

SANGAMO BIOSCIENCES INC

Form 10-Q

May 09, 2008

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**p** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 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 April 29, 2008, 40,815,404 shares of the issuer's common stock, par value \$0.01 per share, were outstanding.

**Table of Contents**

**INDEX**

**SANGAMO BIOSCIENCES, INC.**

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets at March 31, 2008 and December 31, 2007

Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2008 and 2007

Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2008 and 2007

Notes to Condensed Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

**PART II. OTHER INFORMATION**

Item 1. Legal Proceedings

Item 1A. Risk Factors

Item 6. Exhibits

**SIGNATURES**

**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.*

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 the

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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)**

|   | <b>March 31,<br/>2008<br/>(unaudited)</b> | <b>December 31,<br/>2007 (1)</b> |
|---|---|----------------------------------|
| <b>Assets</b>   |   |                                  |
| Current assets:   |   |                                  |
| Cash and cash equivalents   | \$ 9,942                                  | \$ 12,275                        |
| Marketable securities   | 63,468                                    | 68,813                           |
| Interest receivable   | 169                                       | 324                              |
| Accounts receivable   | 613                                       | 209                              |
| Prepaid expenses  | 517                                       | 497                              |
| Total current assets  | 74,709                                    | 82,118                           |
| Property and equipment, net   | 2,021                                     | 1,770                            |
| Other assets  | 12  | 12                               |
| Total assets  | \$ 76,742                                 | \$ 83,900                        |
| <b>Liabilities and stockholders' equity</b>   |   |                                  |
| Current liabilities:  |   |                                  |
| Accounts payable and accrued liabilities  | \$ 4,112                                  | \$ 3,538                         |
| Accrued compensation and employee benefits  | 742                                       | 1,199                            |
| Deferred revenues   | 3,730                                     | 4,944                            |
| Total current liabilities   | 8,584                                     | 9,681                            |
| Deferred revenues, non-current portion  | 1,701                                     | 2,097                            |
| Total liabilities   | 10,285                                    | 11,778                           |
| Stockholders' equity:   |   |                                  |
| Common stock, \$0.01 par value; 80,000,000 shares authorized, 40,793,172 and 40,315,368 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively | 408                                       | 403                              |
| Additional paid-in capital  | 223,368                                   | 221,176                          |
| Accumulated deficit   | (157,724)                                 | (149,752)                        |
| Accumulated other comprehensive income  | 405                                       | 295                              |
| Total stockholders' equity  | 66,457                                    | 72,122                           |
| Total liabilities and stockholders' equity  | \$ 76,742                                 | \$ 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)**

|   | <b>Three months ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2008</b>                             | <b>2007</b> |
| <b>Revenues:</b>  |   |             |
| Collaboration agreements                                      | \$ 2,084                                | \$ 1,150    |
| Research grants   | 681                                     | 272         |
| Total revenues  | 2,765                                   | 1,422       |
| <b>Operating expenses:</b>                                    |   |             |
| Research and development                                      | 8,646                                   | 5,430       |
| General and administrative                                    | 2,927                                   | 1,999       |
| Total operating expenses                                      | 11,573                                  | 7,429       |
| Loss from operations  | (8,808)                                 | (6,007)     |
| Interest and other income, net                                | 836                                     | 648         |
| Net loss  | \$ (7,972)                              | \$ (5,359)  |
| Basic and diluted net loss per share                          | \$ (0.20)                               | \$ (0.15)   |
| Shares used in computing basic and diluted net loss per share | 40,489                                  | 35,057      |

