

SANGAMO BIOSCIENCES INC
Form 10-Q
November 04, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2008

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 000-30171

SANGAMO BIOSCIENCES, INC.

(exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

68-0359556
(IRS Employer

Identification No.)

501 Canal Blvd, Suite A100

Richmond, California 94804

(Address of principal executive offices)

(510) 970-6000

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of October 30, 2008, 40,979,473 shares of the issuer's common stock, par value \$0.01 per share, were outstanding.

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CERTIFICATIONS

Some statements contained in this report are forward-looking with respect to our operations, research and development activities, operating results and financial condition. Statements that are forward-looking in nature should be read with caution because they involve risks and uncertainties, which are included, for example, in specific and general discussions about:

our strategy;

product development and commercialization of our products;

clinical trials;

revenues from existing and new collaborations;

sufficiency of our cash resources;

our research and development and other expenses;

our operational and legal risks; and

our plans, objectives, expectations and intentions and any other statements that are not historical facts.

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Various terms and expressions similar to them are intended to identify these cautionary statements. These terms include: anticipates, believes, continues, could, estimates, expects, intends, may, plans, seeks, should and will. Actual results may differ materially from those implied in those statements. Factors that could cause these differences include, but are not limited to, those discussed under Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations. Sangamo undertakes no obligation to publicly release any revisions to forward-looking statements to reflect events or circumstances arising after the date of this report. Readers are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SANGAMO BIOSCIENCES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share amounts)**

	September 30, 2008 (unaudited)	December 31, 2007 (1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,743	\$ 12,275
Marketable securities	50,496	68,813
Interest receivable	219	324
Accounts receivable	8,793	209
Prepaid expenses	382	497
Total current assets	68,633	82,118
Property and equipment, net	2,104	1,770
Other assets	12	12
Total assets	\$ 70,749	\$ 83,900
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,243	\$ 3,538
Accrued compensation and employee benefits	1,243	1,199
Deferred revenues	9,090	4,944
Total current liabilities	13,576	9,681
Deferred revenues, non-current portion	1,152	2,097
Total liabilities	14,728	11,778
Stockholders' equity:		
Common stock, \$0.01 par value; 80,000,000 shares authorized, 40,966,786 and 40,315,368 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	410	403
Additional paid-in capital	226,894	221,176
Accumulated deficit	(171,480)	(149,752)
Accumulated other comprehensive income	197	295
Total stockholders' equity	56,021	72,122
Total liabilities and stockholders' equity	\$ 70,749	\$ 83,900

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- (1) Amounts derived from Audited Consolidated Financial Statements dated December 31, 2007 filed as a part of our 2007 Annual Report on Form 10-K.

See accompanying notes.

Table of Contents**SANGAMO BIOSCIENCES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenues:				
Collaboration agreements	\$ 3,196	\$ 1,915	\$ 7,658	\$ 4,526
Research grants	549	410	1,694	1,805
Total revenues	3,745	2,325	9,352	6,331
Operating expenses:				
Research and development	7,563	5,916	24,492	17,655
General and administrative	2,564	1,728	8,036	5,840
Total operating expenses	10,127	7,644	32,528	23,495
Loss from operations	(6,382)	(5,319)	(23,176)	(17,164)
Interest and other income, net	42	1,051	1,448	2,356
Net loss	\$ (6,340)	\$ (4,268)	\$ (21,728)	\$ (14,808)
Basic and diluted net loss per share	\$ (0.15)	\$ (0.11)	\$ (0.53)	\$ (0.41)
Shares used in computing basic and diluted net loss per share	40,928	38,925	40,759	36,387

See accompanying notes.

Table of Contents**SANGAMO BIOSCIENCES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Nine months ended September 30,	
	2008	2007
Operating Activities:		
Net loss	\$ (21,728)	\$ (14,808)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	381	187
Amortization of premium / (discount) on investments	(930)	(1,514)
Realized loss on available-for-sale security	10	
Stock-based compensation	4,280	1,640
Changes in operating assets and liabilities:		
Interest receivable	105	(162)
Accounts receivable	(8,584)	467
Prepaid expenses and other assets	115	(221)
Accounts payable and accrued liabilities	(295)	104
Accrued compensation and employee benefits	44	24
Deferred revenue	3,201	3,317
Net cash used in operating activities	(23,401)	(10,966)
Investing Activities:		
Purchases of investments	(68,961)	(86,088)
Maturities of investments	84,125	61,900
Proceeds from sales of investments	3,975	
Purchases of property and equipment	(715)	(816)
Net cash provided by (used in) investing activities	18,424	(25,004)
Financing Activities:		
Issuance of common stock in connection with license agreement		8,550
Proceeds from issuance of common stock	1,445	31,612
Net cash provided by financing activities	1,445	40,162
Net (decrease) increase in cash and cash equivalents	(3,532)	4,192
Cash and cash equivalents, beginning of period	12,275	12,702
Cash and cash equivalents, end of period	\$ 8,743	\$ 16,894

See accompanying notes.

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SANGAMO BIOSCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(Unaudited)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Sangamo Biosciences, Inc. (Sangamo or the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The condensed consolidated financial statements include the accounts of Sangamo and its wholly-owned subsidiary, Gendaq Limited, after elimination of all material intercompany balances and transactions. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These financial statements should be read in conjunction with the financial statements and footnotes thereto for the year ended December 31, 2007, included in Sangamo s Form 10-K as filed with the SEC.

USE OF ESTIMATES AND CLASSIFICATIONS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair-Value Measurements (SFAS 157) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair-value measurements. The Company adopted SFAS 157 effective January 1, 2008 for all financial assets and liabilities and any other assets and liabilities that are recognized or disclosed at fair value on a recurring basis (see NOTE 5 FAIR VALUE MEASUREMENT). In accordance with FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), for nonfinancial assets and liabilities measured at fair value on a non-recurring basis, SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company is currently reviewing the application of SFAS 157 for nonfinancial assets and liabilities measured at fair value on a non-recurring basis and does not believe the adoption of SFAS 157 will have a material impact its condensed consolidated financial statements.

On October 10, 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, (FSP 157-3) that clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial assets is not active. FSP 157-3 is effective upon issuance, including prior periods for which the financial statements have not been issued. The adoption of FSP 157-3 during the three month period ending September 30, 2008 did not have a material impact on the Company s consolidated results of operations or financial condition.

In June 2007, the Emerging Issues Task Force (EITF) ratified a consensus on EITF Issue No. 07-3 (EITF 07-3), *Accounting for Non-Refundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities* , which concluded that non-refundable advance payments for goods or services for use in research and development activities should be deferred and recognized as an expense in the period that the related goods are delivered or services performed. The Company has adopted EITF 07-3 effective January 1, 2008, and the adoption had no material impact on our consolidated financial position, results of operations and cash flows.

In November 2007, the EITF ratified a consensus on EITF Issue No. 07-1 (EITF 07-1), *Accounting for Collaborative Arrangements* , which requires participants in a collaboration to make separate disclosures regarding the nature and purpose of an arrangement, their rights and obligations under the arrangement, the accounting policy for the arrangement and the income statement classification and amounts arising from the arrangement between participants for each period an income statement is presented. EITF 07-1 is effective for us beginning in the first

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quarter of fiscal year 2009. We are currently evaluating the impact of the provisions of EITF 07-1 on our financial position, results of operations and cash flows and therefore, the impact of the adoption is unknown at this time.

