SANGAMO BIOSCIENCES INC
Form 10-Q
August 04, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from to

Commission file number 000-30171
SANGAMO BIOSCIENCES, INC.
(exact name of small business issuer as specified in its charter)

Delaware	**68-0359556**
(State or other jurisdiction of incorporation or organization)	(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)

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 þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of August 3, 2006, 33,938,885 shares of the issuer s common stock, par value $0.01 per share, were outstanding.

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SANGAMO BIOSCIENCES, INC.

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.*

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, sl results may differ materially from those expressed or 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.

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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, 2006 (unaudited)	December 31, 2005 (1)
Assets		
Current assets:		
Cash and cash equivalents	$ 28,838	$ 18,507
Marketable securities	30,330	28,449
Interest receivable	170	218
Accounts receivable	228	971
Prepaid expenses	665	317
Total current assets	60,231	48,462
Property and equipment, net	517	472
Other assets	49	49
Total assets	$ 60,797	$ 48,983
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 953	$ 1,534
Accrued compensation and employee benefits	602	933
Deferred revenue	2,983	4,327
Total current liabilities	4,538	6,794
Deferred revenue, non-current portion	3,125	4,375
Total liabilities	7,663	11,169
Stockholders equity:		
Common stock, $0.01 par value; 80,000,000 shares authorized, 33,938,593 and 30,570,912 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	34	31
Additional paid-in capital	169,548	148,131
Accumulated deficit	(116,479)	(110,408)
Accumulated other comprehensive income	31	60
Total stockholders equity	53,134	37,814
Total liabilities and stockholders equity	$ 60,797	$ 48,983

(1)

Amounts derived from Audited Consolidated Financial Statements dated December 31, 2005 filed as a part of our 2005 Form 10-K.

See accompanying notes.

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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,	
	2006	**2005**	**2006**	**2005**
Revenues:				
Collaboration agreements	$ 1,431	$ 353	$ 3,304	$ 533
Federal government research grants	346	65	609	141
Total revenues	1,777	418	3,913	674
Operating expenses:				
Research and development	4,028	2,624	7,617	5,221
General and administrative	1,821	1,250	3,576	2,489
Total operating expenses	5,849	3,874	11,193	7,710
Loss from operations	(4,072)	(3,456)	(7,280)	(7,036)
Interest and other income, net	745	76	1,209	103
Net loss	$ (3,327)	$ (3,380)	$ (6,071)	$ (6,933)
Basic and diluted net loss per share	$ (0.11)	$ (0.13)	$ (0.20)	$ (0.27)
Shares used in computing basic and diluted net loss per share	31,312	25,391	30,959	25,364

See accompanying notes.

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

	Six months ended June 30,	
	2006	**2005**
Operating Activities:		
Net loss	$ (6,071)	$ (6,933)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	92	149
Amortization of (premium) / discount on investments	(108)	191
Realized (gain) / loss on investments	(29)	41
Stock-based compensation	950	186
Changes in operating assets and liabilities:		
Interest receivable	48	33
Accounts receivable	743	342
Prepaid expenses and other assets	(348)	(419)
Accounts payable and accrued liabilities	(581)	(444)
Accrued compensation and employee benefits	(331)	(182)
Deferred revenue	(2,594)	(306)
Net cash used in operating activities	(8,229)	(7,342)
Investing Activities:		
Purchases of investments	(16,016)	(8,852)
Maturities of investments	14,243	15,218
Purchases of property and equipment	(137)	(181)
Net cash provided by / (used in) investing activities	(1,910)	6,185
Financing Activities:		
Proceeds from issuance of common stock	20,470	239
Net cash provided by financing activities	20,470	239
Net decrease in cash and cash equivalents	10,331	(918)
Cash and cash equivalents, beginning of period	18,507	8,626
Cash and cash equivalents, end of period	$ 28,838	$ 7,708

See accompanying notes.

SANGAMO BIOSCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) June 30, 2006

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 six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These financial statements should be read in conjunction with the financial statements and footnotes thereto for the year ended December 31, 2005, included in Sangamo s Form 10-K as filed with the SEC.

USE OF ESTIMATES

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.

Certain reclassifications of prior period amounts have been made to the Condensed Consolidated Financial Statements to conform to the current period presentation, including the reclassification of patent prosecution expenses to general and administrative expense from research and development expense. The reclassifications were immaterial and had no impact on the Company s net loss or accumulated deficit.

