates to the License Agreement as well as the assignment of certain of Transgenomic's rights under the License Agreement to IDT pursuant to the IDT Agreement. Pursuant to the terms of the IDT Agreement, Transgenomic agreed to indemnify IDT with respect to certain of the claims asserted in the Fox Chase proceeding. On July 8, 2016, the Court of Common Pleas sustained Transgenomic's preliminary objections to several of Fox Chase's claims and dismissed the claims for tortious interference, fraudulent conversion, conspiracy, punitive damages and attorney's fees. Accordingly, the case has been narrowed so that only certain contract claims and an unjust enrichment claim remain pending against Transgenomic. Transgenomic believes that it has good and substantial defenses to the claims asserted by Fox Chase. Transgenomic is unable to determine whether any loss will occur or to estimate the range of such potential loss; therefore, no amount of loss has been accrued by Transgenomic as of these financial statements. Furthermore, there is no guarantee that Transgenomic will prevail in this suit or receive any damages or other relief if it does prevail.

On June 23, 2016, Mount Sinai filed a lawsuit against Transgenomic in the Supreme Court of the State of New York, County of New York, alleging, among other things, breach of contract and, alternatively, unjust enrichment and quantum merit, and seeking recovery of \$0.7 million owed by Transgenomic to Mount Sinai for services rendered. Transgenomic and Mount Sinai entered into a settlement agreement dated October 27, 2016, which included, among other things, a mutual general release of claims, and Transgenomic's agreement to pay approximately \$0.7 million to Mount Sinai in installments over a period of time. A \$0.7 million liability has been recorded and is reflected in accrued expenses at December 31, 2016. Effective as of February 1, 2017, Transgenomic and Mount Sinai agreed to amend the terms of their settlement agreement to extend the date of Transgenomic's initial payment due to Mount Sinai.

On December 19, 2016, Smith filed a lawsuit against Transgenomic in the District Court of Douglas County Nebraska, alleging breach of contract and seeking recovery of \$2.2 million owed by Transgenomic to Smith for costs and damages arising from a breach of Transgenomic's obligations pursuant to lease agreement between the parties. Transgenomic and Smith are currently in discussions to determine a mutually agreeable means by which to settle the outstanding liability.

On February 21, 2017, XIFIN filed a lawsuit against us in the District Court for the Southern District of California alleging breach of written contract and seeking recovery of approximately \$0.27 million owed by us to XIFIN for damages arising from a breach of our obligations pursuant to a Systems Services Agreement between us and XIFIN, dated as of February 22, 2013, as amended and restated on September 1, 2014. On April 4, 2017, XIFIN filed an application for an entry of default by the clerk of the court against us. A \$0.21 million liability has been recorded and is reflected in accrued expenses at December 31, 2016.

We and SPDC entered into that certain Lease dated as of December 31, 2011, as modified by the First Amendment to Lease dated as of June 18, 2013, as further modified by a letter agreement dated as of February 2, 2015, as modified by the Second Amendment to Lease dated as of June 26, 2015 (the “ SPDC Lease”). In November 2016, SPDC alleged that we defaulted on our obligations under the SPDC Lease. Specifically, SPDC alleges that we failed to pay approximately \$0.4 million in rental payments due under the SPDC Lease and that we vacated a portion of the leased premises in violation of the terms of the SPDC Lease. SPDC has not filed a claim against us in connection with these allegations. Transgenomic and SPDC entered into a settlement agreement dated March 6, 2017, which included, among other things, a mutual general release of claims, and Transgenomic’s agreement to pay approximately \$0.4 million to SPDC in installments over a period of time.

CPA Global provides us with certain patent management services. On February 6, 2017, CPA Global claimed that we owe CPA Global approximately \$0.2 million for certain patent maintenance services rendered. CPA Global has not filed claims against

TRANSGENOMIC, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2016 and 2015

us in connection with this allegation. A liability of approximately \$0.2 million has been recorded and is reflected in accrued expenses at December 31, 2016.

On March 9, 2016, counsel for EdgeBio sent a demand letter on behalf of EdgeBio to us in connection with the terms of that certain Asset Purchase Agreement dated September 8, 2015 (the "EdgeBio Agreement"). EdgeBio alleges, among other things, that certain customers of EdgeBio erroneously remitted payments to us, that such payments should have been paid to EdgeBio and that we failed to remit these funds to EdgeBio in violation of the terms of the EdgeBio Agreement. On September 13, 2016, we received a demand for payment letter from EdgeBio's counsel alleging that the balance due to EdgeBio is approximately \$0.1 million. A liability of approximately \$0.1 million has been recorded and is reflected in accrued expenses at December 31, 2016.

On February 17, 2017, Campbell filed a lawsuit individually and on behalf of others similarly situated against us in the District Court for the District of Nebraska alleging we have a materially incomplete and misleading proxy relating to a potential merger and that the merger agreement's deal protection provisions deter superior offers. As a result, he alleges that we have violated Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereafter. Although we intend to defend the lawsuit, there can be no assurance regarding the ultimate outcome of this case. Given the uncertainty of litigation, the legal standards that must be met for, among other things, class certification and success on the merits, we are unable to estimate the amount of loss, or range of possible loss, at this time that may result from this action. In the event that a settlement is reached related to these matters, the amount of such settlement may be material to our results of operations and financial condition and may have a material adverse impact on our liquidity.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.  
None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, management performed, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the “SEC”), and that such information is accumulated and communicated to management including our Chief Executive Officer and our Interim Chief Financial Officer, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and no evaluation of controls and procedures can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation, the Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2016.

(b) Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;

provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time. Our system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Management has conducted, with the participation of the Chief Executive Officer and Interim Chief Financial Officer, an assessment, including testing of the effectiveness, of our internal control over financial reporting as defined in Rule 13(a)-15(f) under the Exchange Act as of December 31, 2016. Management’s assessment of internal control over financial reporting was conducted using the criteria in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on that assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2016. This Annual Report does not include an attestation report of Transgenomic’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the

Company's registered public accounting firm pursuant to Item 308(b) of Regulation S-K, which permits the Company to provide only management's report in this Annual Report.

## (c) Changes in internal control over financial reporting

No change in our internal control over financial reporting occurred during the fiscal quarter ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Item 9B. Other Information.

None.

## Part III

## Item 10. Directors, Executive Officers and Corporate Governance.

## Board of Directors and Committees

Our Board consists of five directors. The Board is divided into three classes with directors in each class serving for a term of three years. The terms of office of the current Class I, Class II and Class III directors will expire in 2017, 2018 and 2019, respectively. Our directors are elected by the holders of our common stock and Series A-1 Preferred Stock, voting together as a single class on an as-converted to common stock basis. There are two directors in each of Class I and Class III and one director in Class II.

Robert M. Patzig and Paul Kinnon are the current directors in Class I, Doit L. Koppler, II is the current director in Class II and Michael A. Luther, Ph.D. and Mya Thomae are the current directors in Class III.

Certain biographical information regarding our directors, including their ages as of March 31, 2017 and the dates that they were first elected to our Board, is set forth below. In each individual's biography we have highlighted specific experience, qualifications, and skills that have led the Board to conclude that such individual is a valued member of our Board. In addition to these specific attributes, all of our directors have significant expertise in one or more areas of importance to our business and have high-level managerial experience in relatively complex organizations or are accustomed to dealing with complex problems. We believe all of our directors are individuals of high character and integrity, are able to work well with others, and have sufficient time to devote to the affairs of our company.

Name	Age	Principal Occupation	Director Since	Term to Expire
<b>CLASS I DIRECTORS</b>				
Robert M. Patzig	48	Chairperson of the Board, Transgenomic, Inc.	2010	2019
Paul Kinnon	54	President, Chief Executive Officer and Interim Chief Financial Officer of Transgenomic, Inc.	2013	2019
<b>CLASS II DIRECTORS</b>				
Doit L. Koppler, II	53	Managing Director and Treasurer, Third Security, LLC	2010	2017
<b>CLASS III DIRECTORS</b>				
Michael A. Luther, Ph.D.	60	President and Chief Executive Officer, Bantam Pharmaceutical, LLC	2014	2018
Mya Thomae	50	Vice President, Regulatory Affairs, Illumina, Inc.	2015	2018



Robert M. Patzig. On February 12, 2015, Mr. Patzig was appointed Chairperson of the Board. He had been standing Chairperson since January 1, 2015 and has been a Board member since December 2010. Since June 2014, Mr. Patzig has also served as Board Chair of Ligmincha International, a non-profit organization focused on the preservation and dissemination of Tibetan Bon Buddhism. Until December 31, 2014, Mr. Patzig was Senior Managing Director and the Chief Investment Officer for Third Security, LLC, an investment firm with a concentration in life science. Mr. Patzig joined Third Security upon its inception in 1999. Mr. Patzig's responsibilities included identifying and evaluating investment opportunities for Third Security and its funds as well as general portfolio oversight and portfolio management. Prior to the formation of Third Security, Mr. Patzig served as Director of Market Research and Analysis at GIV Holding, Inc. and Director of Research Services at General Injectables & Vaccines, Inc. He served as a member of the Board of Directors of Cytellect, Inc. from February 2011 until June 2012 and previously as Chairman of the Board from July 2007 to September 2008. Mr. Patzig was a Director of the Virginia Biotechnology Association, a non-profit industry advocacy group from 2006 until 2011. Mr. Patzig served as a member of the Board of Directors of Intrexon Corporation from May 2005 to February 2008 and was Chairman from February 2007 to February 2008. He served as a member of the Board of Directors of Synchrony, Inc. from February 2006 to April 2008. Mr. Patzig also served as the head of the Investment Committee for Howe and Rusling, Inc. a registered investment advisor from 2001 until its sale in 2006. Mr. Patzig received a B.A. in Philosophy and an M.A. in English from Virginia Tech. The Board appointed Mr. Patzig as its Chairperson because of his substantial biotechnology industry experience as well as his securities and investment expertise.

Paul Kinnon. Mr. Kinnon has served as our President and Chief Executive Officer and a Director since September 2013. On October 31, 2014, Mr. Kinnon was appointed Interim Chief Financial Officer. Mr. Kinnon has more than 20 years of global leadership experience in innovative life science and diagnostics companies. From January through August 2013, he provided consulting services to the life science sector as a Partner at Arch Global Research. During a portion of this time, Mr. Kinnon provided consulting services to us. From January 2007 to December 2012, Mr. Kinnon was President, Chief Executive Officer and a Director of ZyGEM Corporation Limited, a biotechnology company, where he transformed the company from a regional enzyme provider into a leader in integrated microfluidic technologies for forensic and clinical diagnostic applications. From May 2006 to June 2007, Mr. Kinnon was Vice President & General Manager Environmental Diagnostics (later expanded to Applied Markets) at Invitrogen Corporation (now Life Technologies), a high growth life sciences and diagnostics firm, and from October 2004 until April 2006, he was Vice President, Global Strategic Alliances at Invitrogen. Previously, Mr. Kinnon also held business, sales and marketing roles of increasing responsibility at Guava Technologies, Inc., Cellomics, Inc. and other life science companies. Mr. Kinnon earned his Bachelor of Sciences degree in Applied Chemistry at Coventry University in the United Kingdom and holds a Diploma of Marketing. A petition in bankruptcy was filed against ZyGEM Corporation Limited in April 2013. The Board selected Mr. Kinnon to serve as a director because he is our Chief Executive Officer and because of his expansive knowledge and experience in the life science industry, as well as his past executive management roles at both life science and biotechnology companies.

