

Tuesday, February 4, 2003

COMPANY PRESS RELEASE

Transgenomic Inc. Reports Fourth Quarter and Fiscal Year 2002 Results

OMAHA, Neb., and SAN JOSE, Calif., Feb. 4 / -- Transgenomic Inc. (Nasdaq:[TBIO](#)) today announced financial results for the quarter and the year ended December 31, 2002. The company's financial results are presented in the tables attached.

Fourth Quarter 2002

Fourth quarter revenues decreased 14 percent to \$9.2 million in 2002 from \$10.7 million in 2001. The net loss for the quarter was \$9.3 million, which includes restructuring charges of \$3.3 million, representing a loss of \$0.40 per share compared to a net loss of \$2.7 million, or \$0.12 per share, in 2001. Excluding the restructuring charges and a loss on the write-off of a note receivable of approximately \$375,000, the net loss would have been \$5.7 million or \$0.24 per share. On a sequential basis, the \$9.2 million in revenues for the fourth quarter of 2002 represented a slight increase compared to the third quarter. Instrument revenues in the quarter increased by over 45 percent to \$5.7 million compared to \$4.0 million in the prior quarter. However, this increase was offset by a decrease in synthetic nucleic acids revenues, which were impacted by customer-specified delivery schedules.

Year Ended December 31, 2002

For the twelve months ended December 31, 2002, revenues decreased 2 percent to \$37.6 million from \$38.5 million in 2001. The net loss for 2002 was \$21.4 million, which includes restructuring charges of \$3.3 million, representing a loss of \$0.91 per share, as compared to a net loss of \$7.4 million, or \$0.33 per share, for 2001. Excluding the restructuring charges and the write-off of the note receivable, the net loss in 2002 would have been \$17.7 million or \$0.75 per share. The Company's cash and investments position at the end of the period was \$13.3 million.

Comment and Outlook

CEO Collin D'Silva stated that the company's expense reduction and restructuring, which was announced in January, would result in operating expenses being reduced by a minimum of 20-25 percent from the levels of fourth quarter 2002. D'Silva also noted, "Approximately 45 percent of the restructuring charge in the fourth quarter was related to non-cash items. We will also incur an additional restructuring charge of \$500,000 to \$700,000 in the first quarter. The combined charges in the fourth quarter 2002 and first quarter 2003 are within the range we previously provided."

Bill Rasmussen, CFO, indicated that fourth quarter 2002 margins were impacted by expenses associated with the ramp up of operations at the company's new production facility in Boulder, Colo. This facility, which is in the final stages of completion, will manufacture specialty oligonucleotides (oligos) for customers in the therapeutic and diagnostic sectors. Transgenomic is already a leading supplier of amidites, the fundamental building blocks for the synthesis of oligos. Synthetic oligos, or short single-stranded DNA sequences, are used in antisense therapeutics, in microarray technology and for many other purposes. According to Rasmussen, "We incurred significant expenses in moving forward in our plan to produce oligos and this reduced our gross margin to approximately 41 percent. Without these expenses, our gross margins would have been approximately 50 percent, which is a slight improvement over the third quarter." Rasmussen anticipates that the Boulder operation will start to contribute to top-line revenue in the first quarter of 2003, but will continue to negatively impact margins at least through the first half of 2003.

In Transgenomic's report of third quarter results last October, D'Silva indicated that economic conditions had posed challenges to its instrument business, but that WAVE[®] System sales had begun to stabilize with the promise of increasing strength in 2003. "We began to see that strength in the fourth quarter, both in revenues and orders," said D'Silva. "We see continued evidence of an ongoing need for comprehensive genetic variation studies in our target markets. We believe we are regaining momentum in

our bioinstruments business. Furthermore, the anticipated launch of additional novel WAVE System applications should contribute to sustainable growth.” D’Silva concluded, “We continue to believe that the value proposition offered by the WAVE platform positions us to target increasingly large market opportunities, such as molecular diagnostics and theranostics.”

Regarding the company’s nucleic acids-based business, D’Silva noted, “We are extremely disappointed in the results for the quarter. Despite disappointing results in this area in 2002, we continue to see fundamental market drivers for significant novel uses of synthetic nucleic acids. We are establishing a base of world-renowned expertise in nucleic acid chemistry. We also anticipate initiation of cGMP specialty oligonucleotide production at our new facility in Boulder, Colo., in the first half of 2003.” D’Silva continued, “Our success on these fronts will diversify our product portfolio and position us as a leading partner to pharmaceutical, biopharmaceutical and diagnostic companies seeking to advance cutting-edge synthetic nucleic acid technologies for therapeutic and diagnostic products.” D’Silva expects the continued advancement of new technology in this arena to provide additional opportunities for Transgenomic, stating, “As we broaden our portfolio, our base of longer-term supply agreements should increase and enable us to offer additional value-added services that support the transition of novel nucleic acid chemistries into marketable products.”