Table of Contents**NOTE 2 - BASIC AND DILUTED NET LOSS PER SHARE**

Basic loss per share is calculated based on the weighted average number of shares of common stock outstanding during the period. There are potential dilutive shares of common stock resulting from the assumed exercise of outstanding stock options and equivalents.

Because Sangamo is in a net loss position, diluted loss per share excludes the effects of common stock equivalents consisting of options, which are all antidilutive. Had Sangamo been in a net income position, diluted earnings per share would have included the shares used in the computation of basic net loss per share as well as an additional 53,537 shares and 255,657 shares for the three months ended September 30, 2008 and 2007, respectively, and an additional 1,663,663 shares and 2,308,721 shares for the nine months ended September 30, 2008 and 2007, respectively, related to outstanding options.

NOTE 3 - COMPREHENSIVE LOSS

Comprehensive loss is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in stockholders' equity that are excluded from net loss, which includes unrealized gains and losses on available-for-sale securities. Comprehensive loss and its components are as follows (in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net loss	\$ (6,340)	\$ (4,268)	\$ (21,728)	\$ (14,808)
Changes in unrealized gain (loss) on securities available-for-sale	47	110	(98)	125
Comprehensive loss	\$ (6,293)	\$ (4,158)	\$ (21,826)	\$ (14,683)

NOTE 4 - MAJOR CUSTOMERS, PARTNERSHIPS AND STRATEGIC ALLIANCES**Agreement with Dow AgroSciences in Plant Agriculture**

In October 2005, we entered into a Research License and Commercial Option Agreement with Dow AgroSciences LLC ("DAS"), a wholly owned indirect subsidiary of Dow Chemical Corporation. Under this agreement, we will provide DAS with access to our proprietary zinc finger DNA-binding protein (ZFP) technology and the exclusive right to use our ZFP technology to modify the genomes or alter the nucleic acid or protein expression of plant cells, plants, or plant cell cultures. We have retained rights to use plants or plant-derived products to deliver ZFP transcription factors (ZFP TFs) or zinc-finger nuclease (ZFN) into human or animals for diagnostic, therapeutic, or prophylactic purposes.

Pursuant to the Research License and Commercial Option Agreement, DAS made an initial cash payment to us of \$7.5 million. In November 2005, the Company sold approximately 1.0 million shares of common stock to DAS at a price of \$3.85 per share, resulting in proceeds of \$3.9 million. Our agreement with DAS provided for an initial three-year research term during which DAS agreed to pay Sangamo \$6.0 million in research funding over the three-year period and make additional payments of up to \$4.0 million in research milestone payments during this same period, depending on the success of the research program. We have agreed to supply DAS and its sublicensees with ZFP TFs and/or ZFNs for both research and commercial use over the initial three year period of the agreement. On exercise of the option to obtain a commercial license, DAS may request that we transfer, at DAS's expense, the ZFP manufacturing technology to DAS or to a mutually agreed-upon contract manufacturer.

In June 2008, DAS exercised its option under the agreement to obtain a commercial license to sell products incorporating or derived from plant cells generated using our ZFP technology, including agricultural crops, industrial products and plant-derived biopharmaceuticals. The exercise of the option triggered a one-time commercial license fee of \$6.0 million, payment of the remaining \$2.3 million of the \$4.0 million in research milestones, minimum sublicensing payments totaling up to \$25.3 million over 11 years, development and commercialization milestone payments for each product, and royalties on sales of products. Furthermore, DAS will have the right to sublicense our ZFP technology to third parties for use in plant cells, plants, or plant cell cultures, and we will be entitled to 25% of any cash consideration received by DAS under such sublicenses. The research program may be extended beyond the initial three-year research term and DAS will provide additional research funding.

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DAS may terminate the agreement at any time. In addition, each party may terminate the agreement upon an uncured material breach of the other party. In the event of any termination of the agreement, all rights to use our ZFP technology will revert to us, and DAS will no longer be permitted to practice our ZFP technology or to develop or, except in limited circumstances, commercialize any products derived from our ZFP technology.

The commercial license fee of \$6.0 million, the remaining research milestones of \$2.3 million, and the unrecognized portion of the initial cash payment are recognized ratably over the period from option exercise through September 30, 2009, which reflects the estimated timing over which the ZFP manufacturing technology transfer will occur, as well as the period over which Sangamo will be compensated by DAS for additional research services.

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Revenues under the agreement were \$2.2 million and \$1.3 million during the three months ended September 30, 2008 and 2007, respectively, and \$5.3 million and \$3.9 million during the nine months ended September 30, 2008 and 2007, respectively. Related costs and expenses incurred under the agreement were \$500,000 during the three months ended September 30, 2008 and 2007, respectively, and \$1.5 million during the nine months ended September 30, 2008 and 2007, respectively. As of September 30, 2008, the accounts receivable balance related to DAS was \$8.3 million.

In October 2008, we received \$8.5 million from DAS which relates to the \$6.0 million commercial license fee, \$2.3 million in remaining research milestones, and \$250,000 for a minimum sublicensing payment.

Agreement with Sigma-Aldrich Corporation in Laboratory Research Reagents

In July 2007, we entered into a license agreement with Sigma-Aldrich Corporation (Sigma). Under the license agreement, we are providing Sigma with access to our proprietary ZFP technology and the exclusive right to use the technology to develop and commercialize research reagents products and services in the research field, excluding certain agricultural research uses that Sangamo previously licensed to Dow AgroSciences LLC. Under the agreement, Sangamo and Sigma have agreed to conduct a three-year research program to develop laboratory research reagents using our ZFP technology. In addition, for three years we will assist Sigma in connection with Sigma's efforts to market and sell services employing our technology in the research field. We will transfer the ZFP manufacturing technology to Sigma or to a mutually agreed-upon contract manufacturer upon Sigma's request. Prior to the completion of this transfer, we will be responsible for supplying ZFPs for use by Sigma in performing services in the research field. Under the terms of the agreement, Sigma made an initial payment comprising an upfront license fee and the purchase of one million (1,000,000) shares of Sangamo's common stock under a separate stock purchase agreement, resulting in a total upfront payment to Sangamo of \$13.5 million. There were three components to the \$13.5 million we received: an equity investment by Sigma in Sangamo common stock valued at \$8.55 million, a \$3.95 million license fee, and \$1.0 million of research funding. Under the License Agreement, we may receive additional research funding of up to \$2.0 million, development milestone payments of up to \$5.0 million, and commercial milestone payments based on net sales of up to \$17.0 million, subject to the continuation of the agreement. During the term of the license agreement, Sigma is obligated to pay to Sangamo minimum annual payments, a share of certain revenues received by Sigma from sublicensees, and royalty payments on the sale of licensed products and services. Sigma also has the right to sublicense the ZFP technology for research applications and we will receive 50% of any sublicensing revenues in the first two years and 25% of any sublicensing revenues thereafter. We retain the sole right to use and license our ZFP technology for GMP production purposes, for the production of materials used in or administered to humans, and for any other industrial commercial use.

The agreement may be terminated by Sigma at any time with a 90-day notice or by either party upon an uncured material breach of the other party. In the event of any termination, all rights to use our ZFP technology will revert to us, and Sigma will no longer be permitted to practice our ZFP technology or to develop or, except in limited circumstances, commercialize any products derived from our ZFP technology.