Doit L. Koppler, II. Mr. Koppler joined Third Security as Managing Director and Treasurer in 2001 and manages the finance function of Third Security and is involved with several portfolio companies of Third Security's managed investment funds. Mr. Koppler served as Vice President, Treasurer and a member of the Board of Directors of Vital Diagnostics Holding Corp., a global supplier of products and services for the clinical laboratory in the traditional in vitro diagnostics market with a focus on the physician's office, hospital and small-to-medium sized laboratory segments from its inception in 2006 through 2012. Mr. Koppler served as Chairman and Chief Executive Officer of New River Funds, a family of no-load mutual funds, from its inception in 2003 through 2008 and as the Chief Investment Officer of New River Advisers, LLC, the investment adviser to New River Small Cap Fund, predecessor to Southern Sun Small Cap Fund. Mr. Koppler served as a member of the Board of Directors of IntelliMat, Inc. from November 2006 to July 2008. Prior to joining Third Security, Mr. Koppler served as Vice President and Controller of General Injectables & Vaccines, Inc., a \$120 million distributor of injectable biologics and vaccines primarily to outpatient physician offices, from 1992 to 2000. From 1987 to 1992, he was a Manager in the audit practice of Ernst & Young LLP. Mr. Koppler is a Certified Public Accountant, Chartered Global Management Accountant and a Member of the American Institute of Certified Public Accountants. He has also held Series 7 and Series 66 securities

registrations. Mr. Koppler received a B.S. in Accounting from Salem International University. The Board selected Mr. Koppler to serve as a director because of his valuable financial expertise, including his public accounting and financial reporting experience.

Michael A. Luther, Ph.D. Dr. Luther has served as President and Chief Executive Officer of Bantam Pharmaceutical, LLC, a pharmaceutical company focused on the discovery and development of compounds to treat cancer with a focus on RNA translation, since March 2016. From October 2013 to October 2015, Dr. Luther was Senior Vice President and General Manager, Discovery and Development Services, at Albany Molecular Research, Inc. (NASDAQ: AMRI), a global contract research and manufacturing organization offering drug discovery, development and manufacturing services, where he was responsible for the strategic, operational and business development activities for Albany Molecular Research, Inc.'s global discovery and development divisions. From August 2012 to September 2013, Dr. Luther was Corporate Vice President of Global Discovery Research Services at Charles River Laboratories (NYSE: CRL), a global provider of products and services to pharmaceutical and biotechnology companies, government agencies and academic institutions, where he served as the general manager of the

firm's discovery business unit, including developing and implementing strategic and operating plans. Prior to his role at Charles River, from March 2009 to August 2012, he was President and a member of the Board of Directors of the David H. Murdock Research Institute, a non-profit contract research organization located in Kannapolis, North Carolina, where he led and directed all activities of the institute, including applied research and development activities. From November 2006 to March 2009, Dr. Luther held the position of Vice President and Site Head at Merck Frosst, a pharmaceutical company in Montreal, Canada, focused on the delivery of Phase I product candidates from target to clinic for novel therapeutics in respiratory and metabolic disorders. Prior to Merck Frosst, from 1991 to 2006, he held positions of increasing responsibilities at GlaxoSmithKline, a global healthcare company that researches and develops a broad range of innovative medicines and brands, culminating in his appointment as Vice President, High Throughput Biology. Dr. Luther holds a Bachelor of Science degree in Biology and Chemistry from North Carolina State University, a Master in Business Administration from Duke University, Fuqua School of Business, and a Ph.D. in Biophysical Chemistry from Saint Louis University School of Medicine. He served as a member of the board of directors of Islet Sciences, Inc., a biopharmaceutical company (OTC: ISLT), from March 2014 to June 2015. The Board selected Dr. Luther to serve as a director because it believes he possesses valuable experience in the healthcare and pharmaceutical industries and extensive strategic, scientific and business experience in such industries, which brings a unique and valuable perspective to the Board.

Mya Thomae. Ms. Thomae has served as the Vice President, Regulatory Affairs at Illumina, Inc., a developer, manufacturer and marketer of life science tools and integrated systems for large-scale analysis of genetic variation and function, since July 2014. From January 2008 to July 2014, Ms. Thomae served as the founder and chief executive officer of Myraqa, Inc., a consulting firm focused on in vitro diagnostic and companion diagnostic products, which was acquired by Illumina, Inc. in July 2014. Prior to founding Myraqa, Inc., from January 1999 to December 2007, Ms. Thomae was an independent consultant at Mya Thomae Consulting, where she specialized in in vitro diagnostics. Ms. Thomae served as the Regulatory Affairs Manager of Chiron Corporation, a biotechnology firm, from 1996 to 1997, and from 1992 to 1995, worked in Regulatory Affairs in positions of increasing responsibility and eventually as the Regulatory Affairs Manager of Epitope, Inc. Ms. Thomae holds a Bachelor of Music, Cello Performance from the University of Wisconsin-Madison. The Board selected Ms. Thomae to serve as a director because of her extensive regulatory knowledge and experience, as well as her past management roles in biotechnology companies.

#### Code of Business Conduct and Ethics

Our Board has adopted a code of ethical conduct that applies to our principal executive officer, principal financial officer and senior financial management. This code of ethical conduct is embodied within our Code of Business Conduct and Ethics, which applies to all persons associated with our Company, including our directors, officers and employees (including our principal executive officer, principal financial officer, principal accounting officer and controller). The Code of Business Conduct and Ethics is available in the Investor Relations section of our website at [www.transgenomic.com](http://www.transgenomic.com). In order to satisfy our disclosure requirements under Item 5.05 of Form 8-K, we will disclose amendments to, or waivers of, certain provisions of our Code of Business Conduct and Ethics relating to our chief executive officer, chief financial officer, chief accounting officer, controller or persons performing similar functions on our website promptly following the adoption of any such amendment or waiver.

#### Corporate Governance

##### Board Leadership Structure

Our Board has determined that having an independent director serve as the Chairperson of the Board is in the best interests of our stockholders. Our Chairperson of the Board is Robert M. Patzig. Our President, Chief Executive Officer and Interim Chief Financial Officer, Paul Kinnon, is the only member of our Board who is not an independent director. We believe that this leadership structure enhances the accountability of our President and Chief Executive Officer to the Board and strengthens the Board's independence from management. While both leaders are actively engaged in significant matters affecting our Company, such as long-term strategy, we believe splitting these leadership positions enables Mr. Kinnon to focus his efforts on running our business and managing our Company while permitting Mr. Patzig to focus more on the governance of our Company, including oversight of our Board.

##### Director Attendance at Meetings

Our Board conducts its business through meetings of our Board, both in person and telephonic, and actions taken by written consent in lieu of meetings. During the year ended December 31, 2016, our Board held 37 meetings and did not take any actions by written consent. All but one director, Mya Thomae, attended at least 75% of the meetings of our Board and of the committees of our Board on which they served during 2016.

Our Board encourages all directors to attend our annual meetings of stockholders unless it is not reasonably practicable for a director to do so. One of the persons serving as a director at the time of our 2016 Annual Meeting of Stockholders attended our 2016 Annual Meeting of Stockholders.

#### Committees of our Board of Directors

Our Board has established and delegated certain responsibilities to its standing Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee.

#### Audit Committee

We have a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Audit Committee’s primary duties and responsibilities include monitoring the integrity of our financial statements, monitoring the independence and performance of our external auditors, and monitoring our compliance with applicable legal and regulatory requirements. The functions of the Audit Committee also include reviewing periodically with our independent registered public accounting firm the performance of the services for which they are engaged, including reviewing the scope of the annual audit and its results, reviewing with management and the auditors the adequacy of our internal accounting controls, reviewing with management and the auditors the financial results prior to the filing of quarterly and annual reports, reviewing fees charged by our independent registered public accounting firm and reviewing any transactions between our Company and related parties. Our independent registered public accounting firm reports directly and is accountable solely to the Audit Committee. The Audit Committee has the sole authority to hire and fire the independent registered public accounting firm and is responsible for the oversight of the performance of their duties, including ensuring the independence of the independent registered public accounting firm. The Audit Committee also approves in advance the retention of, and all fees to be paid to, the independent registered public accounting firm. The rendering of any auditing services and all non-auditing services by the independent registered public accounting firm is subject to prior approval of the Audit Committee.

The Audit Committee operates under a written charter which is available in the Investor Relations section of our website at [www.transgenomic.com](http://www.transgenomic.com). The Audit Committee is required to be composed of directors who are independent under the rules of the SEC and the listing standards of The Nasdaq Stock Market LLC (“NASDAQ”). The current members of the Audit Committee are directors Mr. Patzig, the Chairperson of the Audit Committee, Dr. Luther and Ms. Thomae, all of whom have been determined by the Board to be independent under the NASDAQ listing standards and rules adopted by the SEC applicable to audit committee members. The Board has determined that each of Mr. Patzig, Dr. Luther and Ms. Thomae qualifies as an “audit committee financial expert” under the rules adopted by the SEC and the Sarbanes Oxley Act of 2002. The Audit Committee met four times during 2016 and did not take any actions by written consent.

#### Compensation Committee

The primary duties and responsibilities of our standing Compensation Committee are to review, modify and approve the overall compensation policies for the Company, including the compensation of the Company’s Chief Executive Officer and other senior management; establish and assess the adequacy of director compensation; and approve the adoption, amendment and termination of the Company’s stock option plans, pension and profit sharing plans, bonus plans and similar programs. The Compensation Committee may delegate to one or more officers the authority to make grants of options and restricted stock to eligible individuals other than officers and directors, subject to certain limitations. Additionally, the Compensation Committee has the authority to form subcommittees and to delegate authority to any such subcommittee. The Compensation Committee also has the authority, in its sole discretion, to select, retain and obtain, at the expense of the Company, advice and assistance from internal or external legal, accounting or other advisors and consultants. Moreover, the Compensation Committee has sole authority to retain and terminate any compensation consultant to assist in the evaluation of director, Chief Executive Officer or senior executive compensation, including sole authority to approve such consultant’s reasonable fees and other retention terms, all at the Company’s expense.

The Compensation Committee operates under a written charter which is available in the Investor Relations section of our website at [www.transgenomic.com](http://www.transgenomic.com). All members of the Compensation Committee must satisfy the independence requirements of NASDAQ applicable to compensation committee members.

The Compensation Committee currently consists of directors Mr. Patzig, the Chairperson of the Compensation Committee, Dr. Luther and Ms. Thomae, all of whom have been determined by the Board to be independent under NASDAQ listing standards

applicable to compensation committee members. The Compensation Committee met one time during 2016 and did not take any actions by written consent.

#### Nominating and Corporate Governance Committee

The Nominating Committee identifies, reviews and evaluates candidates to serve on the Board; reviews and assesses the performance of the Board and the committees of the Board; and assesses the independence of our directors. The Nominating Committee is also responsible for reviewing the composition of the Board's committees and making recommendations to the entire Board regarding the chairpersonship and membership of each committee. In addition, the Nominating Committee is responsible for developing corporate governance principles and periodically reviewing and assessing such principles, as well as periodically reviewing the Company's policy statements to determine their adherence to the Company's Code of Business Conduct and Ethics.

The Nominating Committee has adopted a Director Nominees Consideration Policy, whereby Board candidates are identified primarily through suggestions made by directors, management and stockholders of the Company. We have implemented no material changes to the procedures by which stockholders may recommend nominees for the Board. The Nominating Committee will consider director nominees recommended by stockholders that are submitted in writing to the Company's Corporate Secretary in a timely manner and which provide necessary biographical and business experience information regarding the nominee. The Nominating Committee does not intend to alter the manner in which it evaluates candidates, including the criteria considered by the Nominating Committee, based on whether or not the candidate was recommended by a stockholder. The Board does not prescribe any minimum qualifications for director candidates, and all candidates for director will be evaluated based on their qualifications, diversity, age, skill and such other factors as deemed appropriate by the Nominating Committee given the current needs of the Board, the committees of the Board and the Company. Although the Nominating Committee does not have a specific policy on diversity, it considers the criteria noted above in selecting nominees for directors, including members from diverse backgrounds who combine a broad spectrum of experience and expertise. Absent other factors which may be material to its evaluation of a candidate, the Nominating Committee expects to recommend to the Board for selection incumbent directors who express an interest in continuing to serve on the Board. Following its evaluation of a proposed director's candidacy, the Nominating Committee will make a recommendation as to whether the Board should nominate the proposed director candidate for election by the stockholders of the Company.

