FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(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, 2003

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 ☒ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ☒

As of September 30, 2003, 24,814,486 shares of the issuer's common stock, par value $0.01 per share, were outstanding.

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SANGAMO BIOSCIENCES, INC.

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements that are forward-looking in nature should be read with caution because they involve risks and uncertainties. Forward-looking statements are included, for example, in specific and general discussions about: our strategy; sufficiency of our cash resources; revenues from existing and new collaborations; product development; 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. Words such as "expects", "anticipates", "targets", "goals", "projects", "intends", "plans", "believes", "seeks", "estimates", and variations of such words and similar expressions are intended to identify such forward-looking statements. Actual 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 Form 10-Q.

PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

SANGAMO BIOSCIENCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	September 30, 2003 (unaudited)	December 31, 2002 (1)
Assets		
Current assets:		
Cash and cash equivalents	$ 12,104	$ 17,639
Marketable securities	33,724	34,504
Interest receivable	469	432
Accounts receivable, net	151	1,098
Prepaid expenses	513	423
Total current assets	46,961	54,096
Property and equipment, net	1,089	1,793
Other assets	51	338
Total assets	$ 48,101	$ 56,227
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,290	$ 937
Accrued compensation and employee benefits	578	669
Deferred revenue	295	375
Total current liabilities	2,163	1,981
Stockholders' equity:		
Common stock, $0.01 par value; 80,000,000 shares authorized, 24,814,486 and 24,740,713 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	127,502	127,234
Deferred stock compensation	(15)	(231)
Accumulated deficit	(81,617)	(72,864)
Accumulated other comprehensive income	68	107
Total stockholders' equity	45,938	54,246
Total liabilities and stockholders' equity	$ 48,101	$ 56,227

(1) *Amounts derived from Audited Consolidated Statements dated December 31, 2002 filed as a part of Form 10-K.*

See accompanying notes.

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,	
	2003	2002	2003	2002
Revenues:				
Collaboration agreements	$ 426	$ 1,003	$ 1,278	$ 1,870
Federal government research grants	81	9	298	9
Total revenues	507	1,012	1,576	1,879
Operating expenses:				
Research and development (excludes $189 and $47 of stock-based compensation expense for the three months ended September 30, 2003 and 2002, respectively, and $259 and $1,049 of stock-based compensation expense for the nine months ended September 30, 2003 and 2002, respectively)	2,157	3,322	7,900	9,789
General and administrative (excludes $21 and $88 of stock-based compensation expense for the three months ended September 30, 2003 and 2002, respectively, and $108 and $276 of stock-based compensation expense for the nine months ended September 30, 2003 and 2002, respectively)	1,106	966	3,049	2,914
Restructuring charge	—	181	—	371
Stock-based compensation expense	210	135	367	1,325
Goodwill impairment	—	15,250	—	15,250
Patent impairment	—	2,760	—	2,760
Total operating expenses	3,473	22,614	11,316	32,409
Loss from operations	(2,966)	(21,602)	(9,740)	(30,530)
Interest and other income, net	382	662	987	1,472
Net loss	$ (2,584)	$ (20,940)	$ (8,753)	$ (29,058)
Basic and diluted net loss per share	$ (0.10)	$ (0.85)	$ (0.35)	$ (1.19)
Shares used in computing basic and diluted net loss per share	24,812	24,509	24,778	24,435

See accompanying notes.

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

	Nine months ended September 30,	
	2003	2002
Operating Activities:		
Net loss	$ (8,753)	$ (29,058)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	647	1,030
Net (gain) / loss on disposal of property and equipment	(112)	74
Gain on currency translation	—	(367)
Goodwill impairment	—	15,250
Patent impairment	—	2,760
Non-cash stock compensation charges	367	1,325
Changes in operating assets and liabilities:		
Interest receivable	(37)	409
Accounts receivable	947	39
Prepaid expenses and other assets	197	(260)
Accounts payable and accrued liabilities	353	(658)
Accrued compensation and employee benefits	(91)	(19)
Deferred revenue	(80)	(240)
Net cash used in operating activities	(6,562)	(9,715)
Investing Activities:		
Purchases of investments	(31,063)	(31,246)
Maturities of investments	31,805	48,422
Proceeds from disposal of property and equipment	216	63
Purchases of property and equipment	(48)	(26)
Net cash provided by investing activities	910	17,213
Financing Activities:		
Proceeds from issuance of common stock	117	272
Repayment of note payable	—	(285)
Net cash provided by (used in) financing activities	117	(13)
Effect of exchange rate changes on cash	—	219
Net increase (decrease) in cash and cash equivalents	(5,535)	7,704
Cash and cash equivalents, beginning of period	17,639	7,644
Cash and cash equivalents, end of period	$ 12,104	$ 15,348

See accompanying notes.

SANGAMO BIOSCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2003

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 (see Note 5), after elimination of all material intercompany balances and transactions. Operating results for the three-month and nine-month periods ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. These financial statements should be read in conjunction with the financial statements and footnotes thereto for the year ended December 31, 2002, 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.

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

Payments received to fund research activities made under strategic partnering agreements are recognized over the period that Sangamo performs research services. Amounts received in advance under such agreements are deferred until the research services are performed. Sangamo's federal government research grants 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 research expenses are incurred. Grant reimbursements are typically received on a quarterly basis and are subject to the issuing agency's right of audit.

Sangamo recognizes revenue from its Universal GeneTools® agreements when ZFP Transcription Factors ("ZFP TFs") are delivered to the Universal GeneTools® 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 TFs and the recognition of these revenues is deferred until the ZFP TFs 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 a Universal GeneTools® agreement are generally recognized ratably over the applicable period of the agreement or as ZFP TFs 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 further significant performance obligations associated with the milestone payment.

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 is considered separately for each of the separate units of accounting.