Revenues related to the research license under the Sigma agreement are being recognized ratably over the three-year research term of the agreement and were \$329,000 and \$275,000 during the three months ended September 30, 2008 and 2007, respectively, and \$987,000 and \$275,000 during the nine months ended September 30, 2008 and 2007, respectively. Revenues attributable to collaborative research and development performed under the Sigma agreement were \$250,000 and \$208,000 during the three months ended September 30, 2008 and 2007, respectively, and \$750,000 and \$208,000 during the nine months ended September 30, 2008 and 2007, respectively. Royalty revenues under the Sigma agreement were \$318,000 and \$0 during the three months ended September 30, 2008 and 2007, respectively, and \$334,000 and \$0 during the nine months ended September 30, 2008 and 2007, respectively. Related costs and expenses incurred under the Sigma agreement were \$728,000 and \$1.4 million during the three months and nine months ended September 30, 2008, respectively.

Enabling Technology Collaborations***Pharmaceutical Protein Production***

We have established several research collaborations in this area. In December 2004, we announced a research collaboration agreement with Pfizer to use our ZFP technology to develop enhanced cell lines for protein pharmaceutical production. The scope of this agreement was expanded in January 2006 and again in January 2007 and provided further research funding from Pfizer to develop additional cell lines for enhanced protein production. Under the terms of the agreement, Pfizer is funding research at Sangamo and Sangamo will provide our proprietary ZFP technology for Pfizer to assess its feasibility for use in mammalian cell-based protein production. We are generating novel cell lines and vector systems for enhanced protein production as well as novel technology for rapid creation of new production cell lines. Revenues attributable to collaborative research and development performed under the Pfizer agreement were \$0 and \$25,000 during the three months ended September 30, 2008 and 2007, respectively, and \$0 and \$75,000 during nine months ended September 30, 2008 and 2007, respectively. Related research and development costs and expenses performed under the Pfizer agreement were \$6,000 and \$71,000 during the three months ended September 30, 2008 and 2007, respectively, and \$66,000 and \$318,000 during the nine months ended September 30, 2008 and 2007,

respectively.

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In addition, in April 2007, we established a research and license agreement with Genentech, Inc. (Genentech). Under our agreement with Genentech, we are developing ZFNs for targeted genome modification to generate cell lines with novel characteristics for protein pharmaceutical production purposes. Genentech paid an upfront fee of \$400,000 which is being recognized ratably over the two year contract term. Genentech will also pay an ongoing technology access fee, and certain payments upon achievement of specified milestones relating to the research of ZFNs and the development and commercialization of products manufactured using a modified cell line created by our ZFN technology. Revenues attributable to collaborative research and development performed under the Genentech agreement were \$63,000 and \$62,000 during the three months ended September 30, 2008 and 2007, respectively, and \$326,000 and \$83,000 during nine months ended September 30, 2008 and 2007, respectively. Revenues attributable to the achievement of milestones were \$150,000 during nine months ended September 30, 2008. The agreement was expanded to include further ZFNs in February 2008. Under the expanded agreement, we may directly offer the ZFN-related services to Genentech and Sigma will in return receive a share of certain payments made to us by Genentech. Revenues recognized under the expanded agreement are included in royalty revenues from Sigma, as described above. Related research and development costs and expenses performed under the Genentech agreement were \$54,000 and \$38,000 during the three months ended September 30, 2008 and 2007, respectively, and \$108,000 and \$57,000 during the nine months ended September 30, 2008 and 2007, respectively.

Transgenic Animals

On April 2, 2008, we entered into a License Agreement with Open Monoclonal Technology, Inc. (OMT). Under the agreement we have granted OMT a royalty-bearing, non-exclusive, sublicensable worldwide license for the commercial use of a transgenic animal generated using our ZFP technology. We will receive an upfront license fee, payments upon the achievement of certain clinical development milestones, a share of payments received by OMT from sublicensees, and royalties on sales of any products developed using Sangamo s ZFP technology. For any given OMT product, OMT has the right to buy out its future royalty payment obligations under the agreement by paying a lump sum fee to Sangamo.

On July 8, 2008, we entered into a Research and License Agreement with F. Hoffmann La Roche Ltd and Hoffmann-La Roche Inc. (Roche). During an initial research term, we will provide Roche with access to aspects of our proprietary ZFN technology for the targeted modification of a specified gene in a specified species in order to generate ZFN-modified cell lines and animals for research purposes. In addition, Roche has an option to receive an exclusive, worldwide license to use such animals in the production of therapeutic and diagnostic products.

In consideration for the rights and licenses granted to Roche, as well as our efforts in generating the specific ZFN materials provided to Roche, Roche will pay us an initial research event fee, a payment upon delivery of such ZFN materials, and ongoing research maintenance fees during the research term. In the event that Roche exercises its option to receive a commercial license, Roche will pay us an option exercise fee, payments upon the achievement of certain clinical development milestones relating to products produced under such commercial license, and royalties on sales of such products.

We have an existing agreement with Sigma to develop and commercialize research reagents and services and Sigma has the exclusive right to offer certain services involving our ZFN technology that are covered under the research agreements with Roche and OMT. Notwithstanding this exclusive right, Sigma has agreed that we may directly offer the ZFN-related services to Roche and OMT under the research agreements and Sigma will in return receive a share of certain payments made to us. Revenues recognized under the Roche and OMT agreements are included in royalty revenues from Sigma, as described above.

Funding from Research Foundations***The Juvenile Diabetes Research Foundation International***

In October 2006, Sangamo announced a partnership with the Juvenile Diabetes Research Foundation International (JDRF) to provide financial support to one of Sangamo s Phase 2 human clinical studies (SB-509-601) of SB-509, a ZFP Therapeutic that is in development for the treatment of diabetic neuropathy. Under the agreement with JDRF and subject to its terms and conditions, including the Company s achievement of certain milestones associated with the Company s Phase 2 clinical trial of SB-509 for the treatment of mild to moderate diabetic neuropathy, JDRF will pay the Company an aggregate amount of up to \$3.0 million. After the first commercial launch of SB-509 in a major market, JDRF has the right to receive, subject to certain limitations, annual payments from Sangamo, until such time when the total amount paid to JDRF, including payments made on account of certain licensing arrangements, equals three times the amount received by us from JDRF.

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Under the agreement, we are obligated to use commercially reasonable efforts to carry out the Phase 2 trial and, thereafter, to develop and commercialize, a product containing SB-509 for the treatment of diabetes and complications of diabetes. We are obligated to cover all costs of the Phase 2 trial that are not covered by JDRF's grant. If we fail to satisfy these obligations, JDRF may have the right, subject to certain limitations, to obtain an exclusive, sublicensable license, to the intellectual property generated by us in the course of the Phase 2 trial, to make and commercialize products containing SB-509 for the treatment of diabetes and complications of diabetes. If JDRF obtains such a license, it is obligated to pay us a percentage of its revenues from product sales and sublicensing arrangements. If JDRF fails to satisfy its obligations to develop and commercialize a product containing SB-509 under the Agreement, then their license rights will terminate and we will receive a non-exclusive, fully paid license, for any intellectual property developed during JDRF's use of the license, to research, develop and commercialize products containing SB-509 for the treatment of diabetes and complications of diabetes.