The Nominating Committee operates under a written charter which is available in the Investor Relations section of our website at [www.transgenomic.com](http://www.transgenomic.com). No member of the Nominating Committee may be an employee of the Company and each member must satisfy the independence requirements of NASDAQ and the SEC.

The Nominating Committee currently consists of directors Mr. Patzig and Mr. Koppler, each of whom has been determined by the Board to be independent under NASDAQ listing standards. The Nominating Committee did not meet or take any actions by written consent during 2016.

#### Oversight of Risk Management

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including economic risks, financial risks, legal and regulatory risks and others, such as the impact of competition. Management is responsible for the day-to-day management of the risks that we face, while our Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, our Board is responsible for satisfying itself that the risk management processes designed and implemented by management are adequate and functioning as designed. Our Board assesses major risks facing our Company and options for their mitigation in order to promote our stockholders' interests in the long-term health of our Company and our overall success and financial strength. A fundamental part of risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for us. The involvement of our full Board in the risk oversight process allows our Board to assess management's appetite for risk and also determine what constitutes an appropriate level of risk for our Company. Our Board regularly includes agenda items at its meetings relating to its risk oversight role and meets with various members of management on a range of topics, including corporate governance and regulatory obligations, operations and significant transactions, risk management, insurance, pending and threatened litigation and significant commercial disputes.

While our Board is ultimately responsible for risk oversight, various committees of our Board oversee risk management in their respective areas and regularly report on their activities to our entire Board. In particular, the Audit Committee has the primary responsibility for the oversight of financial risks facing our Company. The Audit Committee's charter provides that it will discuss our major financial risk exposures and the steps we have taken to monitor and control such exposures. Our Board has also delegated primary responsibility for the oversight of all executive compensation and our employee benefit programs to



the Compensation Committee. The Compensation Committee strives to create incentives that encourage a level of risk-taking behavior consistent with our business strategy.

We believe the division of risk management responsibilities described above is an effective approach for addressing the risks facing our Company and that our Board's leadership structure provides appropriate checks and balances against undue risk taking.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act and the rules of the SEC require our directors, certain officers and beneficial owners of more than 10% of our outstanding common stock to file reports of their ownership and changes in ownership of our common stock with the SEC. We believe all Section 16 reports were filed in a timely manner during 2016.

#### Information Regarding Executive Officers

Our executive officers, their ages as of March 31, 2017 and their respective positions are as follows:

Name	Title(s)
	President, Chief Executive Officer
Paul 54 and Kinnon	and Interim Chief Financial Officer

A description of the business experience of Paul Kinnon is provided above under the heading "Board of Directors and Committees".

#### Item 11. Executive Compensation.

##### 2016 Executive Compensation

##### Summary Compensation Table

The following table sets forth compensation awarded to, paid to or earned by the Company's "named executive officers" for services rendered during fiscal years 2016 and 2015.

Name and Year Principal Position	Salary (\$)	SARs and Option Awards(1) (\$)	All Other Compensation (\$)	Total (\$)
Paul Kinnon (2) President, Chief Executive Officer and Interim Chief Financial Officer	2016 350,000	—	11,075	(3) 361,075
Leon Richman (4) Former Chief Accounting Officer	2015 200,000	73,520	8,380	(6) 281,900

(1) The amounts in this column reflect the aggregate grant date fair value of the stock appreciation rights (“SARs”) and stock option awards granted during the respective fiscal year as computed in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 718, excluding the effect of estimated forfeitures. The amounts shown for 2015 do not correspond to the actual value that will be recognized by the named executive officer. The assumptions used in the calculation of these amounts are included in Note 11 “Equity Incentive Plan” to the consolidated financial statements. See the table entitled “2016 Grants of Plan-Based Awards” for information on SARs and stock options granted in 2015. On December 13, 2016, the Board agreed to extend the period during which these stock options may be exercised following Mr. Kinnon’s termination of employment (i) by the Company without “Cause” or (ii) by Mr. Kinnon for “Good Reason” (each of the foregoing capitalized terms as defined in the Kinnon Employment Agreement) to 24 months after such termination, but in no event shall such period extend beyond the Term of Options as defined in the applicable award agreements, and for purposes of any incentive stock option, such extension shall be considered the grant of a new award on the same terms except that the exercise price shall be the

greater of (i) the exercise price set forth in the original grant or (ii) the fair market value on the date of the extension.

See “Agreements with the Company’s Named Executive Officers - Paul Kinnon Employment Agreement” for a description of the Kinnon Employment Agreement with the

(2) Company. Mr. Kinnon was appointed as the Company’s President and Chief Executive Officer effective as of September 30, 2013 and the Company’s Interim Chief Financial Officer effective as of October 31, 2014.

Amounts paid to Mr. Kinnon in 2016 and 2015 consisted of

(3) \$10,600 in 401(k) matching contributions and \$475 in long term disability insurance.

(4) Mr. Richards resigned from the Company effective September 30, 2016.

Amounts paid to Mr. Richards in 2016 consisted of \$6,000

(5) in 401(k) matching contributions, accrued vacation pay of \$15,384 and \$285 in long term disability insurance.

Amounts paid to Mr. Richards in 2015 consisted of \$8,000

(6) in 401(k) matching contributions and \$380 in long term disability insurance.

#### 2016 Grants of Plan-Based Awards

There were no grants of plan-based awards in fiscal year 2016 to the Company’s named executive officers.

#### Outstanding Equity Awards at Fiscal 2016 Year-End

The following table provides certain information concerning outstanding option awards and SARs held by the Company’s named executive officers as of December 31, 2016. As of December 31, 2016, no other equity awards granted to the Company’s named executive officers were outstanding.

## Stock Appreciation Rights and Option Awards

Name	SARs and Option Award Grant Date	Number of Securities Underlying Unexercised SARs and Options (#) (Exercisable)	Number of Securities Underlying Unexercised SARs and Options (#) (Unexercisable)	SARs and Option Exercise Price (\$)	SARS and Option Expiration Date
Paul Kinnon					
Stock options	9/30/2013	179,166	—	4.32	9/30/2023
SARs	9/30/2013	83,333	—	4.32	9/30/2023
Stock options	2/18/2014	13,333	6,667	(1)5.54	2/18/2024
Stock options	4/1/2015	25,000	50,000	(1)1.44	4/1/2025
Leon Richards					
(2)					

(1) The award vests over three years, with one-third of the shares subject to the award vesting on each anniversary of the grant date.

(2) Mr. Richards resigned from the Company effective September 30, 2016, and all unvested option and SARs awards were terminated as of that date in accordance with their terms.

## Fiscal Year 2016 SARs and Option Exercises and Stock Vested

No SARs or stock options were exercised by either of the Company's named executive officers during fiscal year 2016.

## Agreements with the Company's Named Executive Officers

## Paul Kinnon Employment Agreement

The Company has entered into the Kinnon Employment Agreement with Paul Kinnon, its President and Chief Executive Officer. The Kinnon Employment Agreement provides that Mr. Kinnon will be employed by the Company for a period of one year, subject to automatic renewal for additional one-year periods, unless terminated by either party upon written notice to the other at least three months prior to the expiration of the then-current term. Under the terms of the Kinnon Employment Agreement, Mr. Kinnon is paid an initial base salary of \$350,000 per year. His base salary will be reviewed by the Compensation Committee of the Board for an increase on at least an annual basis and may be adjusted at any time in the Compensation Committee's sole and absolute discretion, provided that any decrease in base salary must either be with Mr. Kinnon's written permission, or be part of an across-the-board reduction that affects all senior executives of the Company by the same percentage. Commencing January 1, 2014, Mr. Kinnon became eligible to receive an annual bonus based on his performance under agreed-upon goals, objectives and formulas, provided that his target bonus for any year may not be less than 40% of his then-current base salary. The Kinnon Employment Agreement provides for a severance payment to Mr. Kinnon equal to 12 months of Mr. Kinnon's then-current base salary if he is discharged other than for "Cause" (as defined in the Kinnon Employment Agreement), other than due to Mr. Kinnon's disability, or if Mr. Kinnon resigns for "Good Reason" (as defined in the Kinnon Employment Agreement), regardless of whether or not the termination follows a change in control, in each case provided that Mr. Kinnon executes a severance agreement and general release in favor of the Company. The severance payments will be made over 12 months in accordance with the Company's payroll practices, provided that payment of

these amounts is subject to the provisions of Section 409A of the Code which may require that payments be delayed for six months (with interest) following termination of employment. If Mr. Kinnon breaches any of the covenants in the Kinnon Employment Agreement related to the protection of the Company's interests, including non-solicitation of employees for six months following termination of employment and confidentiality and non-disparagement following termination of employment, he is not entitled to further severance payments. The Kinnon Employment Agreement also provides that the Company will reimburse Mr. Kinnon for certain expenses associated with commuting from Solana Beach, California to the Company's offices in Omaha, Nebraska and New Haven, Connecticut. The Kinnon Employment Agreement further provides that the vesting of the equity awards granted by the Company to Mr. Kinnon described below, as well as all

future equity awards granted to Mr. Kinnon by the Company, will accelerate in full and become fully vested upon a Change in Control, as defined in the Amended 2006 Plan.

Pursuant to the terms of the Kinnon Employment Agreement, Mr. Kinnon was granted an option to purchase 179,166 shares of the Company's common stock with a per share exercise price equal to the fair market value of one share of the Company's common stock on the date of grant, which was September 30, 2013. One-third of the shares subject to the option vested on the first anniversary of the date of grant, and the remaining shares vested in 24 substantially equal installments thereafter.

Mr. Kinnon was also granted stock appreciation rights ("SARs") pursuant to the terms of the Kinnon Employment Agreement with respect to 83,333 shares of common stock with a per share exercise price equal to the fair market value of one share of the Company's common stock on the date of grant, which was September 30, 2013. 34% of the SARs vested on the first anniversary of the date of grant, and the remaining SARs vested ratably over the remaining 24 months. The SARs were granted pursuant to the Amended 2006 Plan and a SARs agreement. Upon exercise of the SARs, Mr. Kinnon will be entitled to receive shares of the Company's common stock or cash, subject to the terms of the SARs agreement.

On May 3, 2013, in connection with Mr. Kinnon's services to the Company and pursuant to the terms of a Consulting Agreement between the Company and Mr. Kinnon, Mr. Kinnon was granted an option to purchase 12,500 shares of common stock. Pursuant to the terms of the Kinnon Employment Agreement, the option was rescinded and terminated on September 30, 2013.

On February 18, 2014, Mr. Kinnon was granted an option to purchase 20,000 shares of common stock. The option vests over a three-year period, with one-third of the shares subject to the option vesting on each of the first three anniversaries of the date of grant, subject to Mr. Kinnon's continued employment with (or providing continuous service to) the Company on each such date. Additionally, on April 1, 2015, Mr. Kinnon was granted an option to purchase 75,000 shares of common stock. The option vests over a three-year period, with one-third of the shares subject to the option vesting on each of the first three anniversaries of the date of grant, subject to Mr. Kinnon's continued employment with (or providing continuous service to) the Company on each such date.