RESEARCH AND DEVELOPMENT COSTS

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, facility costs, supplies, depreciation of facilities and laboratory equipment, patent prosecution and 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

Sangamo accounts for employee and director stock options using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and has adopted the disclosure-only alternative of Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"). Stock options granted to non-employees, including Scientific Advisory Board Members, are accounted for in accordance with Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services," which requires the value of such options to be measured and compensation expense to be recorded as they vest over a performance period. The fair value of such options is determined using the Black-Scholes model. The following table illustrates, pursuant to FAS 123, as amended by FAS 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," the effect on net loss and related net loss per share, had compensation cost for stock-based compensation plans been determined based upon the fair value method prescribed under FAS 123:

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Net loss:				
As reported	$ (2,584)	$ (20,940)	$ (8,753)	$ (29,058)
Add: stock-based employee compensation expense included in reported net loss	29	135	166	1,325
Less: stock-based employee compensation expense determined under the fair value based method	(124)	(194)	(980)	(2,689)
Pro forma net loss	$ (2,679)	$ (20,999)	$ (9,567)	$ (30,422)
Basic and diluted net loss per share:				
As reported	$ (0.10)	$ (0.85)	$ (0.35)	$ (1.19)
Pro forma	$ (0.11)	$ (0.86)	$ (0.39)	$ (1.25)

The above pro forma effects may not be representative of that to be expected in future periods, due to subsequent events including additional grants and related vesting. The fair value for all options granted in the three-month and nine-month periods ended September 30, 2003 and 2002 were estimated at the date of grant using the Black-Scholes method with the following weighted-average assumptions:

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Risk-free interest rate	2.7%	3.8%	2.8%	3.8%
Expected life of option	5 years	5 years	5 years	5 years
Expected dividend yield of stock	0.0%	0.0%	0.0%	0.0%
Expected volatility	1.1667	0.9894	1.0102	0.9894

The Company amortizes deferred compensation pertaining to employee stock options over the respective employees' vesting period using the graded vesting method.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities ("FAS 146"). FAS 146 eliminates Emerging Issues Task Force Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." Under FAS 146, liabilities for costs associated with an exit or disposal activity are recognized when the liabilities are incurred, and fair value is the objective for initial measurement of the liabilities. This Statement is effective for exit or disposal activities initiated after December 31, 2002. The provisions of FAS 146 are required to be applied prospectively after the adoption date to newly initiated exit activities, and may affect the timing of recognizing future restructuring costs, as well as the amounts recognized. Our adoption of FAS 146 did not have a material impact on our consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the existing disclosure requirements for most guarantees, including residual value guarantees issued in conjunction with operating lease agreements. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. Our adoption of FIN 45 did not have a material impact on our consolidated financial statements.

In November 2002, the FASB issued Emerging Issues Task Force Issue No. 00-21 ("EITF 00-21"), "Revenue Arrangements with Multiple Deliverables." EITF 00-21 addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF 00-21 provides guidance with respect to the effect of certain customer rights due to company non-performance on the recognition of revenue allocated to delivered units of accounting. EITF 00-21 also addresses the impact on the measurement and / or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF 00-21 provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting for an arrangement. The provisions of EITF 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material impact on our consolidated financial statements.

NOTE 2-BASIC AND DILUTED NET LOSS PER SHARE

Basic and diluted net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. The following table presents the calculation of historical basic and diluted net loss per common share (in thousands, except per share data):

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Net loss	$ (2,584)	$ (20,940)	$ (8,753)	$ (29,058)
Basic and diluted:				
Weighted-average shares outstanding	24,815	24,580	24,784	24,537
Less: weighted-average shares subject to repurchase	(3)	(71)	(6)	(102)
Shares used in computing basic and diluted net loss	24,812	24,509	24,778	24,435
Basic and diluted net loss per share	$ (0.10)	$ (0.85)	$ (0.35)	$ (1.19)

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 and foreign currency translation adjustments. Comprehensive loss and its components are as follows (in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
	2003	2002	2003	2002
Net loss	$ (2,584)	$ (20,940)	$ (8,753)	$ (29,058)
Changes in unrealized gain (loss) on securities available-for-sale	2	21	(39)	(187)
Foreign currency translation adjustment	—	55	—	219
Gain on cumulative currency translation	—	(367)	—	(367)
Comprehensive loss	$ (2,582)	$ (21,231)	$ (8,792)	$ (29,393)

NOTE 4-MAJOR CUSTOMERS, PARTNERSHIPS AND STRATEGIC ALLIANCES

In November 2002, Sangamo signed an extension and expansion of its ZFP Therapeutic development programs to develop and evaluate novel therapies for cardiovascular and vascular disease with Edwards Lifesciences, Inc. That broadened agreement includes funding for development support into 2004. In January 2002, Sangamo signed a collaboration agreement with Medarex, Inc. to use ZFP TF technology to increase the expression of antibodies in mammalian cell lines. Under the terms of the agreement, Medarex will provide research funding to Sangamo over a two-year period, and will have a non-exclusive license to use the cell lines to manufacture antibody products. Fiscal 2003 is the second year of funding under the Medarex agreement.

NOTE 5-RESTRUCTURING

In February 2002, Sangamo decided to consolidate certain Gendaq operations from the United Kingdom to its Richmond, California headquarters. In the first quarter of 2002, Sangamo recorded restructuring expenses of $190,000 related to this rationalization. The workforce reduction charge included incremental restructuring charges for the employees. These employees primarily worked on research and development and administrative activities that have been continued by employees at the Company's headquarters. As of September 30, 2002, the facility in the United Kingdom was closed and all of the employees had been terminated. Property and equipment at the U.K. facility were either disposed of or returned to the Richmond facility.

NOTE 6-INTANGIBLE ASSETS

As of September 30, 2002, in accordance with FAS No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"), the Company performed the required two-step annual impairment test of goodwill. In the first step of the analysis, we compared the carrying value of the Company to its fair value and determined that goodwill was impaired. The fair value of the Company was determined using the income approach. The income approach focuses on the income-producing capability of an asset, measuring the current value of the asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, tax benefits and proceeds from disposition incorporating current equity market conditions in the United States, industry-specific volatility factors, general equity market forecasts, the risk-free rate for the use of funds and the expected rate of inflation. In the second step of the analysis, we compared the carrying value of goodwill to its implied fair value as determined in step one. The results of the impairment test indicated that no goodwill was present and the Company recognized an impairment charge of $15.3 million, representing the entire capitalized balance of goodwill in the third quarter of 2002.

FAS 142 requires that if an impairment test of goodwill and any other asset is required at the same time, impairment tests of all other assets should be completed and reflected in the carrying value of the company prior to the completion of the goodwill impairment test. If it is determined that an asset it not recoverable, FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144") directs that an impairment loss should be recognized based on the excess of its carrying value over its fair value. Impairment tests of the Company's long-lived assets were conducted in accordance

with FAS 144 by comparing the undiscounted cash flows to their carrying value to indicate whether such assets were deemed to be recoverable. Based upon the results of this review, which compared the carrying value of the patents to their fair value, we concluded that the carrying amount of patents, the entire amount of which related to the Gendaq acquisition, was not recoverable. The Company recognized an impairment loss of $2.8 million representing the entire capitalized balance of patents. Management assessed all other assets as being recoverable.

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 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 in this Item 2, the risk factors set forth in our 2002 Annual Report on Form 10-K filed with the SEC and those contained from time to time in our other filings with the SEC. You should read the following discussion and analysis along with the financial statements and notes attached to those statements included elsewhere in this report.

