

INTERDIGITAL COMMUNICATIONS CORP  
Form 10-Q  
November 09, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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**x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

*For the quarterly period ended September 30, 2006*

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 1-11152

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**INTERDIGITAL COMMUNICATIONS CORPORATION**

(Exact name of registrant as specified in its charter)

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**PENNSYLVANIA**  
(State or other jurisdiction of

incorporation or organization)

**781 Third Avenue, King of Prussia, PA 19406-1409**

(Address of principal executive offices and zip code)

**23-1882087**  
(I.R.S. Employer

Identification No.)

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(610) 878-7800

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Common Stock, par value \$.01 per share  
Class

52,605,944  
Outstanding at November 1, 2006

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**INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**

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### **INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES**

InterDigital® is a trademark of InterDigital Communications Corporation. All other trademarks, service marks and/or trade names appearing in this Form 10-Q are the property of their respective holders.

## **GLOSSARY OF TERMS**

### **2G**

Second Generation. A generic term usually used in reference to voice-oriented digital wireless products, primarily mobile handsets that provide basic voice services.

### **2.5G**

A generic term usually used in reference to fully integrated voice and data digital wireless devices offering higher data rate services and features compared to 2G.

### **3G**

Third Generation. A generic term usually used in reference to the generation of digital mobile devices and networks after 2G and 2.5G, which provide high speed data communications capability along with voice services.

### **3GPP**

3G Partnership Project. A partnership of worldwide accredited standards organizations the purpose of which is to draft specifications for Third Generation mobile telephony.

### **Bandwidth**

A range of frequencies that can carry a signal on a transmission medium, measured in Hertz and computed by subtracting the lower frequency limit from the upper frequency limit.

### **CDMA**

Code Division Multiple Access. A method of digital spread spectrum technology wireless transmission that allows a large number of users to share access to a single radio channel by assigning unique code sequences to each user.

### **cdmaOne**

A wireless cellular system application based on 2G narrowband CDMA technologies (e.g., TIA/EIA-95).

### **cdma2000®**

A standard which evolved from narrowband CDMA technologies (i.e., TIA/EIA-95 and cdmaOne). The CDMA family includes, without limitation, CDMA2000 1x, CDMA 1xEV-DO, CDMA2000 1xEV-DV and CDMA2000 3x. Although CDMA2000 1x is included under the IMT-2000 family of 3G standards, its functionality is similar to 2.5G technologies. CDMA2000® and cdma2000® are registered trademarks of the Telecommunications Industry Association (TIA USA).

### **Chip**

An electronic circuit that consists of many individual circuit elements integrated onto a single substrate.

### **Circuit**

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The connection of channels, conductors and equipment between two given points through which an electric current may be established.

### **Digital**

Information transmission where the data is represented in discrete numerical form.

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### **Digital Cellular**

A cellular communications system that uses over-the-air digital transmission.

### **EDGE**

Enhanced Data rates for GSM Evolution. Technology designed to deliver data at rates up to 473.6 Kbps, triple the data rate of GSM wireless services, and built on the existing GSM standard and core network infrastructure. EDGE systems built in Europe are considered a 2.5G technology.

### **FDMA**

Frequency Division Multiple Access. A technique in which the available transmission of bandwidth of a channel is divided by frequencies into narrower bands over fixed time intervals resulting in more efficient voice or data transmissions over a single channel.

### **Frequency**

The rate at which an electrical current or signal alternates, usually measured in Hertz.

### **GPRS**

General Packet Radio Systems. A packet-based wireless communications service that enables high-speed wireless Internet and other data communications via GSM networks.

### **GSM**

Global System for Mobile Communications. A digital cellular standard, based on TDMA technology, specifically developed to provide system compatibility across country boundaries.

### **HSDPA**

High Speed Downlink Packet Access. An enhancement to WCDMA/UMTS technology optimized for high speed packet-switched data and high-capacity circuit switched capabilities. A 3G technology enhancement.

### **Hertz**

The unit of measuring radio frequency (one cycle per second).

### **Internet**

A network comprised of numerous interconnected commercial, academic and governmental networks in over 100 countries.

### **IPR**

Intellectual Property Right.

### **ITC**

InterDigital Technology Corporation, a wholly-owned Delaware subsidiary of InterDigital Communications Corporation.

### **Multiple Access**

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A methodology (e.g., FDMA, TDMA, CDMA) by which multiple users share access to a transmission channel. Most modern systems accomplish this through demand assignment where the specific parameter (frequency, time slot, or code) is automatically assigned when a subscriber requires it.

### **Standards**

Specifications that reflect agreements on products, practices, or operations by nationally or internationally accredited industrial and professional associations or governmental bodies in order to allow for interoperability.

### **TDMA**

Time Division Multiple Access. A method of digital wireless transmission that allows a multiplicity of users to share access (in a time ordered sequence) to a single channel without interference by assigning unique time segments to each user within the channel.

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**TIA/EIA-95**

A 2G CDMA standard.

**TIA**

The Telecommunications Industry Association.

**UMTS**

Universal Mobile Telecommunications System. The European name for 3G mobile telephony. UMTS uses WCDMA standards created by 3GPP.

**WCDMA**

Wideband Code Division Multiple Access or Wideband CDMA. The next generation of CDMA technology optimized for high speed packet-switched data and high-capacity circuit switched capabilities. A 3G technology.

**Wideband**

A communications channel with a user data rate higher than a voice-grade channel; usually 64Kbps to 2Mbps.



**Table of Contents****INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES****PART I FINANCIAL INFORMATION****Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)****(unaudited)**

	<b>SEPTEMBER 30, 2006</b>	<b>DECEMBER 31, 2005</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 221,591	\$ 27,877
Short-term investments	82,585	77,831
Accounts receivable	110,579	19,534
Deferred tax assets	26,690	42,103
Prepaid and other current assets	22,742	8,370
Total current assets	464,187	175,715
PROPERTY AND EQUIPMENT, NET	14,844	10,660
PATENTS, NET	67,109	59,516
DEFERRED TAX ASSETS	26,082	48,681
OTHER NON-CURRENT ASSETS	16,175	4,965
	124,210	123,822
<b>TOTAL ASSETS</b>	<b>\$ 588,397</b>	<b>\$ 299,537</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 370	\$ 350
Accounts payable	15,962	7,163
Accrued compensation and related expenses	9,085	17,040
Deferred revenue	88,059	20,055
Taxes payable	15,806	160
Other accrued expenses	7,581	5,766
Total current liabilities	136,863	50,534
LONG-TERM DEBT	1,293	1,572
LONG-TERM DEFERRED REVENUE	156,097	71,193
OTHER LONG-TERM LIABILITIES	4,515	1,924
<b>TOTAL LIABILITIES</b>	<b>298,768</b>	<b>125,223</b>

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COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS EQUITY:

Preferred Stock, \$0.10 par value, 14,399 shares authorized, 0 shares issued and outstanding		
Common Stock, \$0.01 par value, 100,000 shares authorized, 63,994 and 60,537 shares issued and 52,253 and 54,031 shares outstanding	640	605
Additional paid-in capital	437,927	377,648
Retained Earnings (Accumulated Deficit)	95,120	(109,839)
Accumulated other comprehensive loss	(46)	(192)
	533,641	268,222
Treasury stock, 11,741 and 6,506 shares of common held at cost	244,012	93,908
Total shareholders equity	289,629	174,314
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 588,397	\$ 299,537

The accompanying notes are an integral part of these statements.

**Table of Contents****INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share data)****(unaudited)**

	<b>FOR THE THREE MONTHS ENDED SEPTEMBER 30,</b>		<b>FOR THE NINE MONTHS ENDED SEPTEMBER 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>REVENUES</b>	\$ 67,175	\$ 48,538	\$ 415,398	\$ 122,636
<b>OPERATING EXPENSES:</b>				
Sales and marketing	1,671	1,798	5,056	5,615
General and administrative	5,045	5,420	15,761	17,898
Patents administration and licensing	13,299	14,695	36,085	36,022
Development	16,805	15,610	48,702	46,704
Repositioning		849		849
	36,820	38,372	105,604	107,088
Income from operations	30,355	10,166	309,794	15,548
<b>OTHER INCOME:</b>				
Interest and investment income, net	4,082	779	9,504	2,246
Income before income taxes	34,437	10,945	319,298	17,794
<b>INCOME TAX PROVISION</b>	(12,780)	(4,419)	(114,339)	(8,139)
<b>NET INCOME APPLICABLE TO COMMON SHAREHOLDERS</b>	\$ 21,657	\$ 6,526	\$ 204,959	\$ 9,655
<b>NET INCOME PER COMMON SHARE - BASIC</b>	\$ 0.41	\$ 0.12	\$ 3.81	\$ 0.18
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC</b>	52,209	53,611	53,788	54,097
<b>NET INCOME PER COMMON SHARE - DILUTED</b>	\$ 0.40	\$ 0.11	\$ 3.65	\$ 0.17
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED</b>	54,543	57,089	56,189	57,663

The accompanying notes are an integral part of these statements.

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## INTERDIGITAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

FOR THE NINE MONTHS  
ENDED SEPTEMBER 30,

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 204,959	\$ 9,655
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,162	8,426
Deferred revenue recognized	(148,116)	(43,647)
Increase in deferred revenue	301,024	46,105
Deferred income taxes	38,012	8,038
Non-cash compensation	5,812	7,657
Non-cash repositioning charges		156
(Increase) decrease in deferred charges	(11,461)	838
Other	245	25
(Increase) decrease in assets:		
Receivables	(91,045)	(3,193)
Other current assets	(11,603)	1,554
Increase (decrease) in liabilities:		
Accounts payable	5,530	(508)

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Accrued compensation	(5,004)	106
Accrued taxes payable	15,756	
Other accrued expenses	1,571	2,421
Net cash provided by operating activities	315,842	37,633
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of short-term investments	(127,836)	(95,676)
Sales of short-term investments	123,176	138,538
Purchases of property and equipment	(7,329)	(4,006)
Capitalized patent costs	(14,053)	(12,543)
Acquisition of patents		(8,050)
Net cash (used) provided by investing activities	(26,042)	18,263
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from exercise of stock options and warrants	35,856	3,752
Payments on long-term debt, including capital lease obligations	(259)	(243)
Repurchase of Common Stock	(150,104)	
	<p><i>ZFN Enabling Technologies:</i> Methods for identification of regulatory DNA sequences, prediction of patient response to drug therapeutics, and development of cell lines for improved protein production.</p> <p>We have been advised that certain aspects of our technology can give us and our collaborators independence from third party patent claims to gene sequences. In general, under United States patent law, a patent may be obtained for any new and useful process, machine, manufacture, or composition of matter. An underlying theme of United States patent law, as related to biotechnology, is that the sequence of a gene, as it exists in the chromosome, is not new, even when newly discovered, unless it is</p>	

isolated or modified from its normal chromosomal context. As a result, for over a decade, patent courts have held that, to be patentable, a DNA sequence must be purified, isolated or modified. Accordingly, U.S. patent claims to DNA sequences can cover only isolated, purified or modified nucleic acid sequences (e.g., a purified DNA fragment or a DNA sequence inserted into a vector). We have been advised that U.S. patent claims to DNA sequences do not, and cannot, cover gene sequences as they exist in their natural chromosomal environment and international patent law is even more stringent than U.S. patent law in this regard. Most current methods for over-expression of a gene or protein involve introduction, into a cell, of a vector containing a DNA encoding the protein to be over-expressed. Since such a vector contains isolated sequences which encode the protein, it would be covered by any patent claims to those sequences. In contrast, our methods for over-expression utilize ZFP TFs that target endogenous genes as they exist in the chromosome. As a result, our methods do not require the use of isolated DNA sequences encoding the protein to be over-expressed and, our counsel has advised us, do not infringe patent claims to such sequences. Notwithstanding this advice, we realize that others could take a contrary position that could result in litigation. While we believe that we would prevail in any such litigation, the uncertainties involved in litigation generally make it impossible to provide assurance as to the ultimate outcome of such matters. See *Risk Factors 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.*

The patent positions of pharmaceutical and biotechnology firms, including our patent position, are uncertain and involve complex legal and factual questions for which important legal tenets are largely unresolved. Patent applications may not result in the issuance of patents and the coverage claimed in a patent application may be significantly reduced before a patent is issued.

Although we have filed for patents on some aspects of our technology, we cannot provide assurances that patents will be issued as a result of these pending applications or that any patent that has been or may be issued will be upheld. The laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States. One of our foreign patents, which forms the basis for five European Regional Phase patents, has been revoked as a result of an opposition by a third party. Our licensor, The Johns Hopkins University, appealed the revocation but in April 2007, the European Technical Board of Appeal released its

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decision dismissing the appeal. As of February 6, 2009, US patent number US6,265,196, licensed to Sangamo from The Johns Hopkins University, was undergoing re-examination. In addition in 2008, US5,792,640, also licensed from Johns Hopkins University, completed a first re-examination process and a re-exam certificate was issued on September 9, 2008. However, a second re-exam proceeding was ordered on November 4, 2008. We do not know what the outcome of these two re-examination processes will be. In the future, third parties may assert patent, copyright, trademark, and other intellectual property rights to technologies that are important to our business. Any claims asserting that our products infringe or may infringe proprietary rights of third parties, if determined adversely to us, could significantly harm our business. See *Risk Factors 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.*

**Estimated Licensing Expenses**

If we are successful in the development and commercialization of our products, we will be obligated by our license agreements to make milestone and royalty payments to some or all of the licensors mentioned above. We believe that total payments under these agreements over the next three years will not exceed \$1.5 million. For risks associated with our intellectual property, see *Risk Factors 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.* We plan to continue to license and to internally generate intellectual property covering the design, selection, composition, and use of ZFPs; the genes encoding these proteins; and the application of ZFPs, ZFP TFs, and ZFNs in ZFP Therapeutics, Enabling Technology and research applications, and in plant agriculture research.

**COMPETITION**

We are the leader in the research, development, and commercialization of DNA binding proteins for the regulation of gene expression and gene modification. We are aware of several companies focused on other methods for regulating gene expression and a limited number of commercial and academic groups pursuing the development of ZFP gene regulation and gene modification technology. The field of applied gene regulation and gene modification is highly competitive and we expect competition to persist and intensify in the future from a number of different sources, including pharmaceutical, agricultural, and biotechnology companies; academic and research institutions; and government agencies that will seek to develop ZFPs as well as technologies that will compete with our ZFP technology platform.

In July 2001, we strengthened our competitive position by completing our acquisition of Gendaq Ltd. Gendaq scientists had also focused their research efforts on regulating genes through the engineering of ZFPs and they brought significant additional know-how and intellectual property into Sangamo. Despite our strong presence in the field of ZFP technology and intellectual property, any products that we develop with our ZFP TF and ZFN technology may participate in highly competitive markets.

Accordingly, our competitors may succeed in obtaining patent protection, receiving FDA approval, or commercializing ZFP Therapeutics or other competitive products before us. If we commence commercial product sales, we may be competing against companies with greater marketing and manufacturing capabilities, areas in which we have limited or no experience. In addition, any product candidate that we successfully develop may compete with existing products that have long histories of safe and effective use.

Although we are in the clinical development phase of operations and have no current therapeutic product sales, we believe the following companies, products and/or technologies may potentially be competitive with our technology or our products under development:

Small molecules in development from both in-house drug discovery programs of pharmaceutical companies such as Eli Lilly and Company, Merck & Co., Inc. and Pfizer, Inc as well as from biotechnology companies with expertise and capabilities in small molecule discovery and development such as Exelixis Inc. and Millennium Pharmaceuticals, Inc.



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Monoclonal antibody companies and product candidates from certain biotechnology firms such as Amgen Inc., Genentech, Inc., Medarex Inc., Medimmune, Inc. and Facet Biotech Corporation.

Protein pharmaceuticals under development at pharmaceutical and biotechnology companies such as Amgen Inc., Biogen Idec, Eli Lilly and Company, Genentech, Inc., Johnson & Johnson and numerous other pharmaceutical and biotechnology firms.