FOREIGN CURRENCY TRANSLATION

The Company records foreign currency transactions at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. All currency translation adjustments arising from foreign currency transactions are recorded through profit and loss.

REVENUE RECOGNITION

In accordance with Staff Accounting Bulletin No. 104, Revenue Recognition, revenue from research activities made under strategic partnering collaborations is recognized as the services are provided when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectibility is reasonably assured. Amounts received in advance under such agreements are deferred until the above criteria are met and the research services are performed. Sangamo s federal government research grants are typically multi-year agreements and provide for the reimbursement of qualified expenses for research and development as defined under the terms of the grant agreement. Revenue under grant agreements is recognized when the related qualified research expenses are incurred. Grant reimbursements are received on a quarterly or monthly basis and are subject to the issuing agency s right of audit.

Sangamo recognizes revenue from its Therapeutic and Enabling Technology collaborations when zinc finger DNA-binding protein (ZFP)-based products are delivered to the collaborators, persuasive evidence of an agreement exists, there are no unfulfilled obligations, the price is fixed and determinable, and collectibility is reasonably assured. Generally, Sangamo receives partial payments from these collaborations prior to the delivery of ZFP-based products and the recognition of these revenues is deferred until the ZFP-based products are delivered, the risk of ownership has passed to the collaborator and all performance obligations have been satisfied. Upfront or signature payments received upon the signing of an Enabling Technology agreement are generally recognized ratably over the applicable period of the agreement, which currently ranges between 12 and 15 months, or as ZFP-based products are delivered.

Milestone payments under research, partnering, or licensing agreements are recognized as revenue upon the achievement of mutually agreed upon milestones, provided that (i) the milestone event is substantive and its achievement is not reasonably assured at the inception of the agreement, and (ii) there are no performance obligations associated with the milestone payment.

In accordance with Emerging Issues Task Force Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, revenue arrangements entered into after June 15, 2003, that include multiple deliverables are divided into separate units of accounting if the deliverables meet certain criteria, including whether the fair value of the delivered items can be determined and whether there is evidence of fair value of the undelivered items. In addition, the consideration is allocated among the separate units of accounting based on their fair values, and the applicable revenue recognition criteria are considered separately for each of the separate units of accounting.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of costs incurred for Company-sponsored as well as collaborative research and development activities. These costs include direct and research-related overhead expenses, which include salaries and other personnel-related expenses, stock-based compensation, facility costs, supplies and depreciation of facilities and laboratory equipment, as well as the cost of funding research at universities and other research institutions, and 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.

STOCK-BASED COMPENSATION

Prior to January 1, 2006, the Company accounted for our stock-based employee compensation arrangements under the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), as allowed by SFAS No. 123, *Accounting for Stock-based Compensation* (SFAS No. 123), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS No. 148). As a result, no expense was recognized for options to purchase our common stock that were granted with an exercise price equal to fair market value at the date of grant and no expense was recognized in connection with purchases under our employee stock purchase plan for the years ended December 31, 2005 or 2004. In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004) *Share-Based Payment* (SFAS No. 123R), which replaces SFAS No. 123 and supersedes APB No. 25. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005. Subsequent to the effective date, the pro forma disclosures previously permitted under SFAS No. 123 are no longer an alternative to financial statement recognition. Effective January 1, 2006, the Company has adopted SFAS No. 123R using the modified prospective method. Under this method, compensation cost recognized includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 amortized on an accelerated basis over the options vesting period, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R amortized on a straight-line basis over the options vesting period. Results for prior periods have not been restated. As a result of adopting SFAS No. 123R on January 1, 2006, the net loss is greater by $ 494,000 and $924,000 for the three-month period and six-month period ended June 30, 2006, respectively than had the Company continued to account for stock-based employee compensation under APB No. 25. Basic and diluted net loss per share for the three-month period and six-month period ended June 30, 2006 are $0.02 and $0.03 greater, respectively, than if the Company had continued to account for stock-based compensation under APB No. 25. The adoption of SFAS No. 123R had no impact on cash flows from operations or financing.