Overview

We were incorporated in September 1995. From our inception through September 30, 2003, 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 novel transcription factors for the regulation of gene expression. 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 federal government research grants and from corporate collaborators and strategic partners. As of September 30, 2003, we had an accumulated deficit of $81.6 million.

Our revenues have consisted primarily of revenues from our corporate partners for ZFP TFs, contractual payments from strategic partners for research programs and research milestones, and federal government 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.

Research and development expenses consist primarily of salaries and related personnel expenses, laboratory supplies, allocated facilities costs, subcontracted research expenses, and expenses for patent prosecution, trademark registration and technology licenses. Research and development costs incurred in connection with company collaborator funded activities 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 in future years as we continue to develop our ZFP TF technology platform and pursue ZFP Therapeutics. The Company is also developing sequence-specific ZFP nucleases (ZFN) for therapeutic gene correction as a treatment and possible cure for some monogenic diseases. Additionally, in order to develop ZFP TFs and ZFNs as commercially relevant 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 related personnel expenses for executive, finance and administrative personnel, professional fees, 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.

Sangamo's quarterly operating results depend on a number of factors, including the delivery of products to corporate partners, the signing or expiration of contracts with corporate partners or government research grants, our success rate in achieving milestones with corporate partners, and the timing and willingness of collaborators to commercialize products which would result in royalties. As a consequence, quarterly operating results have fluctuated in the past and are likely to do so in the future.

Critical Accounting Policies

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. Actual results could differ from those estimates. Sangamo believes the following critical accounting policies have significant effect in the preparation of our consolidated financial statements.

Revenue Recognition. Accounting for revenue from funding of research activities, sale of ZFP TFs, payment of upfront fees, and achievement of contract-specific milestones involves management making estimates and judgments. We recognize revenues from research collaboration agreements as earned upon achievement of the performance requirements of the agreements. Our collaboration agreements generally provide for research funding in defined research programs. Revenue related to these payments is earned when the work has been completed or delivery has occurred, the relative funding is fixed or determinable and collectibility is reasonably assured. Payments received that are related to future performance are deferred and recognized as revenue as the performance requirements are fulfilled. Our revenue recognition involves determination of the period of continuing involvement, assessment of scientific progress, determination whether an arrangement involving multiple deliverables contains more than one unit of accounting, and if so, how arrangement consideration should be measured and allocated to the separate units of accounting, and estimates regarding timing, level of effort and direct and indirect costs of work associated with the revenue.

Stock-Based Compensation. We utilize stock and stock options as one means of compensating employees, consultants and others. Although this practice has no cash consequence, the accounting for stock-based compensation can, under certain circumstances, result in a significant charge to our financial statements.

We amortize deferred stock compensation over the respective option vesting period using the graded vesting method. Subsequently, if employees terminate during the vesting period of the stock-based compensation, adjustments or reversals of previous charges are recognized upon termination. Charges for stock-based compensation are expected to continue to decrease in the future as deferred compensation related to our initial public offering and our acquisition of Gendaq are fully amortized. However, if new accounting pronouncements require, or we choose to abandon Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and instead adopt financial reporting under Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), then future charges for stock-based compensation would increase materially. Pursuant to FAS 148, we disclose the effect on net loss and related net loss per share, had compensation cost for stock-based compensation plans been determined based upon the fair value method prescribed under FAS 123 (See Note 1 – Basis of Presentation and Summary of Significant Accounting Policies).

RESULTS OF OPERATIONS

Three months ended September 30, 2003 and 2002

Total revenues. Total revenues decreased to $507,000 for the three months ended September 30, 2003 from $1.0 million in the corresponding period in 2002. The decrease in revenues for the three months ended September 30, 2003 was principally attributable to a quarter-over-quarter decrease in revenues recognized from collaboration agreements. We anticipate continued revenues from collaboration agreements through the end of 2003, and we have applied for, and plan to continue to apply for, federal government research grants in the future to support the development of applications of our technology platform. Although we have negotiated collaboration agreements and received federal government research grants in the past, we cannot assure you that these efforts will be successful in the future.

Research and development expenses. Research and development expenses for the third quarter of 2003 decreased to $2.2 million compared to $3.3 million for the third quarter of 2002. The decrease in research and development expenses for the three months ended September 30, 2003 was primarily attributable to the shutdown of operations at our wholly owned subsidiary, Gendaq, in the U.K, as well as lower quarter-over-quarter expenses for personnel, patent amortization, laboratory supplies and facilities. We expect research and development expenses to remain relatively constant during the balance of 2003. We expect to continue to devote substantial resources to research and development in the future and we expect research and development expenses to increase in the next several years if we are successful in advancing our 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.

General and administrative expenses. General and administrative expenses were $1.1 million in the three months ended September 30, 2003, as compared to $966,000 during the corresponding period in 2002. This increase is primarily related to higher quarter-over-quarter personnel expenses. We expect general and administrative expenses to remain relatively constant during the balance of 2003.

Restructuring charge. Restructuring charges of $181,000 were recorded in the third quarter-ended September 30, 2002 related to the closure of the Gendaq facility.

Stock-based compensation expense. Stock-based compensation expenses for the quarter-ended September 30, 2003 were $210,000 compared to $135,000 for the comparable quarter in 2002. The increase was primarily attributable to higher quarter-over-quarter non-employee stock-based compensation expense. This was partially offset by lower quarter-over-quarter amortization expense related to deferred compensation for stock options issued prior to the Company's initial public offering in 2000.

Impairment charges. Intangible assets, including goodwill of $15.3 million and patents of $2.8 million, were reviewed for impairment in accordance with FAS 142 and FAS 144 as of September 30, 2002 resulting in one-time charges for the entire balance of each asset (see Note 6-Intangible Assets).

Interest and other income, net. Interest and other income, net, decreased to $382,000 for the three months ended September 30, 2003 from $662,000 in the corresponding period in 2002. The decrease was primarily related to lower quarter-over-quarter gain on currency transactions during the quarter-ended September 30, 2003. Through the second quarter of 2002, currency translation was reported as a component of equity, which arose from the operations at our wholly-owned subsidiary, Gendaq, in the U.K. This subsidiary was shut down in the third quarter of 2002, and the related currency gain of $367,000 was recognized at that time. Additionally, the decrease in interest income resulted from lower quarter-over-quarter average interest-bearing balances due to the use of cash to fund operations. This was partially offset by the receipt of cash in connection with a U.K. research and development tax credit during the quarter-ended September 30, 2003.