Gene therapy companies developing gene-based products in clinical trials. None of these products have yet been approved. Our competitors in this category may include Cell Genesys, Inc., GenVec Inc., Targeted Genetics Corporation and VIRxSYS Corporation.

Antisense therapeutics and RNA interference technology, including RNAi and microRNA, which are technologies that may compete with ZFP Therapeutics in the development of novel therapeutic products acting through the regulation of gene expression. These technologies are being developed by several companies including Alnylam Pharmaceuticals, Inc., Isis Pharmaceuticals, Inc., Regulus Therapeutics, LLC and Merck & Co. Inc.

Nuclease technologies: Cellectis SA and Precision BioSciences, Inc. are developing meganucleases to accomplish gene modification.

We expect to face intense competition from other companies for collaborative arrangements with pharmaceutical and biotechnology, companies; for establishing relationships with academic and research institutions; and for licenses to proprietary technology. These competitors, either alone or with their collaborative partners, may succeed in developing technologies or products that are more effective or less costly than ours.

Our ability to compete successfully will depend, in part, on our ability to:

develop safe and efficacious proprietary products;

obtain access to gene transfer technology on commercially reasonable terms;

obtain required regulatory approvals;

attract and retain qualified scientific and product development personnel;

obtain and enforce patents, licenses, or other proprietary protection for our products and technologies;

formulate, manufacture, market, and sell any product that we develop; and

develop and maintain products that reach the market first and are technologically superior to or are of lower cost than other products in the market;

**GOVERNMENT REGULATION**

The research, testing manufacturing and marketing of human therapeutics are extensively regulated in the United States and the rest of the world.

Before marketing in the United States, any therapeutic or pharmaceutical products developed by us must undergo rigorous preclinical testing (generally conducted in animals) and clinical trials in humans and an extensive regulatory clearance process implemented by the U.S. Food and Drug Administration (FDA) under the federal Food, Drug and Cosmetic Act. The FDA regulates, among other things, the development, testing, manufacture, safety, efficacy, record keeping, labeling, storage, approval, advertising, promotion, sale, and distribution of biopharmaceutical products. The regulatory review and approval process, which includes preclinical testing and clinical trials of each product candidate, is lengthy, expensive, and uncertain. Securing FDA approval requires the submission of extensive preclinical and clinical data and supporting information including manufacturing information and stability data to the FDA for each indication to establish a product candidate's safety and efficacy. The approval process takes many years, requires the expenditure of substantial resources, involves post-marketing surveillance, and may involve ongoing requirements for post-marketing studies.

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Before commencing clinical investigations in humans in the U.S., we must carry out preclinical testing. In addition, our proposed clinical studies require review from the Recombinant DNA Advisory Committee ( RAC ), which is the advisory board to the National Institutes of Health ( NIH ), focusing on clinical trials involving gene transfer. We typically submit a proposed clinical protocol and other product-related information to the RAC three to six months prior to the expected IND application filing date.

Preclinical tests include laboratory and animal studies to evaluate product characteristics, potential safety and efficacy. The results of these studies must be submitted to the FDA as part of an Investigational New Drug (IND) Application, which must be reviewed by the FDA before proposed clinical testing in humans can begin. The FDA has 30 days to comment on the application and if the agency has no comments, we or our clinical partner may begin clinical trials.

Clinical trials are lengthy and are typically conducted in three sequential phases, but the phases may overlap or be combined. At each stage of testing, the proposed clinical protocol must be reviewed by the FDA and reviewed and approved by an independent ethics committee or institutional review board of each participating center before it can begin. Phase 1 usually involves the initial introduction of the investigational drug into small numbers of healthy volunteers or patients to evaluate certain factors, including its safety and dose tolerance. Phase 2 usually involves trials in a limited patient population to evaluate dosage tolerance and appropriate dosage, identify possible adverse effects and safety risks, and evaluate preliminary efficacy of the drug for specific indications. Phase 3 trials usually further evaluate clinical efficacy and test further for safety by using the drug in its final form in an expanded patient population. Phase 2 and 3 trials must be registered in a government database of clinical trials. Later clinical trials may fail to support the findings of earlier trials, which can delay, limit or prevent regulatory approvals.

We filed a Phase 1 clinical protocol for review by the RAC in the fourth quarter of 2004, an IND application in January 2005, and Phase 2 protocols for review by the FDA in 2006 and 2007 for our first product candidate, SB-509, for the potential treatment of diabetic neuropathy. In addition, in 2008 we filed an IND application for SB-509 for the treatment of ALS. We have also filed Phase 1 clinical protocols for review by the RAC for our HIV (SB-728-T) and glioblastoma programs (SB-313). Both of these program protocols received unanimous approval from this committee. In December 2008 we filed an IND application for SB-728-T for the treatment of HIV/AIDS and in February 2009, initiated a Phase 1 clinical trial of this ZFP Therapeutic in subjects infected with HIV.

We have completed enrollment of subjects in our first Phase 2 clinical trial (SB-509-601) and have two other Phase 2 clinical trials (SB-509-701 and SB-509-703) in subjects with diabetic neuropathy and a Phase 2 clinical study (SB-509-801) ongoing in subjects with ALS. Although our lead therapeutic candidate, SB-509, has shown a favorable safety profile to date through Phase 1 and Phase 2 testing, there can be no assurances that such a therapy will be tolerated after prolonged dosing or that clinical efficacy or safety of the product will be demonstrated in later stage testing.

The results of the preclinical and clinical testing of a pharmaceutical product are submitted to the FDA in the form of a New Drug Application (NDA), or a Biologic License Application (BLA), for approval to commence commercial sales. In responding to an NDA or a BLA, the FDA may grant marketing approval, grant conditional approval (such as an accelerated approval), request additional information, or deny the application if the FDA determines that the application does not provide an adequate basis for approval. Most research and development projects fail to produce data sufficiently compelling to enable progression through all of the stages of development and to obtain FDA approval for commercial sale. See also *Our potential therapeutic products are subject to a lengthy and uncertain regulatory process, and we may encounter unanticipated toxicity or adverse events or fail to demonstrate efficacy, causing us to delay, suspend or terminate the development of a ZFP Therapeutic. If these potential products are not approved, we will not be able to commercialize those products.* under Risk Factors below in Part I, Item 1A of this Form 10-K.



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Outside the United States, our ability to market a product is contingent upon receiving marketing authorization from the appropriate regulatory authorities. The requirements governing the conduct of clinical trials, marketing authorization, pricing, and reimbursement vary widely from country to country. At present, foreign marketing authorizations are applied for at a national level; although, within the European Union (EU), registration procedures are available to companies wishing to market a product in more than one EU member state. If the regulatory authority is presented with adequate evidence of safety, quality, and efficacy, they will grant a marketing authorization. This foreign regulatory approval process involves all of the risks associated with FDA clearance discussed above.

We have hired personnel with expertise in preclinical and clinical development of therapeutic programs and products and clinical and regulatory affairs to assist us in developing our programs and obtaining appropriate regulatory approvals as required. We also intend to work with collaborators who have experience in clinical development to assist us in obtaining regulatory approvals for collaborative products. *See Risk Factors – 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 and Regulatory approval, if granted, may be limited to specific uses or geographic areas which could limit our ability to generate revenues.*

## **RESEARCH AND DEVELOPMENT EXPENSES**

Research and development expenses consist primarily of salaries and personnel expenses, stock-based compensation expense, laboratory supplies, pre-clinical and clinical studies, manufacturing costs, allocated facilities costs, subcontracted research expenses and expenses for trademark registration and technology licenses. Costs to acquire technologies that are utilized in research and development and that have no alternative future use are expensed as incurred. Research and development expenses were \$31.2 million, \$25.6 million, and \$21.5 million, for 2008, 2007, and 2006, respectively. We believe that continued investment in research and development is critical to attaining our strategic objectives. We expect these expenses will increase as we increasingly focus on development of ZFP Therapeutics. Specifically, in order to develop ZFPs as commercially relevant therapeutics, we expect to expend additional resources on manufacturing, regulatory affairs and clinical research.

## **EMPLOYEES**

As of February 1, 2009, we had 77 full-time employees, all of whom are located in Richmond, California. None of our employees are represented by a collective bargaining organization or covered by a collective bargaining agreement, nor have we experienced work stoppages. We believe that our relations with our employees are good.

## **AVAILABLE INFORMATION**

Sangamo can be found on the internet at <http://www.sangamo.com>. We make available free of charge, on or through our internet site, our annual, quarterly, and current reports and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information contained in Sangamo's internet site is not part of this report.

## **ITEM 1A RISK FACTORS**

***ZFP Therapeutics have undergone limited testing in humans and our ZFP Therapeutics may fail safety studies in clinical trials.***

We have initiated and completed a Phase 1 study and initiated several Phase 2 clinical trials in our lead ZFP Therapeutic program. We have completed enrollment and treatment of the patients in several trials of SB-509 for diabetic neuropathy and thus far have not observed any serious drug-related adverse events. However if our lead



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ZFP Therapeutic fails one of its safety studies, it could reduce our ability to attract new investors and corporate partners. In January 2005, we filed an IND application with the FDA for SB-509, a ZFP TF activator of VEGF-A, for the treatment of mild to moderate diabetic neuropathy. We have completed enrollment and treatment of a Phase 1, single blind, single dose, dose-escalation trial to measure the laboratory and clinical safety of SB-509. We have completed enrollment of a repeat-dosing Phase 2 clinical trial (SB-509-601) and have 2 other related Phase 2 trials ongoing for this indication (SB-509-701 and SB-509-703). We also have initiated a Phase 2 clinical trial (SB 509-801) to evaluate SB-509 for the treatment of ALS. A significant number of the trial subjects have received more than one dose of SB-509 during the course of these Phase 2 studies. In addition, Phase 1 clinical trials of an identical ZFP TF have been carried out in subjects with peripheral artery disease. These early studies of a ZFP Therapeutic are a highly visible test of our ZFP Therapeutic approach. Since we have increased our focus on ZFP Therapeutic research and development, investors will increasingly assess the value of our technology based on the continued progress of ZFP Therapeutic products into and through clinical trials. If clinical trials of our lead therapeutic were halted due to safety concerns, this would negatively affect our operations and the value of our stock.

***The results of early Phase 1 and Phase 2 trials are based on a small number of patients over a short period of time, and our progress may not be indicative of results in a large number of patients or of long-term efficacy in late stage clinical trials.***

The results in early phases of clinical testing are based upon limited numbers of patients and a limited follow-up period. Typically, our Phase 1 clinical trials for indications of safety enroll less than 50 patients. The initial results from the Phase 1 clinical trial of our ZFP Therapeutic, SB-509 product, became available in the first half of 2006 and the complete data set was presented in June 2008. The primary end point of the trial was clinical and laboratory safety; however, we collected some preliminary efficacy data that showed trends of clinical improvement in some subjects. A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late stage clinical trials even after achieving promising results in earlier stage clinical trials. If a larger population of patients does not experience positive results, or if these results are not reproducible, our products may not receive approval from the FDA. Failure to confirm favorable results from earlier trials by demonstrating the safety and effectiveness of our ZFP Therapeutic products in late stage clinical trials with larger patient populations could have a material adverse effect on our business that would cause our stock price to decline significantly.

Our first Phase 2 clinical trial (SB-509-601) for safety and efficacy has enrolled 110 patients, and top-line data from this study were presented in November 2008. While these results demonstrated that the drug was well-tolerated in a repeat-dose setting, no differences were observed in neurologic end-points between the SB-509 and placebo-treated subjects. Further analysis of such data is ongoing, and there is no assurance that clinical efficacy of SB-509 can be demonstrated at later stages of testing.

***We have limited experience in conducting clinical trials.***

Our ZFP Therapeutics may fail to show the desired safety and efficacy in initial clinical trials. We have completed a Phase 1 trial and have several ongoing Phase 2 clinical trials, completing enrollment on one of these studies. However, the FDA will require additional clinical testing which involves significantly greater resources, commitments and expertise that may require us to enter into a collaborative relationship with a pharmaceutical company that could assume responsibility for late-stage development and commercialization. We have limited experience in conducting clinical trials and may not possess the necessary resources and expertise to complete such trials, and there is no guarantee that we will be able to enter into collaborative relationships with third parties that can provide us with the funding and expertise for such trials.

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***We may not be able to find acceptable patients or may experience delays in enrolling patients for our clinical trials.***

We may be competing for suitable patients with other clinical trials. We or the FDA may suspend our clinical trials at any time if either believes that we are exposing the subjects participating in these trials to unacceptable health risks. The FDA or institutional review boards and/or institutional biosafety committees at the medical institutions and healthcare facilities where we sponsor clinical trials may suspend any trial indefinitely if they find deficiencies in the conduct of these trials. The FDA and institutional review boards may also require large numbers of patients, and the FDA may require that we repeat a clinical trial.

***Our potential therapeutic products are subject to a lengthy and uncertain regulatory process, and we may encounter unanticipated toxicity or adverse events or fail to demonstrate efficacy, causing us to delay, suspend or terminate the development of a ZFP Therapeutic. If these potential products are not approved, we will not be able to commercialize those products.***

The FDA must approve any human therapeutic product before it can be marketed in the United States. The process for receiving regulatory approval is long and uncertain, and a potential product may not withstand the rigors of testing under the regulatory approval processes.

Before commencing clinical trials in humans, we must submit an Investigational New Drug (IND) application to the FDA. The FDA has 30 days to comment on the application and if the agency has no comments, we or our commercial partner may begin clinical trials.

Clinical trials are subject to oversight by institutional review boards and the FDA. In addition, our proposed clinical studies require review from the Recombinant DNA Advisory Committee ( RAC ), which is the advisory board to the National Institutes of Health ( NIH ), focusing on clinical trials involving gene transfer. We will typically submit a proposed clinical protocol and other product-related information to the RAC three to six months prior to the expected IND application filing date.

Clinical trials:

must be conducted in conformance with the FDA's good clinical practices, within the guidelines of the International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use (ICH) and other applicable regulations;

must meet requirements for Institutional Review Board ( IRB ) oversight;

must follow Institutional Biosafety Committee ( IBC ) and NIH RAC guidelines where applicable;

must meet requirements for informed consent;

are subject to continuing FDA oversight;

may require oversight by a Data Safety Monitoring Board ( DSMB );



may require large numbers of test subjects; and

may be suspended by a commercial partner, the FDA, or us at any time if it is believed that the subjects participating in these trials are being exposed to unacceptable health risks or if the FDA finds deficiencies in the IND application or the conduct of these trials.

While we have stated our intention to file additional IND applications during the next several years, this is only a statement of intent, and we may not be able to do so because the associated product candidates may not meet the necessary preclinical requirements. In addition, there can be no assurance that, once filed, an IND application will result in the actual initiation of clinical trials.

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***As we cannot predict whether or when we will obtain regulatory approval to commercialize our product candidates, we cannot predict the timing of any future revenue from these product candidates.***

We cannot commercialize any of our ZFP Therapeutics to generate revenue until the appropriate regulatory authorities have reviewed and approved the applications for the product candidates. We cannot assure that the regulatory agencies will complete their review processes in a timely manner or that we will obtain regulatory approval for any product candidate that we or our collaborators develop. Satisfaction of regulatory requirements typically takes many years, is dependent upon the type, complexity and novelty of the product and requires the expenditure of substantial resources. Regulatory approval processes outside the United States include all of the risks associated with the FDA approval process. In addition, we may experience delays or rejections based upon additional government regulation from future legislation or administrative action or changes in FDA policy during the period of product development, clinical trials and FDA regulatory review.

***If we establish drug development collaborations, our collaborators may control aspects of our clinical trials, which could result in delays and other obstacles in the commercialization of our proposed products.***

For some programs we may be dependent on third party collaborators to design and conduct our clinical trials. As a result, we may not be able to conduct these programs in the manner or on the time schedule we currently contemplate. In addition, if any of these collaborative partners withdraw support for our programs or proposed products or otherwise impair their development, our business could be negatively affected.