Through September 30, 2008, we have received \$2.5 million from JDRF since inception of the partnership. Revenues attributable to research and development performed under the JDRF partnership were \$250,000 and \$295,000 during the three months ended September 30, 2008 and 2007, respectively, and \$1.0 million and \$1.1 million during the nine months ended September 30, 2008 and 2007, respectively. Related costs and expenses incurred were \$726,000 and \$1.0 million during the three months ended September 30, 2008 and 2007, respectively, and \$3.3 million and \$3.0 million during the nine months ended September 30, 2008 and 2007, respectively.

The Michael J. Fox Foundation for Parkinson's Research

In January 2007, Sangamo announced a partnership with the Michael J. Fox Foundation (MJFF) to provide financial support of Sangamo's ZFP TFs to activate the expression of glial cell line-derived neurotrophic factor (GDNF) that has shown promise in preclinical testing to slow or stop the progression of Parkinson's disease. Under the agreement with MJFF and subject to its terms and conditions, MJFF will pay the Company \$950,000 over a period of two years. Through September 30, 2008, we have received the total funds due from MJFF. Revenues attributable to research and development performed under the MJFF partnership were \$271,000 and \$116,000 during the three months ended September 30, 2008 and 2007, respectively, and \$553,000 and \$300,000 during the nine months ended September 30, 2008 and 2007, respectively. Related costs and expenses incurred under the MJFF partnership were \$323,000 and \$116,000 during the three months ended September 30, 2008 and 2007, respectively, and \$700,000 and \$300,000 during the nine months ended September 30, 2008 and 2007, respectively.

NOTE 5 - FAIR VALUE MEASUREMENT

We adopted the measurement and disclosure requirements of FASB Statement No. 157 related to financial assets and liabilities effective January 1, 2008. The adoption of Statement No. 157 had no effect on our net loss for the nine months ended September 30, 2008. Statement No. 157 establishes a framework for measuring fair value and expands disclosure about fair value measurements.

The statement requires fair value measurement be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following table summarizes our financial instruments as of September 30, 2008 (in thousands):

	September 30, 2008			
	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Assets:				
Marketable securities:				
Commercial paper	\$ 24,929	\$	\$ 24,929	\$
Government agencies	22,929		22,929	
Asset backed securities	1,648		1,648	
Bank bonds	990	990		

Total	\$ 50,496	\$ 990	\$ 49,506	\$
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Table of Contents**NOTE 6 - INCOME TAXES**

We maintain deferred tax assets that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. These deferred tax assets include net operating loss carryforwards, research credits and capitalized research and development. The net deferred tax asset has been fully offset by a valuation allowance because of the Company's history of losses. Utilization of operating losses and credits may be subject to substantial annual limitation due to ownership change provisions of the Internal Revenue Code of 1986, as amended and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

NOTE 7 - STOCK-BASED COMPENSATION

The following table shows total stock-based compensation expenses included in the condensed consolidated statement of operations for the three-month and nine-month periods ended September 30, 2008 and 2007 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Costs and expenses:				
Research and development	\$ 580	\$ 364	\$ 2,114	\$ 1,040
General and administrative	709	202	2,166	600
Total stock-based compensation expense	\$ 1,289	\$ 566	\$ 4,280	\$ 1,640

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations contains trend analysis, estimates and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include, without limitation, statements containing the words believes, anticipates, expects, continue, and other words of similar import or the negative of those terms or expressions. Such forward-looking statements are subject to known and unknown risks, uncertainties, estimates and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual results could differ materially from those set forth in such forward-looking statements as a result of, but not limited to, the Risk Factors described below. You should read the following discussion and analysis along with the financial statements and notes attached to those statements included elsewhere in this report and in our annual report on Form 10-K for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on March 3, 2008.

Overview

We were incorporated in June 1995. From our inception through September 30, 2008, our activities related primarily to establishing and operating a biotechnology research and development organization and developing relationships with our corporate collaborators. Our scientific and business development endeavors currently focus on the engineering of novel zinc finger DNA-binding proteins (ZFPs) for the regulation and modification of genes. We have incurred net losses since inception and expect to incur losses in the future as we continue our research and development activities. To date, we have funded our operations primarily through the issuance of equity securities, borrowings, payments from research grants and from corporate collaborators and strategic partners. As of September 30, 2008, we had an accumulated deficit of \$171.5 million.

Our revenues have consisted primarily of revenues from our corporate partners for ZFP TFs and ZFNs, contractual payments from strategic partners for research programs and research milestones, and research grant funding. We expect revenues will continue to fluctuate from period to period and there can be no assurance that new collaborations or partner fundings will continue beyond their initial terms.

We have continued to place more emphasis on higher-value therapeutic product development and related strategic partnerships and less emphasis on our Enabling Technology collaborations. We believe this shift in emphasis has the potential to increase the return on investment to our stockholders by allocating capital resources to higher value, therapeutic product development activities. At the same time, it may reduce our revenues over the next several years and subject us to higher financial risk by increasing expenses associated with product development. We filed an Investigational New Drug (IND) application with the U.S. Food and Drug Administration (FDA) and have initiated three Phase 2 clinical trials of a ZFP Therapeutic in patients with diabetic neuropathy and one Phase 2 clinical trial in patients with Amyotrophic Lateral Sclerosis (ALS). Development of novel therapeutic products is costly and is subject to a lengthy and uncertain regulatory process by the FDA. Our future products are gene-based therapeutics. Adverse events in our own clinical program and other programs may have a negative impact on regulatory approval, the willingness of potential commercial partners to enter into agreements and the perception of the public.

Research and development expenses consist primarily of salaries and personnel expenses, pre-clinical and clinical studies, laboratory supplies, stock-based compensation expenses, allocated facilities costs, subcontracted research expenses, and expenses for technology licenses. Research and development costs incurred in connection with collaborator-funded activities are expensed as incurred. Costs to acquire technologies that are utilized in research and development and that have no alternative future use are expensed as incurred. We believe that continued investment in research and development is critical to attaining our strategic objectives. We expect these expenses will increase significantly as we focus increasingly on development of ZFP Therapeutics. Additionally, in order to develop ZFP TFs and ZFNs as commercially viable therapeutics, we expect to expend additional resources for expertise in the manufacturing, regulatory affairs and clinical research aspects of biotherapeutic development.

General and administrative expenses consist primarily of salaries and personnel expenses for executive, finance and administrative personnel, professional fees, patent prosecution expenses, allocated facilities costs and other general corporate expenses. As we pursue commercial development of our therapeutic leads we expect the business aspects of the Company to become more complex. We may be required in the future to add personnel and incur additional costs related to the maturity of our business.

Table of Contents**Critical Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 revenues and expenses during the reporting period. Such estimates are described in Note 1, Basis of Presentation and Summary of Significant Accounting Policies to the Unaudited Notes to Condensed Consolidated Financial Statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources, and evaluate our estimates on an ongoing basis. Actual results could differ from those estimates under different assumptions or conditions.