Nine months ended September 30, 2003 and 2002

Total revenues. Total revenues decreased to $1.6 million in the nine months ended September 30, 2003 from $1.9 million in the corresponding period in 2002. The decrease in revenues in the nine months ended September 30, 2003 was principally due to a period-over-period decrease in revenue recognized from collaboration agreements. This decrease was partially offset by increased period-over-period revenue from federal government research grants. We anticipate continued revenues from collaboration agreements through the end of 2003, and we have applied for, and plan to continue to apply for, federal government research grants in the future to support the development of applications of our technology platform. Although we have negotiated collaboration agreements and received federal government research grants in the past, we cannot assure you that these efforts will be successful in the future.

Research and development expenses. Total research and development expenses were $7.9 million for the nine months ended September 30, 2003 as compared to $9.8 million in the corresponding period in 2002. The decrease was primarily attributable to the shutdown of operations at our wholly owned subsidiary, Gendaq, in the U.K, as well as lower period-over-period expenses for personnel, patent amortization, laboratory supplies and facilities. We expect research and development expenses to remain relatively constant during the balance of 2003. We expect to continue to devote substantial resources to research and development in the future and we expect research and development expenses to increase in the next several years if we are successful in advancing our 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.

General and administrative expenses. General and administrative expenses were $3.0 million in the nine months ended September 30, 2003 as compared to $2.9 million during the corresponding period in 2002. This increase is primarily related to higher period-over-period personnel expenses. We expect general and administrative expenses to remain relatively constant during the balance of 2003.

Restructuring charge. Restructuring charges of $371,000 were recorded in the first nine months of 2002 related to the closure of the Gendaq facility.

Stock-based compensation expense. Stock-based compensation expense recognized for the nine months ended September 30, 2003 was $367,000 compared to $1.3 million for the comparable period in 2002. The period-over-period decrease in stock-based compensation expense was primarily the result of lower amortization expense related to deferred compensation for stock options issued prior to the Company's initial public offering in 2000. This decrease was partially offset by higher period-over-period non-employee stock-based compensation expenses.

Impairment charges. Intangible assets, including goodwill of $15.3 million and patents of $2.8 million, were reviewed for impairment in accordance with FAS 142 and FAS 144 as of September 30, 2002 resulting in one-time charges for the entire balance of each asset (see Note 6-Intangible Assets).

Interest and other income, net. Interest and other income, net, decreased to $987,000 in the nine months ended September 30, 2003 from $1.5 million in the corresponding period in 2002. The decrease in interest income resulted from lower period-over-period average interest-bearing balances due to the use of cash to fund operations. Additionally, the Company recognized a lower gain on foreign currency transactions for the nine months ended September 30, 2003 compared to the same period of 2002. Through the second quarter of 2002, currency translation was reported as a component of equity, which arose from the operations at our wholly-owned subsidiary, Gendaq, in the U.K. This subsidiary was shut down in the third quarter of 2002, and the related currency gain of $367,000 was recognized at that time. This was partially offset by the receipt of cash in connection with a U.K. research and development tax credit and a gain on the disposal of property and equipment during the nine months ended September 30, 2003.

Liquidity and Capital Resources

Since inception, Sangamo has financed operations primarily through sales of preferred and common stock, including our initial public offering in April 2000, payments from corporate collaborators and government research grants. As of September 30, 2003 we had cash, cash equivalents, marketable securities and interest receivable of $46.3 million.

Net cash used for operating activities was $6.6 million for the nine months ended September 30, 2003. Net cash used consisted primarily of the net loss for the nine-month period ended September 30, 2003 of $8.8 million partially offset by a net change of $1.3 million in operating assets and liabilities, depreciation and amortization of $647,000 and non-cash stock compensation charges of $367,000. Net cash provided by investing activities was $910,000 for the nine months ended September 30, 2003 and was primarily related to maturities of available-for-sale securities of $31.8 million and proceeds from disposal of property and equipment of $216,000. This was partially offset by purchases of investments of $31.1 million. Net cash provided by financing activities in the nine-month period was $117,000 from issuances of common stock.

We believe that our current cash resources are sufficient to finance our existing operations at least through 2005. Our cash requirements depend upon a number of factors, including our ability to obtain revenues from corporate partners and government grants, and the level and timing of our research and therapeutic product development expenditures. We cannot assure you that at such time as we require additional funding, it will be available on favorable terms, or at all.

Risk Factors

An investment in our common stock is risky. You should carefully consider the following risks, as well as the other information contained in this report. If any of the following risks actually occurs, it would harm our business. In that case, the trading price of our common stock could decline, and you might lose all or a part of your investment. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us, or that we currently see as immaterial, may also harm our business.

Risks Related to Our Business

Our zinc finger protein (ZFP) technology platform is relatively new and if we are unable to use this technology in all its intended applications, it would limit our revenue opportunities.

Our technology involves a relatively new approach to gene regulation. Although we have generated many ZFP TFs for several gene sequences, we have not created ZFP TFs for all gene sequences and we may not be able to create ZFP TFs for all gene sequences, 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 done so in humans and many other organisms, and the failure to do so could restrict our ability to develop commercially viable products. If we, and our Universal GeneTools® collaborators or strategic partners, are unable to extend our results to new commercially important genes and experimental animal models, we may be unable to use our technology in all its intended applications. Also, delivery of ZFP TFs into cells in these and other environments is limited by a number of technical challenges, which we may be unable to surmount. This is a particular challenge for therapeutic applications of our technology that will require the use of strictly regulated gene transfer systems that may be unavailable to us or unsuitable for delivery of our ZFP TFs for a particular therapeutic application.

The expected value and utility of our ZFP TFs is in part based on our belief that the transcriptional regulation of gene expression may enable us to develop a new therapeutic approach as well as to help scientists better understand the role of human, animal, and other genes in disease and to aid their efforts in drug discovery and development. We also believe that the regulation of gene expression will have use 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 are currently engaged in the research and development of a new application of our technology platform: ZFP-mediated gene correction. Using this technique, Sangamo scientists engineer gene-specific ZFPs to cut DNA at a specific site within a target gene, and then replace the adjacent sequences with exogenous DNA. In so doing, we are able to "repair" or "correct" an abnormal or disease-related mutation or DNA sequence. ZFP-mediated gene correction is in the earliest stage of development. Our scientists have shown ZFP-mediated gene correction to work in isolated cells; however, significant additional research will need to be done before this technique can be evaluated in animals or plants and subsequently tested for applications in human healthcare and plant agriculture.

If our technology does prove to be effective, it still may not lead to commercially viable products, which would reduce our revenue opportunities.