The Company previously granted 124,886 incentive stock options and 149,280 non-qualified stock options to Mr. Kinnon under the Transgenomic, Inc. 2006 Equity Incentive Plan. On December 13, 2016, the Board agreed to extend the period during which these stock options may be exercised following Mr. Kinnon's termination of employment (i) by the Company without "Cause" or (ii) by Mr. Kinnon for "Good Reason" (each of the foregoing capitalized terms as defined in the Kinnon Employment Agreement) to 24 months after such termination, but in no event shall such period extend beyond the Term of Options as defined in the applicable award agreements, and for purposes of any incentive stock option, such extension shall be considered the grant of a new award on the same terms except that the exercise price shall be the greater of (i) the exercise price set forth in the original grant or (ii) the fair market value on the date of the extension.

The Kinnon Employment Agreement includes a modified cutback provision, such that if payments or benefits received or to be received by Mr. Kinnon pursuant to the Kinnon Employment Agreement or any other agreement, contract, award or arrangement would constitute a "parachute payment" as described in Section 280G of the Code and would subject Mr. Kinnon and the Company to golden parachute penalties under Section 280G of the Code and related provisions, the aggregate payments or benefits will either be paid to Mr. Kinnon in full or reduced to an amount that would not result in golden parachute penalties, whichever results in the receipt by Mr. Kinnon of the greatest amount of aggregate payments or benefits, after taking into account all taxes, including the excise tax imposed under Section 4999 of the Code on excess parachute payments. The determinations regarding Section 280G parachute payments and the application of the Modified Cutback Provision are to be made in good faith by the Company's independent auditors. For purposes of this disclosure, the Company does not expect that the aggregate payments and benefits to Mr. Kinnon following termination of his employment in connection with the merger will exceed the maximum amount that may be paid to Mr. Kinnon without triggering golden parachute penalties under Section 280G of the Code.

Leon Richards Offer Letter

The Company has entered into an Offer Letter dated November 6, 2012 with Leon Richards, its Chief Accounting Officer (the "Richards Offer Letter"). Under the terms of the Richards Offer Letter, Mr. Richards agreed to serve as the Company's Corporate Controller and is paid a base salary of \$7,291.67 per semi-monthly pay period. Mr. Richards is entitled to a bonus opportunity equal to 25% of his salary for meeting the corporate objectives as defined by the Board. Mr. Richards resigned from the Company effective September 30, 2016.

On June 2, 2015, the Company entered into an amendment (the "Richards Offer Letter Amendment") to the Richards Offer Letter, which provides that, in the event Mr. Richards' employment with the Company is terminated without "Cause" (as defined in the Richards Offer Letter Amendment) prior to or within 12 months following a "Change in Control" (as defined in the Richards Offer Letter Amendment) of the Company, he shall be entitled to receive an amount equal to nine months of his base salary at the time of his termination, subject to Mr. Richards signing and delivering a release of claims to the

Company. The Richards Offer Letter Amendment further provides that in the event Mr. Richards is employed with the Company upon a Change in Control, any stock options that are outstanding and unvested as of immediately prior to such Change in Control shall vest in their entirety, and become fully exercisable, as of immediately prior to, and contingent upon, such Change in Control. The Richards Offer Letter Amendment also provides that unless Mr. Richards' employment is terminated by the Company for Cause, he will have until the earlier of the following dates to exercise any then-vested and outstanding stock options: (i) 180 days after the termination of his employment, or (ii) the date on which the stock options otherwise would become unexercisable, ignoring the fact that his employment terminated.

Pursuant to the terms of the Richards Offer Letter, Mr. Richards was granted an option to purchase 4,166 shares of common stock with a per share exercise price equal to the fair market value of one share of the Company's common stock on the date of grant, which was January 1, 2013. The option vested over a three-year period, with one-third of the shares subject to the option vesting on each of the first three anniversaries of the date of grant.

On May 3, 2013, Mr. Richards was granted an option to purchase 1,458 shares of common stock. The option vests over a three-year period, with one-third of the shares subject to the option vesting on each of the first three anniversaries of the date of grant, subject to Mr. Richards' continued employment with the Company on each such date. Mr. Richards was also granted an option to purchase 3,000 shares of common stock on February 18, 2014. The option vests over a three-year period, with one-third of the shares subject to the option vesting on each of the first three anniversaries of the date of grant, subject to Mr. Richards' continued employment with the Company on each such date.

On November 4, 2014, Mr. Richards was granted an option to purchase 20,000 shares of common stock. The option vests over a three-year period, with one-third of the shares subject to the option vesting on each of the first three anniversaries of the date of grant, subject to Mr. Richards' continued employment with the Company on each such date. Mr. Richards was also granted SARs on November 4, 2014 with respect to 15,000 shares of common stock with a per share exercise price equal to the fair market value of one share of common stock on the date of grant. The SARs vest over a three-year period, with 34% of the SARs vesting on the first anniversary of the date of grant and the balance vesting ratably over the remaining 24 months, subject to Mr. Richards' continued employment with the Company on each such date.

On April 1, 2015, Mr. Richards was granted an option to purchase 80,000 shares of common stock. The option vests over a three-year period, with one-third of the shares subject to the option vesting on each of the first three anniversaries of the date of grant, subject to Mr. Richards' continued employment with (or providing continuous service to) the Company on each such date.

#### Potential Payments Upon Termination or Change of Control

The Company has entered into the Kinnon Employment Agreement. The Kinnon Employment Agreement provides for a severance payment to Mr. Kinnon equal to 12 months of Mr. Kinnon's then-current base salary if he is discharged without "Cause" (as defined in the Kinnon Employment Agreement), other than due to Mr. Kinnon's disability, or if Mr. Kinnon resigns for "Good Reason" (as defined in the Kinnon Employment Agreement), regardless of whether or not the termination follows a change in control, in each case provided that Mr. Kinnon executes a severance agreement and general release in favor of the Company. The Kinnon Employment Agreement further provides that the vesting of the equity awards granted by the Company to Mr. Kinnon will accelerate in full and become fully vested upon a Change in Control, as defined in the Transgenomic, Inc. 2006 Equity Incentive Plan. It is currently anticipated that Mr. Kinnon will be terminated at or prior to the effective time of the merger and that Mr. Danieli will serve as Chief Executive Officer of New Precipio. Further, the consummation of the merger would trigger a Change in Control as defined under the Kinnon Employment Agreement with regard to the equity awards granted by the Company to Mr. Kinnon. Therefore, pursuant to the terms of the Kinnon Employment Agreement, it is anticipated that the equity awards granted to Mr. Kinnon will accelerate in full and become fully vested, and Mr. Kinnon will be entitled to receive a severance payment equal to 12 months of Mr. Kinnon's then-current base salary. As of February 1, 2017, Mr. Kinnon holds 56,666 unvested stock options under the 2006 Equity Incentive Plan for which vesting is expected to accelerate in connection with the merger. Using an assumed stock price of \$0.206, the average closing price per share of the Company's common stock over the first five business days following the announcement of the merger, all



unvested equity awards for Mr. Kinnon are out of the money, and therefore no value is included in connection with the acceleration. In addition, such unvested equity awards for Mr. Kinnon are out of the money as of February 1, 2017. During the period in which the stock options may be exercised following the merger, the market price of the common stock may be higher or lower than the assumed stock price disclosed above. The severance payments will be made over 12 months in accordance with the Company's payroll practices, provided that payment of these amounts is subject to the provisions of Section 409A of the Code which may require that payments be delayed for six months following termination of employment. If Mr. Kinnon breaches any of the covenants in the Kinnon Employment Agreement related to the protection of the Company's interests, including non-solicitation of employees for six months (with interest) following termination of employment and confidentiality and non-disparagement following termination of employment, he is not entitled to further severance payments.

Additionally, pursuant to the terms of the Richards Offer Letter, as amended by the Richards Offer Letter Amendment, in the event Mr. Richards' employment with the Company is terminated without "Cause" (as defined in the Richards Offer Letter Amendment) prior to or within 12 months following a "Change in Control" (as defined in the Richards Offer Letter Amendment) of the Company, he will be entitled to receive an amount equal to nine months of his base salary at the time of his termination, subject to Mr. Richards signing and delivering a release of claims to the Company. Mr. Richards resigned effective September 30, 2016 and, therefore, no payments will be made to Mr. Richards in connection with a change of control transaction.

#### Compensation Risk Analysis

The Company has reviewed its material compensation policies and practices for all employees and has concluded that these policies and practices are not reasonably likely to have a material adverse effect on the Company. While risk-taking is a necessary part of growing a business, the Company's compensation philosophy is focused on aligning compensation with the long-term interests of its stockholders as opposed to rewarding short-term management decisions that could pose long-term risks.

#### Director Compensation

It is our Board's general policy that compensation for independent directors should be a mix of cash and equity-based compensation. As part of a director's total compensation, and to create a direct linkage between corporate performance and stockholder interests, our Board believes that a meaningful portion of a director's compensation should be provided in, or otherwise based on, the value of appreciation in our common stock.

The Board has the authority to approve all compensation payable to the Company's directors, although the Company's Compensation Committee is responsible for making recommendations to the Board regarding this compensation. Additionally, the Company's Chief Executive Officer may also make recommendations or assist the Company's Compensation Committee in making recommendations regarding director compensation. The Board and Compensation Committee annually review the Company's director compensation. In connection with director compensation decisions in 2016, the Board and the Compensation Committee reviewed in 2012 the market director compensation data paid by companies in the life sciences industry as reported by Top 5 Data Services, Inc. (the "2011 Director Competitive Analysis"). The 2011 Director Competitive Analysis contained data for 217 publicly traded medical device companies and 331 biopharmaceutical companies, with 65 companies assigned to both sectors based on their mix of products. Based on its review of the 2011 Director Competitive Analysis, the Board did not make any changes to the Company's director compensation program in 2016 and continued with the program adopted in 2011 and used in 2012, 2013, 2014, 2015 and 2016, which is further discussed below.

#### Cash Compensation

Directors who are also one of the Company's employees are not separately compensated for serving on the board of directors other than reimbursement for out-of-pocket expenses related to attendance at board of directors meetings and committee meetings. Independent directors are paid an annual retainer of \$20,000 and receive reimbursement for out-of-pocket expenses related to attendance at board of directors and committee meetings. Independent directors serving on any committee of the board of directors are paid an additional annual retainer of \$2,500 unless they are also a chairperson of a committee. The chairperson of the Audit Committee receives an additional annual retainer of \$8,000 and the chairperson of any other committee receives an additional annual retainer of \$4,000. All directors' fees paid annually or quarterly were prorated for partial periods. In addition, any independent director who attends more than four meetings per quarter, which includes committee meetings, receives \$500 for each meeting attended over the four.

#### Equity-Based Compensation

From 2011 through 2013, the Company's director compensation policy was to grant annually to each continuing independent director an option to purchase 2,083 shares of our common stock. In 2014, the amount of that grant was 3,000 shares and in 2015 it was 5,000 shares. In 2016, the amount of that grant was 5,000 shares. These options vest in full after one year, subject to the director's continued service with the Company through the vesting date. Under the Company's policy, additional annual grants of options may be made each year by the Company's Compensation Committee in its sole discretion. Upon initial appointment to the Board, the Company's independent directors are also entitled to receive an option to purchase shares of the Company's common stock under the Amended 2006 Plan, with

the number of shares as determined by the Board or the Compensation Committee, which option vests in full after one year, subject to the director's continued service with the Company through the vesting date. All options granted to independent directors have exercise prices equal to the fair market value of our common stock on the grant date, as determined in accordance with the Amended 2006 Plan.