*See accompanying notes.*

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

|   | <b>Three months ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2008</b>                             | <b>2007</b> |
| <b>Operating Activities:</b>  |   |             |
| Net loss  | \$ (7,972)                              | \$ (5,359)  |
| Adjustments to reconcile net loss to net cash used in operating activities: |   |             |
| Depreciation and amortization   | 115                                     | 50          |
| Amortization of premium / discount on investments                           | (492)                                   | (502)       |
| Realized loss on investments  |   | (2)         |
| Stock-based compensation  | 1,718                                   | 543         |
| Changes in operating assets and liabilities:                                |   |             |
| Interest receivable   | 155                                     | 49          |
| Accounts receivable   | (404)                                   | 267         |
| Prepaid expenses and other assets   | (20)                                    | 75          |
| Accounts payable and accrued liabilities                                    | 574                                     | (196)       |
| Accrued compensation and employee benefits                                  | (457)                                   | (290)       |
| Deferred revenue  | (1,610)                                 | 3           |
| Net cash used in operating activities                                       | (8,393)                                 | (5,362)     |
| <b>Investing Activities:</b>  |   |             |
| Purchases of investments  | (27,302)                                | (18,753)    |
| Maturities of investments   | 29,276                                  | 22,501      |
| Proceeds from sales of investments  | 3,973                                   |             |
| Purchases of property and equipment   | (366)                                   | (126)       |
| Net cash provided by investing activities                                   | 5,581                                   | 3,622       |
| <b>Financing Activities:</b>  |   |             |
| Proceeds from issuance of common stock                                      | 479                                     | 68          |
| Net cash provided by financing activities                                   | 479                                     | 68          |
| Net decrease in cash and cash equivalents                                   | (2,333)                                 | (1,672)     |
| Cash and cash equivalents, beginning of period                              | 12,275                                  | 12,702      |
| Cash and cash equivalents, end of period                                    | \$ 9,942                                | \$ 11,030   |

*See accompanying notes.*



**Table of Contents**

**SANGAMO BIOSCIENCES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 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 months ended March 31, 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.

**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 statements of operations.

**REVENUE RECOGNITION**

In accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition," revenue from research activities made under strategic partnering agreements and Enabling Technology 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 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.

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 remaining 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.



**Table of Contents****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, pre-clinical and clinical studies, manufacturing costs, facility costs, laboratory 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**

We account for employee stock-based compensation in accordance with FAS 123R. Under the provisions of FAS 123R, employee stock-based compensation is estimated at the date of grant based on the employee stock award's fair value using the Black-Scholes option-pricing model and is recognized as expense ratably over the requisite service period in a manner similar to other forms of compensation paid to employees. The Black-Scholes option-pricing model requires the use of certain subjective assumptions. The most significant of these assumptions are our estimates of the expected volatility of the market price of our stock and the expected term of the award. We primarily base our determination of expected volatility through our assessment of the historical volatility of our Common Stock. When establishing an estimate of the expected term of an award, we consider the vesting period for the award, our recent historical experience of employee stock option exercises (including forfeitures), and a comparison to relevant peer group data. As required under the accounting rules, we review our valuation assumptions at each grant date and, as a result, our valuation assumptions used to value employee stock-based awards granted in future periods may change.

Employee stock-based compensation expenses recognized in the three-month periods ended March 31, 2008 and 2007 were calculated based on awards ultimately expected to vest and have 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. As a result, stock-based compensation costs recognized in future periods may differ significantly from what we have recognized in the current period.

During 2007, we issued 100,000 restricted stock units under our 2004 Stock Incentive Plan at a grant date fair value of \$14.72. These restricted stock units will vest 25% after completion of one year of service and the balance will vest in equal monthly installments over the following thirty-six months of continued service. In accordance with FAS123R, the fair value of the restricted stock units was estimated based upon the closing sales price of the Company's common stock on the grant date.

The following table shows total stock-based compensation expenses included in the condensed consolidated statement of operations for the three-month periods ended March 31, 2008 and 2007 (in thousands):

|  | <b>Three months ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2008</b>                             | <b>2007</b> |
| Costs and expenses:                    |   |             |
| Research and development               | \$ 856                                  | \$ 347      |
| General and administrative             | 862                                     | 196         |
| Total stock-based compensation expense | \$ 1,718                                | \$ 543      |

As of March 31, 2008, total compensation costs related to nonvested stock options to be recognized in future periods were \$13.3 million and are expected to be expensed over a weighted average period of 2.98 years, and total compensation costs related to nonvested restricted stock units to be recognized in future periods were \$1.3 million and are expected to be expensed over a weighted average period of 3.67 years.