Regarding funding for 2003, CFO Rasmussen indicated that the company will start the year at \$13.3 million in cash, and further commented, “Our cash utilized in this year’s operating activities is dependent upon our ability to achieve both our revenue and expense objectives, and managing our components of working capital, particularly inventory and accounts receivable. These operating activities, along with 2003 capital expenditures may require additional sources of funds. We are exploring a number of normal business financing options, should they become necessary.”

Although disappointed with financial results in 2002, D’Silva notes that during the year the company was still able to make strategic investments in plant and personnel. He states, “Our 2002 investments leveraged our three core competencies—separation chemistries, nucleic acid chemistries and enzymology—which has positioned us to benefit from a diversified revenue stream derived from bioinstruments, bioconsumables, nucleic acid building blocks, specialty nucleic acid products and value-added services. This diversification of our revenue stream should facilitate renewed revenue growth in 2003 and support the company’s drive toward achieving profitability. We must, however, monitor and manage the risk posed by world events and their potential impact on the company and its markets.”

Earnings Call

The Company will host a live broadcast of its fourth quarter 2002 financial results via conference call over the Internet on Tuesday, February 4, at 5 p.m. Eastern time. To listen to the Webcast, investors should log on to <http://www.firstcallevnts.com/service/ajwz372949032qf12.html> and follow the instructions listed. A link to this site will also be located on the Company’s Investor Relations Web page at <http://www.transgenomic.com/default.asp?pgid=31&cyid=1>. An archived recording of the conference call will be available and can be accessed via the web using the same links listed above for 90 days after the call, ending on May 5, 2003, at 5 p.m. ET. Investors can also listen to a replay via telephone from 8 p.m. ET on February 4 through Tuesday, February 18, 2003, midnight ET. Simply dial 402-220-2984 or 800-839-4017 from any telephone.

About Transgenomic

Transgenomic provides versatile and innovative products to the life sciences markets in research, diagnostics and therapeutics for the synthesis, analysis and purification of nucleic acids. Transgenomic is headquartered in Omaha, Neb., and has offices in the United States, Europe and Japan. Major manufacturing facilities are located in San Jose, Calif., Omaha, Neb., Cramlington, Newcastle, U.K., and Glasgow, Scotland, U.K.

Transgenomic’s WAVE[®] System is a versatile system that can be used for genetic variation detection, size-based single- and double-strand DNA/RNA separation and analyses, and DNA/RNA purification. This patented technology uses a process known as high-performance liquid chromatography to separate DNA/RNA material so that genetic variation may be identified and analyzed. Proprietary software controls

the process and produces the results of the operation in an easy-to-read chart format. Once the DNA/RNA sample is loaded into the instrument and necessary data is entered into the software, the process requires virtually no additional input from the researcher.

In five years, Transgenomic has installed WAVE Systems in over 30 countries, evidence that it is a global leader in solutions for nucleic acid analysis.

For more information about the innovative genomics research tools developed and marketed by Transgenomic, please visit the company's Web site at www.transgenomic.com.

Forward Looking Statement

Certain statements in this press release constitute "forward-looking statements" of Transgenomic within the meaning of the Private Securities Litigation Reform Act of 1995, which involve known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Forward-looking statements include, but are not limited to, those with respect to future expected restructuring charge amounts, the dollar impact the restructuring will have on future operating expense levels, the continuing improvement in bioinstruments business, the advancement of WAVE technology into diagnostic and therapeutic applications, the establishment of a base of world-renowned expertise in nucleic acid chemistry, the initiation of cGMP specialty oligonucleotide production at the Boulder facility, increasing the base of longer-term supply agreements, and revenue growth in 2003. The known risks, uncertainties and other factors affecting these forward-looking statements are described from time to time in Transgenomic's reports to the Securities and Exchange Commission. Any change in such factors, risks and uncertainties may cause the actual results, events and performance to differ materially from those referred to in such statements. Accordingly, the company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 with respect to all statements contained in this press release. All information in this press release is as of the date of the release, and Transgenomic does not undertake any duty to update this information, including any forward-looking statements, unless required by law.