Effective December 13, 2016, the Board approved the issuance of options to acquire 5,000 shares of our common stock to Mya Thomae, Doit Koppler II, Michael A. Luther, and Robert M. Patzig, as well as an additional grant of an option to acquire 100,000 shares of our common stock to Robert M. Patzig, Chairman of the Board, in connection with his role in

negotiating the Merger Agreement and related transactions, all of which options are subject to the approval of the 2017 Plan by the Company's stockholders. Upon such approval by the Company's stockholders, these options will be effective as of December 13, 2016. Other than these options, no options were granted to the Company's independent directors during 2016.

#### Director Summary Compensation Table

The following table provides information regarding the Company's compensation for non-employee directors during the year ended December 31, 2016. Directors who are the Company's employees did not receive compensation for serving on the Board or its committees in fiscal 2016.

Name	Fees Earned or Paid in Cash (\$)	Option Awards (\$) (1)	Total (\$)
Doit L. Koppler, II	30,000	1,225	31,225
Robert M. Patzig Michael	42,000	25,725	67,725
A. Luther, Ph.D.	35,000	1,225	36,225
Mya Thomae	28,000	1,225	29,225
John D. Thompson (2)	—	—	—

(1) Includes the issuance of options to acquire 5,000 shares of our common stock to Mya Thomae, Doit Koppler II, Michael A. Luther, and Robert M. Patzig, as well as an additional grant of an option to acquire 100,000 shares of our common stock to Robert M. Patzig, Chairman of the Board, in connection with his role in negotiating the Merger Agreement and related transactions, all of which options were approved by the Board on December 13, 2016 but are subject to approval of the 2017 Plan by the Company's stockholders. Upon the approval of the 2017 Plan by the Company stockholders, these options will be effective as of December 13, 2016. Other than these options, there were no grants of plan-based awards in fiscal year 2016 to the Company Directors.

(2) Mr. Thompson resigned from the board of directors effective January 14, 2016.

The following table sets forth each independent director's aggregate number of option awards outstanding as of December 31, 2016:

Name	Vested Stock Option Awards(1)	Unvested Stock Option Awards(1)	Aggregate Stock Option Awards(1)
	15,499	5,000	20,499

Doit L. Koppler, II Robert M.	65,499	105,000	170,499
Patzig Michael A. Luther, Ph.D. Mya Thomae	10,000	5,000	15,000
John D. Thompson (2)	5,000	5,000	10,000
	—	—	—

---

Includes the issuance of options to acquire 5,000 shares of our common stock to Mya Thomae, Doit Koppler II, Michael A. Luther, and Robert M. Patzig, as well as an additional grant of an option to acquire 100,000 shares of our common stock to Robert M. Patzig, Chairman of the Board, in connection with his role in (1) negotiating the Merger Agreement and related transactions, all of which options were approved by the Board on December 13, 2016 and are subject to approval of the 2017 Plan by the Company's stockholders. Upon the approval of the 2017 Plan by the Company stockholders, these options will be effective as of December 13, 2016. Mr. Thompson resigned from the Board effective January 14, 2016 (2) and all unvested option awards were terminated as of that date in accordance with their terms.

Equity Compensation Plan Information

The following equity compensation plan information summarizes plans and securities approved and not approved by security holders as of December 31, 2016.

(a)	(b)	(c)
Number of securities to be issued	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) )
Equity compensation plans approved by security holders (1)	\$ 3.66	770,043
Equity compensation plans not approved by security holders	—	—
Total	\$ 3.66	770,043

(1) Consists of our 2006 Equity Incentive Plan.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters. The following table provides information known to the Company with respect to beneficial ownership of the Company's common stock by its directors, by its named executive officers, by all of its current executive officers and directors as a group, and by each person the Company believes beneficially owns more than 5% of its outstanding common stock as of March 31, 2017. For purposes of this table, we have also included a column that relates to the potential percent owned by each of our directors, named executive officers, and more than 5% beneficial owners following the Merger and the related private placement. Except as indicated in the footnotes to this table, to the Company's knowledge the persons named in the table below have sole voting and investment power with respect to all of the Company's common stock beneficially owned and such shares are owned directly by such person. The number of shares beneficially owned by each person or group as of March 31, 2017 includes shares of the Company's common stock that such person or group had the right to acquire on or within 60 days after March 31, 2017, including, but not limited to, upon the exercise of options, stock appreciation rights or warrants to purchase common stock or the conversion of securities into common stock. Beneficial ownership information of persons other than the Company's current executive officers and directors is based on available information including, but not limited to, Schedules 13D,

Edgar Filing: ALCOA INC. - Form 8-K

13F or 13G filed with the Securities and Exchange Commission (the "SEC") or information supplied by these persons.

Name and Address of Beneficial Owner <sup>(1)</sup>	Number of Shares Beneficially Owned	Percent of Class	
<b>Directors and Executive Officers</b>			
Paul Kinnon, President, Chief Executive Officer, Interim Chief Financial Officer and Director	332,499	(2) 1.2	%
Doit L. Koppler, II, Director	19,665	(3)*	
Robert M. Patzig, Director	68,832	(4)*	
Michael A. Luther, Director	10,000	(5)*	
Mya Thomae, Director	5,000	(6)*	
All directors and executive officers as a group (5 persons)	435,996	(7) 1.6	%
<b>Other Stockholders</b>			
Randal J. Kirk	8,015,374	(8) 29.3	%
* Represents less than 1% of Transgenomic's outstanding common stock.			

(1) The address for all of Transgenomic's directors and executive officers is the address of its principal executive offices located at 12325 Emmet Street, Omaha, Nebraska 68164.

(2) Includes 332,499 shares issuable upon the exercise of stock options and stock appreciation rights that are exercisable or will become exercisable within 60 days after March 31, 2017.

(3) Includes (i) 4,166 shares owned by Mr. Koppler, and (ii) 15,499 shares issuable upon the exercise of stock options that are exercisable or will become exercisable within 60 days after March 31, 2017.

(4) Includes (i) 3,333 shares owned by Mr. Patzig, and (ii) 65,499 shares issuable upon the exercise of stock options that are exercisable or will become exercisable within 60 days after March 31, 2017.

(5) Includes 10,000 shares issuable upon



the exercise of stock options that are exercisable or will become exercisable within 60 days after March 31, 2017.

(6) Includes 5,000 shares issuable upon the exercise of stock options that are exercisable or will become exercisable within 60 days after March 31, 2017.

(7) Includes shares which may be acquired by executive officers and directors as a group within 60 days after March 31, 2017 through the exercise of stock options, stock appreciation rights or warrants.

(8) Consists of (i) 7,550,669 shares of common stock, (ii) 250,000 shares of common stock issuable upon exercise of warrants to purchase shares of common stock

that are currently exercisable, and (iii) 214,705 shares of common stock issuable upon conversion of 214,705 shares of Series A-1 Convertible Preferred Stock. Excludes 161,026 shares of common stock issuable upon exercise or exchange of warrants to purchase shares of common stock (the "Placement Warrants") that are not currently exercisable as the exercise thereof is restricted by a blocker provision (the "Warrant Blocker") that restricts the exercise of each Placement Warrant if, as a result of such exercise, the holder of the Placement Warrant, together with its affiliates and any other person whose beneficial

ownership of common stock would be aggregated with such holder's for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, would beneficially own in excess of 9.99% of the Company's then issued and outstanding shares of common stock (including the shares of common stock issuable upon such exercise), as such percentage ownership is determined in accordance with the terms of the Placement Warrants. The Warrant Blocker will automatically expire 61 calendar days prior to the expiration date of the Placement Warrants. In addition, if certain approvals from the

Company's stockholders and The Nasdaq Stock Market LLC to issue any additional shares of common stock pursuant to the exchange right under the Placement Warrants are obtained (the "Placement Warrants Required Approvals"), an additional 100,000 shares of common stock may be issued upon exercise of an exchange right under the Placement Warrants for an aggregate of up to 260,862 shares of common stock issuable upon exchange of the Placement Warrants. The total of the shares of common stock, the warrants to purchase shares of common stock and the shares of Series A-1 Convertible Preferred Stock are held

by the following companies, which are managed by Third Security, LLC (“Third Security”), which is managed by Randal J. Kirk. Mr. Randal J. Kirk could be deemed to have indirect beneficial ownership of these shares: Third Security Senior Staff 2008 LLC beneficially owns 3,206,149 shares of common stock, which consist of (a) 3,020,267 shares of common stock, (b) 85,882 shares of common stock issuable upon conversion of 85,882 shares of Series A-1 Convertible Preferred Stock, and (c) 100,000 shares of common stock issuable upon exercise of warrants to purchase shares of common stock that are not

Placement  
Warrants and  
are currently  
exercisable;  
Third Security  
Staff 2010  
LLC  
beneficially  
owns  
2,268,595  
shares of  
common  
stock, which  
consist of (x)  
2,125,654  
shares of  
common  
stock, (y)  
42,941 shares  
of common  
stock issuable  
upon  
conversion of  
42,941 shares  
of Series A-1  
Convertible  
Preferred  
Stock, and (z)  
100,000 shares  
of common  
stock issuable  
upon exercise  
of warrants to  
purchase  
shares of  
common stock  
that are not  
Placement  
Warrants and  
are currently  
exercisable;  
Third Security  
Incentive 2010  
LLC  
beneficially  
owns  
1,603,076  
shares of  
common  
stock, which  
consist of (1)

1,510,135  
shares of  
common  
stock, (2)  
42,941 shares  
of common  
stock issuable  
upon  
conversion of  
42,941 shares  
of Series A-1  
Convertible  
Preferred  
Stock, and (3)  
50,000 shares  
of common  
stock issuable  
upon exercise  
of warrants to  
purchase  
shares of  
common stock  
that are not  
Placement  
Warrants and  
are currently  
exercisable;  
Third Security  
Staff 2014  
LLC  
beneficially  
owns 937,554  
shares of  
common  
stock, which  
consist of (A)  
894,613 shares  
of common  
stock, and (B)  
42,941 shares  
of common  
stock issuable  
upon  
conversion of  
42,941 shares  
of Series A-1  
Convertible  
Preferred  
Stock.  
The business  
address of

these  
beneficial  
owners is 1881  
Grove  
Avenue,  
Radford,  
Virginia  
24141.

#### Beneficial Ownership of Preferred Stock

As of March 31, 2017, there were 214,705 issued and outstanding shares of our Series A-1 Preferred Stock.

The following table provides information known to us with respect to beneficial ownership of the Series A-1 Preferred Stock by each person we believe beneficially owns more than 5% of our outstanding Series A-1 Preferred Stock as of March 31, 2017. The number of shares of Series A-1 Preferred Stock beneficially owned by each person or group as of March 31, 2017 includes shares of Series A-1 Preferred Stock that such person or group had the right to acquire on or within 60 days after March 31, 2017. Except as indicated in the footnotes to this table, to our knowledge the persons named in the table below have sole voting and investment power with respect to all of the shares of Series A-1 Preferred Stock beneficially owned and such shares are owned directly by such person. Beneficial ownership information of such persons is based on available information including, but not limited to, Schedules 13D, 13F or 13G filed with the SEC or information supplied by these persons.

102

---



Name and Address of Beneficial Owner <sup>(1)</sup>	Number of Shares Beneficially Owned	Percent of Class
Randal J. Kirk	214,705 (1)	100 %

(1) The shares of Series A-1 Preferred Stock are held 40% by Third Security Senior Staff 2008 LLC, 20% by Third Security Staff 2010 LLC, 20% by Third Security Incentive 2010 LLC and 20% by Third Security Staff 2014 LLC, which companies are managed by Third Security. Mr. Randal J. Kirk could be deemed to have indirect beneficial ownership of these shares. The business address of these beneficial owners is 1881 Grove Avenue, Radford, Virginia 24141.