Even if our collaborators or strategic partners are successful in identifying drug targets or other targets based on discoveries made using our ZFP TFs, they may not be able to discover or develop commercially viable products or may determine to pursue products that do not use our technology. To date, no company has received marketing approval, developed or commercialized any therapeutic or agricultural products based on our technology. The failure of our technology to provide safe, effective, useful or commercially viable approaches to the discovery and development of these products would significantly limit our business and future growth.

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

We began operations in 1995 and are in the early phases of therapeutic product development. We have incurred significant losses to date, and our revenues have been generated from Universal GeneTools® collaborators, strategic partners and federal government research grants. In the past year, we have placed more emphasis on therapeutic activities and related strategic partnerships and less on our Universal GeneTools® collaborations. Our business is subject to all of the risks inherent in the development of a new technology, which includes the need to:

- attract and retain qualified scientific and technical staff and management, particularly scientific staff with expertise to develop our early stage technology into therapeutic products;
- obtain sufficient capital to support the expense of developing our technology platform and developing, testing and commercializing products;
- develop a market for our products;
- successfully transition from a company with a research focus to a company capable of supporting commercial activities; and
- attract and enter into research collaborations with research and academic institutions and scientists.

Commercialization of our technologies depends 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 progress and defer our revenues.

We expect to rely, to a significant extent, on our strategic partners to provide funding in support of our research and to perform some independent research, 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 therapeutic products. If those partners 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, which would cause associated product development to slow or cease. There can be no assurance that we will be able to establish additional strategic collaborations for therapeutic product development.

We may require significant time to secure additional collaborations or strategic partners because we need to effectively market the benefits of our technology to these future collaborators and strategic partners, which uses 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.

If we do not enter into additional strategic partnering agreements, we will experience reduced revenues and may not develop or commercialize our products. The loss of our current or 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 also delay or terminate our ability to test ZFP TFs 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.

Our existing strategic partnering agreements are, and we would expect any future arrangement to be, based on the achievement of milestones. Under the strategic partnering agreements, we expect to receive revenue for the research and development of a therapeutic product 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. In contrast, our current Universal GeneTools® collaboration agreements only pay us to supply ZFP TFs for the collaborator's independent use, rather than for future results of the collaborator's efforts. If we, or any strategic partner, fail to meet specific milestones, then the strategic partnership may be terminated which could decrease our revenues.

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

Conducting proprietary research programs may not generate corresponding revenue and may create conflicts with our collaborators or strategic partners. The implementation of this strategy will involve substantially greater business risks and the expenditure of significantly greater funds than our current research activities. In addition, these programs will require substantial commitments of time from our management and staff. Moreover, we have no experience in

commercial-scale manufacturing and marketing of therapeutic products, and we currently do not have the resources or capability to manufacture therapeutic products on a commercial scale. In order for us to commercialize these products directly, we would need to develop, or obtain through outsourcing arrangements, the capability to execute all of these functions, market and sell products. We do not have these capabilities, and we may not be able to develop or otherwise obtain the requisite preclinical, clinical, regulatory, manufacturing, marketing and sales capabilities.

In addition, disagreements with our Universal GeneTools® collaborators or strategic partners could develop 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 collaboration 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.

Our potential therapeutic products are subject to a lengthy and uncertain regulatory process, and if these potential products are not approved, we will not be able to commercialize those products.

The FDA must approve any human therapeutic products based on ZFP TF technology before they 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 Application ("IND") to the FDA. The FDA has 30 days to comment on the IND. If the FDA does not comment on the IND, we are free to begin human clinical trials. Clinical trials are subject to oversight by institutional review boards and the FDA.

In addition, we might also 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 have not submitted an IND application with the FDA or any other regulatory authority for any product candidate, and neither the FDA nor any other regulatory authority has approved any therapeutic, agricultural or industrial product candidate developed with our ZFP TF technology for commercialization in the United States or elsewhere.

If our competitors develop, acquire or market technologies or products that are more effective than ours, this would reduce or eliminate our commercial opportunity.

Any products that we or our collaborators or strategic partners develop using our ZFP TF technology platform will participate in highly competitive markets. Even if we are able to generate ZFP TFs that are safe and effective for their intended use, competing technologies may prove to be more effective or less expensive which, to the extent these competing technologies achieve market acceptance, will limit our revenue opportunities. In some cases, competing technologies have proven to be satisfactorily effective and less expensive as has been the case with competing technologies to our Universal Gene Tools®, which has reduced the revenues generated by our Universal Gene Tools®. Competing technologies may include other methods of regulating gene expression. ZFP TFs have broad application in the life sciences, and compete with a broad array of new technologies and approaches being applied to genetic research by many companies. Competitive technologies include those used to analyze the expression of genes in cells or tissues, determine gene function, discover new genes, analyze genetic information and regulate genes. Competing proprietary technologies with our product development focus include:

- For ZFP Therapeutics: small molecule drugs, monoclonal antibodies, recombinant proteins, antisense and siRNA approaches
- For our Enabling Technology Applications:
    - Universal GeneTools®: antisense, siRNA
    - High throughput screening: cDNA, naturally occurring cell lines
    - Protein production: gene amplification

In addition to possessing competing technologies, our competitors include biotechnology companies with:

- substantially greater capital resources than ours;
- larger research and development staffs and facilities than ours;
- greater experience in product development and in obtaining regulatory approvals and patent protection; and
- greater manufacturing and marketing capabilities than we have.

These organizations also compete with us to:

- attract qualified personnel;
- attract parties for acquisitions, joint ventures or other collaborations; and
- license the proprietary technologies of academic and research institutions that are competitive with our technology, which may preclude us from pursuing similar opportunities.

Accordingly, our competitors may succeed in obtaining patent protection or commercializing products before us. In addition, any products that we develop may compete with existing products or services that are well established in the marketplace.

Our collaborators and strategic partners may decide to adopt alternative technologies or may be unable to develop commercially viable products using our technology, which would negatively impact our revenues and our strategy to develop these products.

Our collaborators or strategic partners may adopt alternative technologies of our competitors, which could decrease the marketability of our technology. Because many of our collaborators or strategic partners are likely to be working on more than one research project, they could choose to shift their resources to projects other than those they are working on with us. If they do so, that would delay our ability to test our technology and would delay or terminate the development of potential products based on our gene regulation technology. Further, our collaborators and strategic partners may elect not to develop products arising out of our collaborative and strategic partnering arrangements or to devote sufficient resources to the development, manufacturing, marketing or sale of these products. If any of these events occur, we may not be able to develop our technologies or commercialize our products.

Early commercial application in drug discovery research of our engineered ZFP TFs delivered to our Universal GeneTools® collaborators have not produced useful results in every case.

