

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 March 31, 2003

OR

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

For the transition period from to

Commission file number 000-30171

SANGAMO BIOSCIENCES, INC.

(exact name of small business issuer as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

68-0359556

(IRS Employer Identification No.)

501 Canal Blvd, Suite A100

Richmond, California 94804

(Address of principal executive offices)

(510) 970-6000

(Registrant's telephone number, including area code)

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

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

As of March 31, 2003, 24,751,213 shares of the issuer's common stock, par value \$0.01 per share, were outstanding.

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SIGNATURES**CERTIFICATIONS**

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 and is subject to the safe harbors created by those sections. Statements that are forward-looking in nature should be read with caution because they involve risks and uncertainties, they 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 Quarterly Report.

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PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2003 (unaudited)	December 31, 2002(1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,587	\$ 17,639
Marketable securities	36,474	34,504
Interest receivable	460	432
Accounts receivable, net	904	1,098
Prepaid expenses	382	423
Total current assets	50,807	54,096
Property and equipment, net	1,591	1,793
Other assets	322	338
Total assets	\$ 52,720	\$ 56,227
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 494	\$ 937
Accrued compensation and employee benefits	436	669
Deferred revenue	349	375
Total current liabilities	1,279	1,981
Stockholders’ equity:		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized, no shares issued and outstanding at March 31, 2003 and December 31, 2002	—	—
Common stock, \$0.01 par value; 80,000,000 shares authorized, 24,751,213 and 24,740,713 shares issued and outstanding at March 31, 2003 and December 31, 2002, respectively	127,245	127,234
Deferred stock compensation	(132)	(231)
Accumulated deficit	(75,759)	(72,864)
Accumulated other comprehensive income	87	107
Total stockholders’ equity	51,441	54,246
Total liabilities and stockholders’ equity	\$ 52,720	\$ 56,227

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

See accompanying notes.

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

	Three months ended March 31,	
	2003	2002
Revenues:		
Collaboration agreements	\$ 426	\$ 501
Research grants	125	—
Total revenues	551	501
Operating expenses:		
Research and development (excludes \$57 and \$954 of stock based compensation expense for the three months ended March 31, 2003 and 2002, respectively)	2,687	3,358
General and administrative (excludes \$51 and \$88 of stock based compensation expense for the three months ended March 31, 2003 and 2002, respectively)	827	862
Restructuring charge	—	190
Stock based compensation expense	108	1,042
Total operating expenses	3,622	5,452
Loss from operations	(3,071)	(4,951)
Interest and other income, net	176	464
Net loss	\$ (2,895)	\$ (4,487)
Basic and diluted net loss per common share	\$ (0.12)	\$ (0.18)
Shares used in basic and diluted net loss per common share	24,734	24,356

See accompanying notes.

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

	Three months ended March 31,	
	2003	2002
Operating Activities:		
Net loss	\$ (2,895)	\$ (4,487)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	228	328
Non-cash stock compensation charges	108	1,042
Changes in operating assets and liabilities:		
Interest receivable	(28)	690
Accounts receivable	194	389
Prepaid expenses and other assets	57	76
Accounts payable and accrued liabilities	(443)	(322)
Accrued compensation and employee benefits	(233)	(135)
Deferred revenue	(26)	(145)
Net cash used in operating activities	(3,038)	(2,564)
Investing Activities:		
Purchases of investments	(8,490)	(2,864)
Maturities of investments	6,500	29,816
Sales (purchases) of property and equipment	(26)	16
Net cash provided by (used in) investing activities	(2,016)	26,968
Financing Activities:		
Proceeds from issuance of common stock	2	62
Repayment of note payable	—	(35)
Net cash provided by financing activities	2	27
Effect of exchange rate changes on cash	—	(65)
Net increase (decrease) in cash and cash equivalents	(5,052)	24,366
Cash and cash equivalents, beginning of period	17,639	7,644
Cash and cash equivalents, end of period	\$ 12,587	\$ 32,010

See accompanying notes.