Stock Option Plan

Sangamo s 2004 Stock Option Plan (the 2004 Option Plan), which supersedes the 2000 Stock Option Plan, provides for the issuance of common stock and grants of options for common stock to employees, officers, directors and consultants. The exercise price per share will be no less than 85 percent of the fair value per share of common stock on the option grant date, and the option term will not exceed ten years. If the person to whom the option is granted is a 10 percent stockholder, and the option granted qualifies as an Incentive Stock Option Grant, then the exercise price per share will not be less than 110 percent of the fair value per share of common stock on the option grant date, and the option term will not exceed five years. Options granted under the 2004 Option Plan generally vest over four years at a rate of 25 percent one year from the grant date and one thirty-sixth per month thereafter and expire ten years after the grant, or earlier upon employment termination. Options granted pursuant to the 2004 Option Plan may be exercised prior to vesting, with the related shares subject to Sangamo s right to repurchase the shares that have not vested at the issue price if the option holder terminates employment. The right of repurchase lapses over the original option vesting period, as described above. A total of 6.5 million shares are reserved for issuance pursuant to the 2004 Option Plan. The number of shares authorized for issuance automatically increases on the first trading day of the fiscal year by an amount equal to 3.0 percent of the total number of shares of our common stock outstanding on the last trading day of the preceding fiscal year.

Employee Stock Purchase Plan

The Board of Directors adopted the 2000 Employee Stock Purchase Plan in February 2000, effective upon the completion of Sangamo s initial public offering of its common stock. Sangamo reserved a total of 400,000 shares of common stock for issuance under the plan. Eligible employees may purchase common stock at 85 percent of the lesser of the fair market value of Sangamo s common stock on the first day of the applicable two-year offering period or the last day of the applicable six-month purchase period. The reserve for shares available under the plan will automatically increase on the first trading day of the second fiscal quarter each year, beginning in 2001, by an amount equal to 1 percent of the total number of outstanding shares of our common stock on the last trading day of the immediately preceding first fiscal quarter.

As of June 30, 2006, total shares reserved for future awards under all plans were 8,274,664.

Adoption of FAS 123R

Employee stock-based compensation expense recognized in 2006 was calculated based on awards ultimately expected to vest and has been reduced for estimated forfeitures. FAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. A forfeiture rate of 10% is applied to the stock-based compensation expense, determined through historical experience of employee stock option exercises. The following table shows total stock-based employee compensation expense (see above for types of stock-based employee arrangements) included in the condensed consolidated statement of operations for the three-month and six-month periods ended June 30, 2006 (in thousands):

	Three months ended June 30, 2006	Six months ended June 30, 2006
Costs and expenses:		
Research and development	$ 310	$ 627
General and administrative	184	297
Total stock-based compensation expense	$ 494	$ 924

There was no capitalized stock-based employee compensation cost as of June 30, 2006. There were no recognized tax benefits during the six months ended June 30, 2006.

As of June 30, 2006, total compensation cost related to nonvested stock options to be recognized in future periods was $3.47 million, which is expected to be expensed over a weighted average period of 48 months.

Pro Forma Information for Period Prior to Adoption of FAS 123R

The following table illustrates the effect on net loss and net loss per share had we applied the fair value recognition provisions of SFAS No. 123 to account for our employee stock option and employee stock purchase plans for the three-month and six-month period ended June 30, 2005 because stock-based employee compensation was not accounted for using the fair value recognition method during that period. For purposes of pro forma disclosure, the estimated fair value of the stock awards, as prescribed by SFAS No. 123, is amortized to expense over the vesting period of such awards (in thousands, except per share data).

	Three months ended June 30, 2005	Six months ended June 30, 2005 (1)

Net loss, as reported	$	(3,380)	$	(6,933)
Deduct: Total stock-based employee compensation expense determined under fair value method		(667)		(1,214)
Pro forma net loss	$	(4,047)	$	(8,147)
Basic and diluted net loss per share:				
As reported	$	(0.13)	$	(0.27)
Pro forma	$	(0.16)	$	(0.32)

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(1) During the preparation of footnotes to the condensed consolidated financial statements for our quarterly filings during fiscal year 2006, we determined that the calculation of our net loss pro forma reported under SFAS No. 123 for fiscal year 2005, as reported in that year, did not appropriately reflect the effect of SFAS No. 123 for certain options granted prior to January 1, 2006. Accordingly, the amount of net loss pro forma reported under SFAS No. 123 for the first quarter of fiscal 2005 presented in the table above has been revised, resulting in an increase in the previously reported amount of pro forma net loss of $296,000 or $0.01 per basic and diluted share for

three-months period ended June 30, 2005 and $ 635,000 or $ 0.02 per basic and diluted share for six-months period ended June 30, 2005, respectively. This revision had no effect on our previously reported condensed consolidated results of operations or financial condition.