In the past some of our Universal GeneTools® collaborators were unable to substantiate the effects of our gene regulation technology. Generally, failures were re-evaluated at Sangamo using our current approach of examining the local chromatin structure for accessible sites and then targeting ZFP TFs to these areas. In some cases, additional ZFP TFs were designed and tested for these targets, and data was generated at Sangamo, or by our partners, confirming the ability to regulate these targets. Sangamo now performs this more extensive validation on all Universal GeneTools® targets prior to use by external parties. However, there can be no assurance that we will be able to regulate all gene targets. Although we have been able to achieve targeted gene repression of numerous genes, the degree of repression is not always sufficient to allow our collaborators to realize their objectives. For example, one of our collaborators has advised us that while some of our ZFP TFs delivered to them repressed certain target gene sequences to a significant extent, the repression was not complete enough to warrant proceeding to develop additional ZFP TFs for this purpose. The same collaborator did advise us that positive results were achieved using our ZFP TFs to regulate other target gene sequences. If we are unsuccessful in engineering ZFP TFs that achieve positive results for our collaborators or strategic partners, this would significantly harm our business by reducing our revenues.

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

In order to regulate an endogenous gene, the ZFP TF must be efficiently delivered to a cell. We have licensed certain gene transfer technology for use with our Universal GeneTools® in pharmaceutical discovery. We are evaluating this and other technologies, which may need to be used in the delivery of ZFP TFs into cells for *in vitro* and *in vivo* applications. However, we may not be able to license the gene transfer technologies required to develop and commercialize our ZFP TF technology through therapeutic products. We have not developed our own gene transfer technologies and 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 anticipate continuing to incur operating losses for the next several years. If material losses continue for a significant period, we may be unable to continue our operations.

We have generated operating losses since we began operations in 1995. The extent of our future losses and the timing of profitability are highly uncertain, and we expect to incur losses for the foreseeable future. We have been engaged in developing our ZFP TF technology since inception, which has and will continue to require significant research and development expenditures. To date, we have generated our revenues from Universal GeneTools® collaboration agreements, strategic partnership agreements and federal government research grants. As of September 30, 2003, we had an accumulated deficit of approximately $81.6 million. We expect to incur losses for the foreseeable future. These losses will increase as we expand and extend our research and development activities into human therapeutic product development. If the time required to generate significant product revenues and achieve profitability is longer than we currently anticipate, we may not be able to sustain our operations.

We may be unable to raise additional capital should it become necessary, which would harm our ability to develop our technology and products.

We have incurred significant operating losses and negative operating cash flows since inception and have not achieved profitability. We expect capital outlays and operating expenditures to increase over the next several years as we expand our infrastructure and research and therapeutic product development activities. While we believe our financial resources will be adequate to sustain our current operations at least through 2005, if we are unable to generate adequate operating cash flows thereafter we may need to seek additional sources of capital through equity or debt financing. In addition, as we focus our efforts on proprietary human therapeutics, we will need to seek FDA approval of potential products, a process that could cost in excess of $100 million per product. We cannot be certain that we will be able to obtain financing on terms acceptable to us, or at all. If adequate funds are not available, our business and our ability to develop our technology and human therapeutic products would be harmed.

Our stock price has been volatile and may continue to be volatile, which could result in substantial losses for investors.

Volatility in our common stock could cause you to incur substantial losses. An active public market for our common stock may not be sustained and the market price of our common stock may continue to be highly volatile. The market price of our common stock has fluctuated significantly in response to the following factors, some of which are beyond our control:

- changes in market valuations of similar companies;
- deviations in our results of operations from the guidance given by us or estimates of securities analysts;
- announcements by us or our competitors of new or enhanced products, technologies or services or significant contracts, acquisitions, strategic relationships, joint ventures or capital commitments;
- regulatory developments;
- additions or departures of key personnel; and
- future sales of our common stock or other securities by management or directors, liquidation of institutional funds that comprised large holdings of Sangamo stock.

Our quarterly results will fluctuate.

We believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indicators of future performance. The variability of receipt of funds from corporate partners, as well as revenue recognition accounting rules, including the SEC staff accounting bulletin No. 101 and EITF 00-21, will lead to quarterly fluctuations in our revenue. We have recently begun shifting our commercial development focus from Universal GeneTools® collaborations to higher value strategic partnerships with selected pharmaceutical and biotechnology companies. While strategic partnerships may provide us with committed quarterly research funding, the signing of such deals, and the subsequent initiation of revenue recognition, is also uncertain.

Due to all of the foregoing factors, it is likely that in one or more future quarters our results may fall below the expectations of public market analysts and investors. In such event, the trading price of our common stock would likely be adversely impacted.

Failure to attract, retain and motivate skilled personnel and cultivate key academic collaborations will delay our product development programs and our research and development efforts.

We are a small company with 58 full-time employees as of September 30, 2003, and our success depends on our continued ability to attract, retain and motivate highly qualified management and scientific personnel, and our ability to develop and maintain important relationships with leading research and academic institutions and scientists. Competition for personnel and academic and other research collaborations is intense. The success of our technology development programs depends on our ability to attract and retain highly trained personnel. If we lose the services of personnel with these types of skills, it could impede significantly the achievement of our research and development objectives. If we fail to negotiate additional acceptable collaborations with academic and other research institutions and scientists, or if our existing collaborations are unsuccessful, our technology development programs may be delayed or may not succeed.

In the past, the scope of our needs was somewhat limited to the expertise of personnel able to engineer ZFP TFs and apply them to gene regulation. However, as we move our ZFP Therapeutics programs forward, we will need to hire additional personnel and develop additional academic collaborations as we continue to expand our research and development activities into ZFP Therapeutics. To this end, in February 2003, we appointed J. Tyler Martin, M.D. as Vice President, Development, who has responsibility for preclinical and clinical development of Sangamo's ZFP Therapeutics programs and products. The successful development of our ZFP Therapeutics programs will require additional significant new hires and will require existing management to develop additional expertise. We do not know if we will be able to attract, retain or motivate the required personnel to achieve our goals. At the end of June 2003, Dr. Carl Pabo stepped down as our Chief Scientific Officer and transitioned into a consulting role for Sangamo and will continue as Chairman of our Scientific Advisory Board. Changes in personnel required to focus our resources on therapeutic product development may be disruptive.

If conflicts arise between us, our collaborators, strategic partners, scientific advisors or directors, these parties may act in their self-interest, which may limit our ability to implement our strategies.