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BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The condensed consolidated financial statements include the accounts of Sangamo and its wholly owned subsidiary, Gendaq Limited, after elimination of all material intercompany balances and transactions. Operating results for the three-month period ended March 31, 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 retranslated at the exchange rates in effect at the balance sheet date. All translation differences arising from foreign currency transactions are recorded through profit and loss.

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REVENUE RECOGNITION

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.

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.

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.

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 and depreciation of facilities and laboratory equipment, as well as the cost of funding research at universities and other research institutions, and are expensed as incurred. Costs to acquire technologies that are utilized in research and development and that have no alternative future use are expensed as incurred.

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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 FAS No. 123, "Accounting for Stock-Based Compensation." 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 expenses 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 March 31,	
	2003	2002
Net loss:		
As reported	\$ (2,895)	\$ (4,487)
Add: stock-based employee compensation expense included in reported net income	99	762
Less: stock-based employee compensation expense determined	(689)	(1,699)

under the fair value based method		
Pro forma net loss	\$ (3,485)	\$ (5,424)
Basic and diluted net loss per share		
As reported	\$ (0.12)	\$ (0.18)
Pro forma	\$ (0.14)	\$ (0.22)

The above pro forma effects may not be representative of that to be expected in future periods, due to subsequent periods including additional grants and related vesting. The fair value for all options granted in the periods ended March 31, 2003 and 2002 were estimated at the date of grant using the Black-Scholes method following the Company's initial public offering and using the minimum value method for periods prior to the initial public offering with the following weighted-average assumptions:

	Three months ended March 31,	
	2003	2002
Risk-free interest rate	2.9%	3.8%
Expected life of option	5 yrs	5 yrs
Expected dividend yield of stock	0%	0%
Expected volatility	1.0	1.0

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

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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 nonperformance 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 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Sangamo is currently evaluating the effect that the adoption of EITF 00-21 will have on its consolidated financial statements.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." FAS 148 amends FAS 123 "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, FAS 148 amends the disclosure requirements of FAS 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The additional disclosure requirements of FAS 148 are effective for fiscal years ending after December 15, 2002. We have elected to continue to follow the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees," to account for employee stock options.

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NOTE 2-BASIC AND DILUTED NET LOSS PER SHARE

Basic and diluted net loss per share information for all periods is presented under the requirements of FAS No. 128, "Earnings per Share." Basic 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 March 31,	
	2003	2002
Net loss	\$ (2,895)	\$ (4,487)

Basic and diluted:		
Weighted-average shares of common stock outstanding	24,743	24,490
Less: weighted-average shares subject to repurchase	(9)	(134)
Shares used in computing basic and diluted net loss per common share	24,734	24,356
Basic and diluted net loss per common share	\$ (0.12)	\$ (0.18)

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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 for the three-month periods ended March 31, 2003 and 2002 are as follows (in thousands):

	Three Months Ended	
	March 31	
	2003	2002
Net loss	\$ (2,895)	\$ (4,487)
Changes in unrealized gain (loss) on securities available-for-sale	(20)	(226)
Foreign currency translation adjustment	—	(65)
Comprehensive loss	\$ (2,915)	\$ (4,778)

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 programs in 2003. 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. 2003 is the second year of funding under the Medarex agreement. One customer accounted for 47% of year-to-date 2003 revenues recognized. During the three months ended March 31, 2002, our largest customer represented 44% of revenues.