***We have increased the focus of our research and development programs on human therapeutics, which will increase operating expenditures and the uncertainty of our business.***

We have significantly increased the emphasis and focus of our research and development activities on ZFP Therapeutics. This change may increase operating expenditures due to larger financial outlays to fund preclinical studies, manufacturing, and clinical research. The focus on ZFP Therapeutics will also increase the visibility of our lead therapeutic programs and the potential impact on the stock price of news releases relating to these programs.

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

Our proprietary research programs consist of research which is funded solely by the Company and in which the Company retains exclusive rights to therapeutic products generated by such research. This is in contrast to certain of our research programs that may be funded by corporate partners and in which we may share rights to any resulting products. We have conducted proprietary research since inception. However, in the past several years, our strategy has shifted toward placing greater emphasis on proprietary research and therapeutic development and we expect this trend will continue in 2009 as we continue to prosecute our Phase 2 clinical trials and bring new ZFP Therapeutics into clinical trials. Conducting proprietary research programs may not generate corresponding revenue and may create conflicts with our collaborators or strategic partners 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 collaborations 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. The implementation of this strategy will involve substantially greater business risks, the expenditure of significantly greater funds than our historic research activities and will require substantial commitments of time from our management and staff.

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***Commercialization of our technologies will depend, in part, 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 the value of our stock.***

We expect to rely, to some extent, on our strategic partners to provide funding in support of our research and to perform independent research and preclinical and clinical testing. Our technology is broad based, and we do not currently possess the resources necessary to fully develop and commercialize potential products that may result from our technologies or the resources or capabilities to complete the lengthy marketing approval processes that may be required for the products. Therefore, we plan to rely on strategic partnerships to help us develop and commercialize ZFP Therapeutic products. If we are unable to find strategic partners or if the partners we find are unable or unwilling to advance our programs, or if they do not diligently pursue product approval, this may slow our progress and defer our revenues. Our partners may sublicense or abandon development programs or we may have disagreements with our partners, which would cause associated product development to slow or cease. There can be no assurance that we will be able to establish strategic collaborations for ZFP Therapeutic product development. We may require significant time to secure collaborations or strategic partners because we need to effectively market the benefits of our technology to these future collaborators and strategic partners, which use 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.

The loss of any future strategic partnering agreements would not only delay or terminate the potential development or commercialization of products we may derive from our technologies, but it may also delay or terminate our ability to test ZFP therapeutic candidates 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.

Under typical strategic partnering agreements we would expect to receive revenue for the research and development of a ZFP Therapeutic product and 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. If we, or any strategic partner, fail to meet specific milestones, then the strategic partnership may be terminated, which could decrease our revenues.

***Our gene regulation and gene modification 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 and gene modification. Although we have generated ZFPs for thousands of gene sequences, we have not created ZFPs for all gene sequences and may not be able to do so, 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 yet definitively done so in humans, and the failure to do so could restrict our ability to develop commercially viable products. If we, and our collaborators or strategic partners, are unable to extend our results to new commercially important genes, experimental animal models, and human clinical studies, we may be unable to use our technology in all its intended applications. Also, delivery of ZFP TFs and ZFNs into cells and organisms, including humans, in these and other environments is limited by a number of technical hurdles, which we may be unable to surmount. This is a particular challenge for therapeutic applications of our technology that will require the use of gene transfer systems that may not be effective for the delivery of our ZFP TFs or ZFNs in a particular therapeutic application.

The expected value and utility of our ZFP TFs and ZFNs is in part based on our belief that the targeted or specific regulation of gene expression and targeted gene modification may enable us to develop a new therapeutic approach as well as to help scientists better understand the role of genes in disease, to aid their efforts



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in drug discovery and development. We also believe that the regulation of gene expression and targeted gene addition will have utility in agricultural applications. There is only a limited understanding of the role of specific genes in all these fields. Life sciences companies have developed or commercialized only a few products in any of these fields based on results from genomic research or the ability to regulate gene expression. We, our collaborators, or our strategic partners, may not be able to use our technology to identify and validate drug targets or to develop commercial products in the intended markets.

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

In order to regulate or modify a gene in a cell, the ZFP TF or ZFN must be efficiently delivered to the cell. We have licensed certain gene transfer technologies for use with our Enabling Technologies, which are ZFP TFs and ZFNs used in pharmaceutical discovery research and protein production. We are evaluating these systems and other technologies that may need to be used in the delivery of ZFP TFs or ZFNs into cells for in vitro and in vivo applications, including ZFP Therapeutics. However, we may not be able to license the gene transfer technologies required to develop and commercialize our ZFP Therapeutics. We have not developed our own gene transfer technologies, and we 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 do not currently have the infrastructure or capability to manufacture therapeutic products on a commercial scale.***

In order for us to commercialize these therapeutic products directly, we would need to develop, or obtain through outsourcing arrangements, the capability to execute all of these functions. If we are unable to develop or otherwise obtain the requisite preclinical, clinical, regulatory, manufacturing, marketing, and sales capabilities, we would be unable to directly commercialize our therapeutics products which would limit our future growth.

***Even if our technology proves to be effective, it still may not lead to commercially viable products.***

Even if our collaborators or strategic partners are successful in using our ZFP technology in drug discovery, protein production, therapeutic development, or plant agriculture, they may not be able to commercialize the resulting products or may decide to use other methods competitive with our technology. To date, no company has received marketing approval or has developed or commercialized any therapeutic or agricultural products based on our technology. Should our technology fail to provide safe, effective, useful, or commercially viable approaches to the discovery and development of these products, this would significantly limit our business and future growth and would adversely affect our value.

***Even if our product development efforts are successful and even if the requisite regulatory approvals are obtained, our ZFP Therapeutics may not gain market acceptance among physicians, patients, healthcare payers and the medical community.***

A number of additional factors may limit the market acceptance of products including the following:

rate of adoption by healthcare practitioners;

rate of a product's acceptance by the target population;

timing of market entry relative to competitive products;

availability of alternative therapies;

price of our product relative to alternative therapies;

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availability of third-party reimbursement;

extent of marketing efforts by us and third-party distributors or agents retained by us; and

side effects or unfavorable publicity concerning our products or similar products.

***Adverse events in the field of gene therapy may negatively impact regulatory approval or public perception of our potential products.***

Our potential therapeutic products are delivered to patients as gene-based drugs, or gene therapy. The clinical and commercial success of our potential products will depend in part on public acceptance of the use of gene therapy for the prevention or treatment of human diseases. Public attitudes may be influenced by claims that gene therapy is unsafe, and, consequently, our products may not gain the acceptance of the public or the medical community. Negative public reaction to gene therapy in general could result in greater government regulation and stricter labeling requirements of gene therapy products, including any of our products, and could cause a decrease in the demand for any products we may develop.

***Our stock price is also influenced by public perception of gene therapy and government regulation of potential products.***

Reports of serious adverse events in a retroviral gene transfer trial for infants with X-linked severe combined immunodeficiency (X-linked SCID) in France and subsequent FDA actions putting related trials on hold in the United States had a significant negative impact on the public perception and stock price of certain companies involved in gene therapy. Stock prices of these companies declined whether or not the specific company was involved with retroviral gene transfer for the treatment of infants with X-linked SCID, or whether the specific company's clinical trials were placed on hold in connection with these events. Other potential adverse events in the field of gene therapy may occur in the future that could result in greater governmental regulation of our potential products and potential regulatory delays relating to the testing or approval of our potential products.

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

We began operations in 1995 and are in the early phases of ZFP Therapeutic product development. We have incurred significant losses and our net losses for the past three fiscal years ended 2008, 2007 and 2006 were \$24.3 million, \$21.5 million, and \$17.9 million, respectively. To date, our revenues have been generated from strategic partners, Enabling Technology collaborations, and federal government and research foundation grants. Since 2005, we have placed significant emphasis on higher-value therapeutic product development and related strategic partnerships. This shift in emphasis has the potential to increase the return on investment to our stockholders by allocating capital resources to higher value, therapeutic product development activities. At the same time, it increases our financial risk by increasing expenses associated with product development. In addition, the preclinical or clinical failure of any single product, such as our Phase 2 clinical trials of SB-509, may have a significant effect on the actual or perceived value of our shares. Our business is subject to all of the risks inherent in the development of a new technology, which included the need to:

attract and retain qualified scientific and technical staff and management, particularly scientific staff with expertise to develop our early-stage technology into therapeutic products;

obtain sufficient capital to support the expense of developing our technology platform and developing, testing, and commercializing products;

develop a market for our products;

successfully transition from a company with a research focus to a company capable of supporting commercial activities; and

attract and enter into research collaborations with research and academic institutions and scientists.



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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 by using our ZFP technology platform will enter into highly competitive markets. Even if we are able to generate ZFP Therapeutics that are safe and effective for their intended use, competing technologies may prove to be more effective or less expensive, which, to the extent these competing technologies achieve market acceptance, will limit our revenue opportunities. In some cases, competing technologies have proven to be satisfactorily effective and less expensive, as has been the case with technologies competitive with our Enabling Technology applications. Competing technologies may include other methods of regulating gene expression or modifying genes. ZFP TFs and ZFNs have broad application in the life sciences industry and compete with a broad array of new technologies and approaches being applied to genetic research by many companies. Competing proprietary technologies with our product development focus include:

For ZFP Therapeutics:

small molecule drugs;

monoclonal antibodies;

recombinant proteins;

gene therapy/cDNAs;

antisense; and

siRNA and microRNA approaches

For our Enabling Technology Applications:

*For protein production:* gene amplification, meganucleases, insulator technology, mini-chromosomes;

*For target validation:* antisense, siRNA; and

*For plant agriculture:* recombination approaches, mutagenesis approaches, meganucleases, mini-chromosomes;

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

substantially greater capital resources than ours;

larger research and development staffs and facilities than ours; and

greater experience in product development and in obtaining regulatory approvals and patent protection;

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.

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

Our collaborators or strategic partners may adopt alternative technologies, which could decrease the marketability of ZFP technology. Additionally, because many of our collaborators or strategic partners are likely to be working on more than one development project, they could choose to shift their resources to projects other than those they are working on with us. If they do so, this would delay our ability to test our technology and would delay or terminate the development of potential products based on our ZFP 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.

***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 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. In July 2007, we completed a registered direct offering to institutional investors for a total of 3,278,689 shares of common stock, at a price of \$9.15 per share, resulting in net proceeds to us of \$28.0 million. Also in July 2007, we entered into a license agreement and a related stock purchase agreement with Sigma-Aldrich Corporation (Sigma) under which we sold to Sigma 1.0 million shares of Sangamo's common stock valued at \$8.55 million. In June 2006, in an underwritten public offering and pursuant to an effective registration statement, we sold 3,100,000 shares of common stock at a public offering price of \$6.75 per share, resulting in net proceeds of approximately \$20.2 million. In November 2005, we completed a registered direct offering to institutional and strategic investors for a total of 5,080,000 shares of common stock at a price of \$3.85 per share to the investors, resulting in net proceeds to Sangamo of approximately \$18.2 million. To date, we have generated all other funding from revenues derived from strategic partnering agreements, Enabling Technology collaborations, federal government research grants and grants awarded by research foundations. As of December 31, 2008, we had an accumulated deficit of approximately \$174.1 million. We expect to incur losses for the foreseeable future. These losses will increase as we expand and extend our research and development activities into human therapeutic product development. If the time required us to generate significant product revenues and achieve profitability is longer than we currently anticipate or if we are unable to generate liquidity through equity financing or other sources of funding, we may not be able to sustain our operations.

***We may be unable to raise additional capital, 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 ZFP Therapeutic product development activities. While we believe our financial resources will be adequate to sustain our current operations at least through 2010, we may seek additional sources of capital through equity or debt financing. In addition, as we focus our efforts on proprietary human therapeutics, we will need to seek FDA approval of potential products, a process that could cost in excess of \$100 million per product. We cannot be certain that we will be able to obtain financing on terms acceptable to us, or at all. If adequate funds are not available, our business and our ability to develop our technology and ZFP Therapeutic products would be harmed.

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

During the past two years, our common stock price has fluctuated significantly, ranging from a low of \$1.95 to a high of \$13.65 during the year ended December 31, 2008, and a low of \$6.22 to a high of \$19.08 during the year ended December 31, 2007. The recent market instability caused by the turmoil in the financial industry has further contributed to the volatility of our stock price. Volatility in our common stock could cause stockholders 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 various factors, some of which are beyond our control, including but not limited to the following:

announcements by us or future partners providing updates on the progress or development status of ZFP Therapeutics;

data from clinical trials;

changes in market valuations of similar companies;

overall market conditions;

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;

future sales of our common stock or other securities by the Company, management or directors, liquidation of institutional funds that comprised large holdings of Sangamo stock; and

decreases in our cash balances.

***Our common stock is relatively thinly traded, which means large transactions in our common stock may be difficult to conduct in a short time frame.***

We have a relatively low volume of daily trades in our common stock on the Nasdaq Global Market. For example, the average daily trading volume in our common stock on the Nasdaq Global Market over the ten-day trading period prior to February 1, 2009 was approximately 168,800 shares per day. Any large

transactions in our common stock may be difficult to conduct and may cause significant fluctuations in the price of our common stock.

***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 any of our patents that may be challenged. The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and can 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, as our future licenses frequently will, contain performance obligations. If we fail to meet those obligations, the licenses could be terminated. If we are unable to continue to license these technologies on commercially reasonable terms, or at all, we may be forced to delay or terminate our product development and research activities.

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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 do not control the prosecution of certain of the patent applications that we license from third parties; therefore, the patent applications may not be prosecuted exactly as we desire or 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 collaborators or strategic partners will provide a basis for commercially viable products or will provide us with any competitive advantages;

any patents issued or licensed to us 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 that 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 we, our collaborators, or strategic partners 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. We can give no assurance that such a license would be available on commercially reasonable

terms, or at all, or that we would be able to successfully design around the relevant patent claims. There may be significant litigation in the genomics industry regarding patent and other intellectual property rights, which could subject us to litigation. If we become involved in litigation, it could consume a substantial portion of our managerial and financial resources.

We cannot guarantee that third parties will not challenge our intellectual property. One of our in-licensed foreign patents, licensed to Sangamo from Johns Hopkins University which forms the basis for five European Regional Phase patents, has been revoked as a result of an opposition by a third party. Our licensor, The Johns Hopkins University, appealed the revocation but in April 2007, the European Technical Board of Appeal released its decision dismissing the appeal. This outcome may limit our ability to exclude potential competitors in the field of targeted recombination and gene correction in Europe but does not affect our ability to practice our targeted recombination and gene correction programs in Europe. Moreover, we also hold licenses to six US patents to the technology covered by the opposed European patent, and hold licenses to related applications

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pending in Canada and Japan. As of February 1, 2009, US patent number US6,265,196, licensed to Sangamo from The Johns Hopkins University, was undergoing re-examination. In addition in 2008, US5,792,640, also licensed from Johns Hopkins University, completed a first re-examination process and a re-exam certificate was issued on September 9, 2008. However, a second re-exam proceeding was ordered on November 4, 2008. We cannot predict the outcome of the reexamination, which may be unfavorable to us.

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

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

***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 77 full-time employees as of February 1, 2009, and our success depends on our continued ability to attract, retain, and motivate highly qualified management and scientific personnel and our ability to develop and maintain important relationships with leading research and academic institutions and scientists. Competition for personnel and academic and other research collaborations is intense. The success of our technology development programs depends on our ability to attract and retain highly trained personnel. We have experienced a rate of employee turnover that we believe is typical of emerging biotechnology companies. If we lose the services of personnel with the necessary skills, it could significantly impede the achievement of our research and development objectives. We are not presently aware of any plans of specific employees to retire or otherwise leave the company. If we fail to negotiate additional acceptable collaborations with academic and other research institutions and scientists, or if our existing collaborations are unsuccessful, our ZFP Therapeutic development programs may be delayed or may not succeed.

***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 academic collaborators and 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 the withdrawal of partner 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.