### Item 13. Certain Relationships and Related Transactions, and Director Independence.

#### Review and Approval of Related Person Transactions

We recognize that related person transactions can present potential or actual conflicts of interest and create the appearance that our decisions are based on considerations which may not be in our best interests or the best interests of our stockholders. Accordingly, as a general matter, we prefer to avoid related person transactions. Nevertheless, we recognize that there are situations where related person transactions may be in, or may not be inconsistent with, our best interests. Pursuant to the Audit Committee Charter, the Audit Committee is responsible for reviewing and overseeing related-party transactions as required by NASDAQ and SEC rules. Related persons include our directors, executive officers, 5% beneficial owners of our common stock or their respective immediate family members. Our Board will also review related party transactions in accordance with applicable law and the provisions of our Third Amended and Restated Certificate of Incorporation, as amended.

In addition, our Audit Committee has adopted a written Related Persons Transactions Policy. Under our Related Persons Transactions Policy, if any director or executive officer or any immediate family member or related entity of a related person proposes to enter into a transaction, or if the Company proposes to enter into a transaction with a 5% beneficial owner of our common stock, then, prior to entering into such transaction, the related person must notify the Company's Compliance Officer (currently, the Interim Chief Financial Officer) and provide sufficient knowledge regarding the proposed transaction as is reasonably available to assist the Compliance Officer in determining whether approval of the Audit Committee is required. The Audit Committee must review and consider any proposed related person transaction, and the Audit Committee will only approve the transactions it deems are fair to and in the best interests of the Company. Additionally, the Audit Committee may ratify transactions that were previously unapproved if it finds the transactions are fair to and in the best interests of the Company. The following is a description of transactions or series of transactions since January 1, 2014, or any currently proposed transaction, to which we were or are to be a participant in which the amount involved in the transaction or series of transactions exceeds the lesser of \$120,000 or one percent of the average of our total assets at year end for the last two completed fiscal years, and in which any of our directors, executive officers or persons who we know to be 5% beneficial owners of our common stock, including their immediate family members, had or will have a direct or indirect material interest, other than compensation arrangements that are described under "Agreements with the Company's Named Executive Officers" below:

Loan and Security Agreement

On March 13, 2013 (the “Effective Date”), the Company entered into a Loan and Security Agreement with the Lenders for (a) a revolving line of credit (the “Revolving Line”) with borrowing availability of up to \$4.0 million, subject to reduction based on our eligible accounts receivable, and (b) a term loan (the “Term Loan” and, together with the Revolving Line, the “Loan Agreement”) of \$4.0 million. Proceeds were used to pay off a three-year senior secured promissory note payable to PGxHealth, LLC, which was entered into on December 29, 2010 in conjunction with the Company’s acquisition of the FAMILION family of genetic tests, and for general corporate and working capital purposes.

On August 2, 2013, the Company entered into an amendment to the Loan Agreement (the “Amendment”). The Amendment, which became effective as of June 30, 2013, reduced the Company’s future minimum revenue covenants under the Loan Agreement and modified the interest rates applicable to the amounts advanced under the Revolving Line.

On November 14, 2013, the Company entered into a second amendment to the Loan Agreement (the “Second Amendment”). The Second Amendment, which became effective as of October 31, 2013, reduced the Company’s future minimum revenue covenants under the Loan Agreement.

On January 27, 2014, the Company entered into a third amendment to the Loan Agreement (the “Third Amendment”). Pursuant to the Third Amendment, the Lenders agreed to waive certain events of default under the Loan Agreement, and the parties amended certain provisions of the Loan Agreement, including the minimum liquidity ratio that the Company must maintain during the term of the Loan Agreement.

On March 3, 2014, the Company entered into a fourth amendment to the Loan Agreement (the “Fourth Amendment”). Pursuant to the terms of the Fourth Amendment, the Company was not required to make any principal or interest payments under the Term Loan for the period from March 1, 2014 through March 31, 2015. The interest on the debt that was deferred and not paid was capitalized as part of the Term Loan. The amount of interest that was capitalized from March 1, 2014 to March 31, 2015 was \$0.4 million.

On October 22, 2014, the Company entered into a fifth amendment to the Loan Agreement (the “Fifth Amendment”). Pursuant to the Fifth Amendment, the parties amended certain provisions of the Loan Agreement, including reducing the minimum liquidity and revenue covenants under the Loan Agreement. The Fifth Amendment also reduced the aggregate amount that the Company may borrow under the Revolving Line from \$4.0 million to \$3.0 million.

On April 1, 2015, the Company entered into a sixth amendment to the Loan Agreement (the “Sixth Amendment”). Pursuant to the Sixth Amendment, among other things, (a) the Lenders waived specified events of default under the terms of the Loan Agreement, (b) commencing April 1, 2015, the Company began making monthly interest payments with respect to the Term Loan to the Lenders, (c) the Company was not obligated to make monthly payments of principal under the Term Loan to the Lenders until April 1, 2016, (d) the Company made an initial prepayment of a portion of the Term Loan balance in the amount of approximately \$148,000 on April 1, 2015 and is required to make one or more additional prepayments to the Lenders under the Loan Agreement upon the occurrence of certain events, as defined in the Loan Agreement, and (e) the Company was not required to comply with the minimum liquidity ratio under the terms of the Loan Agreement until the earliest to occur of a specified event, as defined in the Loan Agreement, or March 31, 2016. The Sixth Amendment also extended the time period in which the Company must provide certain reports and statements to the Lenders and amends the circumstances pursuant to which the Company may engage in certain sales or transfers of the Company’s business or property without the consent of the Lenders. As of June 30, 2015, the Company was in compliance with all financial covenants of the Loan Agreement, but was not in compliance with the restrictions limiting the amount that the Company may borrow under the Revolving Line. Accordingly, on August 10, 2015, the Company received a waiver from the Lenders relating to this non-compliance and paid the Lenders an aggregate of \$0.7 million, which brought the Company back into compliance with the terms of the Revolving Line.

On September 4, 2015, the Company entered into a seventh amendment to the Loan Agreement (the “Seventh Amendment”). The Seventh Amendment, among other things, (a) provided that the Lenders waived specified events of default under the terms of the Loan Agreement, (b) reduced the Company’s future minimum revenue covenants under the Loan Agreement, (c) reduced the Company’s borrowing availability under the Revolving Line to approximately \$2.3 million, and (d) limited the Company’s borrowing base under the Loan Agreement to the amount of the Revolving Line.

On January 6, 2016, the Company entered into an eighth amendment to the Loan Agreement (the “Eighth Amendment”). The Eighth Amendment, among other things, (a) provided that the Lenders waived specified events of default under the terms of the Loan Agreement, (b) reduced the Company’s future minimum revenue covenants under the Loan Agreement, (c) extended the maturity date of the Loan Agreement until November 1, 2017, and (d) provided for the repayment of an overadvance of \$750,000 previously provided by the Lenders to the Company pursuant to the Loan Agreement.

On June 6, 2016, the Company entered into a ninth amendment to the Loan Agreement (the “Ninth Amendment”). The Ninth Amendment, among other things, (a) provided that the Lenders waived specified events of default under the terms of the Loan Agreement, (b) amended the prepayment terms of the Loan Agreement, (c) provided for the reduction of amounts available under the Revolving Line upon the prepayment or repayment of certain amounts by the

Company, (d) removed the minimum liquidity ratio and minimum net revenue financial covenants applicable to the Company under the Loan Agreement, (e) amended the circumstances pursuant to which the Company may engage in certain sales or transfers of the Company's business or property without the consent of the Lenders, and (f) capitalized certain amounts owed by the Company to the Lenders and added such overdue amounts to the outstanding principal amount of the Revolving Line.

As a result of the Ninth Amendment, the overadvance that existed at March 31, 2016 was added to the outstanding principal amount of the Revolving Line and no overadvance existed as of September 30, 2016.

The independent members of the Board determined in good faith that it was in the best interests of the Company and its stockholders to provide an incentive for the Lenders to convert the outstanding principal and accrued interest under the Revolving Line and Term Loan and agreed with the Lenders that such conversions would be on the same terms as the conversion provisions of the outstanding unsecured convertible promissory notes.

On February 2, 2017, the Company entered into a tenth amendment to the Loan Agreement (the "Tenth Amendment"). The Tenth Amendment, among other things, (i) provides that the Lenders will waive specified events of default under the terms of the Loan Agreement until the effective time of the Merger (or the termination of the Merger Agreement in accordance with its terms), (ii) provides for the conversion of all outstanding indebtedness owed to the Lenders under the Loan Agreement (the "Outstanding Indebtedness") into shares of the Company's common stock and preferred stock (collectively, the "Conversion Shares") effective as of the closing date of the Merger and (iii) the termination of the Loan Documents (as defined in the Loan Agreement) and the termination and release of all security interests and liens of the Lenders in the Collateral (as defined in the Loan Agreement) in each case immediately following the conversion of the Outstanding Indebtedness into Conversion Shares. In connection with the Tenth Amendment, the Lenders have agreed to convert the outstanding principal and accrued interest under the Revolving Line and the Term Loan into (i) approximately 10.4 million shares of New Precipio common stock immediately prior to the effectiveness of the merger at a price equal to \$0.50 per share and (ii) 24.1 million shares of New Precipio preferred stock. As of December 31, 2016, the outstanding amount owed under the Revolving Line and the Term Loan was \$7.243 million of principal and \$556,642 of accrued interest. The issuance of the Conversion Shares is subject to the approval of the Company's stockholders in accordance with Nasdaq Capital Market listing rules.

Certain affiliates of Third Security, LLC, including the Lenders, have agreed to enter into two call option agreements pursuant to which (i) the Lenders will grant an option to purchase an aggregate of approximately 7.9 million shares of New Precipio Common Stock for an aggregate exercise price of \$1.00 for all such shares to, Kuzven Precipio Investor LLC, a principal investor of Precipio, and (ii) the Lenders will grant an option to purchase an aggregate of approximately 7.9 million shares of New Precipio Common Stock for an aggregate exercise price of \$1.00 for all such shares to an affiliate of BV Partners.

#### Conversion Agreement

On January 6, 2016, we entered into a Conversion Agreement (the "Conversion Agreement") with the holders (the "Preferred Holders") of all of our outstanding shares of Series A Convertible Preferred Stock (the "Series A Preferred Stock"), and Series B Convertible Preferred Stock (the "Series B Preferred Stock"), pursuant to which, among other things, the Preferred Holders: (1) elected to convert all of the outstanding shares of Series A Preferred Stock and Series B Preferred Stock into shares of our common stock, in each case in accordance with the terms thereof, and (2) agreed that all accrued and unpaid dividends on the Series A Preferred Stock and Series B Preferred Stock would be paid by us in shares of common stock at a rate of \$1.00 per share of common stock (collectively, the "Conversion"). The outstanding shares of Series A Preferred Stock were convertible into shares of our common stock at a rate of 1-for-3, and the outstanding shares of Series B Preferred Stock were convertible into shares of our common stock at a rate of 1-for-1. Prior to the entry into the Conversion Agreement, there were 2,586,205 shares of Series A Preferred Stock outstanding, which were converted into 862,057 shares of common stock, and 1,443,297 shares of Series B Preferred Stock outstanding, which were converted into 1,443,297 shares of common stock, for an aggregate of 2,305,354 shares of common stock issued upon conversion of the Series A Preferred Stock and Series B Preferred Stock. At the time of the entry into the Conversion Agreement, there were \$3,681,591.90 in accrued and unpaid dividends on the outstanding shares of Series A Preferred Stock, which were converted, in accordance with the Conversion Agreement, into 3,681,590 shares of common stock, and \$793,236.17 in accrued and unpaid dividends on the outstanding shares of Series B Preferred Stock, which were converted, in accordance with the terms of the Conversion Agreement, into 793,235 shares of common stock, for an aggregate of 4,474,825 shares of Common Stock issued pursuant to the accrued and unpaid dividends on the Series A Preferred Stock and Series B Preferred Stock. Therefore, in connection with the full conversion of the Series A Preferred Stock and Series B Preferred Stock, plus the conversion of all accrued and unpaid dividends thereon, we issued an aggregate of 6,780,179 shares of our

common Stock to the Preferred Holders on January 6, 2016.