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NOTE 5-RESTRUCTURING

In February 2002, Sangamo made the decision to begin consolidation of certain Gendaq operations from the United Kingdom to its Richmond, California headquarters. The decision followed a post-acquisition review that was initiated in October 2001 where Sangamo evaluated technology, personnel, costs, and various alternatives to maximize the synergy between Sangamo and Gendaq. The final decision made in February 2002 relates to the rationalization of positions in the United Kingdom; at that time there were 15 employees at Gendaq. In the first quarter of 2002, Sangamo recorded restructuring expense 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 will be 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. Fixed assets at the U.K. facility were either disposed of or returned to the Richmond facility.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains trend analysis, estimates and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include, without limitation, statements containing the words "believes," "anticipates," "expects," "continue," and other words of similar import or the negative of those terms or expressions. Such forward-looking statements are subject to known and unknown risks, uncertainties, estimates and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual results could differ materially from those set forth in such forward-looking statements as a result of, but not limited to, the "Risk Factors" described in this Item 2, the risk factors set forth in our annual report on Form 10-K filed with the SEC and those certified 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 June 1995. From our inception through March 31, 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 March 31, 2003, we had an accumulated deficit of \$75.8 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 intellectual property prosecution and license expenses. 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 the future as we continue to develop our ZFP TF technology platform and pursue ZFP Therapeutics. Additionally, in order to develop ZFP TFs as commercially relevant therapeutics, we expect to expend additional resources for regulatory and clinical expertise.

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, allocation of value to individual elements of multiple element arrangements 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 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 income and related net income 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).

Concentration of Credit Risk. We maintain cash, cash equivalents and investments with major financial institutions. Financial institutions and financial instruments subject us to credit risk. We perform both periodic evaluation of our investments and evaluation of the credit standing of the financial institutions to limit the amount of credit exposure with any one institution or type of instrument. If there is an adverse change in credit risk with the financial institutions we use, or any other than temporary decline in market value, we may be required to record impairment charges in the future.

RESULTS OF OPERATIONS

Three Months ended March 31, 2003 and 2002

Total revenues. Total revenues increased to \$551,000 in the three months ended March 31, 2003 from \$501,000 in the corresponding period in 2002. The increase in revenues in the three months ended March 31, 2003 was principally attributable to research during the period funded by Federal research grants. Revenues for the most recent quarter consisted of contractual payments from strategic partners for research programs, Federal government research grant funding and amortization of deferred revenue relative to a license option and an upfront signature payment previously received. Our current research and development programs are focused on the advancement of our ZFP TF technology for several potential applications. Among these are ZFP-Therapeutics

for cardiovascular disease and cancer, ZFP TF-engineered cell lines for drug screening, antibody development and to enhance the production yields of protein pharmaceuticals, ZFP TFs for the discovery and validation of genes and drug targets, and ZFP TFs for applications in agricultural biotechnology.

Research and development expenses. Total research and development expenses were \$2.7 million for the three months ended March 31, 2003 as compared to \$4.3 million in the corresponding period in 2002. Non-cash research and development expenses in the first quarter in 2003 included \$57,000 in stock-based compensation expense, as compared to \$954,000 during the same quarter in 2002. Stock-based compensation expense is principally composed of deferred compensation amortization related to options granted prior to our initial public offering effective April 2000. The remaining first quarter 2003 research and development expenses of \$2.7 million were comprised of salaries and benefits for research and development personnel, related laboratory supplies, allocated facilities costs, intellectual property patent prosecution and licensing fees and external research funding. Comparable operating expenses were \$3.4 million in the corresponding period in 2002. The decrease in the 2003 period was primarily due to decreased employee related expenses, laboratory supplies and facilities costs resulting from the closure of the Gendaq facility. Additionally, reduced laboratory supplies and equipment costs at our Richmond, California facility contributed to the decrease in research and development expenses in the most recent quarter.

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General and administrative expenses. Total general and administrative expenses were \$879,000 in the three months ended March 31, 2003, as compared to \$950,000 during the corresponding period in 2002. Non-cash administrative expenses in the first quarter of 2003 were \$51,000 in stock-based compensation expense compared to \$88,000 in stock-based compensation expense during the same quarter of 2002. The remaining first quarter 2003 general and administrative expenses of \$827,000 were comprised of salaries and benefits for general administrative personnel, outside services including audit, tax and legal fees, directors & officers insurance, general business consulting, corporate communications costs and allocated facilities expenses. Comparable operating expenses after stock-based compensation expense were \$862,000 for the quarter ended March 31, 2002. The decrease was primarily attributable to reduced professional fees and expenses and decreased travel expenses.