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***If we do not successfully commercialize ZFP-based research reagents under our license agreement with Sigma-Aldrich Corporation or ZFP-based agricultural products with Dow AgroSciences, or if Sigma or Dow AgroSciences terminates our agreements, our ability to generate revenue under these license agreements may be limited.***

In July 2007, we entered into a license agreement with Sigma to collaborate in the application and development of ZFP-based products for use in the laboratory research reagents markets, and in June 2008, following a research period, Dow AgroSciences (DAS) exercised its commercial license option under a license agreement with Sangamo relating to plant agriculture. These agreements provide Sigma with access to Sangamo's ZFP technology and the exclusive right to use Sangamo's ZFP technology to develop and commercialize products for use as research reagents and to offer services in related research fields, and provide DAS with the exclusive right to develop agricultural products using our ZFP technology in plant cells, plants, or plant cell cultures. Both companies also have the right to sublicense our technology in their respective areas. In addition to upfront payments, Sangamo may also receive additional license fees, shared sublicensing revenues, royalty payments and milestone payments depending on the success of the development and commercialization of the licensed products and services covered under both agreements. The commercial milestones and royalties are based upon net sales of licensed products.

We cannot be certain that Sigma, DAS and Sangamo will succeed in the development of commercially viable products in these fields of use, and there is no guarantee that Sigma, DAS and Sangamo will achieve the milestones set forth in the respective license agreements. To the extent Sigma, DAS and Sangamo do not succeed in developing and commercializing products or if Sigma, DAS and Sangamo fail to achieve such milestones, our revenues and benefits under the license agreements will be limited. In addition, the respective license agreements may be terminated by Sigma and DAS at any time by providing us with a 90-day notice. In the event Sigma or DAS decides to terminate the license agreements, our ability to generate revenue under such license agreements will cease.

***If we do not successfully commercialize certain ZFP Therapeutic programs relating to diabetic neuropathy under our agreement with JDRF, JDRF may have the right to continue to advance the program and we may lose control of the intellectual property generated in the collaboration and development of the product and may only receive a portion of the revenue generated if commercialization by JDRF is successful.***

In October 2006, we entered into a Research, Development and Commercialization Agreement with JDRF. Under the agreement and subject to its terms and conditions, including our achievement of certain milestones associated with our Phase 2 clinical trial of SB-509 (SB-509-601) for the treatment of diabetic neuropathy, JDRF has paid us a total of \$2.5 million through December 31, 2008. We are obligated to cover the costs of the Phase 2 trial that are not covered by JDRF's grant.

Under the agreement, we are obligated to use commercially reasonable efforts to carry out the Phase 2 trial and, thereafter, to develop and commercialize, a product containing SB-509 for the treatment of diabetes and complications of diabetes. If we fail to satisfy these obligations, JDRF may have the right, subject to certain limitations, to obtain an exclusive, sublicensable license, to the intellectual property generated by us in the course of the Phase 2 trial, to make and commercialize products containing SB-509 for the treatment of diabetes and complications of diabetes. If JDRF obtains such a license, it is obligated to pay us a percentage of its revenues from product sales and sublicensing arrangements. If JDRF fails to satisfy its obligations to develop and commercialize a product containing SB-509 under the Agreement, then their license rights will terminate and we will receive a non-exclusive, fully paid license, for any intellectual property developed during JDRF's use of the license, to research, develop and commercialize products containing SB-509 for the treatment of diabetes and complications of diabetes. There is no guarantee that we will be successful in commercializing a product containing SB-509 in the future. If we fail to do so under the agreement with JDRF, we may lose control of the intellectual property generated in the development of the product and may only receive a portion of the revenue generated if commercialization by JDRF is successful.



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

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

Even if regulatory clearance of a product is granted, this clearance is limited to those specific states and conditions for which the product is useful, as demonstrated through clinical trials. We cannot ensure that any ZFP 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, which may cause competitive harm to our business.

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

Genetically modified products are currently subject to public debate and heightened regulatory scrutiny, either of which could prevent or delay production of agricultural products. In October 2005, we entered into a Research License and Commercial Option Agreement with DAS. In June 2008, DAS exercised its option for a commercial license to our technology. Under this agreement, we will provide DAS with access to our proprietary ZFP technology and the exclusive right to use our ZFP technology to modify the genomes or alter the nucleic acid or protein expression of plant cells, plants, or plant cell cultures. The field-testing, production, and marketing of genetically modified 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 modified 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 those applied to foods developed through traditional plant breeding. Genetically engineered food products, however, will be subject to pre-market review if these products raise safety questions or are deemed to be food additives. Governmental authorities could also, for social or other purposes, limit the use of genetically modified products created with our gene regulation technology.

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Even if we are able to obtain regulatory approval for genetically modified products, our success will also depend on public acceptance of the use of genetically modified products including drugs, plants, and plant products. Claims that genetically modified products are unsafe for consumption or pose a danger to the environment may influence public attitudes. Our genetically modified products may not gain public acceptance. The subject of genetically modified organisms has received negative publicity in the United States and particularly in Europe, and such publicity 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 or sentiment in the United States to 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 typically employed in molecular and cellular biology. We routinely use cells in culture and gene delivery vectors, and we employ small amounts of radioisotopes in trace experiments. Although we maintain up-to-date licensing and training programs, 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 currently carry insurance covering claims arising from our use of these materials. However, if we are unable to maintain our insurance coverage at a reasonable cost and with adequate coverage, our insurance may not cover any liability that may arise. 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. To date, we have not experienced significant costs in complying with regulations regarding the use of these materials.

***Anti-takeover provisions in our certificate of incorporation and Delaware law could make an acquisition of the Company more difficult and could prevent attempts by our stockholders to remove or replace current management.***

Anti-takeover provisions of Delaware law and in our certificate of incorporation and our bylaws may discourage, delay or prevent a change in control of our company, even if a change in control would be beneficial to our stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. In particular, under our certificate of incorporation our board of directors may 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. Moreover, without any further vote or action on the part of the stockholders, the board of directors would have the authority to determine the price, rights, preferences, privileges, and restrictions of the preferred stock. This preferred stock, if it is ever issued, may have preference over, and harm the rights of, the holders of common stock. Although the issuance of this preferred stock would provide us with flexibility in connection with possible acquisitions and other corporate purposes, this issuance may make it more difficult for a third party to acquire a majority of our outstanding voting stock.

Similarly, our authorized but unissued common stock is available for future issuance without stockholder approval.

In addition, our bylaws:

state that stockholders may not act by written consent but only at a stockholders meeting;

establish advance notice requirements for nominations for election to the board of directors or proposing matters that can be acted upon at stockholders' meetings; and

prohibit stockholders from calling a special meeting of stockholders.

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We are also subject to Section 203 of the Delaware General Corporation Law, which provides, subject to certain exceptions, that if a person acquires 15% of our voting stock, the person is an interested stockholder and may not engage in business combinations with us for a period of three years from the time the person acquired 15% or more of our voting stock.

***Insiders have 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 and directors beneficially own, in the aggregate, approximately 10% of our outstanding common stock as of December 31, 2008. As a result, these stockholders, if they choose to act together, may 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 1B UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2 PROPERTIES**

We currently lease approximately 27,000 square feet of research and office space located at 501 Canal Boulevard in Richmond, California. The lease expires in August of 2014. We believe such facilities are sufficient for the foreseeable future.

**ITEM 3 LEGAL PROCEEDINGS**

We are not a party to any material legal proceeding.

**ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**Table of Contents****PART II****ITEM 5 MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock has traded on the Nasdaq Global Market under the symbol SGMO since our initial public offering on April 6, 2000.

The high and low closing prices of our common stock for each quarterly period during the last two fiscal years as reported by the NASDAQ Global Market were as follows:

**Common Stock**

	Price	
	High	Low
Year ended December 31, 2007		
First Quarter	\$ 8.85	\$ 6.22
Second Quarter	\$ 8.54	\$ 6.57
Third Quarter	\$ 14.11	\$ 8.36
Fourth Quarter	\$ 19.08	\$ 12.39
Year ended December 31, 2008		
First Quarter	\$ 13.37	\$ 8.83
Second Quarter	\$ 13.65	\$ 8.77
Third Quarter	\$ 11.52	\$ 6.91
Fourth Quarter	\$ 8.04	\$ 1.95

**Holdings**

As of February 1, 2009, there were approximately 90 holders of record of Sangamo's common stock. This number does not include street name or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions.

**Dividends**

Sangamo has not paid dividends on its common stock, and currently does not plan to pay any cash dividends in the foreseeable future.

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**Stock Trading Plans**

From time to time our directors, executive officers and other insiders may adopt stock trading plans pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. These plans are established to allow individuals to diversify their investment portfolio while avoiding conflicts of interest or the appearance of any such conflict that might arise from their positions with the company. Starting in the first quarter of 2002, three of our officers, including Edward O. Lanphier II, President and CEO, and two of our directors have made periodic sales of the Company's stock pursuant to such plans.

**Stock Performance Graph**

\* This comparison is based on return assuming \$100 invested on December 31, 2003 in stock or index, assuming reinvestment of all dividends. Fiscal year ending December 31.

*The above Stock Performance Graph and related information shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.*



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The following Selected Financial Data should be read in conjunction with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8 Financial Statements and Supplementary Data included elsewhere in this Annual Report on Form 10-K.

**Selected Financial Data**

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except per share data)				
<b>Statement of Operations Data:</b>					
Total revenues	\$ 16,186	\$ 9,098	\$ 7,885	\$ 2,484	\$ 1,315
Operating expenses:					
Research and development	31,229	25,559	21,527	10,909	11,184
General and administrative	10,332	8,310	7,087	5,323	4,781
Total operating expenses	41,561	33,869	28,614	16,232	15,965
Loss from operations	(25,375)	(24,771)	(20,729)	(13,748)	(14,650)
Interest income, net	2,231	3,217	2,411	850	620
Other (expense)/income	(1,158)	74	454	(395)	212
Net loss	\$ (24,302)	\$ (21,480)	\$ (17,864)	\$ (13,293)	\$ (13,818)
Basic and diluted net loss per common share	\$ (0.60)	\$ (0.58)	\$ (0.55)	\$ (0.51)	\$ (0.55)
Shares used in computing basic and diluted net loss per common share	40,825	37,355	32,502	25,855	25,126
	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands)				
<b>Allocation of Stock-Based Compensation to Operating Expenses:</b>					
Research and development	\$ 2,718	\$ 1,449	\$ 1,229	\$ 300	\$ 649
General and administrative	3,030	988	787	1	14
Total stock-based compensation	\$ 5,748	\$ 2,437	\$ 2,016	\$ 301	\$ 663
	As of December 31,				
	2008	2007	2006	2005	2004
	(In thousands)				
<b>Balance Sheet Data:</b>					
Cash, cash equivalents, marketable securities, and interest receivable	\$ 65,025	\$ 81,412	\$ 53,975	\$ 47,174	\$ 33,520
Working capital	54,221	72,437	49,856	41,668	32,028

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Total assets	67,850	83,900	55,780	48,983	34,725
Accumulated deficit	(174,054)	(149,752)	(128,272)	(110,408)	(97,115)
Total stockholders equity	55,396	72,122	48,705	37,814	32,377

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### **ITEM 7 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 Part I, Item 1A. You should read the following discussion and analysis along with the Selected Financial Data and 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 December 31, 2008, 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 the engineering of novel zinc finger DNA-binding proteins (ZFPs) for the regulation and modification of genes. 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 research grants and from corporate collaborators and strategic partners. As of December 31, 2008, we had an accumulated deficit of \$174.1 million.

Our revenues have consisted primarily of revenues from our corporate partners for ZFP transcription factors (ZFP TFs) and ZFP nucleases (ZFNs), contractual payments from strategic partners for research programs and research milestones, and 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.

In the development of our ZFP technology platform we have continued to place more emphasis internally on higher-value therapeutic product development and less on our Enabling Technology applications. We believe this shift in emphasis has the potential to increase the return on investment to our stockholders by allocating capital resources to higher value, therapeutic product development activities. At the same time, it may reduce our revenues over the next several years and subject us to higher financial risk by increasing expenses associated with product development. We have filed Investigational New Drug (IND) applications with the U.S. Food and Drug Administration (FDA) and have initiated three Phase 2 clinical trials of a ZFP Therapeutic in subjects with diabetic neuropathy and one Phase 2 clinical trial in subjects with ALS. We are also conducting a Phase 1 clinical trial to evaluate a ZFP Therapeutic for the treatment of HIV/AIDS. Development of novel therapeutic products is costly and is subject to a lengthy and uncertain regulatory process by the FDA. Our future products are gene-based therapeutics. Adverse events in both our own clinical program and other programs may have a negative impact on regulatory approval, the willingness of potential commercial partners to enter into agreements and the perception of the public.

Research and development expenses consist primarily of salaries and personnel expenses, stock-based compensation expenses, laboratory supplies, pre-clinical and clinical studies, manufacturing expenses, allocated facilities expenses, subcontracted research expenses and expenses for trademark registration and technology licenses. Research and development costs incurred in connection with collaborator-funded activities 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. We believe that continued investment in research and



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development is critical to attaining our strategic objectives. We expect these expenses will increase as we focus on development of ZFP Therapeutics. Additionally, in order to develop ZFP TFs and ZFNs as commercially relevant therapeutics, we expect to expend additional resources for expertise in the manufacturing, regulatory affairs and clinical research aspects of biotherapeutic development.

General and administrative expenses consist primarily of salaries and personnel expenses for executive, finance and administrative personnel, stock-based compensation expenses, professional fees, allocated facilities expenses, patent prosecution expenses 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.

### **Critical Accounting Estimates**

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. Such estimates are described in Note 1 Organization and Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources, and evaluate our estimates on an ongoing basis. Actual results could differ from those estimates under different assumptions or conditions.

### **Results of Operations**

#### ***Years Ended December 31, 2008, 2007 and 2006***

##### *Revenues*

	Year Ended December 31,							
	2008	2007	Change	% Change	2007	2006	Change	% Change
	(In thousands, except percentage values)							
Revenues:								
Collaboration agreements	\$ 14,492	\$ 6,781	\$ 7,711	114%	\$ 6,781	\$ 6,625	\$ 156	2%
Research grants	1,694	2,317	(623)	(27)%	2,317	1,260	1,057	84%
Total revenues	\$ 16,186	\$ 9,098	\$ 7,088	78%	\$ 9,098	\$ 7,885	\$ 1,213	15%

Total revenues consisted of revenues from collaboration agreements, strategic partnerships and research grants. We anticipate revenues over the next several years primarily related to our research license and commercial option agreement with Dow AgroSciences LLC ( *DAS* ), a wholly owned indirect subsidiary of Dow Chemical Corporation and our laboratory research reagents license agreement with Sigma-Aldrich Corporation ( *Sigma* ).

Revenues from our corporate collaboration and strategic partnering agreements were \$14.5 million in 2008, compared to \$6.8 million in 2007 and \$6.6 million in 2006. The increase in 2008 from 2007 was attributable to increased revenues of approximately \$2.9 million in connection with our research and commercial license agreements with Pfizer Inc ( *Pfizer* ), increased revenues of \$2.6 million in connection with our laboratory research reagents license agreement with Sigma, increased revenues of \$2.1 million

in connection with our research license and commercial option agreement with DAS and increased revenues of \$106,000 in connection

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with our research and license agreement with Genentech, Inc. The increase in 2007 from 2006 was primarily attributable to revenues of approximately \$1.1 million in connection with our laboratory research reagents license agreement with Sigma, revenues of \$283,000 in connection with our research and license agreement with Genentech, Inc. and increased revenues of \$62,000 in connection with our research license and commercial option agreement with DAS. This was partially offset by decreased revenues from Pfizer of \$651,000 and Johnson & Johnson of \$600,000.