Third Security, LLC and certain of its affiliates, which collectively hold more than 10% of our outstanding voting stock, participated in the Conversion. Additionally, Doit L. Koppler, II, a director of the Company, is affiliated with Third Security, LLC.

January 2016 Private Placement

105

---

On January 6, 2016, we entered into a Securities Purchase Agreement (the “A-1 Preferred Purchase Agreement”) with certain accredited investors (the “A-1 Preferred Investors”), pursuant to which, on January 8, 2016, we sold to the A-1 Preferred Investors (the “A-1 Preferred Offering”) an aggregate of approximately \$2.2 million of units (the “Units”) consisting of (1) an aggregate of 2,365,243 shares (the “A-1 Preferred Shares”) of Series A-1 Preferred Stock, and (2) warrants (the “Placement Warrants”) to purchase up to an aggregate of 1,773,929 shares of common stock. Each Unit was sold to the A-1 Preferred Investors at a purchase price of \$0.93 per Unit. The A-1 Preferred Shares are convertible into shares of common stock at an initial rate of 1-for-1, which conversion rate is subject to further adjustment as set forth in our Certificate of Designation of Series A-1 Convertible Preferred Stock, which was filed with the Secretary of State of the State of Delaware on January 8, 2016 (the “Series A-1 Certificate of Designation”). Pursuant to the terms of the Series A-1 Certificate of Designation, the holders of the A-1 Preferred Shares will generally be entitled to that number of votes as is equal to the product obtained by multiplying: (1) the number of whole shares of common stock into which the A-1 Preferred Shares may be converted as of the record date of such vote or consent, by (2) 0.93, rounded down to the nearest whole number. Therefore, every 1.075269 shares of Series A-1 Preferred Stock will generally initially be entitled to one vote.

The Placement Warrants are immediately exercisable, have a term of five years and have an exercise price of \$1.21 per share of common stock. Each Placement Warrant also includes both cash and cashless exercise features and an exchange feature whereby the holder of the Placement Warrant may exchange all or any portion of the Placement Warrant for a number of shares of common stock equal to the quotient obtained by dividing the “Exchange Amount” by the closing bid price of the common stock on the second trading day prior to the date the Placement Warrant is exchanged (the “Exchange Right”). Under the Placement Warrants, the “Exchange Amount” is based upon a Black Scholes option pricing model, and the aggregate Exchange Amount under all of the Placement Warrants is \$1,436,882, subject to adjustment to the extent that the risk-free U.S. Treasury rate fluctuates between the date of issuance of the Placement Warrants and the date the Placement Warrants are exchanged. Each Placement Warrant provides that the number of shares that may be issued upon exercise of the Exchange Right is limited to the number of shares that may be purchased pursuant to the terms of the Placement Warrant, unless we have previously obtained stockholder approval or approval from NASDAQ to issue any additional shares of common stock (the “Additional Shares”) pursuant to the Exchange Right (the “Required Approvals”). For any Exchange Right exercised more than 90 days following the issuance of the Placement Warrants, if we have not obtained either of the Required Approvals, we will be required to pay the holder of the Placement Warrant an amount in cash for any Additional Shares that we cannot issue without the Required Approvals based on the Exchange Amount.

Third Security, LLC and certain of its affiliates, which collectively hold more than 10% of our outstanding voting stock, participated in the A-1 Preferred Offering. Additionally, Doit L. Koppler, II, a director of the Company, is affiliated with Third Security, LLC. Crede CG III, Ltd and certain of its affiliates, which collectively hold more than 10% of our outstanding voting stock, also participated in the A-1 Preferred Offering.

#### Merger Agreement and Related Transactions

Doit L. Koppler, II, a member of our Board, is employed by Third Security and is affiliated with certain of its affiliates, which collectively hold more than 10% of our voting interests. Certain affiliates of Third Security (the “Lenders”) hold the secured indebtedness of the Company, \$3 million of which is being converted into approximately 24.1 million shares of New Precipio preferred stock in connection with the private placement that will represent approximately 8% of fully diluted New Precipio common stock. The remainder of the secured indebtedness and all accrued interest held by the Lenders will convert into approximately 10.4 million shares of New Precipio common stock immediately prior to effectiveness of the merger at a price equal to \$0.50 per share, representing approximately 3% of the fully diluted New Precipio common stock. Third Security and its affiliates own 214,705 shares of our Series A-1 Convertible Preferred Stock which will convert into 214,705 shares of our common stock immediately prior to the effectiveness of the Merger pursuant to the conversion provisions set forth in our Certificate of Incorporation.

#### Director Independence

Our Company is governed by our Board. Currently, each member of our Board, other than our President, Chief Executive Officer and Interim Chief Financial Officer, Paul Kinnon (who is not independent by virtue of his

employment with us), is an independent director and all standing committees of our Board are composed entirely of independent directors, in each case under NASDAQ's independence definition applicable to boards of directors. For a director to be considered independent, our Board must determine that the director has no relationship which, in the opinion of our Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Members of the Audit Committee also must satisfy a separate SEC independence requirement, which provides that they may not accept directly or indirectly any consulting, advisory or other compensatory fee from us or any of our subsidiaries other than their directors' compensation. In addition, under SEC rules, an Audit Committee member who is an affiliate of the issuer (other than through service as a director) cannot be deemed



to be independent. In determining the independence of members of the Compensation Committee, NASDAQ listing standards require our Board to consider certain factors, including but not limited to: (1) the source of compensation of the director, including any consulting, advisory or other compensatory fee paid by us to the director, and (2) whether the director is affiliated with us, one of our subsidiaries or an affiliate of one of our subsidiaries. Under our Compensation Committee Charter, members of the Compensation Committee also must qualify as “outside directors” for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), and as “non-employee directors” for purposes of Rule 16b-3 under the Exchange Act. The four independent members of the Board are Doit L. Koppler, II, Robert M. Patzig, Michael A. Luther, Ph.D. and Mya Thomae. Additionally, prior to his resignation from our Board on January 14, 2016, Mr. Thompson was deemed by our Board to be an independent director.

#### Family Relationships

There are no family relationships between or among any of our executive officers or directors.

#### Item 14. Principal Accounting Fees and Services.

##### Independent Registered Public Accounting Firm

On January 12, 2017, the Audit Committee, acting on behalf of the Board, approved the dismissal of Ernst & Young LLP (“E&Y”) as the Company’s independent registered public accounting firm.

On February 24, 2017, the Audit Committee, acting on behalf of the Board, appointed Marcum LLP (“Marcum”) as the Company’s independent registered public accounting firm.

Marcum has audited our balance sheet as of December 31, 2016, and our related consolidated statements of operations, comprehensive loss, stockholders’ deficit, and cash flow for the year ended December 31, 2016.

The following table shows information about fees that were billed or were expected to be billed by Marcum and E&Y for the fiscal years ended December 31, 2016 and 2015.

Marcum - fees that were paid, that were billed or were expected to be billed:

	2016
Audit fees	\$ 120,000
Audit-related fees	—
Tax fees	—
All other fees	—
Total fees	\$ 120,000

**Audit Fees.** Audit fees consist of services rendered for the audit of our financial statements for the year ended December 31, 2106.

**Audit-Related Fees.** Audit-Related Fees consist of fees for assurance and related services that are reasonably related to the performance of the audit and the review of our financial statements and which are not reported under Audit Fees.

**Tax Fees.** E&Y billed us for tax services. Tax services consist primarily of planning, advice and compliance, or return preparation, for U.S. federal, state and local, as well as international jurisdictions.

**All Other Fees.** None.

E&Y - fees that were paid, that were billed or were expected to be billed:

107

---

	2015
Audit fees	\$508,000
Audit-related fees	2,500
Tax fees	60,332
All other fees	—
Total fees	\$570,832

**Audit Fees.** Audit fees consist of services rendered for the audit of our annual financial statements and review of our interim financial statements included in Quarterly Reports on Form 10-Q and other professional services provided in connection with statutory and regulatory filings or engagements.

**Audit-Related Fees.** Audit-Related Fees consist of a subscription to E&Y's online accounting research library.

**Tax Fees.** E&Y billed us for tax services. Tax services consist primarily of planning, advice and compliance, or return preparation, for U.S. federal, state and local, as well as international jurisdictions.

**All Other Fees.** None.

#### Pre-Approval of Audit and Non-Audit Services

Under the Audit Committee Charter, the Audit Committee is required to pre-approve all audit and non-audit services to be provided to us by our independent registered public accounting firm and its member firms. All services provided by our independent registered public accounting firm in 2016 were pre-approved by the Audit Committee.

Part IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this report:

1 Financial Statements. The following financial statements of the Registrant are included in response to Item 8 of this report:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets of the Registrant and Subsidiary as of December 31, 2016 and 2015.

Consolidated Statements of Operations of the Registrant and Subsidiary for the years ended December 31, 2016 and 2015.

Consolidated Statements of Comprehensive Loss of the Registrant and Subsidiary for the years ended December 31, 2016 and 2015.

Consolidated Statements of Stockholders' Deficit of the Registrant and Subsidiary for the years ended December 31, 2016 and 2015.

Consolidated Statements of Cash Flows of the Registrant and Subsidiary for the years ended December 31, 2016 and 2015.

Notes to Consolidated Financial Statements of the Registrant and Subsidiary.

2 Financial Statement Schedules.

All financial statement schedules are omitted because the information is inapplicable or presented in the notes to the financial statements.

3 Exhibits. The following exhibits are filed as required by Item 15(a)(3) of this report. Exhibit numbers refer to the paragraph numbers under Item 601 of Regulation S-K:

†2.1 Asset Purchase Agreement among the Registrant, Scoli Acquisition Sub, Inc. and Axial Biotech, Inc. dated August 27, 2012 (incorporated by reference to Exhibit 2.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 8, 2012).

2.2 Agreement and Plan of Merger, dated October 12, 2016, by and among Transgenomic, Inc., New Haven Labs Inc. and Precipio Diagnostics, LLC (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on October 13, 2016)

3.1 Third Amended and Restated Certificate of Incorporation of the Registrant, as amended

3.2 Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 14, 2016).

4.1 Form of Certificate of the Registrant's Common Stock (incorporated by reference to Exhibit 4 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-32174) filed on March 10, 2000).

4.2 Form of Warrant issued by the Registrant to the Third Security Entities on February 7, 2012 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on February 7, 2012).

4.3 Form of Warrant issued by the Registrant to the Investors on February 7, 2012 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on February 7, 2012).

4.4 Form of Registration Rights Agreement entered into by and among the Registrant, the Third Security Entities and the Investors dated February 2, 2012 (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report

on Form 8-K filed on February 7, 2012).