The historical pro forma impact of applying the fair value method prescribed by SFAS No. 123 is not representative of the impact that may be expected in the future due to changes resulting from additional grants in future years and changes in assumptions such as volatility, interest rates and expected life used to estimate fair value of the grants in future years.

Valuation Assumptions

The employee stock-based compensation expense recognized under FAS123R and presented in the pro forma disclosure required under FAS123 was determined using the Black Scholes option valuation model. Option valuation models require the input of subjective assumptions and these assumptions can vary over time.

We primarily base our determination of expected volatility through our assessment of the historical volatility of our Common Stock. We do not believe that we are able to rely on our historical exercise and post-vested termination activity to provide accurate data for estimating our expected term for use in determining the fair value of these options. Therefore, as allowed by Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment* , we have opted to use the simplified method for estimating our expected term equal to the midpoint between the vesting period and the contractual term.

The weighted average assumptions used for estimating the fair value of the employee stock options are as follows:

	Three months ended June 30,		**Six months ended June 30,**	
	2006	**2005**	**2006**	**2005**
Risk-free interest rate	5.1%	3.7%	5.0-5.1%	3.8%
Expected life of option	6.25 years	5.0 years	6.25 years	4.5 years
Expected dividend yield of stock	0.0%	0.0%	0.0%	0.0%
Expected volatility	.97	1.0	.91-.97	1.0

The expected volatility reported in the quarter ended March 31, 2006 should be 0.91 instead of 0.82 as a result of a computational error. The impact of this change is not material to the net results of operations and basic and diluted loss per share for the three months and six months ended June 30, 2006.

The weighted average assumptions used for estimating the fair value of the employees purchase rights are as follows:

	Three months ended	**Six months ended**

	June 30,		June 30,	
	2006	2005	2006	2005
Risk-free interest rate	4.75-5.17%	1.25-3.61%	4.75-5.17%	1.25-3.61%
Expected life of option	0.5-2 years	0.5-2 yrs	.5-2 yrs	0.5-2 yrs
Expected dividend yield of stock	0.0%	0.0%	0.0%	0.0%
Expected volatility	.41-.98	.52-.78	.41-.98	.52-.78

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Stock Option Activity

A summary of Sangamo s stock option activity follows:

		Options Outstanding		
	Shares Available for Grant of Options	Number of Shares	Weighted-Average Exercise per Share Price	Weighted Average Remaining Contractual Term
Balance at January 1, 2006	3,256,505	3,874,097	$5.30	
Options granted	(157,500)	157,500	$6.74	
Options exercised		(223,122)	$1.57	
Options canceled	141,857	(141,857)	$7.58	
Balance at June 30, 2006	3,240,862	3,666,618	$5.50	6.36
Options exercisable at June 30, 2006		2,315,078	$6.00	5.06

There were no shares subject to Sangamo s right of repurchase as of June 30, 2006. The intrinsic value of options exercised were $ 269,000 and $36,000 for the three months ended June 30, 2006 and 2005 and $1,059,000 and $428,000 for the six months ended June 30, 2006 and 2005, respectively.

The weighted-average estimated fair value per share of options granted during the three months and six months ended June 30, 2006 and 2005 were $5.80 and $2.95, and $5.44 and $3.10, respectively, based upon the assumptions in the Black-Scholes valuation model described above.

The weighted-average estimated fair value per share of employee purchase rights during the three months and six months ended June 30, 2006 and 2005 were $2.23 and $1.16,and $2.17 and $1.24, respectively, based upon the assumptions in the Black-Scholes valuation model described above.

The following table summarizes information with respect to stock options outstanding at June 30, 2006:

	Options Outstanding	
Range of Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life (In Years)
$0.05 - $ 0.15	61,583	1.62
$0.17 - $ 0.17	400,000	1.85
$0.23 - $ 3.61	443,976	7.25
$3.78 - $ 4.08	298,261	7.48
$4.11 - $ 4.11	390,000	9.45
$4.15 - $ 5.18	234,865	7.76
$5.19 - $ 5.19	487,733	7.80
$5.36 - $ 7.13	315,500	6.85
$7.49 - $ 7.49	415,000	5.25
$7.57 - $38.00	619,700	5.46

	3,666,618	6.36

At June 30, 2006, the aggregate intrinsic values of the outstanding and exercisable options were $5.8 million and 3.9 million, respectively.