Research grant revenues were \$1.7 million in 2008, \$2.3 million in 2007 and \$1.3 million in 2006. The decrease in 2008 from 2007 was primarily attributable to decreased revenues of \$500,000 related to our grant with the Juvenile Diabetes Research Foundation International ( JDRF ), \$318,000 in connection with our Advanced Technology Program ( ATP ) grant awarded by the National Institute of Standards and Technology and \$43,000 related to our Cystic Fibrosis grant awarded by the Cystic Fibrosis Foundation. This was partially offset by increased revenues of \$156,000 related to our grant with the Michael J. Fox Foundation for Parkinson's Research ( MJFF ) and \$82,000 related to our grant with the Defense Advanced Research Projects Agency. The increase in 2007 from 2006 was primarily attributable to increased revenues of \$1.5 million related to our grant with JDRF and \$397,000 related to our grant with MJFF. This was partially offset by decreased revenues of \$635,000 in connection with our ATP grant awarded by the National Institute of Standards and Technology, \$144,000 in connection with our Cystic Fibrosis grant awarded by the Cystic Fibrosis Foundation and \$100,000 in connection with our ZFN-driven Gene Disruption of CCR5 as a Potential Treatment of AIDS grant awarded by the National Institutes of Health.

### *Operating Expenses*

	Year Ended December 31,								
	2008	2007	Change	% Change	2007	2006	Change	% Change	
	(In thousands, except percentage values)								
Operating expenses:									
Research and development	\$ 31,229	\$ 25,559	\$ 5,670	22%	\$ 25,559	\$ 21,527	\$ 4,032	19%	
General and administrative	10,332	8,310	2,022	24%	8,310	7,087	1,223	17%	
Total operating expenses	\$ 41,561	\$ 33,869	\$ 7,692	23%	\$ 33,869	\$ 28,614	\$ 5,255	18%	

### **Research and development expenses**

Research and development expenses consist primarily of salaries and personnel expenses, stock-based compensation expense, laboratory supplies, pre-clinical and clinical studies, manufacturing costs, allocated facilities expenses, subcontracted research expenses and expenses for trademark registration and technology licenses. We expect to continue to devote substantial resources to research and development in the future and expect research and development expenses to increase in the next several years if we are successful in advancing our ZFP Therapeutic product candidates into clinical trials. To the extent we collaborate with others with respect to clinical trials, increases in research and development expenses may be reduced or avoided.

Research and development expenses were \$31.2 million in 2008, compared to \$25.6 million in 2007 and \$21.5 million in 2006. The increase of \$5.7 million in 2008 from 2007 was primarily due to increased pre-clinical and clinical studies and manufacturing expenses of \$3.0 million, primarily associated with our diabetic neuropathy program and increased salaries and personnel expenses of \$1.4 million, including increased stock-based compensation expenses of \$1.3 million. The increase in stock-based compensation was due to increased grant activity, higher Black-Scholes value per share and a lower

estimated forfeiture rate which the Company believes is more representative of its historical experience. Consulting expenses increased by \$972,000, primarily in support of our diabetic neuropathy program, and facility expenses increased by \$510,000 primarily due to the Company leasing additional space. This was partially offset by decreased expenses related to licensing and external research of \$271,000. The increase of \$4.0 million in 2007 from 2006 was primarily due to increased pre-clinical and clinical studies and manufacturing expenses of \$6.2 million, primarily associated with



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our diabetic neuropathy program, increased salaries and personnel expenses of \$1.8 million, including increased stock-based compensation expenses of \$219,000, and increased laboratory supplies of \$512,000 and facilities of \$469,000. This was partially offset by decreased licensing expenses of \$5.3 million, primarily associated with the 2006 acquisition of all assets in Edwards Lifesciences LLC ZFP therapeutic angiogenesis program valued at \$5.8 million.

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 neurological disorders, HIV/AIDS, cancer and monogenic diseases, ZFP-engineered cell lines, protein production and ZFP TFs and ZFNs for applications in agricultural biotechnology.

Below is a summary of our programs partially funded by collaborators and the development phase of the leading application:

<b>Program</b>	<b>Collaborator</b>	<b>Stage</b>
ZFP technology to modify the genomes or alter the protein expression of plant cells, plants, or plant cell cultures	Dow AgroSciences	Research/Marketing
ZFP technology for high value laboratory research reagents	Sigma-Aldrich Corporation	Research/Marketing
ZFP-engineered cell lines for the manufacture of protein pharmaceuticals	Genentech, Inc.	Research/Marketing
ZFP-engineered cell lines for the manufacture of protein pharmaceuticals	Pfizer Inc	Research/Marketing

Below is a summary of our programs funded internally and the development stage of the leading application:

<b>Program</b>	<b>Stage</b>
ZFP Therapeutics	Clinical/Preclinical/Research
ZFP TF-engineered cell lines for the manufacture of protein pharmaceuticals	Research

Drug development is inherently uncertain and the successful completion of our development programs is subject to numerous technological challenges and risks and we cannot presently estimate anticipated completion dates for any of our programs. Material cash inflows associated with the sale of products, if any, which result from our research efforts are not expected for at least five years. See Risk Factors *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 these products and Our gene regulation and gene modification technology is relatively new, and if we are unable to use this technology in all our intended applications, it would limit our revenue opportunities.*

Prior to January 1, 2008, due to the early stage of our various internal research and development projects, we did not track costs associated with our internal projects on a project-by-project basis. Since January 1, 2008, management categorizes research and development expenses by project. The table below shows research and development expenses for our two primary clinical development projects, SB-509 and SB-728-T, as well as expenses associated with all other projects in our research and development pipeline. Other projects consist primarily of numerous pre-clinical research projects and activity associated with various research collaborations.

<b>Projects</b>	<b>Year Ended December 31,</b>
-----------------	------------------------------------

	<b>2008</b>
	<b>(In millions)</b>
SB-509	\$ 13,202
SB-728-T	3,985
Other research and development projects	14,042
Total research and development expenses	\$ 31,229

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### **General and administrative expenses**

General and administrative expenses consist primarily of salaries and personnel expenses for executive, finance and administrative personnel, stock-based compensation expenses, professional fees, allocated facilities expenses, patent prosecution expenses 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.

General and administrative expenses were \$10.3 million in 2008, \$8.3 million in 2007 and \$7.1 million in 2006. The increase of \$2.0 million in 2008 from 2007 was primarily due to increased salaries and personnel expenses of \$2.3 million, including increased stock-based compensation of \$2.0 million, partially offset by decreased expenses related to professional services of \$214,000. The increase in stock-based compensation was due to increased grant activity, higher Black-Scholes value per share and a lower estimated forfeiture rate as noted above. The increase of \$1.2 million during 2007 was primarily due to increased expenses related to professional services of \$719,000 and salaries and personnel expenses of \$403,000, including increased stock-based compensation of \$201,000.

### ***Interest income, net***

	Year Ended December 31,							
	2008	2007	Change	%	2007	2006	Change	%
	(In thousands, except percentage values)							
Interest income, net	\$ 2,231	\$ 3,217	\$ (1,084)	(31)%	\$ 3,217	\$ 2,411	\$ 806	33%

Net interest income was \$2.1 million in 2008, compared to \$3.2 million in 2007, and \$2.4 million in 2006. The decrease in 2008 from 2007 was primarily due to lower interest income earned of \$1.1 million due to lower average investment balances and lower interest rates. The increase of \$806,000 in 2007 from 2006 was primarily related to higher interest income earned on higher average cash and investment balances from the July 2007 equity financing.

### ***Other (expense)/income***

	Year Ended December 31,							
	2008	2007	Change	%	2007	2006	Change	%
	(In thousands, except percentage values)							
Other (expense)/income	\$ (1,158)	\$ 74	\$ (1,134)	(1665)%	\$ 74	\$ 454	\$ (380)	(84)%

Other (expense)/income is primarily comprised of foreign currency translation gains and losses related to the cash balance held by our wholly-owned UK subsidiary, Gendaq Limited. The loss in 2008 compared to the gain in 2007, and the decrease in 2007 from 2006 are due to fluctuations in the value of the British pound relative to the U.S. dollar.

### **Liquidity and Capital Resources**

Since inception, we have financed our operations primarily through the sale of equity securities, payments from corporate collaborators, research grants and financing activities such as a bank line of credit. As of December 31, 2008, we had cash, cash equivalents, investments and interest receivable totaling \$65.0 million.

Net cash used in operating activities was \$18.5 million in 2008, \$16.1 million in 2007 and \$14.5 million in 2006. In all periods, net cash used in operating activities was primarily due to funding of net operating

losses.

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During 2008, the use of cash related to our net operating loss of \$24.3 million was partially offset by net non-cash charges of \$5.1 million and changes in operating assets and liabilities of \$685,000. Non-cash charges include \$5.7 million related to stock-based compensation and depreciation and amortization of \$523,000. This was partially offset by net amortization of premium / discount on marketable securities of \$1.1 million. The net increase in operating liabilities was primarily comprised of increases in deferred revenues of \$1.2 million and accounts payable and accrued liabilities of \$310,000. This was partially offset by decreases in accrued compensation and employee benefits of \$811,000. During 2007, the use of cash related to our net operating loss of \$21.5 million was partially offset by net non-cash charges of \$566,000 and changes in operating assets and liabilities of \$4.8 million. Non-cash charges include \$2.4 million related to stock-based compensation and depreciation and amortization of \$274,000. This was partially offset by net amortization of premium / discount on marketable securities of \$2.1 million. The net increase in operating liabilities was primarily comprised of increases in deferred revenues of \$2.6 million and accounts payable and accrued liabilities of \$1.8 million. During 2006, the use of cash related to our net operating loss of \$17.9 million and changes in operating assets and liabilities of \$3.7 million, partially offset by net non-cash charges of \$7.1 million. Non-cash charges include \$5.8 million related to issuance of common stock for Edwards' asset purchase, \$2.0 million related to stock-based compensation and depreciation of \$171,000, partially offset by amortization of premium / discount on marketable securities of \$857,000. The net decreases in operating liabilities are mainly attributable to decreases in deferred revenues of \$4.2 million partially offset by net decreases in asset balances of \$370,000.

Net cash provided by investing activities was \$23.8 million in 2008. Net cash used in investing activities was \$26.6 million in 2007 and \$12.2 million in 2006. Cash provided by investing activities in 2008 was primarily comprised of maturities of marketable securities of \$101.4 million and proceeds from sales of marketable securities of \$5.6 million, partially offset by purchases of marketable securities of \$82.5 million and property and equipment of \$739,000. Cash used in investing activities in 2007 was primarily comprised of purchases of marketable securities of \$119.9 million and purchases of property and equipment of \$1.4 million, partially offset by maturities of marketable securities of \$93.3 million and proceeds from sales of marketable securities of \$1.3 million. Cash used in investing activities in 2006 was primarily comprised of purchases of marketable securities of \$67.1 million and purchases of property and equipment of \$374,000, partially offset by maturities of marketable securities of \$55.3 million.

Net cash provided by financing activities was \$1.8 million in 2008, \$42.3 million in 2007 and \$20.9 million in 2006. Cash provided by financing activities in 2008 was related to proceeds from issuance of common stock related to stock option exercises. In July 2007, the company completed a registered direct offering to institutional and strategic investors for a total of 3,278,689 shares of common stock at a price of \$9.15 per share to the investors, resulting in net proceeds to Sangamo of approximately \$28.0 million. In July 2007, pursuant to a laboratory research reagents license agreement with Sigma, the company issued one million shares of common stock valued at \$8.55 per share to Sigma, resulting in proceeds of \$8.6 million. In June 2006, in an underwritten public offering and pursuant to an effective registration statement, we sold 3,100,000 shares of common stock at a public offering price of \$6.75 per share, resulting in net proceeds of approximately \$20.2 million after deducting underwriter's discount. All other cash provided by financing activities for 2007 and 2006 was related to proceeds from issuance of common stock related to stock option exercises.

While we expect our rate of cash usage to increase in the future, in particular, to support our product development endeavors, we believe that the available cash resources, funds received from corporate collaborators, strategic partners and research grants will be sufficient to finance our operations through 2010. We may need to raise additional capital to fund our ZFP Therapeutic development activities. Additional capital may not be available in terms acceptable to us, or at all. If adequate funds are not available, our business and our ability to develop our technology and our ZFP Therapeutic products would be harmed.

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There is no provision for income taxes because we have incurred losses. As of December 31, 2008, Sangamo had net operating loss carryforwards for federal income tax purposes of approximately \$113.4 million, which will expire in the years 2010 through 2028. The Company also has state net operating loss carryforwards of approximately \$96.9 million, which expire in the years 2012 through 2028. The Company also has federal and state research tax credit carryforwards of \$2.4 million and \$2.5 million, respectively. The federal research credits will begin to expire in the year 2018 through 2028 and the state research credits have no expiration date. Utilization of the Company's net operating loss may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation could result in the expiration of the net operating loss before use.

### **Contractual Obligations and Commercial Commitments**

As of December 31, 2008 we had contractual obligations and commercial commitments as follows (in thousands):

	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual Obligations					
Operating leases	\$ 3,344	\$ 556	\$ 1,155	\$ 1,216	417
License obligations	1,550	290	630	630	
Total contractual obligations	\$ 4,894	\$ 846	\$ 1,785	\$ 1,846	\$ 417

Operating leases consist of base rents for facilities we occupy in Richmond, California. License obligations consist of ongoing license maintenance fees, milestones and royalties due from sales of ZFP TFs and ZFNs.

### **Recent Accounting Pronouncements**

See Note 1 *Organization and Summary of Significant Accounting Policies* of the Notes to Consolidated Financial Statements in Part 2, Item 8 of this Form 10-K. Financial Statements and Supplementary Data for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on results of operations and financial condition.

### **ITEM 7A 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 invest 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.

We carry our investments of debt securities at fair value, estimated as the amount at which an asset or liability could be bought or sold in a current transaction between willing parties. A combination of factors in the housing and mortgage markets, including rising delinquency and default rates on subprime mortgages and declining home prices, has led to increases in actual and expected credit losses for residential mortgage-backed securities and mortgage loans. Since 2007, the credit markets have been

reacting to these changing factors and the prices of many securities backed by subprime mortgages have been declining. Lower volumes of transactions in certain types of collateralized securities might make it more difficult to obtain relevant market information to

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estimate the fair value of these financial instruments. In accordance with our investment policy, we diversify our credit risk and invest in debt securities with high credit quality. Substantially all our investments held as of December 31, 2008 are actively traded and our estimate of fair value is based upon quoted market prices. We have not recorded losses on our securities due to credit or liquidity issues. We will continue to monitor our credit risks and evaluate the potential need for impairment charges related to credit risks in future periods.

We have exposure to fluctuations in the value of the British pound, relative to the U.S. dollar, associated with the cash and cash equivalents balance of our wholly-owned foreign subsidiary, Gendaq Limited, domiciled in the United Kingdom. We recognized a loss on foreign currency translation of \$1.2 million in 2008, a gain on foreign currency translation of \$74,000 in 2007, and a gain of \$454,000 in 2006.



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**ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**SANGAMO BIOSCIENCES, INC.**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Sangamo BioSciences, Inc.

We have audited the accompanying consolidated balance sheets of Sangamo BioSciences, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sangamo BioSciences, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Sangamo BioSciences Inc.'s internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2009 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Palo Alto, California

March 2, 2009

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Sangamo BioSciences, Inc.