- 4.5 Registration Rights Agreement, entered into by and among the Registrant and the Investors, dated January 24, 2013 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K/A filed on January 31, 2013).
- 4.6 Form of Warrant issued by the Registrant to the Investors on January 30, 2013 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K/A filed on January 31, 2013).
- 4.7 Registration Rights Agreement, dated as of March 5, 2014, by and among the Registrant, Third Security Senior Staff 2008 LLC, Third Security Staff 2014 LLC and Third Security Incentive 2010 LLC (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on March 6, 2014).
- 4.8 Securities Purchase Agreement, dated as of October 22, 2014, by and among the Registrant and the Investors (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on October 22, 2014).
- 4.9 Form of Warrant issued by the Registrant to the Investors and the advisor on October 22, 2014 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on October 22, 2014).
- 4.10 Unsecured Convertible Promissory Note Purchase Agreement, dated as of December 31, 2014, by and among the Registrant and the Investors (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 7, 2015).
- 4.11 Form of Unsecured Convertible Promissory Note issued by the Registrant to the Investor pursuant to the Unsecured Convertible Promissory Note Purchase Agreement, dated as of December 31, 2014 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 7, 2015).
- 4.12 Form of Warrant to Purchase Common Stock (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on February 27, 2015).
- 4.13 Registration Rights Agreement, dated June 30, 2015, by and among the Registrant and the Investors (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K/A filed on July 7, 2015).
- 4.14 Form of Series B Warrant to Purchase Common Stock issued by the Registrant to an Investor on July 7, 2015 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K/A filed on July 7, 2015).
- 4.15 Form of Series A Warrant to Purchase Common Stock issued by the Registrant to Investors on July 7, 2015 (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K/A filed on July 7, 2015).
- 4.16 Form of Warrant to Purchase Common Stock issued by the Registrant to the Placement Agent on July 7, 2015 (incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K/A filed on July 7, 2015).
- 4.17 Registration Rights Agreement, by and among the Registrant and the Investors, dated January 8, 2016 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on January 11, 2016 at 7:33 a.m. Eastern Time).

Edgar Filing: ALCOA INC. - Form 8-K

- 4.18 Form of Warrant, issued by the Registrant to the Investors on January 8, 2016 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on January 11, 2016 at 7:33 a.m. Eastern Time).
- 4.19 Form of Amended Warrant, issued by the Registrant to an affiliate of an Investor on January 8, 2016 (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed on January 11, 2016 at 7:33 a.m. Eastern Time).
- 4.20 Form of Warrant, issued by the Registrant to the Placement Agent on January 8, 2016 (incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K filed on January 11, 2016 at 7:33 a.m. Eastern Time).
- \*10.1 The Registrant's 2006 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 28, 2014).
- \*10.2 1999 UK Approved Stock Option Sub Plan of the Registrant (incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-32174) filed on March 10, 2000).

- 10.3 License Agreement, dated August 20, 1997, between the Registrant and Leland Stanford Junior University (incorporated by reference to Exhibit 10.15 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-32174) filed on March 10, 2000).
- 10.4 License Agreement, dated December 1, 1989, between Cruachem Holdings Limited (a wholly owned subsidiary of the Registrant) and Millipore Corporation (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K filed on March 25, 2002).
- 10.5 Sublicense Agreement, dated October 1, 1991, between Cruachem Holdings Limited (a wholly owned subsidiary of the Registrant) and Applied Biosystems, Inc. (incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K filed on March 25, 2002).
- 10.6 Missives, dated May 17, 2002, between Cruachem Limited (a wholly-owned subsidiary of the Registrant) and Robinson Nugent (Scotland) Limited (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on August 14, 2002).
- 10.7 License Amendment Agreement, dated June 2, 2003, by and between Geron Corporation and the Registrant (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on August 12, 2003).
- 10.8 Supply Agreement, dated January 1, 2000, between the Registrant and Hitachi Instruments (incorporated by reference to Exhibit 10.16 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-32174) filed on March 10, 2000).
- 10.9 License Agreement between the Registrant and the Dana-Farber Cancer Institute dated October 8, 2009 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 5, 2009).
- 10.10 Securities Purchase Agreement, entered into by and among the Registrant and the Investors, dated January 24, 2013 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K/A filed on January 31, 2013).
- 10.11 Forbearance Agreement, dated February 7, 2013, by and between the Registrant and Dogwood Pharmaceuticals, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 8, 2013).
- 10.12 Loan and Security Agreement among the Registrant, Third Security Senior Staff 2008 LLC, as administrative agent and a lender, and the other lenders party thereto, dated March 13, 2013 (incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K filed on March 14, 2013).
- 10.13 First Amendment to Loan and Security Agreement among the Registrant, Third Security Senior Staff 2008 LLC, as administrative agent and a lender, and the other lenders party thereto, dated August 2, 2013 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 6, 2013).
- \*10.14 Employment Agreement between the Registrant and Paul Kinnon, effective September 30, 2013 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 30, 2013).
- \*10.15 Offer Letter, dated November 6, 2012, by and between the Registrant and Leon Richards (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 3, 2015).



- Amendment No. 1 to Offer Letter, dated June 2, 2015, by and between the Registrant and Leon Richards
- \*10.16 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on June 3, 2015).
- Form of Incentive Stock Option Agreement between the Registrant and Paul Kinnon, effective September 30,
- \*10.17 2013 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on November 14, 2014).
- Form of Stock Appreciation Rights Agreement between the Registrant and Paul Kinnon, effective September
- \*10.18 30, 2013 (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed on November 14, 2014).
- \*10.19 Form of Stock Appreciation Rights Agreement under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on September 30, 2013).

- 10.20 Second Amendment to Loan and Security Agreement among the Registrant, Third Security Senior Staff 2008 LLC, as administrative agent and a lender, and the other lenders party thereto, effective October 31, 2013 (incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q filed on November 14, 2014).
- 10.21 Limited Waiver and Third Amendment to Loan and Security Agreement among Transgenomic, Inc., Third Security Senior Staff 2008 LLC, as administrative agent and a lender, and the other lenders party thereto, dated January 27, 2014 (incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K filed on March 27, 2014).
- 10.22 Fourth Amendment to Loan and Security Agreement among Transgenomic, Inc., Third Security Senior Staff 2008 LLC, as administrative agent and a lender, and the other lenders party thereto, dated March 3, 2014 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 6, 2014).
- 10.23 Series B Convertible Preferred Stock Purchase Agreement, dated as of March 5, 2014, by and among the Registrant and Third Security Senior Staff 2008 LLC, Third Security Staff 2014 LLC and Third Security Incentive 2010 LLC (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 6, 2014).
- +10.24 Collaboration Agreement, dated as of October 9, 2013, by and between the Registrant and PDI, Inc. (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K/A filed on September 5, 2014).
- +10.25 Surveyor Kit Patent, Technology, and Inventory Purchase Agreement, dated as of July 1, 2014, by and between the Registrant and Integrated DNA Technologies, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 12, 2014).
- 10.26 Limited Waiver and Fifth Amendment to Loan and Security Agreement among Transgenomic, Inc., Third Security Senior Staff 2008 LLC, as administrative agent and a lender, and the other lenders party thereto, dated October 22, 2014 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 22, 2014).
- 10.27 Unsecured Convertible Promissory Note Purchase Agreement, dated as of December 31, 2014, by and between the Registrant and the Investor (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 7, 2015).
- 10.28 Purchase Agreement by and between the Registrant and Craig-Hallum Capital Group LLC, dated February 27, 2015 (incorporated by reference to Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed on February 27, 2015).
- 10.29 Limited Waiver and Sixth Amendment to Loan and Security Agreement by and among the Registrant, Third Security Senior Staff 2008 LLC, as administrative agent and a lender, and the other lenders party thereto, dated April 1, 2015 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 2, 2015).
- 10.30 Securities Purchase Agreement, by and among the Registrant and the Investors, dated June 30, 2015 (incorporated by reference to Exhibit 10.1 to the Registrant's Amendment No. 1 to Current Report on Form 8-K/A filed on July 7, 2015).

- 10.31 Limited Waiver and Seventh Amendment to Loan and Security Agreement (Term Loan and Revolving Loan), by and among Transgenomic, Inc., Third Security Senior Staff 2008 LLC, as administrative agent and a lender, and the other lenders party thereto, dated as of September 4, 2015 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 16, 2015).
- 10.32 Asset Purchase Agreement, by and between the Registrant and Edge BioSystems, Inc., dated September 8, 2015 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on November 16, 2015).
- 10.33 Confidential and Binding Term Sheet, by and between the Registrant and ADSTEC Corporation, effective as of September 30, 2015 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on November 16, 2015).
- 10.34 Asset Purchase Agreement, by and between Transgenomic, Inc., ADSTEC Corporation and ADS Biotec Inc., dated November 25, 2015 (incorporated by reference to Exhibit 10.34 to the Registrant's Current Report on Form 10-K filed on April 14, 2016 ).

- 10.35 Conversion Agreement, dated January 6, 2016, by and among the Registrant and affiliates of Third Security, LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 11, 2016 at 7:30 a.m. Eastern Time).
- 10.36 Limited Waiver and Eighth Amendment to Loan and Security Agreement (Term Loan and Revolving Loan), by and among Transgenomic, Inc., Third Security Senior Staff 2008 LLC, as administrative agent and a lender, and the lenders party thereto, dated January 6, 2016 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 11, 2016 at 7:30 a.m. Eastern Time).
- 10.37 Securities Purchase Agreement, by and among the Registrant and the purchasers party thereto, dated January 6, 2016 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 11, 2016 at 7:33 a.m. Eastern Time).
- 10.38 Limited Waiver and Ninth Amendment to Loan and Security Agreement (Term Loan and Revolving Loan), by and among the Registrant, Third Security Senior Staff 2008 LLC, as administrative agent and a lender, and the lenders party thereto, dated June 6, 2016 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 7, 2016).
- 10.39 At the Market Offering Agreement, dated June 7, 2016, by and between Transgenomic, Inc. and Craig-Hallum Capital Group LLC (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on June 7, 2016).
- 10.40 Waiver Letter Agreement by and among Transgenomic, Inc., Potomac Capital Partners, L.P., MAZ Partners LP, David Wambeke and Craig-Hallum Capital Group LLC, dated as of January 10, 2017 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 7, 2016).
- 12.1 Statement Regarding the Computation of Ratio of Earnings to Fixed Charges and Preferred Share Dividends for the Years Ended December 31, 2011, 2012, 2013, 2014 and 2015.
- 21 Subsidiaries of the Registrant.
- 23.1 Consent of Independent Registered Public Accounting Firm
- 23.2 Consent of Independent Registered Public Accounting Firm
- 24 Powers of Attorney (included on signature page hereto).
- 31 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*\*32 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Form of Voting Agreement, by and among Transgenomic, Inc., Precipio Diagnostics, LLC, and certain holders of Transgenomic common stock (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on October 13, 2016).
- 99.2 Form of Voting Agreement, by and among Transgenomic, Inc., Precipio Diagnostics, LLC, and certain members and warrant holders of Precipio (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed on October 13, 2016).

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

† Pursuant to Item 601(b)(2) of Regulation S-K, the schedules to this agreement have been omitted. The Registrant agrees to furnish supplementally a copy of any omitted schedule to the SEC upon request.

\* Denotes exhibit that constitutes a management contract, or compensatory plan or arrangement.

\*\* These certifications are not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Registrant specifically incorporates it by reference.

+ Confidential treatment has been granted with respect to certain portions of this exhibit. Omitted portions have been filed separately with the SEC.

Item 16. Form 10-K Summary

None.

115

---

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 12th day of April 2017.

TRANSGENOMIC, INC.

By: /s/ PAUL KINNON

Paul Kinnon,

President, Chief Executive Officer and Interim Chief Financial Officer (Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints, jointly and severally, Paul Kinnon, as his attorney-in-fact, with full power of substitution and resubstitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ PAUL KINNON Paul Kinnon	Director, President, Chief Executive Officer and Interim Chief Financial Officer (Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)	April 12, 2017
/s/ ROBERT M. PATZIG Robert M. Patzig	Director	April 12, 2017
/s/ DOIT L. KOPPLER II Doit L. Koppler II	Director	April 12, 2017
/s/ MICHAEL A. LUTHER Michael A. Luther	Director	April 12, 2017
/s/ MYA THOMAE Mya Thomae	Director	April 12, 2017