Sangamo granted 15,000 nonqualified common stock options to consultants during the three months ended June 30, 2005. The Company did not grant any stock option to consultants during three-months and six-months ended June 30, 2006. The Company granted 15,000 and 10,000 nonqualified common stock options to consultants at exercise prices that range from $3.00 to $3.80 per share for services rendered in 2005 and 2004, respectively. Such options are included in the option tables disclosed above. The options generally vest over four years at a rate of 25 percent one year from grant date and one-thirty-sixth per month thereafter and expire ten years after the grant date. Total nonqualified stock-based compensation expense was $5,000 and $85,000 for the three months period

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ended June 30, 2006 and 2005 and $26,000 and $186,000 for the six months period ended June 30, 2006 and 2005, respectively. The fair value of these options was determined using the Black-Scholes Merton model.

NOTE 2-BASIC AND DILUTED NET LOSS PER SHARE

Basic and diluted net loss per share have been computed using the weighted-average number of shares of common stock outstanding during the period. Because we are in a net loss position, diluted earnings per share is also calculated using the weighted average number of common shares outstanding and excludes the effects of stock options which are all antidilutive.

NOTE 3-COMPREHENSIVE LOSS

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

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Net loss	$ (3,327)	$ (3,380)	$ (6,071)	$ (6,933)
Changes in unrealized gain (loss) on securities available-for-sale	(18)	5	(29)	63
Comprehensive loss	$ (3,345)	$ (3,375)	$ (6,100)	$ (6,870)

NOTE 4-MAJOR CUSTOMERS, PARTNERSHIPS AND STRATEGIC ALLIANCES

Strategic Partnership with Edwards Lifesciences Corporation

In January 2000, we announced a therapeutic product development collaboration with Edwards Lifesciences Corporation (Edwards). Under the agreement, we have licensed to Edwards, on a worldwide, exclusive basis, ZFP Therapeutics for use in the activation of VEGFs and VEGF receptors in ischemic cardiovascular and vascular diseases. Edwards purchased a $5.0 million note that converted, together with accrued interest, into 333,333 shares of common stock at the time of our initial public offering (IPO) at the IPO price. In March 2000, Edwards purchased a $7.5 million convertible note in exchange for a right of first refusal for three years to negotiate a license for additional ZFP Therapeutics in cardiovascular and peripheral vascular diseases. That right of first refusal was not exercised and terminated in March 2003. Together with accrued interest, this note converted into common stock at the time of our initial public offering at the IPO price. Through 2001, we received $2 million in research funding from Edwards and a $1.4 million milestone payment for delivery of a lead ZFP Therapeutic product candidate. In November 2002, Edwards signed an amendment to the original agreement and agreed to provide up to $3.5 million in research and development funding, including $2.95 million for research and development activities performed in 2002 and 2003. The filing of the IND for PAD in 2004, and the achievement of other research-related milestones in 2003, triggered a total of $1.0 million in milestone payments from Edwards in the first quarter of 2004. There were no revenues attributable to milestone achievement and collaborative research and development performed under the Edwards agreements for both the three-month and six-month periods ended June 30, 2006 and 2005.

Our license agreement with Edwards Lifesciences provides Edwards with worldwide, exclusive rights for ZFP Therapeutics for the activation of VEGF and VEGF receptors for the treatment and prevention of ischemic cardiovascular and vascular disease in humans. We have retained all rights to use our technology for all therapeutic applications of VEGF activation outside of the treatment and prevention of ischemic cardiovascular and vascular disease in humans. During the first quarter of 2005, Sangamo commenced a Phase I clinical trial for the treatment of diabetic neuropathy using a ZFP Therapeutic for the activation of VEGF. Edwards has stated that its rights include diabetic neuropathy and consequently our activities relating to diabetic neuropathy constitute a breach of the agreement. We strongly disagree with the Edwards assertion because diabetic neuropathy is a neurological disease and not an ischemic vascular disease and therefore is outside the scope of the Edwards license. Sangamo and Edwards are in discussions regarding this issue.