We have audited Sangamo BioSciences, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Sangamo BioSciences, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sangamo BioSciences, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sangamo BioSciences, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated March 2, 2009 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Palo Alto, California

March 2, 2009



**Table of Contents****SANGAMO BIOSCIENCES, INC.****CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2008	2007
	(In thousands, except share and per share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 19,409	\$ 12,275
Marketable securities	45,422	68,813
Interest receivable	194	324
Accounts receivable	500	209
Prepaid expenses	327	497
Total current assets	65,852	82,118
Property and equipment, net	1,986	1,770
Other assets	12	12
Total assets	\$ 67,850	\$ 83,900
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,848	\$ 3,538
Accrued compensation and employee benefits	388	1,199
Deferred revenue	7,395	4,944
Total current liabilities	11,631	9,681
Deferred revenue, non-current portion	823	2,097
Total liabilities	12,454	11,778
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; 80,000,000 shares authorized, 41,057,077 and 40,315,368 shares issued and outstanding at December 31, 2008 and 2007, respectively	410	403
Additional paid-in capital	228,764	221,176
Accumulated deficit	(174,054)	(149,752)
Accumulated other comprehensive income	276	295
Total stockholders' equity	55,396	72,122
Total liabilities and stockholders' equity	\$ 67,850	\$ 83,900

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents****SANGAMO BIOSCIENCES, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2008	2007	2006
	(In thousands, except per share amounts)		
Revenues:			
Collaboration agreements	\$ 14,492	\$ 6,781	\$ 6,625
Research grants	1,694	2,317	1,260
Total revenues	16,186	9,098	7,885
Operating expenses:			
Research and development	31,229	25,559	21,527
General and administrative	10,332	8,310	7,087
Total operating expenses	41,561	33,869	28,614
Loss from operations	(25,375)	(24,771)	(20,729)
Interest income, net	2,231	3,217	2,411
Other (expense)/income	(1,158)	74	454
Net loss	\$ (24,302)	\$ (21,480)	\$ (17,864)
Basic and diluted net loss per share	\$ (0.60)	\$ (0.58)	\$ (0.55)
Shares used in computing basic and diluted net loss per share	40,825	37,355	32,502

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents****SANGAMO BIOSCIENCES, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders Equity
	Shares	Amount				
Balances at December 31, 2005	30,570,912	\$ 306	\$ 147,856	\$ (110,408)	\$ 60	\$ 37,814
Issuance of common stock in connection with registered direct offering and upon exercise of stock options	3,374,896	33	20,523			20,556
Issuance of common stock in connection with technologies purchase agreement	1,000,000	10	5,770			5,780
Issuance of common stock under employee stock purchase plan	99,590	1	348			349
Stock-based compensation			2,016			2,016
Comprehensive loss:						
Increase in unrealized gain on marketable securities					54	54
Net loss				(17,864)		(17,864)
Comprehensive loss						(17,810)
Balances at December 31, 2006	35,045,398	350	176,513	(128,272)	114	48,705
Issuance of common stock in connection with registered direct offering and upon exercise of stock options	4,160,243	42	33,204			33,246
Issuance of common stock in connection with license agreement	1,000,000	10	8,540			8,550
Issuance of common stock under employee stock purchase plan	109,727	1	482			483
Stock-based compensation			2,437			2,437
Comprehensive loss:						
Increase in unrealized gain on marketable securities					181	181
Net loss				(21,480)		(21,480)
Comprehensive loss						(21,299)
Balances at December 31, 2007	40,315,368	403	221,176	(149,752)	295	72,122
Issuance of common stock upon exercise of stock options and in connection with restricted stock units	639,326	6	1,211			1,217
Issuance of common stock under employee stock purchase plan	102,383	1	629			630
Stock-based compensation			5,748			5,748
Comprehensive loss:						
Increase in unrealized gain on marketable securities					79	79
Other changes in Other Comprehensive Loss					(98)	(98)
Net loss				(24,302)		(24,302)
Comprehensive loss						(24,321)

Balances at December 31, 2008                      41,057,077 \$ 410 \$ 228,764 \$ (174,054) \$ 276   \$ 55,396

See accompanying Notes to Consolidated Financial Statements.



**Table of Contents****SANGAMO BIOSCIENCES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>		
<b>Operating activities:</b>			
Net loss	\$ (24,302)	\$ (21,480)	\$ (17,864)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	523	274	171
Amortization of premium / discount on marketable securities	(1,059)	(2,145)	(857)
Issuance of common stock in connection with technologies purchase agreement			5,780
Stock-based compensation	5,748	2,437	2,016
Effect of Exchange Rate Changes on Cash	1,158		
Other changes in Other Comprehensive Loss	(98)		
Net changes in operating assets and liabilities:			
Interest receivable	130	(269)	163
Accounts receivable	(291)	278	484
Prepaid expenses and other assets	170	134	(277)
Accounts payable and accrued liabilities	310	1,812	192
Accrued compensation and employee benefits	(811)	321	(55)
Deferred revenue	1,177	2,570	(4,231)
Net cash used in operating activities	(17,345)	(16,068)	(14,478)
<b>Investing activities:</b>			
Purchases of marketable securities	(82,485)	(119,855)	(67,135)
Maturities of marketable securities	101,375	93,272	55,277
Proceeds from sales of marketable securities	5,639	1,314	
Purchases of property and equipment	(739)	(1,369)	(374)
Net cash provided by / (used in) investing activities	23,790	(26,638)	(12,232)
<b>Financing activities:</b>			
Proceeds from issuance of common stock	1,847	33,729	20,905
Issuance of common stock in connection with license agreements		8,550	
Net cash provided by financing activities	1,847	42,279	20,905
Effect of Exchange Rate Changes on Cash	(1,158)		
Net increase / (decrease) in cash and cash equivalents	7,134	(427)	(5,805)
Cash and cash equivalents, beginning of period	12,275	12,702	18,507
Cash and cash equivalents, end of period	\$ 19,409	\$ 12,275	\$ 12,702

See accompanying Notes to Consolidated Financial Statements.



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**SANGAMO BIOSCIENCES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Sangamo and Basis of Presentation***

Sangamo BioSciences, Inc. ( Sangamo or the Company ) was incorporated in the State of Delaware on June 22, 1995 and is focused on the development and commercialization of novel transcription factors for gene regulation and gene modification. Our gene regulation and gene modification technology platform is enabled by the engineering of a class of transcription factors known as zinc finger DNA-binding proteins ( ZFPs ). Potential applications of Sangamo s technology include development of human therapeutics, plant agriculture and enhancement of pharmaceutical protein production. Sangamo will require additional financial resources to complete the development and commercialization of its products including ZFP Therapeutics.

Sangamo is currently working on a number of long-term development projects that will involve experimental and unproven technology. The projects may require several years and substantial expenditures to complete and ultimately may be unsuccessful. We plan to finance operations with available cash resources, funds received under research grants and Enabling Technology collaborations and strategic partnerships, and from the issuance of equity or debt securities. Sangamo believes that its available cash, cash equivalents and investments as of December 31, 2008, along with expected revenues from Enabling Technology collaborations and strategic partnerships, will be adequate to fund its operations through 2010. Sangamo will need to raise substantial additional capital to fund subsequent operations and complete the development and commercialization of its products either through significant corporate partnerships, Enabling Technology agreements and research grants, or issuance of equity securities. Sangamo may seek to raise additional capital when conditions permit, however, there is no assurance funding will be available on favorable terms, if at all.

The consolidated financial statements include the accounts of Sangamo and its wholly owned subsidiary, Gendaq Limited, after elimination of all intercompany balances and transactions.

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.

The carrying amounts for financial instruments consisting of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities. Marketable securities are stated at their estimated fair values, based on quoted market prices for the same or similar instruments. The counterparties to the agreements relating to the Company s investment securities consist of various major corporations, governmental agencies and financial institutions with high credit standing.

***Cash and Cash Equivalents***

Sangamo considers all highly liquid investments purchased with original maturities of three months or less at the purchase date to be cash equivalents. Cash and cash equivalents of \$19.4 million and \$12.3 million at December 31, 2008 and 2007, respectively, consist of deposits in money market investment accounts and corporate bank accounts.

***Marketable Securities***

Sangamo classifies its marketable securities as available-for-sale and records its investments at fair value in accordance with Statement of Financial Accounting Standards ( FAS ) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Available-for-sale securities are carried at estimated fair

value based

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on quoted market prices, with the unrealized holding gains and losses included in accumulated other comprehensive income. The Company's investments are subject to a periodic impairment review. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than the Company's cost basis, the financial condition and near-term prospects of the investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market value. During the years ended December 31, 2008, 2007 and 2006 the Company did not record any other-than-temporary impairment charges on its investments. Realized gains and losses on available-for-sale securities are included in other (expense)/income, which is determined using the specific identification method.

The table below summarizes our available-for-sale securities (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
<b>December 31, 2008</b>				
Marketable securities:				
Commercial paper	\$ 20,675	\$ 123	\$	\$ 20,798
Government agencies	24,471	153		24,624
Total	\$ 45,146	\$ 276	\$	\$ 45,422
<b>December 31, 2007</b>				
Marketable securities:				
Commercial paper	\$ 40,514	\$ 181	\$	\$ 40,695
Asset backed securities	13,753	17		13,770
Corporate notes	14,349		(1)	14,348
Total	\$ 68,616	\$ 198	\$ (1)	\$ 68,813

***Property and Equipment***

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets (generally three to five years). For leasehold improvements, amortization is calculated using the straight-line method based on the shorter of the useful life or the lease term.

***Impairment of Long-Lived Assets***

The Company's policy regarding long-lived assets is to evaluate the recoverability of its assets when the facts and circumstances suggest that the assets may be impaired. This assessment of fair value is performed in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and is based on the estimated undiscounted cash flows compared to the carrying value of the assets. If the future cash flows (undiscounted and without interest charges) are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. The Company did not incur impairment losses in the periods presented.

***Foreign Currency Translation***

The accounts of Sangamo's foreign subsidiary, Gendaq Ltd., are translated in accordance with SFAS No. 52, *Foreign Currency Translation* (SFAS 52). We have determined that the functional currency of Gendaq Ltd. is the U.S. dollar, since the closure of its facility in September 2002. Monetary assets and

liabilities which are denominated in foreign currency are remeasured at the exchange rates in effect at the balance sheet date.

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Nonmonetary assets and liabilities, if any, are remeasured at the historical exchange rates. Income and expenses are remeasured using the average exchange rate for the period. Gains and losses from remeasurement of the foreign subsidiary's financial statements are recorded as other income (expense).

In 2008 we recorded a foreign currency translation loss of \$1.2 million. In 2007 and 2006 we recorded foreign currency translation gains of \$74,000 and \$454,000, respectively.

### ***Comprehensive Loss***

Comprehensive loss is comprised of net loss and other comprehensive income (loss) which primarily consist of unrealized gains / (losses) on marketable securities. Comprehensive loss for the years ended December 31, 2008, 2007 and 2006 is included in the statement of stockholders' equity.

### ***Revenue Recognition***

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

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

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

For 2008, revenues related to DAS, Sigma and Pfizer represented 46%, 20%, and 19%, respectively, of total revenues. For 2007, revenues related to DAS, JDRF and Sigma represented 59%, 16% and 12%, respectively, of total revenues. For 2006, revenues related to DAS and an Advanced Technology Program grant awarded by the National Institute of Standards and Technology represented 67% and 12%, respectively, of total revenues. The Company's accounts receivable are derived from net revenues to customers located in the United States. As of December 31, 2008, 100% of the accounts receivable balance related to DAS. As of December 31, 2007, Genentech and a federal government research grant with the Department of Defense represented 72% and 28%, respectively, of accounts receivable.

### ***Research and Development Expenses***

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





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

### ***Stock-Based Compensation***

Prior to January 1, 2006, the Company accounted for its stock-based employee compensation arrangements under the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), as allowed by SFAS No. 123, Accounting for Stock-based Compensation (SFAS No. 123), as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS No. 148). As a result, no expense was recognized for options to purchase our common stock that were granted with an exercise price equal to fair market value at the date of grant prior to January 1, 2006. In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004) Share-Based Payment (SFAS No. 123R), which replaces SFAS No. 123 and supersedes APB No. 25. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Subsequent to the effective date, the pro forma disclosures previously permitted under SFAS No. 123 are no longer an alternative to financial statement recognition. Effective January 1, 2006, the Company adopted SFAS No. 123R using the modified prospective method. Under this method, compensation cost recognized includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 amortized on an accelerated basis over the options vesting period, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R amortized on a straight-line basis over the options vesting period. Results for prior periods have not been restated.

### ***Income Taxes***

Income tax expense is accounted for in accordance with SFAS No. 109, *Accounting of Income Taxes*, (SFAS 109). Income tax expense has been provided using the liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. The Company provides a valuation allowance against net deferred tax assets if, based upon the available evidence, it is not more likely than not that the deferred tax assets will be realized.

The Company adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007. As a result of the implementation of FIN 48, the Company did not recognize any adjustment to the liability for uncertain tax positions and therefore did not record any adjustment to the beginning balance of retained earnings on the consolidated balance sheet. As of the date of adoption, the Company recorded a \$1.1 million reduction to deferred tax assets and the associated valuation allowance for unrecognized tax benefits. If the unrecognized tax benefits were recognized, there would be no impact on the effective tax rate.

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### ***Net Loss Per Share***

Basic and diluted net loss per share are presented in conformity with FAS No. 128, Earnings per Share (FAS 128), for all periods presented. Basic net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the period. For all years presented, stock options represent the Company's only potentially dilutive securities and were anti-dilutive. In 2008, 2007 and 2006 there were 87,121, 523,536 and 650,838 anti-dilutive stock options, respectively. The following table presents the calculation of historical basic and diluted net loss per common share (in thousands, except per share data):

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net loss	\$ (24,302)	\$ (21,480)	\$ (17,864)
Weighted-average shares of common stock outstanding used in computing basic and diluted net loss per share	40,825	37,355	32,502
Basic and diluted net loss per share	\$ (0.60)	\$ (0.58)	\$ (0.55)

### ***Segments***

The Company operated in one segment. Management uses one measurement of profitability and does not segregate its business for internal reporting. As of December 31, 2008 and 2007, 100% of all long-lived assets were maintained in the U.S. Moreover, for the years ended December 31, 2008, 2007 and 2006, 100% of revenues and operating expenses were generated and incurred in the U.S.

### ***Recent Accounting Pronouncements***

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair-Value Measurements (SFAS 157) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair-value measurements. The Company adopted SFAS 157 effective January 1, 2008 for all financial assets and liabilities and any other assets and liabilities that are recognized or disclosed at fair value on a recurring basis (see Note 5 *Fair Value Measurement*). In accordance with FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), for nonfinancial assets and liabilities measured at fair value on a non-recurring basis, SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The adoption of SFAS 157 is not expected to have a significant impact on the Company's consolidated financial statements when it is applied to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis, beginning in the first quarter of 2009.

On October 10, 2008, the FASB issued FSP No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active, (FSP 157-3) that clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial assets is not active. FSP 157-3 is effective upon issuance, including prior periods for which the financial statements have not been issued. The adoption of FSP 157-3 did not have a material impact on the Company's consolidated results of operations or financial condition.

In November 2007, the EITF ratified a consensus on EITF Issue No. 07-1 (EITF 07-1), Accounting for Collaborative Arrangements, which requires participants in a collaboration to make separate disclosures regarding the nature and purpose of an arrangement, their rights and obligations under the arrangement, the accounting policy for the arrangement and the income statement classification and amounts arising from the arrangement between participants for each period an income statement is presented. EITF

No. 07-1 is effective retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date for fiscal years beginning after December 15, 2008. We have evaluated the impact of adopting EITF 07-01 and do not expect a material impact to our consolidated financial statement disclosures.

**Table of Contents****NOTE 2 STOCK-BASED COMPENSATION**

On January 1, 2006, the Company adopted FAS 123R, which supersedes previous accounting under APB 25. FAS 123R requires the recognition of compensation expense, using a fair-value based method, for costs related to all share-based payments including stock options and stock issued under its employee stock purchase plan. Under FAS 123R, the value of the portion of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service periods in its Consolidated Statements of Operations.

The following table shows total stock-based compensation expense recognized in the consolidated statements of operations (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Research and development	\$ 2,718	\$ 1,449	\$ 1,229
General and administrative	3,030	988	787
Total stock-based compensation expense	\$ 5,748	\$ 2,437	\$ 2,016

There was no capitalized stock-based employee compensation cost as of December 31, 2008.

As of December 31, 2008, total compensation cost related to nonvested stock options to be recognized in future periods was \$15.6 million, which is expected to be expensed over a weighted-average period of 3.32 years.