TRANSGENOMIC, INC.
SUMMARY FINANCIAL RESULTS
(In thousands, except per share amounts)

STATEMENT OF OPERATIONS

	Quarter		Fiscal Year	
	Ended December 31,	Ended December 31,	Ended December 31,	Ended December 31,
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net Sales	\$9,212	\$10,738	\$37,554	\$38,467
Cost of Sales	<u>5,471</u>	<u>4,805</u>	<u>19,569</u>	<u>17,198</u>
Gross Margin	3,741	5,933	17,985	21,269
Operating Expenses:				
Selling, General and Administrative	6,468	6,029	24,068	21,497
Research and Development	3,297	2,934	12,201	9,372
Stock-based Compensation	35	45	131	139
Restructuring Charges ⁽¹⁾	<u>3,282</u>	<u>—</u>	<u>3,282</u>	<u>—</u>
Operating Loss	(9,341)	(3,075)	(21,697)	(9,739)
Other Income/(Expenses)	<u>21</u>	<u>376</u>	<u>437</u>	<u>2,362</u>
Loss Before Income Taxes	(9,320)	(2,699)	(21,260)	(7,377)
Income Tax Expense(Benefit)	<u>(4)</u>	<u>3</u>	<u>105</u>	<u>24</u>
Net Loss	<u>\$(9,316)</u>	<u>\$(2,702)</u>	<u>\$(21,365)</u>	<u>\$(7,401)</u>

Shares Used in Computing Net Loss Per Share

Basic and Diluted	23,499	23,303	23,583	22,560
Basic and Diluted Net Loss Per Share ⁽²⁾	\$(0.40)	\$(0.12)	\$(0.91)	\$(0.33)

(1) Includes asset write-offs, employee severance and lease termination costs.

(2) Loss per share amounts are computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share losses may not equal the year-to-date loss per share.

TRANSGENOMIC, INC.
SUMMARY FINANCIAL RESULTS
(In thousands)

BALANCE SHEET

	December 31, <u>2002</u>	December 31, <u>2001</u>
Cash, Cash Equivalents and Short-term Investments	\$13,347	\$43,526
Other Current Assets	<u>25,780</u>	<u>19,350</u>
Current Assets	39,127	62,876
Net Property and Equipment	15,675	8,185
Other Assets	<u>19,233</u>	<u>18,225</u>
Total Assets	<u>\$74,035</u>	<u>\$89,286</u>
Current Liabilities	\$11,022	\$7,182
Long-Term Debt	1,499	—
Stockholders' Equity	<u>61,514</u>	<u>82,104</u>
Total Liabilities and Stockholders' Equity	<u>\$74,035</u>	<u>\$89,286</u>

TRANSGENOMIC, INC.
RECONCILIATION OF GAAP FINANCIAL RESULTS TO NON-GAAP MEASURES
(In thousands, except per share amounts)

	Quarter Ended December 31,		Fiscal Year Ended December 31,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Gross Margin – GAAP	\$3,741	\$5,933	\$17,985	\$21,269
Adjustments:				
Boulder Facility Manufacturing Expense	<u>860</u>	<u>—</u>	<u>860</u>	<u>—</u>
Adjusted Gross Margin – Non-GAAP	<u>\$4,601</u>	<u>\$5,933</u>	<u>\$18,845</u>	<u>\$21,269</u>
Gross Margin % - GAAP	41%	55%	48%	55%
Gross Margin % - Non-GAAP	50%	55%	50%	55%
Total Operating Expenses - GAAP	\$13,082	\$9,008	\$39,682	\$31,008

Adjustments:

Restructuring Charges	(3,282)	–	(3,282)	–
Write-off of Note Receivable	<u>(375)</u>	<u>–</u>	<u>(375)</u>	<u>–</u>
Adjusted Operating Expenses – Non-GAAP	<u>\$9,425</u>	<u>\$9,008</u>	<u>\$36,025</u>	<u>\$31,008</u>
Net Loss - GAAP	\$(9,316)	\$(2,702)	\$(21,365)	\$(7,401)
Adjustments:				
Restructuring Charges	3,282	–	3,282	–
Write-off of Note Receivable	<u>375</u>	<u>–</u>	<u>375</u>	<u>–</u>
Adjusted Net Loss – Non-GAAP	<u>\$(5,659)</u>	<u>\$(2,702)</u>	<u>\$(17,708)</u>	<u>\$(7,401)</u>
Shares Used in Computing Net Loss Per Share				
Basic and Diluted	23,499	23,303	23,583	22,560
Basic and Diluted Net Loss Per Share - GAAP	\$(0.40)	\$(0.12)	\$(0.91)	\$(0.33)
Adjusted Basic and Diluted Net Loss Per Share – Non-GAAP	\$(0.24)	\$(0.12)	\$(0.75)	\$(0.33)

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