RESULTS OF OPERATIONS

Three months and nine months ended September 30, 2008 and 2007

Revenues

	Three months ended September 30, (in thousands, except percentage values)				Nine months ended September 30, (in thousands, except percentage values)			
	2008	2007	Change	%	2008	2007	Change	%
Revenues:								
Collaboration agreements	\$ 3,196	\$ 1,915	\$ 1,281	67%	\$ 7,658	\$ 4,526	\$ 3,132	69%
Research grants	549	410	139	34%	1,694	1,805	(111)	(6%)
Total revenues	\$ 3,745	\$ 2,325	\$ 1,420	61%	\$ 9,352	\$ 6,331	\$ 3,021	48%

Total revenues consist of revenues from collaboration agreements, strategic partnerships and research grants.

Revenues from our corporate collaboration and strategic partnering agreements were \$3.2 million for the three months ended September 30, 2008, compared to \$1.9 million in the corresponding period in 2007. The increase in collaboration agreement revenues was primarily attributable to increased revenues of \$891,000 in connection with our research license and commercial option agreement with Dow AgroSciences LLC (DAS), royalty revenues of \$318,000 related to our agreement with Sigma-Aldrich Corporation (Sigma) and increased revenues of \$97,000 in connection with our laboratory research reagents license agreement with Sigma. Research grant revenues were \$549,000 for the three months ended September 30, 2008, compared to \$410,000 in the corresponding period in 2007. The increase in research grant revenues was primarily due to increased revenues of \$155,000 in connection with our grant from the Michael J. Fox Foundation (MJFF), partially offset by decreased revenues of \$45,000 related to our grant from the Juvenile Diabetes Research Foundation (JDRF).

Revenues from our corporate collaboration and strategic partnering agreements were \$7.7 million for the nine months ended September 30, 2008, compared to \$4.5 million in the corresponding period in 2007. The increase in collaboration agreement revenues was primarily attributable to increased revenues of \$1.4 million in connection with our research license and commercial option agreement with DAS, increased revenues of \$1.3 million in connection with our laboratory research reagents license agreement with Sigma, royalty revenues of \$334,000 related to our agreement with Sigma and increased revenues of \$243,000 in connection with our research and license agreement with Genentech, partially offset by decreased revenues of \$75,000 from Pfizer. Research grant revenues were \$1.7 million for the nine months ended September 30, 2008, compared to \$1.8 million in the corresponding period in 2007. The decrease in research grant revenues was primarily due to decreased revenues of \$337,000 in connection with our Advanced Technical Program grant awarded by the National Institute of Standards and Technology and decreased revenues of \$125,000 in connection with our grant from JDRF, partially offset by increased revenues of \$253,000 related to our grant from the MJFF and increased revenues of \$141,000 in connection with our grant from the Defense Advanced Research Projects Agency (DARPA). We anticipate continued revenues from collaboration agreements, and we have applied for, and plan to continue to apply for research grants in the future to support the development of applications of our technology platform. Although we have negotiated collaboration agreements and received research grants in the past, we cannot assure that these efforts will be successful in the future.

Operating Expenses

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	Three months ended September 30, (in thousands, except percentage values)				Nine months ended September 30, (in thousands, except percentage values)			
	2008	2007	Change	%	2008	2007	Change	%
Operating Expenses:								
Research and development	\$ 7,563	\$ 5,916	\$ 1,647	28%	\$ 24,492	\$ 17,655	\$ 6,837	39%
General and administrative	2,564	1,728	836	48%	8,036	5,840	2,196	38%
Total expenses	\$ 10,127	\$ 7,644	\$ 2,483	32%	\$ 32,528	\$ 23,495	\$ 9,033	38%

Table of Contents**Research and development**

Research and development expenses consist primarily of salaries and personnel expenses, stock-based compensation expense, laboratory supplies, pre-clinical and clinical studies, manufacturing costs, allocated facilities costs, subcontracted research expenses and expenses for trademark registration and technology licenses. We expect to continue to devote substantial resources to research and development in the future and expect research and development expenses to increase in the next several years if we are successful in advancing our ZFP Therapeutic product candidates into clinical trials. To the extent we collaborate with others with respect to clinical trials, increases in research and development expenses may be reduced or avoided.

Research and development expenses were \$7.6 million for the three months ended September 30, 2008, compared to \$5.9 million in the corresponding period in 2007. The increase in research and development expenses was primarily attributable to increased pre-clinical and clinical studies and manufacturing expenses of \$853,000, primarily associated with our diabetic neuropathy program, and increased salaries and personnel expenses of \$417,000, including increased stock-based compensation expenses of \$216,000. The increase in stock-based compensation was due to increased grant activity, higher Black-Scholes value per share and a lower estimated forfeiture rate which the Company believes is more representative of its historical experience. Consulting expenses increased by \$351,000 primarily in support of our diabetic neuropathy program and facility expenses increased by \$137,000 primarily due to the Company leasing additional space and increased headcount. This was partially offset by decreased expenses related to licensing and external research of \$148,000.

Research and development expenses were \$24.5 million for the nine months ended September 30, 2008, compared to \$17.7 million in the corresponding period in 2007. The increase in research and development expenses was primarily attributable to increased pre-clinical and clinical studies and manufacturing expenses of \$3.8 million, primarily associated with our diabetic neuropathy program, and increased salaries and personnel expenses of \$1.7 million, including increased stock-based compensation expenses of \$1.1 million. The increase in stock-based compensation was due to increased grant activity, higher Black-Scholes value per share and a lower estimated forfeiture rate which the Company believes is more representative of its historical experience. Consulting expenses increased by \$1.0 million primarily in support of our diabetic neuropathy program and facility expenses increased by \$510,000 primarily due to the Company leasing additional space and increased headcount. This was partially offset by decreased expenses related to licensing and external research of \$135,000.

General and administrative

General and administrative expenses consist primarily of salaries and personnel expenses for executive, finance and administrative personnel, stock-based compensation expenses, professional fees, allocated facilities costs, expenses for patent prosecution and other general corporate expenses. As we pursue commercial development of our therapeutic leads, we expect the business aspects of the Company to become more complex. We may be required in the future to add personnel and incur additional costs related to the maturity of our business.

General and administrative expenses were \$2.6 million for the three months ended September 30, 2008, compared to \$1.7 million in the corresponding period in 2007. This increase is primarily attributable to increased salaries and personnel expenses of \$672,000, including increased stock-based compensation expenses of \$507,000, and increased expenses related to professional services of \$183,000. The increase in stock-based compensation was due to increased grant activity, higher Black-Scholes value per share and a lower estimated forfeiture rate as noted above.

General and administrative expenses were \$8.0 million for the nine months ended September 30, 2008, compared to \$5.8 million in the corresponding period in 2007. This increase is primarily attributable to increased salaries and personnel related expenses of \$2.2 million, including increased stock-based compensation expenses of \$1.6 million. The increase in stock-based compensation was due to increased grant activity, higher Black-Scholes value per share and a lower estimated forfeiture rate as noted above.