**Valuation Assumptions**

The employee stock-based compensation expense recognized under FAS 123R was determined using the Black Scholes option valuation model. Option valuation models require the input of subjective assumptions and these assumptions can vary over time.

The Company primarily bases its determination of expected volatility through its assessment of the historical volatility of its Common Stock. For 2008, the Company relied on its historical exercise and post-vested termination activity for estimating its expected term for use in determining the fair value of these options. During 2007 and 2006, the Company did not believe it was able to rely on its historical exercise and post-vested termination activity for estimating its expected term. Therefore, during 2007 and 2006, as allowed by Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment*, the Company opted to use the simplified method for estimating its expected term equal to the midpoint between the vesting period and the contractual term.

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

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Risk-free interest rate	2.4-3.3%	3.5-5.0%	4.7-5.1%
Expected life of option	5.10-5.20 yrs	6.25 yrs	6.25 yrs
Expected dividend yield of stock	0%	0%	0%
Expected volatility	0.61-0.83	0.90-0.93	0.94-0.97



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

	Year Ended December 31,		
	2008	2007	2006
Risk-free interest rate	1.1-5.1%	3.6-5.1%	2.5-5.1%
Expected life of option	0.5-2.0 yrs	0.5-2.0 yrs	0.5-2.0 yrs
Expected dividend yield of stock	0%	0%	0%
Expected volatility	0.51-0.73	0.46-0.77	0.41-0.98

Sangamo did not grant nonqualified stock options to consultants in 2008. In both 2007 and 2006, Sangamo granted 10,000 nonqualified common stock options to consultants. Such options are included in the option tables disclosed in Note 7. The options generally vest over four years at a rate of 25 percent one year from grant date and one-thirty-sixth per month thereafter and expire ten years after the grant date. Total nonqualified stock-based compensation expense for consultants included in the total stock-based compensation expenses was \$62,000, \$15,000 and \$33,000 in 2008, 2007 and 2006, respectively. The fair value of these options was determined using the Black-Scholes model.

**NOTE 3 MAJOR CUSTOMERS, PARTNERSHIPS AND STRATEGIC ALLIANCES****Agreement with Dow AgroSciences in Plant Agriculture**

We have an exclusive commercial license agreement with Dow AgroSciences LLC ( "DAS" ), a wholly owned indirect subsidiary of Dow Chemical Corporation. Under this agreement, we are providing DAS with access to our proprietary zinc finger DNA-binding protein (ZFP) technology and the exclusive right to use our ZFP technology to modify the genomes or alter the nucleic acid or protein expression of plant cells, plants, or plant cell cultures. We have retained rights to use plants or plant-derived products to deliver ZFP transcription factors (ZFP TFs) or zinc-finger nuclease (ZFN) into human or animals for diagnostic, therapeutic, or prophylactic purposes.

Pursuant to the Research License and Commercial Option Agreement which we entered into in October 2005, DAS made an initial cash payment to us of \$7.5 million. In November 2005, the Company sold approximately 1.0 million shares of common stock to DAS at a price of \$3.85 per share, resulting in proceeds of \$3.9 million. Our agreement with DAS provided for an initial three-year research term during which DAS agreed to pay Sangamo \$6.0 million in research funding over the three-year period and make additional payments of up to \$4.0 million in research milestone payments during this same period, depending on the success of the research program. We agreed to supply DAS and its sublicensees with ZFP TFs and/or ZFNs for both research and commercial use over the initial three year period of the agreement.

In June 2008, DAS exercised its option under the agreement to obtain a commercial license to sell products incorporating or derived from plant cells generated using our ZFP technology, including agricultural crops, industrial products and plant-derived biopharmaceuticals. The exercise of the option triggered a one-time commercial license fee of \$6.0 million, payment of the remaining \$2.3 million of the previously agreed \$4.0 million in research milestones, minimum sublicensing payments totaling up to \$25.3 million over 11 years, development and commercialization milestone payments for each product, and royalties on sales of products. Furthermore, DAS has the right to sublicense our ZFP technology to third parties for use in plant cells, plants, or plant cell cultures, and we will be entitled to 25% of any cash consideration received by DAS under such sublicenses. The research program has been extended beyond the initial three-year research term and DAS is providing additional research funding.

DAS may terminate the agreement at any time. In addition, each party may terminate the agreement upon an uncured material breach of the agreement by the other party. In the event of any termination of the agreement, all



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rights to use our ZFP technology will revert to us, and DAS will no longer be permitted to practice our ZFP technology or to develop or, except in limited circumstances, commercialize any products derived from our ZFP technology.

The commercial license fee of \$6.0 million, the remaining research milestones of \$2.3 million, and the unrecognized portion of the initial cash payment are recognized ratably over the period from option exercise through December 31, 2009, which reflects the estimated timing over which the ZFP manufacturing technology transfer will occur, as well as the period over which Sangamo will be performing additional research services for DAS.

Revenues under the agreement were \$7.4 million, \$5.3 million and \$5.2 million during 2008, 2007 and 2006, respectively. Related costs and expenses incurred under the agreement were \$391,000, \$467,000 and \$568,000 during 2008, 2007 and 2006, respectively.

### **Agreement with Sigma-Aldrich Corporation in Laboratory Research Reagents**

In July 2007, we entered into a license agreement with Sigma-Aldrich Corporation (Sigma). Under the license agreement, we are providing Sigma with access to our proprietary ZFP technology and the exclusive right to use the technology to develop and commercialize research reagents products and services in the research field, excluding certain agricultural research uses that Sangamo previously licensed to DAS. Under the agreement, Sangamo and Sigma have agreed to conduct a three-year research program to develop laboratory research reagents using our ZFP technology. In addition, for three years we will assist Sigma in connection with Sigma's efforts to market and sell services employing our technology in the research field. We will transfer the ZFP manufacturing technology to Sigma or to a mutually agreed-upon contract manufacturer upon Sigma's request. Prior to the completion of this transfer, we will be responsible for supplying ZFPs for use by Sigma in performing services in the research field.

Under the terms of the agreement, Sigma made an initial payment comprising an upfront license fee and the purchase of one million (1,000,000) shares of Sangamo's common stock under a separate stock purchase agreement, resulting in a total upfront payment to Sangamo of \$13.5 million. There were three components to the \$13.5 million we received: an equity investment by Sigma in Sangamo common stock valued at \$8.55 million, a \$3.95 million license fee, and \$1.0 million of research funding. Under the license agreement, we may receive additional research funding of up to \$2.0 million, development milestone payments of up to \$5.0 million, and commercial milestone payments based on net sales of up to \$17.0 million, subject to the continuation of the agreement. During the term of the license agreement, Sigma is obligated to pay to Sangamo minimum annual payments, a share of certain revenues received by Sigma from sublicensees, and royalty payments on the sale of licensed products and services. Sigma also has the right to sublicense the ZFP technology for research applications and we will receive 50% of any sublicensing revenues in the first two years and 25% of any sublicensing revenues thereafter. We retain the sole right to use and license our ZFP technology for GMP production purposes, for the production of materials used in or administered to humans, and for any other industrial commercial use.

The agreement may be terminated by Sigma at any time with a 90-day notice or by either party upon an uncured material breach of the other party. In the event of any termination, all rights to use our ZFP technology will revert to us, and Sigma will no longer be permitted to practice our ZFP technology or to develop or, except in limited circumstances, commercialize any products derived from our ZFP technology.

In December 2008, we achieved a production throughput milestone as part of our agreement which triggered a payment of \$1.0 million from Sigma, and was fully recognized as revenue in 2008.

Revenues related to the research license under the Sigma agreement are being recognized ratably over the three-year research term of the agreement and were \$1.3 million and \$603,000 during 2008 and 2007,





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respectively. Revenues attributable to collaborative research and development performed under the Sigma agreement were \$2.0 million and \$458,000 during 2008 and 2007, respectively. Royalty revenues under the Sigma agreement were \$388,000 and \$0 during 2008 and 2007, respectively. Related costs and expenses incurred under the Sigma agreement were \$2.2 million and \$316,000 during 2008 and 2007, respectively.

### **Enabling Technology Collaborations in Pharmaceutical Protein Production**

We have established several research collaborations in this area. Commencing in December 2004, we had a research collaboration agreement with Pfizer to use our ZFP technology to develop enhanced cell lines for protein pharmaceutical production. Under the terms of the agreement, Pfizer funded research at Sangamo and we provided our proprietary ZFP technology for Pfizer to assess its feasibility for use in mammalian cell-based protein production. We generated novel cell lines and vector systems for enhanced protein production as well as novel technology for rapid creation of new production cell lines. In December 2008, we entered into a license agreement with Pfizer to provide Pfizer with a worldwide, non-exclusive license for the use of certain ZFP Nuclease (ZFNs) reagents to permanently eliminate the Glutamine Synthetase (GS) gene in Chinese Hamster Ovary (CHO) cell lines and for the use of these ZFN-modified cells for clinical and commercial production of therapeutic proteins. Under the terms of the license agreement we received a one time payment of \$3.0 million from Pfizer for a fully paid commercial license. We have no further obligations or deliverables under the license agreement.

Revenues attributable to the Pfizer agreements were \$3.0 million, \$96,000 and \$747,000 in 2008, 2007 and 2006, respectively. Related costs and expenses incurred under the Pfizer agreements were \$66,000, \$358,000 and \$342,000 in 2008, 2007 and 2006, respectively.

In April 2007, we established a research and license agreement with Genentech, Inc. Under our agreement with Genentech, we are developing ZFNs capable of making targeted modifications to the genome of Genentech cell lines to generate cell lines with novel characteristics for protein pharmaceutical production purposes. Genentech paid an upfront fee of \$400,000 which is being recognized ratably over the two year contract term. Genentech will also pay an ongoing technology access fee, and certain payments upon achievement of specified milestones relating to the research of ZFNs and the development and commercialization of products manufactured using a modified cell line created by our ZFN technology. The agreement was expanded to include further ZFNs in February 2008. Under the expanded agreement, we may directly offer the ZFN-related services to Genentech and Sigma will in return receive a share of certain payments made to us by Genentech. Revenues recognized under the expanded agreement, net of payments made to Sigma, are included in royalty revenues attributable to the Sigma agreement, as described above.

Revenues attributable to collaborative research and development performed under the Genentech agreement were \$389,000 during 2008 and \$283,000 during 2007. Related research and development costs and expenses incurred under the agreement were \$147,000 during 2008 and \$82,000 during 2007.

### **Funding from Research Foundations**

#### ***The Juvenile Diabetes Research Foundation International***

In October 2006, we announced a partnership with the Juvenile Diabetes Research Foundation International ( JDRF ) to provide financial support to one of our Phase 2 human clinical studies (SB-509-601) of SB-509, a ZFP Therapeutic that is in development for the treatment of diabetic neuropathy. Under the agreement with JDRF and subject to its terms and conditions, including the Company's achievement of certain milestones associated with the Company's Phase 2 clinical trial of SB-509 for the treatment of mild to moderate diabetic neuropathy, JDRF will pay the Company an aggregate amount of up to \$3.0 million. Through December 31, 2008, we have received \$2.5 million. After the first commercial launch of SB-509 in a major market, JDRF has the right to receive, subject to certain limitations, annual payments from Sangamo, until such time when the total amount paid to JDRF, including payments made on account of certain licensing arrangements, equals three times the amount received by us from JDRF.



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Under the agreement, we are obligated to use commercially reasonable efforts to carry out the Phase 2 trial and, thereafter, to develop and commercialize a product containing SB-509 for the treatment of diabetes and complications of diabetes. We are obligated to cover all costs of the Phase 2 trial that are not covered by JDRF's grant. If we fail to satisfy these obligations, JDRF may have the right, subject to certain limitations, to obtain an exclusive, sublicensable license, to the intellectual property generated by us in the course of the Phase 2 trial, to make and commercialize products containing SB-509 for the treatment of diabetes and complications of diabetes. If JDRF obtains such a license, it is obligated to pay us a percentage of its revenues from product sales and sublicensing arrangements. If JDRF fails to satisfy its obligations to develop and commercialize a product containing SB-509 under the Agreement, then their license rights will terminate and we will receive a non-exclusive, fully paid license, for any intellectual property developed during JDRF's use of the license, to research, develop and commercialize products containing SB-509 for the treatment of diabetes and complications of diabetes.

Revenues attributable to research and development activities performed under the JDRF partnership were \$1.0 million in 2008 and \$1.5 million in 2007. Related costs and expenses incurred during 2008 and 2007 were \$3.9 million and \$4.7 million, respectively.

***The Michael J. Fox Foundation***

In January 2007, Sangamo announced a partnership with the Michael J. Fox Foundation for Parkinson's Research ( MJFF ) to provide financial support of Sangamo's ZFP TFs to activate the expression of glial cell line-derived neurotrophic factor (GDNF) that has shown promise in preclinical testing to slow or stop the progression of Parkinson's disease. Under the agreement with MJFF and subject to its terms and conditions, MJFF has paid the Company \$950,000 over a period of two years and through December 31, 2008 we have received the total funds due from MJFF.

Revenues attributable to research and development performed under the MJFF partnership were \$553,000 during 2008 and \$397,000 during 2007. Related costs and expenses incurred under the MJFF partnership were \$903,000 during 2008 and \$397,000 during 2007.

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following (in thousands):

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(In thousands)</b>	
Laboratory equipment	\$ 3,426	\$ 3,142
Furniture and fixtures	1,047	822
Leasehold improvements	2,547	2,318
	7,020	6,282
Less accumulated depreciation	(5,034)	(4,512)
	\$ 1,986	\$ 1,770

Depreciation and amortization expense were \$523,000, \$274,000 and \$171,000 during 2008, 2007 and 2006, respectively.

**Table of Contents****NOTE 5 FAIR VALUE MEASUREMENT**

We adopted the measurement and disclosure requirements of FASB Statement No. 157 related to financial assets and liabilities effective January 1, 2008. The adoption of Statement No. 157 had no effect on our net loss for the year ended 2008. Statement No. 157 establishes a framework for measuring fair value and expands disclosure about fair value measurements.

The statement requires fair value measurement be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following table summarizes our financial instruments as of December 31, 2008 (in thousands):

	<b>December 31, 2008</b>			
	<b>Total</b>	<b>Fair Value Measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Assets:				
Marketable securities:				
Commercial paper	\$ 20,798	\$	\$ 20,798	\$
Government agencies	24,624		24,624	
Total	\$ 45,422	\$	\$ 45,422	\$

**NOTE 6 COMMITMENTS**

Sangamo occupies office and laboratory space under operating leases in Richmond, California that expire in August 2014. License obligations consist of non-cancelable ongoing license maintenance fees and royalties due from sales of ZFP TFs. Rent expenses were \$566,000, \$547,000 and \$471,000 for 2008, 2007 and 2006, respectively. Future minimum payments under contractual obligations and commercial commitments at December 31, 2008 consist of the following (in thousands):

<b>Fiscal Year:</b>	<b>Operating Lease</b>	<b>License Agreements</b>
2009	\$ 556	\$ 290
2010	570	315
2011	585	315
2012	600	315
2013	616	315
Thereafter	417	
Total minimum payments	\$ 3,344	\$ 1,550

**NOTE 7 STOCKHOLDERS EQUITY**

*Convertible Preferred Stock*

All outstanding convertible preferred stock converted into common stock upon consummation of the Company's initial public offering in April 2000. The Company has 5,000,000 preferred shares authorized, which may be issued at the Board's discretion.

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**Table of Contents*****Common Stock***

In June 2006, in an underwritten public offering and pursuant to an effective registration statement, Sangamo sold 3,100,000 shares of common stock at a public offering price of \$6.75 per share, resulting in net proceeds of approximately \$20.2 million after deducting underwriter's discount and commissions.

In December 2006, Sangamo issued 1,000,000 shares of common stock to Edwards Lifesciences LLC (Edwards) as partial consideration for the purchase of Edwards' angiogenesis program. This transaction was valued at \$5.8 million, based on the fair value of its publicly traded stock at the close of the transaction, less a discount for lack of marketability in the unregistered common stock and recorded as a research and development expense in the Consolidated Statement of Operations.