If conflicts arise between our corporate or academic collaborators, strategic partners or scientific advisors or directors, and us the other party may act in its self-interest, which may limit our ability to implement our strategies. Some of our Universal GeneTools® or academic collaborators or strategic partners are conducting multiple product development efforts within each area that is the subject of the collaboration with us. Our collaborators or strategic partners, however, may develop, either alone or with others, products in related fields that are competitive with the products or potential products that are the subject of these collaborations. Competing products, either developed by the collaborators or strategic partners or to which the collaborators or strategic partners have rights, may result in their withdrawal of support for our product candidates.

Some of our collaborators or strategic partners could also become competitors in the future. Our collaborators or strategic partners could develop competing products, preclude us from entering into collaborations with their competitors, fail to obtain timely regulatory approvals, terminate their agreements with us prematurely or fail to devote sufficient resources to the development and commercialization of products. Any of these developments could harm our product development efforts.

Because it is difficult and costly to protect our proprietary rights, and third parties have filed patent applications that are similar to ours, we cannot ensure the proprietary protection of our technologies and products.

Our commercial success will depend in part on obtaining patent protection of our technology and successfully defending these patents against third party challenges. The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions. No

consistent policy regarding the breadth of claims allowed in biotechnology patents has emerged to date. Accordingly, we cannot predict the breadth of claims allowed in patents we own or license.

We are a party to various license agreements that give us rights under specified patents and patent applications. Our current licenses, and our future licenses frequently will, contain performance obligations. If we fail to meet those obligations, the licenses could be terminated. If we are unable to continue to license these technologies on commercially reasonable terms, or at all, we may be forced to delay or terminate our product development and research activities.

With respect to our present and any future sublicenses, since our rights derive from those granted to our sublicensor, we are subject to the risk that our sublicensor may fail to perform its obligations under the master license or fail to inform us of useful improvements in, or additions to, the underlying intellectual property owned by the original licensor.

We are unable to exercise the same degree of control over intellectual property that we license from third parties as we exercise over our internally developed intellectual property. We generally do not control the prosecution of patent applications that we license from third parties; therefore, the patent applications may not be prosecuted in a timely manner.

The degree of future protection for our proprietary rights is uncertain and we cannot ensure that:

- we or our licensors were the first to make the inventions covered by each of our pending patent applications;
- we or our licensors were the first to file patent applications for these inventions;
- the patents of others will not have an adverse effect on our ability to do business;
- others will not independently develop similar or alternative technologies or reverse engineer any of our products, processes or technologies;
- any of our pending patent applications will result in issued patents;
- any patents issued or licensed to us or our Universal GeneTools® collaborators or strategic partners will provide a basis for commercially viable products or will provide us with any competitive advantages or will not be challenged and invalidated by third parties; or
- we will develop additional products, processes or technologies that are patentable.

Others have filed and in the future are likely to file patent applications that are similar to ours. We are aware that there are academic groups and other companies that are attempting to develop technology which is based on the use of zinc finger and other DNA-binding proteins, and that these groups and companies have filed patent applications. Several patents have been issued, although we have no current plans to use the associated inventions. If these or other patents issue, it is possible that the holder of any patent or patents granted on these applications may bring an infringement action against our collaborators, strategic partners or us claiming damages and seeking to enjoin commercial activities relating to the affected products and processes. The costs of litigating the claim could be substantial. Moreover, we cannot predict whether our Universal GeneTools® collaborators, strategic partners or we would prevail in any actions. In addition, if the relevant patent claims were upheld as valid and enforceable and our products or processes were found to infringe the patent or patents, we could be prevented from making, using or selling the relevant product or process unless we could obtain a license or were able to design around the patent claims. While we believe that our intellectual property would give us substantial leverage to secure a cross-license, it is uncertain that any license required under that patent or patents would be made available on commercially acceptable terms, if at all. We believe that there may be significant litigation in the genomics industry regarding patent and other intellectual property rights, which could subject us to litigation. If we become involved in litigation, it could consume a substantial portion of our managerial and financial resources.

We rely on trade secrets to protect technology where we believe patent protection is not appropriate or obtainable. Trade secrets, however, are difficult to protect. While we require employees, academic collaborators and consultants to enter into confidentiality agreements, we may not be able to adequately protect our trade secrets or other proprietary information or enforce these confidentiality agreements.

Our collaborators, strategic partners and scientific advisors have rights to publish data and information in which we may have rights. If we cannot maintain the confidentiality of our technology and other confidential information in connection with our collaborations and strategic partnerships, then we may not be able to receive patent protection or protect our proprietary information.

Regulatory approval, if granted, may be limited to specific uses or geographic areas, which could limit our ability to generate revenues.

Regulatory approval will be limited to the indicated use for which we can market a product. Further, once regulatory approval for a product is obtained, the product and its manufacturer are subject to continual review. Discovery of previously unknown problems with a product or manufacturer may result in restrictions on the product, manufacturer and manufacturing facility, including withdrawal of the product from the market. In Japan and Europe, regulatory agencies also set or approve prices.

Even if regulatory clearance of a product is granted, this clearance is limited to those specific states and conditions for which the product is useful as demonstrated through clinical trials. We cannot ensure that any therapeutic product developed by us, alone or with others, will prove to be safe and effective in clinical trials and will meet all of the applicable regulatory requirements needed to receive marketing clearance in a given country.

Outside the United States, our ability to market a product is contingent upon receiving a marketing authorization from the appropriate regulatory authorities so we cannot predict whether or when we would be permitted to commercialize our product. These foreign regulatory approval processes include all of the risks associated with FDA clearance described above.

Our collaborations with outside scientists may be subject to change, which could limit our access to their expertise.

We work with scientific advisors and collaborators at academic research institutions. These scientists are not our employees and may have other commitments that would limit their availability to us. Although our scientific advisors generally agree not to do competing work, if a conflict of interest between their work for us and their work for another entity arises, we may lose their services. Although our scientific advisors and academic collaborators sign agreements not to disclose our confidential information, it is possible that some of our valuable proprietary knowledge may become publicly known through them.

Laws or public sentiment may limit the production of genetically engineered agricultural products in the future, and these laws could reduce our ability to sell these products.

Genetically engineered products are currently subject to public debate and heightened regulatory scrutiny, either of which could prevent or delay production of agricultural products. We may develop genetically engineered agricultural products for ourselves or with our strategic partners. The field-testing, production and marketing of genetically engineered plants and plant products are subject to federal, state, local and foreign governmental regulation. Regulatory agencies administering existing or future regulations or legislation may not allow production and marketing of our genetically engineered products in a timely manner or under technically or commercially feasible conditions. In addition, regulatory action or private litigation could result in expenses, delays or other impediments to our product development programs or the commercialization of resulting products.

The FDA currently applies the same regulatory standards to foods developed through genetic engineering as applied to foods developed through traditional plant breeding. Genetically engineered food products, however, will be subject to pre-market review if these products raise safety questions or are deemed to be food additives. Governmental authorities could also, for social or other purposes, limit the use of genetically engineered products created with our gene regulation technology.