In the future, Sangamo may receive milestone payments and royalties under this agreement. We have received $2.5 million in milestone payments to date and we could receive up to $27.0 million in additional milestone payments under the agreement if all future milestones are met for the first product developed under the agreement. Any subsequent products developed under the agreement may generate up to $15.0 million in milestone payments each. We would also receive royalties on any sales of products generated under the agreement and these royalty obligations would continue until the expiration of the last-to-expire patent covering products developed under the agreement on a country-by-country basis. Based on currently issued patents, these royalty obligations would last through January 12, 2019. The development of any products is subject to numerous risks and no assurance can be given that any products will successfully be developed under this agreement. See Risk Factors Our gene regulation technology is relatively new, and if we are unable to use this technology in all our intended applications, it would limit our revenue opportunities.

Under the Sangamo-Edwards agreement, we were responsible for advancing product candidates into preclinical animal testing. Edwards had responsibility for preclinical development, regulatory affairs, clinical development, and the sales and marketing of ZFP Therapeutic products developed under the agreement. Sangamo may receive milestone payments in connection with the development and commercialization of the first product under this agreement and may also receive royalties on product sales. As part of the November 2002 amendment to our original agreement, Edwards also entered into a joint collaboration with us to evaluate ZFP TFs for the regulation of a second therapeutic gene target, phospholamban (PLN), for the treatment of congestive heart failure. Under the amended agreement, Sangamo granted Edwards a right of first refusal to Sangamo s ZFP TFs for the regulation of PLN. This right of first refusal terminated on June 30, 2004. On August 14, 2003, Edwards and Sangamo entered into a Third Amendment to the original license agreement. Under this amendment, Sangamo received payment for research and development milestones associated with the VEGF and PLN programs.

There is no assurance that the companies will achieve the development and commercialization milestones anticipated in these agreements. Edwards has the right to terminate the agreement at any time upon 90 days written notice. In the event of termination, we retain all payments previously received as well as the right to develop and commercialize all related products.

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Therapeutic Collaboration with LifeScan for Regenerative Medicine

In September 2004, we announced that we had entered into a research agreement with LifeScan, Inc., a Johnson & Johnson company. The agreement provides LifeScan with our ZFP TFs for use in a program to develop therapeutic cell lines as a potential treatment for diabetes. In December 2004, and again in September 2005, this agreement was expanded to include additional targets important in diabetes. The agreements represented our first collaboration in the field of regenerative medicine. During the three months ended June 30, 2006 and 2005, revenues attributable to collaborative research and development performed under the LifeScan agreements were $150,000 and $55,000, respectively. Revenues for the six-month periods ended June 30, 2006 and 2005 were $300,000 and $110,000, respectively. Related research and development costs and expenses performed under the LifeScan agreements were $24,000 and $19,000 during the three months ended June 30, 2006 and 2005, respectively. Research and development costs and expenses performed under the LifeScan agreements were $32,000 and $37,000 during the six months ended June 30, 2006 and 2005, respectively.

Enabling Technology Collaborations for Pharmaceutical Protein Production

We have established several research collaborations in this area. In December 2004, we announced a research collaboration agreement with Pfizer Inc 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 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 $157,000 and $298,000 during the three months ended June 30, 2006 and 2005, respectively. Revenues for the six-month periods ended June 30, 2006 and 2005 were $307,000 and $423,000, respectively. Related research and development costs and expenses performed under the Pfizer agreement were $98,000 and $30,000 during the three months ended June 30, 2006 and 2005, respectively, and $155,000 and $52,000 during the six months ended June 30, 2006 and 2005, respectively.

Plant Agriculture Agreements

Sangamo scientists and collaborators have shown that ZFP TFs and ZFP nucleases (ZFNs) can be used to regulate and modify genes in plants with similar efficacy to that shown in various mammalian cells and organisms. The ability to regulate gene expression with engineered ZFP TFs may lead to the creation of new plants that increase crop yields, lower production costs, are more resistant to herbicides, pesticides, and plant pathogens; and permit the development of branded agricultural products with unique nutritional and processing characteristics. In addition, ZFNs may be used to facilitate the efficient and reproducible generation of transgenic plants. Effective as of October 1, 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 will retain rights to use plants or plant-derived products to deliver ZFP TFs or ZFNs into human or animals for diagnostic, therapeutic, or prophylactic purposes.

Our agreement with DAS provides for an initial three-year research term during which time we will work together to validate and optimize the application of our ZFP technology to plants, plant cells and plant cell cultures. A joint committee having equal representation from both companies will oversee this research. During the initial three-year research term, DAS will have the option to obtain a commercial license to sell products incorporating or derived from plant cells generated using our ZFP technolo