

SANGAMO BIOSCIENCES INC

Form 10-Q

August 07, 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 June 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 July 31, 2008, 40,901,795 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 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SANGAMO BIOSCIENCES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share amounts)**

	June 30, 2008 (unaudited)	December 31, 2007 (1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,658	\$ 12,275
Marketable securities	55,389	68,813
Interest receivable	248	324
Accounts receivable	8,978	209
Prepaid expenses	587	497
Total current assets	73,860	82,118
Property and equipment, net	2,062	1,770
Other assets	12	12
Total assets	\$ 75,934	\$ 83,900
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,611	\$ 3,538
Accrued compensation and employee benefits	841	1,199
Deferred revenues	9,067	4,944
Total current liabilities	12,519	9,681
Deferred revenues, non-current portion	2,802	2,097
Total liabilities	15,321	11,778
Stockholders' equity:		
Common stock, \$0.01 par value; 80,000,000 shares authorized, 40,891,889 and 40,315,368 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	409	403
Additional paid-in capital	225,194	221,176
Accumulated deficit	(165,140)	(149,752)
Accumulated other comprehensive income	150	295
Total stockholders' equity	60,613	72,122
Total liabilities and stockholders' equity	\$ 75,934	\$ 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 June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenues:				
Collaboration agreements	\$ 2,378	\$ 1,461	\$ 4,462	\$ 2,611
Research grants	464	1,123	1,145	1,395
Total revenues	2,842	2,584	5,607	4,006
Operating expenses:				
Research and development	8,286	6,309	16,929	11,739
General and administrative	2,545	2,113	5,472	4,112
Total operating expenses	10,831	8,422	22,401	15,851
Loss from operations	(7,989)	(5,838)	(16,794)	(11,845)
Interest and other income, net	570	657	1,406	1,305
Net loss	\$ (7,419)	\$ (5,181)	\$ (15,388)	\$ (10,540)
Basic and diluted net loss per share	\$ (0.18)	\$ (0.15)	\$ (0.38)	\$ (0.30)
Shares used in computing basic and diluted net loss per share	40,858	35,136	40,673	35,097

See accompanying notes.

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

	Six months ended June 30,	
	2008	2007
Operating Activities:		
Net loss	\$ (15,388)	\$ (10,540)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	244	110
Amortization of premium / (discount) on investments	(776)	(953)
Realized loss on investments		16
Stock-based compensation	2,990	1,074
Changes in operating assets and liabilities:		
Interest receivable	76	37
Accounts receivable	(8,769)	327
Prepaid expenses and other assets	(90)	(415)
Accounts payable and accrued liabilities	(927)	1,042
Accrued compensation and employee benefits	(358)	(234)
Deferred revenue	4,828	(881)
Net cash used in operating activities	(18,170)	(10,417)
Investing Activities:		
Purchases of investments	(41,047)	(36,375)
Maturities of investments	51,125	43,651
Proceeds from sales of investments	3,975	
Purchases of property and equipment	(534)	(568)
Net cash provided by investing activities	13,519	6,708
Financing Activities:		
Proceeds from issuance of common stock	1,034	679
Net cash provided by financing activities	1,034	679
Net decrease in cash and cash equivalents	(3,617)	(3,030)
Cash and cash equivalents, beginning of period	12,275	12,702
Cash and cash equivalents, end of period	\$ 8,658	\$ 9,672

See accompanying notes.

Table of Contents**SANGAMO BIOSCIENCES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

June 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 six months ended June 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.

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 six-month periods ended June 30, 2008 and 2007 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Costs and expenses:				
Research and development	\$ 678	\$ 328	\$ 1,534	\$ 676
General and administrative	594	202	1,456	398
Total stock-based compensation expense	\$ 1,272	\$ 530	\$ 2,990	\$ 1,074

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 has not yet determined how the adoption of SFAS 157 will impact its condensed consolidated financial statements.

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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

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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 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.

NOTE 2-BASIC AND DILUTED NET LOSS PER SHARE

Basic earnings (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 earnings (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 1,820,960 shares and 2,324,731 shares for the six months ended June 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		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net loss	\$ (7,419)	\$ (5,181)	\$ (15,388)	\$ (10,540)
Changes in unrealized gain (loss) on securities available-for-sale	(255)	18	(145)	16
Comprehensive loss	\$ (7,674)	\$ (5,163)	\$ (15,533)	\$ (10,524)

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 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 TFs or ZFNs 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' expense, the ZFP manufacturing technology to DAS or to a mutually agreed-upon contract manufacturer.

In June 2008, DAS exercised their 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 triggers a one-time commercial license fee of \$6.0 million, payment of the remaining portion of the \$4.0 million in research milestones, minimum annual sublicensing payments totaling to 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

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under such sublicenses. The research program may be extended beyond the initial three-year research term and DAS will provide additional research funding.

Following its exercise of the option and payment of the license fee, 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

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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.

In connection with the future payments for the commercial license of \$6.0 million, and the remaining research milestones of \$2.3 million, we will recognize such revenue 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. Revenues under the agreement were \$1.7 million and \$1.4 million during the three months ended June 30, 2008 and 2007, respectively, and \$3.0 million and \$2.6 million during the six months ended June 30, 2008 and 2007, respectively. Related costs and expenses incurred under the agreement were \$500,000 during the three months ended June 30, 2008 and 2007, respectively, and \$1.0 million during the six months ended June 30, 2008 and 2007, respectively.

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