**Table of Contents****Valuation Assumptions**

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

|                                  | Three months ended<br>March 31, |            |
|----------------------------------|---------------------------------|------------|
|                                  | 2008                            | 2007       |
| Risk-free interest rate          | 2.46%                           | 4.58%      |
| Expected life of option          | 5.20 years                      | 6.25 years |
| Expected dividend yield of stock | 0.0%                            | 0.0%       |
| Expected volatility              | 0.67                            | 0.93       |

The weighted average assumptions used for estimating the fair value of the purchase rights under the 2000 Employee Stock Purchase Plan are as follows:

|                                  | Three months ended<br>March 31, |           |
|----------------------------------|---------------------------------|-----------|
|                                  | 2008                            | 2007      |
| Risk-free interest rate          | 3.95-4.95%                      | 3.60-5.1% |
| Expected life of option          | 0.5-2 years                     | 0.5-2 yrs |
| Expected dividend yield of stock | 0.0%                            | 0.0%      |

**Stock Option Activity**

A summary of stock option activity is as follows:

|                                       | Options Outstanding                            |                        |  | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(In Years) |
|---------------------------------------|--|------------------------|--|---|
|                                       | Shares<br>Available<br>for Grant<br>of Options | Number<br>of<br>Shares | Weighted-<br>Average<br>Exercise<br>per Share<br>Price |   |
| Balance at January 1, 2008            | 3,191,668                                      | 4,750,973              | \$ 8.01  | 7.15  |
| Additional shares authorized          | 1,209,461                                      |                        |  |   |
| Options granted                       | (64,500)                                       | 64,500                 | \$ 11.81   |   |
| Options exercised                     |  | (477,804)              | \$ 0.99  |   |
| Options canceled                      | 19,480   | (19,480)               | \$ 11.46   |   |
| Balance at March 31, 2008             | 4,356,109                                      | 4,318,189              | \$ 8.83  | 7.59  |
| Options exercisable at March 31, 2008 |  | 1,972,829              | \$ 6.74  | 5.81  |

In accordance with our 2004 Stock Incentive 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 year, but in no event shall any such increase exceed 1.75 million shares per year.

There were no shares subject to the Company's right of repurchase as of March 31, 2008. The intrinsic value of options exercised was \$5.5 million and \$81,000 for the three months ended March 31, 2008 and 2007, respectively.

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The weighted-average estimated fair value per share of options granted during the three months ended March 31, 2008 and 2007 was \$6.87 and \$5.45, 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 ended March 31, 2008 and 2007 was \$3.13 and \$2.17, respectively, based upon the assumptions in the Black-Scholes valuation model described above.

**Table of Contents**

The following table summarizes information with respect to stock options outstanding at March 31, 2008:

| Range of Exercise Price | Number of Shares | Options Outstanding                                    |
|-------------------------|------------------|--|
|                         |                  | Weighted Average Remaining Contractual Life (In Years) |
| \$ 0.05 \$3.97          | 467,691          | 5.71   |
| \$ 3.99 \$4.92          | 507,430          | 7.13   |
| \$ 4.93 \$5.66          | 432,054          | 6.70   |
| \$ 5.75 \$6.69          | 204,250          | 6.12   |
| \$ 6.82 \$6.82          | 450,000          | 8.70   |
| \$ 6.88 \$7.73          | 474,814          | 8.51   |
| \$ 8.00 \$13.40         | 285,200          | 4.75   |
| \$13.98 \$13.98         | 961,250          | 9.70   |
| \$14.00 \$15.03         | 470,000          | 7.43   |
| \$15.23 \$38.00         | 65,000           | 3.17   |
|                         | 4,318,189        | 7.59   |

At March 31, 2008, the aggregate intrinsic value of the outstanding and exercisable options was \$12.3 million and \$8.2 million, respectively.

Sangamo did not grant any stock option to consultants during the three months ended March 31, 2008 and 2007.

**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.

In June 2007, the 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 Emerging Issues Task Force (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 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