Interest and Other Income, net

	Three months ended September 30, (in thousands, except percentage values)				Nine months ended September 30, (in thousands, except percentage values)			
	2008	2007	Change	%	2008	2007	Change	%
Interest and other income, net	\$ 42	\$ 1,051	\$ (1,009)	(96%)	\$ 1,448	\$ 2,356	\$ (908)	(39%)

Interest and other income, net, was \$42,000 for the three months ended September 30, 2008, compared to \$1.1 million in the corresponding period in 2007. The decrease was primarily due to lower interest income earned of \$548,000 due to lower average investment balances and lower interest rates. In addition, a foreign currency translation loss of \$373,000 was recognized during the quarter ended September 30, 2008,

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related to our cash holdings at our wholly-owned UK subsidiary, Gendaq Limited. During the corresponding period in 2007, a foreign currency translation gain of \$88,000 was recognized. Interest and other income, net, was \$1.5 million for the nine months ended September 30, 2008, compared to \$2.4 million in the corresponding period in 2007. The decrease

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was due to a foreign currency translation loss of \$376,000, as noted above, during the nine months ended September 30, 2008, compared to a foreign currency translation gain of \$177,000 during the corresponding period in 2007. Also, interest income earned was lower by \$356,000 due to lower average investment balances and lower interest rates.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through the sale of equity securities, payments from corporate collaborators, research grants and financing activities such as a bank line of credit. As of September 30, 2008, we had cash, cash equivalents, short-term investments and interest receivable totaling \$59.5 million. In October 2008, the company received \$8.5 million in scheduled payments from Dow AgroSciences LLC.

Net cash used in operating activities was \$23.4 million for the nine months ended September 30, 2008. Net cash used in operating activities consisted of the net loss for the nine-month period of \$21.7 million and a net change of \$5.4 million in operating assets and liabilities, partially offset by non-cash charges of \$3.7 million. The net increase in operating liabilities of \$3.0 million was primarily comprised of increases in deferred revenues of \$3.2 million and accrued compensation and employee benefits of \$44,000, partially offset by decreases in accounts payable and accrued liabilities of \$295,000. The net increase in operating assets of \$8.4 million was primarily comprised of increased accounts receivable of \$8.6 million, partially offset by decreases in prepaid expenses and other assets of \$115,000 and interest receivable of \$105,000. The non-cash charges included \$4.3 million related to stock-based compensation and \$381,000 related to depreciation and amortization, partially offset by amortization of premium / discount on investments of \$931,000.

Net cash used in operating activities was \$11.0 million for the nine months ended September 30, 2007. Net cash used in operating activities consisted primarily of the net loss for the nine month period of \$14.8 million, partially offset by a net change of \$3.5 million in operating assets and liabilities and non-cash charges of \$313,000. The net increase in operating liabilities of \$3.4 million was primarily comprised of increases in deferred revenues of \$3.3 million, accounts payable and accrued liabilities of \$104,000 and accrued compensation and employee benefits of \$24,000. The net decrease in operating assets of \$84,000 was comprised of decreases in accounts receivable balances of \$467,000, partially offset by increases in prepaid expenses and other assets of \$221,000 and interest receivable of \$162,000. The non-cash charges consisted primarily of \$1.6 million related to stock-based compensation and \$187,000 related to depreciation and amortization, partially offset by amortization of premium / discount on investments of \$1.5 million.

Net cash provided by investing activities was \$18.4 million for the nine months ended September 30, 2008 and was comprised of cash proceeds associated with maturities of investments of \$84.1 million and proceeds from sales of investments of \$4.0 million, partially offset by cash used to purchase investments and property and equipment of \$69.0 million and \$715,000, respectively. Net cash used by investing activities was \$25.0 million for the nine months ended September 30, 2007 and was comprised of cash used to purchase investments and property and equipment of \$86.1 million and \$816,000, respectively, partially offset by cash proceeds associated with maturities of investments of \$61.9 million.

Net cash provided by financing activities for the nine-months ended September 30, 2008 and 2007 was \$1.4 million and \$40.2 million, respectively. Proceeds for the nine months ended September 30, 2008 were solely related to proceeds from the issuance of common stock related to stock option exercises. Proceeds for the nine months ended September 30, 2007 were related to net proceeds from the issuance of common stock related to a registered direct offering to a group of institutional investors of \$28.0 million, proceeds from the issuance of common stock in connection with our laboratory research reagents license agreement with Sigma-Aldrich Corporation of \$8.6 million and proceeds related to stock option exercises of \$3.6 million.

While we expect our rate of cash usage to increase in the future, in particular to support our product development endeavors, we believe that the available cash resources, funds received from corporate collaborators, strategic partners and research grants will be sufficient to finance our operations through 2009. We may need to raise additional capital to fund our ZFP Therapeutic development activities. Additional capital may not be available on terms acceptable to us, or at all. If adequate funds are not available, our business, and our ability to develop our technology and our ZFP Therapeutic products, would be harmed.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk for changes in interest rates relates primarily to our cash equivalents and investments. The investments are available-for-sale. We do not use derivative financial instruments in our investment portfolio. We attempt to ensure the safety and preservation of our invested funds by limiting default and market risks. Our cash and investments policy emphasizes liquidity and preservation of principal over other portfolio considerations. We select investments that maximize interest income to the extent possible within these guidelines. We

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satisfy liquidity requirements by investing excess cash in securities with different maturities to match projected cash needs and limit concentration of credit risk by diversifying our investments among a variety of high credit-quality issuers. We mitigate default risk by investing in only investment-grade securities. The portfolio includes marketable securities with active secondary or resale markets to ensure portfolio liquidity. All investments have a fixed interest rate and are carried at market value, which approximates cost.

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Our market risks at September 30, 2008 have not changed materially from those discussed in Item 7A of our Form 10-K for the year ended December 31, 2007 on file with the Securities and Exchange Commission.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report were functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Principal Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

(b) Change in Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not party to any material pending legal proceedings, other than routine litigation incidental to our business.

ITEM 1A. RISK FACTORS

This Form 10-Q contains forward-looking information based on our current expectations. Because our actual results may differ materially from any forward-looking statements made by or on behalf of Sangamo, this section includes a discussion of important factors that could affect our actual future results, including, but not limited to, our revenues, expenses, net loss and loss per share.

ZFP Therapeutics have undergone limited testing in humans and our ZFP Therapeutics may fail safety studies in clinical trials.

We have initiated and completed a Phase 1 study and initiated several Phase 2 clinical trials in our lead ZFP Therapeutic program. We have completed enrollment and treatment of the patients in the first of these trials of SB-509 for diabetic neuropathy and thus far have not observed any serious drug-related adverse events. However if our lead ZFP Therapeutic fails one of its safety studies, it could reduce our ability to attract new investors and corporate partners. In January 2005, we filed an IND with the FDA for SB-509, a ZFP TF activator of VEGF-A, for the treatment of mild to moderate diabetic neuropathy. We have completed enrollment and treatment of a Phase 1, single blind, single dose, dose-escalation trial to measure the laboratory and clinical safety of SB-509. We have completed enrollment of a repeat-dosing Phase 2 clinical trial (SB-509-601) and have 2 other related Phase 2 trials ongoing for this indication (SB-509-701 and SB-509-703). We also have initiated a Phase 2 clinical trial (SB 509-801) to evaluate SB-509 for the treatment of ALS. Some trial subjects have received more than one dose of SB-509 during the course of these Phase 2 studies. In addition, Phase 1 clinical trials of an identical ZFP TF have been carried out in subjects with peripheral artery disease. These early studies of a ZFP Therapeutic are a highly visible test of our ZFP Therapeutic approach. Since we have increased our focus on ZFP Therapeutic research and development, investors will increasingly assess the value of our technology based on the continued progress of ZFP Therapeutic products into and through clinical trials. If clinical trials of our lead therapeutic were halted due to safety concerns, this would negatively affect our operations and the value of our stock.