Restructuring charge. A restructuring charge of \$190,000 was recorded in the first quarter of 2002. This expense represents restructuring expenses which were estimated at the time of the decision to close the Gendaq facility.

Interest and other income, net. Net interest income decreased to \$223,000 in the three months ended March 31, 2003 from \$464,000 in the corresponding period in 2002. The decrease in interest income resulted from lower average interest-bearing balances, from the use of cash to fund operations, and from lower interest rates. During the quarter ended March 31, 2003, we recognized a net loss of \$47,000 on currency translation. The currency translation gain or loss was reported as a component of equity during the quarter ended March 31, 2002 as it arose due to the operations at our wholly-owned subsidiary, Gendaq, in the U.K. This subsidiary's facility was shut down in the third quarter of 2002 and the related foreign currency translation gain of \$367 was recognized upon closure of the facility.

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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 March 31, 2003 we had cash, cash equivalents, and marketable securities (including interest receivable) totaling \$49.5 million.

We used \$3.0 million of cash for operating activities in the three months ended March 31, 2003. This consisted of the net loss for the period of \$2.9 million offset by non-cash stock compensation charges of \$108,000, depreciation of \$228,000 and net changes in operating assets and liabilities. Net cash used for investing activities was \$2.0 million in the three months ended March 31, 2003. Cash was used to purchase investments and property and equipment and was offset by the maturities of available-for-sale securities. Net cash provided by financing activities in the period was \$2,000 from issuances of common stock.

We believe that our current cash resources are sufficient to finance our existing operations at least through 2004. Our cash requirements depend upon a number of factors, including our ability to increase our revenues from corporate partners and government grants, and the level and timing of our research and development expenditures. We cannot assure you that at such time as we require additional funding, it will be available on favorable terms, if at all.

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

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 gene sequences 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 and approved 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 Enabling Technology Applications/Universal GeneTools® 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 any of the other intended markets.

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 Enabling Technology Applications/Universal GeneTools® 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 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 development phase of operations and may not succeed or become profitable.

We began operations in 1995 and are in the development phase of operations. 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 additional new Universal GeneTools® collaborators and strategic partners and expand existing relationships;
- attract and retain qualified scientific and technical staff and management, particularly scientific staff with expertise to further apply and develop our early stage technology;
- 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 academic and other research 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 growth and decrease 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 develop and commercialize potential products that may result from our technologies, or the resources or capabilities to complete any approval processes that may be required for the products. Therefore, we rely on strategic partnerships to help us develop and commercialize 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 growth and decrease our revenues. Further, we must enter into new agreements to develop additional therapeutic programs. There can be no assurance that we will be able to establish new 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 agreement would not only delay or terminate the potential development or commercialization of any 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 fails to meet specific milestones, then the strategic partnership can 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.

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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 even if we had a potential product, this product may not withstand the rigors of testing under the regulatory approval processes.

Before commencing clinical trials in humans, we must submit and receive approval from the FDA of an Investigational New Drug Application. Clinical trials are subject to oversight by institutional review boards and the FDA.

In addition, we will also require approval 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 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.

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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 achieve useful results, competing technologies may prove to be more effective or less expensive and in some cases, have proven to be satisfactorily effective and less expensive which limits our revenue opportunities. 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, RNA antisense and siRNA approaches
- For our Enabling Technology Applications:
 - Universal GeneTools®: Antisense, siRNA
 - High throughput screening and antibody development: cDNA, naturally occurring cell lines
 - Protein production : 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 do.

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 Universal GeneTools® 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 Universal GeneTools® 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.

Our Universal GeneTools® collaboration agreements with companies are of limited scope, and if we are not able to expand the scope of our existing collaborations or enter into new ones, our revenues will be negatively impacted and our research initiatives may be slowed or halted.