Even if we are able to obtain regulatory approval for genetically engineered products, our success will also depend on public acceptance of the use of genetically engineered products including drugs, plants and plant products. Claims that genetically engineered products are unsafe for consumption or pose a danger to the environment may influence public attitudes. Our genetically engineered products may not gain public acceptance. The subject of genetically modified organisms has received negative publicity in the United States and particularly in Europe, which has aroused public debate. The adverse publicity in Europe could lead to greater regulation and trade restrictions on imports of genetically altered products. Similar adverse public reaction in the United States on genetic research and its resulting products could result in greater domestic regulation and could decrease the demand for our technology and products.

If we use biological and hazardous materials in a manner that causes injury or violates laws, we may be liable for damages.

Our research and development activities involve the controlled use of potentially harmful biological materials as well as hazardous materials, chemicals and various radioactive compounds. We cannot completely eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for damages that result, and any liability could exceed our resources. We are subject to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The cost of compliance with these laws and regulations could be significant.

Anti-takeover provisions in our certificate of incorporation and Delaware law could prevent a potential acquirer from buying your stock.

Anti-takeover provisions of Delaware law, in our certificate of incorporation and equity benefit plans may make a change in control of our company more difficult, even if a change in control would be beneficial to our stockholders. These provisions may allow our board of directors to prevent or make changes in the management and control of our company. In particular, our board of directors will be able to issue up to 5,000,000 shares of preferred stock with rights and privileges that might be senior to our common stock, without the consent of the holders of the common stock. Further, without any further vote or action on the part of the stockholders, the board of directors would have the authority to determine the price, rights, preferences, privileges and restrictions of the preferred stock. This preferred stock, if it is ever issued, may have preference over and harm the rights of the holders of common stock. Although the issuance of this preferred stock would provide us with flexibility in connection with possible acquisitions and other corporate purposes, this issuance may make it more difficult for a third party to acquire a majority of our outstanding voting stock. Similarly, our authorized but unissued common stock is available for future issuance without stockholder approval.

In addition, our certificate of incorporation:

- states that stockholders may not act by written consent but only at a stockholders' meeting;
- establishes advance notice requirements for nominations for election to the board of directors or proposing matters that can be acted upon at stockholders' meetings; and
- limits who may call a special meeting of stockholders.

Insiders have substantial control over Sangamo and could delay or prevent a change in corporate control.

The interest of management could conflict with the interest of our other stockholders. Our executive officers, directors and principal stockholders beneficially own, in the aggregate, forty-six percent of our outstanding common stock. As a result, these stockholders, if they choose to act together, will be able to have a material impact on all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This could have the effect of delaying or preventing a change of control of Sangamo, which in turn could reduce the market price of our stock.

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 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. If market interest rates were to increase by 1 percent from September 30, 2003, the fair value of our portfolio would decline by less than $200,000. The modeling technique used measures the change in fair values arising from an immediate hypothetical shift in market interest rates and assumes ending fair values include principal plus accrued interest.

The following table represents the fair value balance of our cash, cash equivalents and marketable securities by year of expected maturity that are subject to interest rate risk as of September 30, 2003 (in thousands, except for interest rates):

	2003	2004	2005
Cash and cash equivalents	$ 12,104	$ —	—
Average interest rates	1.16%	—%	—%
Marketable securities	$ 10,795	$ 13,289	$ 9,640
Average interest rates	1.53%	1.63%	1.74%

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 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 have been designed and are 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 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(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.

(c) Limitations on the Effectiveness of Internal Controls

The Company believes that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues within a company have been detected.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The effective date of our first Registration Statement on Form S-1 filed under the Securities Act of 1933, as amended, relating to the initial public offering of our common stock was April 6, 2000. On the same date, we signed an underwriting agreement with Lehman Brothers, Chase H&Q, ING Barings LLC, and William Blair & Co., the managing underwriters for the initial public offering and the representatives of the underwriters named in the underwriting agreement, for the initial public offering of 3,500,000 shares of our common stock at an initial public offering price of $15 per share. The offering commenced on April 6, 2000 and was closed on April 11, 2000. The initial public offering resulted in gross proceeds of $52.5 million. We received net proceeds of $48.8 million after deducting underwriting discounts of $3.7 million. Expenses related to the offering totaled approximately $1.4 million. None of Sangamo's net proceeds from the initial public offering were paid directly or indirectly to any director, officer, general partner of Sangamo or their associates, persons owning 10% or more of any class of equity securities of Sangamo, or an affiliate.

From the time of receipt through September 30, 2003, Sangamo has used the net proceeds from its initial public offering of common stock to invest in short-term and long-term, interest bearing, investment-grade securities and has used its existing cash balances to fund the general operations. The proceeds will be used for general corporate purposes, including working capital and product development. A portion of the net proceeds will also be used to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. Sangamo has no agreements or commitments with respect to any such acquisition or investments and is not currently engaged in any material negotiations with respect to any such transaction.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

31.1 Form of Rule 13a – 14(a) Certification
31.2 Form of Rule 13a – 14(a) Certification
32.1 Certification Pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8-K:

On July 28, 2003 we furnished a Current Report on Form 8-K containing a copy of our earnings release for the period ended June 30, 2003 pursuant to Item 12 (Results of Operations and Financial Condition).

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SANGAMO BIOSCIENCES, INC. Dated: November 10, 2003

/s/ Greg S. Zante
Greg S. Zante
Senior Director, Finance and Administration
(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Edward O. Lanphier II, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sangamo BioSciences, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986];

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2003

/s/ Edward O. Lanphier II
Edward O. Lanphier II
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Greg S. Zante, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sangamo BioSciences, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986]

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2003

/s/ Greg S. Zante
Greg S. Zante
Senior Director, Finance and Administration
(Principal Financial and Accounting Officer)

Exhibit 32.1

Certification Pursuant to 18 U.S.C. §1350, as Adopted
Pursuant to §906 of the Sarbanes-Oxley Act of 2002

Each of the undersigned hereby certifies pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002 in his capacity as an officer of Sangamo BioSciences, Inc. (the "Company"), that:

(1) the Quarterly Report of the Company on Form 10-Q for the quarterly period ending September 30, 2003, as filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Edward O. Lanphier II

Edward O. Lanphier II
President and Chief Executive Officer
(Principal Executive Officer)
Date:November 10, 2003

/s/ Greg S. Zante

Greg S. Zante
Senior Director, Finance and Administration
(Principal Financial and Accounting Officer)
Date:November 10, 2003