The results of early Phase 1 and Phase 2 trials are based on a small number of patients over a short period of time, and our progress may not be indicative of results in a large number of patients or of long-term efficacy.

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The results in early phases of clinical testing are based upon limited numbers of patients and a limited follow-up period. Typically, our Phase 1 clinical trials for indications of safety enroll less than 50 patients. The initial results from the Phase 1 clinical trial of our ZFP Therapeutic, SB-509 product, became available in the first half of 2006 and the complete data set was presented in June 2008. The primary end point of the trial was clinical and laboratory safety, however we collected some preliminary efficacy data that showed trends of clinical improvement in some subjects. Our first Phase 2 clinical trial (SB-509-601) for safety and efficacy has enrolled 110 patients. Actual results with more data points may not confirm favorable results from earlier stage trials. A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late stage clinical trials even after achieving promising results in earlier stage clinical trials. If a larger population of patients does not experience positive results, or if

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these results are not reproducible, our products may not receive approval from the FDA. Failure to demonstrate the safety and effectiveness of our ZFP Therapeutic products in larger patient populations could have a material adverse effect on our business that would cause our stock price to decline significantly.

We have limited experience in conducting clinical trials.

Our ZFP Therapeutics may fail to show the desired safety and efficacy in initial clinical trials. We have completed a Phase 1 trial and initiated several Phase 2 clinical trials, completing enrollment on one of these studies. However, the FDA will require additional clinical testing which involves significantly greater resources, commitments and expertise that may require us to enter into a collaborative relationship with a pharmaceutical company that could assume responsibility for late-stage development and commercialization.

We may not be able to find acceptable patients or may experience delays in enrolling patients for our clinical trials.

We may be competing for suitable patients with other clinical trials. We or the FDA may suspend our clinical trials at any time if either believes that we are exposing the subjects participating in these trials to unacceptable health risks. The FDA or institutional review boards and/or institutional biosafety committees at the medical institutions and healthcare facilities where we sponsor clinical trials may suspend any trial indefinitely if they find deficiencies in the conduct of these trials. The FDA and institutional review boards may also require large numbers of patients, and the FDA may require that we repeat a clinical trial.

Our potential therapeutic products are subject to a lengthy and uncertain regulatory process, and we may encounter unanticipated toxicity or adverse events or fail to demonstrate efficacy, causing us to delay, suspend or terminate the development of a ZFP Therapeutic. If these potential products are not approved, we will not be able to commercialize those products.

The FDA must approve any human therapeutic product before it can be marketed in the United States. The process for receiving regulatory approval is long and uncertain, and a potential product may not withstand the rigors of testing under the regulatory approval processes.

Before commencing clinical trials in humans, we must submit an Investigational New Drug (IND) application to the FDA. The FDA has 30 days to comment on the IND. If the FDA does not comment on the IND, we or our commercial partner may begin clinical trials.

Clinical trials are subject to oversight by institutional review boards and the FDA. In addition, our proposed clinical studies require review from the Recombinant DNA Advisory Committee, or RAC, which is the advisory board to the National Institutes of Health, or NIH, focusing on clinical trials involving gene transfer. We will typically submit a proposed clinical protocol and other product-related information to the RAC three to six months prior to the expected IND filing date.

Clinical trials:

must be conducted in conformance with the FDA's good clinical practices ICH guidelines and other applicable regulations;

must meet requirements for institutional review board (IRB) oversight;

must follow Institutional Biosafety Committee (IBC) and NIH RAC guidelines where applicable;

must meet requirements for informed consent;

are subject to continuing FDA oversight;

may require large numbers of test subjects; and

may be suspended by a commercial partner, the FDA, or us at any time if it is believed that the subjects participating in these trials are being exposed to unacceptable health risks or if the FDA finds deficiencies in the IND or the conduct of these trials.

While we have stated our intention to file additional IND applications during the next several years, this is only a statement of intent, and we may not be able to do so because the associated product candidates may not meet the necessary preclinical requirements. In addition, there can be no assurance that, once filed, an IND application will result in the actual initiation of clinical trials.

As we cannot predict whether or when we will obtain regulatory approval to commercialize our product candidates, we cannot predict the timing of any future revenue from these product candidates.

We cannot commercialize any of our ZFP Therapeutics to generate revenue until the appropriate regulatory authorities have reviewed and approved the applications for the product candidates. We cannot assure that the regulatory agencies will complete their review processes in a timely manner or that we will obtain regulatory approval for any product candidate that we or our collaborators

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develop. Satisfaction of regulatory requirements typically takes many years, is dependent upon the type, complexity and novelty of the product and requires the expenditure of substantial resources. Regulatory approval processes outside the United States include all of the risks associated with the FDA approval process. In addition, we may experience delays or rejections based upon additional government regulation from future legislation or administrative action or changes in FDA policy during the period of product development, clinical trials and FDA regulatory review.

If we establish drug development collaborations, our collaborators may control aspects of our clinical trials, which could result in delays and other obstacles in the commercialization of our proposed products.

For some programs we may be dependent on third party collaborators to design and conduct our clinical trials. As a result, we may not be able to conduct these programs in the manner or on the time schedule we currently contemplate. In addition, if any of these collaborative partners withdraw support for our programs or proposed products or otherwise impair their development, our business could be negatively affected.

We have increased the focus of our research and development programs on human therapeutics, which will increase operating expenditures and the uncertainty of our business.

We have significantly increased the emphasis and focus of our research and development activities on ZFP Therapeutics and have fewer resources invested in our Enabling Technology programs. In the short term, this change may reduce our revenues and increase operating expenditures due to larger financial outlays to fund preclinical studies, manufacturing, and clinical research. The focus on ZFP Therapeutics will also increase the visibility of our lead therapeutic programs and the potential impact on the stock price of news releases relating to these programs.

We are conducting proprietary research to discover ZFP Therapeutic product candidates. These programs increase our financial risk of product failure, may significantly increase our research expenditures, and may involve conflicts with future collaborators and strategic partners.

Our proprietary research programs consist of research which is funded solely by the Company and in which the Company retains exclusive rights to therapeutic products generated by such research. This is in contrast to certain of our research programs that may be funded by corporate partners and in which we may share rights to any resulting products. We have conducted proprietary research since inception. However, in the past several years, our strategy has shifted toward placing greater emphasis on proprietary research and therapeutic development and we expect this trend will continue in 2009 as we continue to prosecute our Phase 2 clinical trials and bring new ZFP Therapeutics into clinical trials. Conducting proprietary research programs may not generate corresponding revenue and may create conflicts with our collaborators or strategic partners over rights to our intellectual property with respect to our proprietary research activities. Any conflict with our collaborators or strategic partners could reduce our ability to enter into future collaborations or strategic partnering agreements and negatively impact our relationship with existing collaborators and strategic partners which could reduce our revenue and delay or terminate our product development. The implementation of this strategy will involve substantially greater business risks, the expenditure of significantly greater funds than our historic research activities and will require substantial commitments of time from our management and staff.

Commercialization of our technologies will depend, in part, on strategic partnering with other companies. If we are not able to find strategic partners in the future or our strategic partners do not diligently pursue product development efforts, we may not be able to develop our technologies or products, which could slow our growth and decrease the value of our stock.