Our Universal GeneTools® collaborations permit us to introduce our technology to many companies by supplying them with a specified ZFP TF for a payment without licensing our technology. The collaboration agreements, however, are of limited scope. Under most of our current Universal GeneTools® collaborations we receive a payment for supplying ZFP TFs for gene targets specified by the companies. These companies are not obligated to make continuing payments to us in connection with their research efforts or to pursue any product development program with us. As a result, we may not develop long-term relationships with these companies that could lead to additional revenues. If we are not able to expand the scope of our existing collaborations or enter into new ones, we may have reduced revenues and be forced to slow or halt research initiatives.

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. 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 March 31, 2003, we had an accumulated deficit of approximately \$75.8 million. Even if we succeed in increasing our current product and research revenue or developing additional commercial products, 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 for at least the next 24 months, 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 which 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, will lead to quarterly fluctuations in our revenue. We generally operate with limited backlog in our Universal GeneTools® business because our ZFP TFs are typically designed and engineered as orders are received. Universal GeneTools® sales are also difficult to forecast because demand varies substantially from customer to customer and from period to period. 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 subsequently 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 73 employees as of March 31, 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 academic and other research 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 will have 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.

If conflicts arise between us and 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 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 proprietary 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.

In the past, we have received unsolicited invitations to license existing patented technology from a number of third parties, at least one of which contained an allegation of infringement. No litigation is being threatened and no license fees have been proposed. Upon careful analysis of each of these technologies, we have determined that we already own rights to these technologies or that our scientific and commercial interests would not benefit from the acquisition of rights to these technologies. Further, we believe that the making, using or selling of our products and processes need not infringe any claims in the proffered patents. Accordingly, we have declined to enter into license negotiations with these parties. We cannot assure you, however, that these parties will not bring future actions against us, our collaborators or strategic partners alleging infringement of their patents. As detailed above, the outcome of any litigation, particularly lawsuits involving biotechnology patents, is difficult to predict and likely to be costly regardless of the outcome and the risks of a negative impact on our business can neither be clearly defined nor entirely eliminated.

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 Universal GeneTools® 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 may limit the indicated use for which we can market a product. Further, once regulatory approval for a product is obtained, it 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 our 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 premarket 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 of 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 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 acquiror 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 will 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 will 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, fifty-seven 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 March 31, 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 March 31, 2003 (in thousands, except for interest rates):

	2003		2004	
Cash and cash equivalents	\$	12,587	\$	—
Average interest rates		1.26%		—%
Marketable securities	\$	28,389	\$	8,085
Average interest rates		2.03%		1.69%

ITEM 4. CONTROLS AND PROCEDURES

Based on their evaluation, as of a date within 90 days of the filing of this Form 10-Q, the Company's Principal Executive Officer and Principal Financial Officer have concluded the Company's disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934) are effective. There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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 of the 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 March 31, 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

<u>Exhibit Number</u>	
99.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Reports: No reports on Form 8-K were filed during the quarter ended March 31, 2003.

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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: May 15, 2003

/s/ Janet L. Nibel

Janet L. Nibel

Vice President Finance and Administration
(Principal Financial and Accounting Officer)

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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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Edward O. Lanphier II

Edward O. Lanphier II
President and Chief Executive Officer
(Principal Executive Officer)

I, Janet L. Nibel, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003.

/s/ Janet L. Nibel

Janet L. Nibel
Vice President Finance and Administration
(Principal Financial Officer)

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

I, Edward O. Lanphier II, President and Chief Executive Officer of Sangamo BioSciences, Inc. (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report of the Company on Form 10-Q for the quarterly period ending March 31, 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: May 15, 2003

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

I, Janet L. Nibel, Vice President of Finance and Administration of Sangamo BioSciences, Inc. (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report of the Company on Form 10-Q for the quarterly period ending March 31, 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/ Janet L. Nibel

Janet L. Nibel
Vice President Finance and Administration
(Principal Financial Officer)
Date: May 15, 2003