We expect to rely, to some extent, on our strategic partners to provide funding in support of our research and to perform independent research and preclinical and clinical testing. Our technology is broad based, and we do not currently possess the resources necessary to fully develop and commercialize potential products that may result from our technologies or the resources or capabilities to complete the lengthy marketing approval processes that may be required for the products. Therefore, we plan to rely on strategic partnerships to help us develop and commercialize ZFP Therapeutic products. If we are unable to find strategic partners or if the partners we find are unable or unwilling to advance our programs, or if they do not diligently pursue product approval, this may slow our progress and defer our revenues. Our partners may sublicense or abandon development programs or we may have disagreements with our partners, which would cause associated product development to slow or cease. There can be no assurance that we will be able to establish strategic collaborations for ZFP Therapeutic product development. We may require significant time to secure collaborations or strategic partners because we need to effectively market the benefits of our technology to these future collaborators and strategic partners, which use the time and efforts of research and development personnel and our management. Further, each collaboration or strategic partnering arrangement will involve the negotiation of terms that may be unique to each collaborator or strategic partner. These business development efforts may not result in a collaboration or strategic partnership.

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The loss of any future strategic partnering agreements would not only delay or terminate the potential development or commercialization of products we may derive from our technologies, but it may also delay or terminate our ability to test ZFP therapeutic candidates for specific genes. If any strategic partner fails to conduct the collaborative activities successfully and in a timely manner, the preclinical or clinical development or commercialization of the affected product candidates or research programs could be delayed or terminated.

Under typical strategic partnering agreements we would expect to receive revenue for the research and development of a ZFP Therapeutic product and based on achievement of specific milestones. Achieving these milestones will depend, in part, on the efforts of our strategic partner as well as our own. If we, or any strategic partner, fail to meet specific milestones, then the strategic partnership may be terminated, which could decrease our revenues.

Our gene regulation and gene modification technology is relatively new, and if we are unable to use this technology in all our intended applications, it would limit our revenue opportunities.

Our technology involves a relatively new approach to gene regulation and gene modification. Although we have generated ZFPs for thousands of gene sequences, we have not created ZFPs for all gene sequences and may not be able to do so, which could limit the usefulness of our technology. In addition, while we have demonstrated the function of engineered ZFP TFs in mammalian cell culture, yeast, insects, plants, and animals, we have not yet definitively done so in humans, and the failure to do so could restrict our ability to develop commercially viable products. If we, and our collaborators or strategic partners, are unable to extend our results to new commercially important genes, experimental animal models, and human clinical studies, we may be unable to use our technology in all its intended applications. Also, delivery of ZFP TFs and ZFNs into cells and organisms, including humans, in these and other environments is limited by a number of technical hurdles, which we may be unable to surmount. This is a particular challenge for therapeutic applications of our technology that will require the use of gene transfer systems that may not be effective for the delivery of our ZFP TFs or ZFNs in a particular therapeutic application.

The expected value and utility of our ZFP TFs and ZFNs is in part based on our belief that the targeted or specific regulation of gene expression and targeted gene modification may enable us to develop a new therapeutic approach as well as to help scientists better understand the role of genes in disease, to aid their efforts in drug discovery and development. We also believe that the regulation of gene expression and targeted gene addition will have utility in agricultural applications. There is only a limited understanding of the role of specific genes in all these fields. Life sciences companies have developed or commercialized only a few products in any of these fields based on results from genomic research or the ability to regulate gene expression. We, our collaborators, or our strategic partners, may not be able to use our technology to identify and validate drug targets or to develop commercial products in the intended markets.

We may be unable to license gene transfer technologies that we may need to commercialize our ZFP TF technology.

In order to regulate or modify a gene in a cell, the ZFP TF or ZFN must be efficiently delivered to the cell. We have licensed certain gene transfer technologies for use with our Enabling Technologies, which are ZFP TFs and ZFNs used in pharmaceutical discovery research and protein production. We are evaluating these systems and other technologies that may need to be used in the delivery of ZFP TFs or ZFNs into cells for in vitro and in vivo applications, including ZFP Therapeutics. However, we may not be able to license the gene transfer technologies required to develop and commercialize our ZFP Therapeutics. We have not developed our own gene transfer technologies, and we rely on our ability to enter into license agreements to provide us with rights to the necessary gene transfer technology. The inability to obtain a license to use gene transfer technologies with entities which own such technology on reasonable commercial terms, if at all, could delay or prevent the preclinical evaluation, clinical testing, and/or commercialization of our therapeutic product candidates.

We do not currently have the infrastructure or capability to manufacture therapeutic products on a commercial scale.

In order for us to commercialize these therapeutic products directly, we would need to develop, or obtain through outsourcing arrangements, the capability to execute all of these functions. If we are unable to develop or otherwise obtain the requisite preclinical, clinical, regulatory, manufacturing, marketing, and sales capabilities, we would be unable to directly commercialize our therapeutics products which would limit our future growth.

Even if our technology proves to be effective, it still may not lead to commercially viable products.

Even if our collaborators or strategic partners are successful in using our ZFP technology in drug discovery, protein production, therapeutic development, or plant agriculture, they may not be able to commercialize the resulting products or may decide to use other methods competitive with our technology. To date, no company has received marketing approval or has developed or commercialized any therapeutic or agricultural products based on our technology. Should our technology fail to provide safe, effective, useful, or commercially viable approaches to the discovery and development of these products, this would significantly limit our business and future growth and would adversely affect our value.

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Even if our product development efforts are successful and even if the requisite regulatory approvals are obtained, our ZFP Therapeutics may not gain market acceptance among physicians, patients, healthcare payers and the medical community.

A number of additional factors may limit the market acceptance of products including the following:

rate of adoption by healthcare practitioners;

rate of a product's acceptance by the target population;

timing of market entry relative to competitive products;

availability of alternative therapies;

price of our product relative to alternative therapies;

availability of third-party reimbursement;

extent of marketing efforts by us and third-party distributors or agents retained by us; and

side effects or unfavorable publicity concerning our products or similar products.

Adverse events in the field of gene therapy may negatively impact regulatory approval or public perception of our potential products.

Our potential therapeutic products are delivered to patients as gene-based drugs, or gene therapy. The clinical and commercial success of our potential products will depend in part on public acceptance of the use of gene therapy for the prevention or treatment of human diseases. Public attitudes may be influenced by claims that gene therapy is unsafe, and, consequently, our products may not gain the acceptance of the public or the medical community. Negative public reaction to gene therapy in general could result in greater government regulation and stricter labeling requirements of gene therapy products, including any of our products, and could cause a decrease in the demand for any products we may develop.

Our stock price is also influenced by public perception of gene therapy and government regulation of potential products.

Reports of serious adverse events in a retroviral gene transfer trial for infants with X-linked severe combined immunodeficiency (X-linked SCID) in France and subsequent FDA actions putting related trials on hold in the United States had a significant negative impact on the public perception and stock price of certain companies involved in gene therapy. Stock prices of these companies declined whether or not the specific company was involved with retroviral gene transfer for the treatment of infants with X-linked SCID, or whether the specific company's clinical trials were placed on hold in connection with these events. Other potential adverse events in the field of gene therapy may occur in the future that could result in greater governmental regulation of our potential products and potential regulatory delays relating to the testing or approval of our potential products

We are at the development phase of operations and may not succeed or become profitable.

We began operations in 1995 and are in the early phases of ZFP Therapeutic product development.