On July 20, 2007, Sangamo completed a registered direct offering to a group of institutional investors, in which Sangamo sold an aggregate of 3,278,689 shares of common stock at a price of \$9.15 per share to such investors, resulting in net proceeds of approximately \$28.0 million.

On July 10, 2007, pursuant to a laboratory research reagents license agreement with Sigma, Sangamo issued one million shares of common stock valued at a price of \$8.55 per share.

***Stock Incentive Plan***

Sangamo's 2004 Stock Incentive Plan (the 2004 Plan), which supersedes the 2000 Stock Incentive Plan (the 2000 Plan), provides for the issuance of common stock and grants of options for common stock to employees, officers, directors and consultants. The exercise price per share will be no less than 85 percent of the fair value per share of common stock on the option grant date, and the option term will not exceed ten years. If the person to whom the option is granted is a 10 percent stockholder, and the option granted qualifies as an Incentive Stock Option Grant, then the exercise price per share will not be less than 110 percent of the fair value per share of common stock on the option grant date, and the option term will not exceed five years. Options granted under the 2004 Plan generally vest over four years at a rate of 25 percent one year from the grant date and one thirty-sixth per month thereafter and expire ten years after the grant, or earlier upon employment termination. Options granted pursuant to the 2004 Plan may be exercised prior to vesting, with the related shares subject to Sangamo's right to repurchase the shares that have not vested at the issue price if the option holder terminates employment. The right of repurchase lapses over the original option vesting period, as described above. Approximately 6.5 million shares were initially reserved for issuance pursuant to the 2000 Plan and the 2004 Plan. The number of shares authorized for issuance under the 2004 Option Plan automatically increases on the first trading day of the fiscal year by an amount equal to 3.0 percent of the total number of shares of our common stock outstanding on the last trading day of the preceding fiscal year, but in no event shall any such increase exceed 1.75 million shares per year. During 2008, 2007 and 2006, 1,209,461, 1,051,362 and 917,127 additional shares, respectively, were authorized for issuance under the 2004 Plan pursuant to the evergreen increase feature of such plan.

***Employee Stock Purchase Plan***

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

The weighted-average estimated fair value per share of employee purchase rights during 2008, 2007, and 2006 were \$3.28, \$2.65, and \$2.22, respectively, based upon the assumptions in the Black-Scholes valuation model described in Note 2.





**Table of Contents*****Stock Option Activity***

A summary of Sangamo's stock option activity is as follows:

	<b>Number of Shares</b>	<b>Weighted- Average Exercise per Share Price</b>	<b>Weighted Average Remaining Contractual Term</b>
Options outstanding at December 31, 2005	3,874,097	\$ 4.27	6.59
Options granted	704,000	\$ 6.75	
Options exercised	(274,896)	\$ 2.12	
Options canceled	(155,389)	\$ 7.33	
Options outstanding at December 31, 2006	4,147,812	\$ 5.68	6.00
Options granted	1,703,500	\$ 12.43	
Options exercised	(881,554)	\$ 6.08	
Options canceled	(218,785)	\$ 6.02	
Options outstanding at December 31, 2007	4,750,973	\$ 8.01	7.15
Options granted	2,471,500	\$ 4.04	
Options exercised	(623,264)	\$ 1.94	
Options canceled	(189,124)	\$ 8.90	
Options outstanding at December 31, 2008	6,410,085	\$ 7.04	8.07
Options exercisable at December 31, 2008	2,516,110	\$ 7.63	6.04

There were no shares subject to Sangamo's right of repurchase as of December 31, 2008. The intrinsic value of options exercised during 2008, 2007, 2006 were \$6.2 million, \$5.4 million and \$1.2 million, respectively.

At December 31, 2008, the aggregate intrinsic values of the outstanding and exercisable options were \$258,000 and \$121,000, respectively.

The weighted-average fair value per share of options granted during 2008, 2007, and 2006 was \$2.62, \$9.57, and \$5.36, respectively, based upon the assumption in the Black-Scholes valuation model described in Note 2. The aggregate intrinsic value of shares vested and expected to vest during 2008, 2007 and 2006 was \$228,000, \$24.0 million and \$6.9 million, respectively.

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

Range of Exercise Price	Options Outstanding Number of Shares	Weighted Average Remaining Contractual Life (In Years)
\$ 0.23 \$ 3.20	135,733	6.06
\$ 3.45 \$ 3.45	2,218,500	9.94
\$ 3.61 \$ 4.20	643,920	6.43
\$ 4.30 \$ 6.39	701,148	5.62
\$ 6.60 \$ 7.28	685,084	7.86
\$ 7.43 \$13.40	589,200	6.72
\$13.98 \$13.98	908,000	8.95
\$14.00 \$15.38	506,500	6.31
\$15.68 \$15.68	7,000	8.79
\$38.00 \$38.00	15,000	1.63
	6,410,085	8.07

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

As of December 31, 2008, options to purchase 6,410,085 shares and 75,000 restricted stock units were outstanding under our stock option plans, and 2,027,691 shares were reserved for future awards. As of December 31, 2008, we had 1,913,578 shares of common stock reserved for future issuance under the 2000 Employee Stock Purchase Plan.

**NOTE 8 COMPREHENSIVE LOSS**

Activities in comprehensive loss were as follows (in thousands):

	Year Ended December 31,		
	2008	2007	2006
Net loss	\$ (24,302)	\$ (21,480)	\$ (17,864)
Increase in unrealized gains on marketable securities	79	181	54
Other	(98)		
Comprehensive loss	\$ (24,321)	\$ (21,299)	\$ (17,810)

Accumulated other comprehensive income at December 31, 2008 and 2007 is \$276,000 and \$295,000.

**Table of Contents****NOTE 9 INCOME TAXES**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows (in thousands):

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Deferred tax assets:		
Net operating loss carryforwards	\$ 44,384	\$ 37,171
Research and development tax credit carryforwards	3,148	3,201
Capitalized research	964	1,195
Other	3,095	2,003
	51,591	43,570
Valuation allowance	(51,591)	(43,570)
Net deferred tax assets	\$	\$

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by \$8.0 million, \$7.5 million and \$7.9 million for the years ended December 31, 2008, 2007 and 2006, respectively. As of December 31, 2008, Sangamo had net operating loss carryforwards for federal income tax purposes of approximately \$113.4 million, which expire in the years 2010 through 2028. The Company also has state net operating loss carryforwards of approximately \$96.9 million, which expire in the years 2012 through 2028. The Company also has federal and state research tax credit carryforwards of \$2.4 million and \$2.5 million, respectively. The federal research credits will begin to expire in the year 2018 through 2028 and the state research credits have no expiration date. Utilization of the Company's net operating loss may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation could result in the expiration of the net operating loss before use.

We file U.S and state income tax returns with varying statutes of limitations. The tax years from 1998 forward remain open to examination due to the carryover of net operating losses or tax credits.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense in accordance with FIN 48. As of December 31 2008, the Company had no accrued interest and/or penalties. The company does not anticipate a significant change to its unrecognized tax benefits over the next twelve months. The unrecognized tax benefits may change during the next year for items that arise in the ordinary course of business.

The following table summarizes the activity related to our unrecognized tax benefits:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Beginning balance	\$ 1,300	\$ 1,140
Additions based on tax positions related to the current year	79	160
Additions for tax positions of prior years		
Reductions for tax positions of prior years	(97)	
Ending Balance	\$ 1,282	\$ 1,300



**Table of Contents****NOTE 10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities consist of the following (in thousands):

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Accounts payable	\$ 1,691	\$ 1,554
Accrued clinical trial expense	1,256	1,044
Accrued research and collaboration expense	423	420
Accrued professional fees	288	234
Deferred rent	153	131
Other	37	155
Total accounts payable and accrued liabilities	\$ 3,848	\$ 3,538

**NOTE 11 QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following table sets forth certain unaudited quarterly financial data for the eight quarters ended December 31, 2008. The unaudited information set forth below has been prepared on the same basis as the audited information and includes all adjustments necessary to present fairly the information set forth herein. The operating results for any quarter are not indicative of results for any future period. All data is in thousands except per common share data.

	<b>2008</b>				<b>2007</b>			
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Revenues	\$ 2,765	\$ 2,842	\$ 3,745	\$ 6,834	\$ 1,422	\$ 2,584	\$ 2,325	\$ 2,767
Expenses	\$ 11,573	\$ 10,831	\$ 10,127	\$ 9,030	\$ 7,429	\$ 8,422	\$ 7,644	\$ 10,374
Net loss	\$ (7,972)	\$ (7,419)	\$ (6,340)	\$ (2,571)	\$ (5,359)	\$ (5,181)	\$ (4,268)	\$ (6,673)
Net loss per share	\$ (0.20)	\$ (0.18)	\$ (0.15)	\$ (0.06)	\$ (0.15)	\$ (0.15)	\$ (0.11)	\$ (0.17)

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**ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

We have performed an evaluation under the supervision and with the participation of our management, including our principal executive officer and principal financial officer of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act ). Based on that evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of December 31, 2008 to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including cost limitations, the possibility of human error, judgments and assumptions regarding the likelihood of future events, and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act.

Management has used the framework set forth in the report entitled Internal Control - Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, known as COSO, to evaluate the effectiveness of the Company's internal control over financial reporting. Management has concluded that our internal control over financial reporting was effective as of December 31, 2008.

Ernst & Young LLP, our independent registered public accounting firm, has audited the consolidated financial statements included in our Annual Report on Form 10-K and has issued an attestation report on the effectiveness of our internal controls over financial reporting as of December 31, 2008.

**Changes in Internal Controls**

There has been no change in our internal controls over financial reporting during the fourth fiscal quarter of 2008 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

**ITEM 9B OTHER INFORMATION**

On May 18, 2007, we entered into a sales agreement (the Sales Agreement ) with Cantor Fitzgerald & Co. ( Cantor ), pursuant to which we may issue and sell up to 3,000,000 shares of our common stock from time to time through Cantor as agent. (See our Current Report on Form 8-K filed on May 18, 2007). Pursuant to a notice we sent to Cantor under the Sales Agreement, the Sales Agreement was terminated effective February 27, 2009.



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**PART III**

Certain information required by Part III is omitted from this Report on Form 10-K since we intend to file our definitive Proxy Statement for our next Annual Meeting of Stockholders, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the 2009 Proxy Statement ), no later than April 30, 2009, and certain information to be included in the 2009 Proxy Statement is incorporated herein by reference.

**ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item concerning our directors, executive officers, Section 16 compliance and code of ethics is incorporated by reference to the information set forth in the sections titled Election of Directors, Management, Section 16(a) Beneficial Ownership Reporting Compliance and Code of Ethics in our 2009 Proxy Statement.

**ITEM 11 EXECUTIVE COMPENSATION**

The information required by this item regarding executive compensation is incorporated by reference to the information set forth in the sections titled Executive Compensation in our 2009 Proxy Statement.

**ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth in the section titled Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plans in our 2009 Proxy Statement.

**ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item regarding certain relationships and related transactions is incorporated by reference to the information set forth in the section titled Certain Relationships and Related Transactions in our 2009 Proxy Statement.

**ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item regarding principal accounting fees and services is incorporated by reference to the information set forth in the section titled Principal Accounting Fees and Services in our 2009 Proxy Statement.



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**PART IV**

**ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are included as part of this Annual Report on Form 10-K:

1. Financial Statements See Index to Consolidated Financial Statements in Item 8.
2. Financial Statement Schedules Not Applicable.
3. Exhibits See Index to Exhibits.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 3, 2009.

SANGAMO BIOSCIENCES, INC.

By: /s/ EDWARD O. LANPHIER II  
**Edward O. Lanphier II**  
*President, Chief Executive Officer and  
 Director*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ EDWARD O. LANPHIER II  <b>Edward O. Lanphier II</b>	President, Chief Executive Officer and  Director (Principal Executive Officer)	March 3, 2009
/s/ H. WARD WOLFF  <b>H. Ward Wolff</b>	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 3, 2009
/s/ PAUL B. CLEVELAND <b>Paul B. Cleveland</b>	Director	March 3, 2009
/s/ WILLIAM G. GERBER, M.D. <b>William G. Gerber, M.D.</b>	Director	March 3, 2009
/s/ JOHN W. LARSON <b>John W. Larson</b>	Director	March 3, 2009
/s/ MARGARET A. LIU, M.D. <b>Margaret A. Liu, M.D.</b>	Director	March 3, 2009
/s/ STEVEN J. MENTO, PH.D <b>Steven J. Mento, Ph.D</b>	Director	March 3, 2009
/s/ THOMAS G. WIGGANS <b>Thomas G. Wiggans</b>	Director	March 3, 2009
/s/ MICHAEL C. WOOD <b>Michael C. Wood</b>	Director	March 3, 2009

**Table of Contents****INDEX TO EXHIBITS**

<b>Exhibit</b>	<b>Description of Document</b>
<b>Number</b>	<b>Description of Document</b>
1.1	Purchase Agreement, dated June 15, 2006, between Sangamo and Piper Jaffray & Co. (incorporated by reference to Exhibit 1.1 to the Company's Form 8-K filed in June 16, 2006).
1.2	Agency Agreement between Sangamo and JMP Securities, Piper Jaffray & Co., Leerink Swann & Company and Janney Montgomery Scott LLC, dated July 16, 2007 (incorporated by reference to Exhibit 1.1 to the Company's Form 8-K filed on July 17, 2007).
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1/A (Registration No. 333-30134) filed April 4, 2000).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1/A (Registration No. 333-30134) filed April 4, 2000).
4.1	Form of Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1/A (Registration No. 333-30134) filed April 4, 2000).
10.1(+)	2000 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1/A (Registration No. 333-30134) filed February 24, 2000).
10.2	Form of Indemnification Agreement entered into between Sangamo and each of its directors and executive officers (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1/A (Registration No. 333-30134) filed February 24, 2000).
10.3	Sublicense Agreement, by and between Sangamo and Johnson & Johnson, dated May 9, 1996 (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1/A (Registration No. 333-30134) filed April 4, 2000).
10.4	Patent License Agreement between Sangamo and Massachusetts Institute of Technology dated May 9, 1996, (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1/A (Registration No. 333-30134) filed March 14, 2000).
10.5	License Agreement between Sangamo and the Johns Hopkins University dated July 16, 1998, as amended (incorporated by reference to Exhibit 10.13 to the Company's Amendment No. 2 to the Registration Statement on Form S-1/A (Registration No. 333-30134) filed March 14, 2000).
10.6(+)	Employment Agreement, between Sangamo and Edward O. Lanphier II, dated June 1, 1997 (incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1/A (Registration No. 333-30134) filed March 14, 2000).
10.7	License Agreement by and between The Scripps Research Institute and Sangamo, dated March 14, 2000 (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1/A (Registration No. 333-30134) filed April 5, 2000).
10.8(+)	2004 Stock Incentive Plan (incorporated by reference to Appendix C of the Company's Definitive Proxy Statement on Schedule 14A filed April 29, 2004).
10.9	Triple Net Laboratory Lease, between Sangamo and Point Richmond R&D Associates II, LLC, dated May 23, 1997 (incorporated by reference to Sangamo's Registration Statement on Form S-1 (Reg. No. 333-30314), as amended).

- 10.10 First Amendment to Triple Net Laboratory Lease, between Sangamo and Point Richmond R&D Associates II, LLC, dated March 12, 2004 (incorporated by reference to Sangamo's Annual Report on Form 10-K for the year ended December 31, 2004).

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**Exhibit**

<b>Number</b>	<b>Description of Document</b>
10.11(+)	Separation Agreement and Release between Sangamo and Dr. Casey Case, dated November 18, 2005 (incorporated by reference to Exhibit 99.1 to the Company's Form 8-K filed November 22, 2005).
10.12	Placement Agency Agreement, dated November 10, 2005, among Sangamo, JMP Securities LLC, Piper Jaffray & Co. and Leerink Swann & Company (incorporated by reference to Exhibit 1.1 to the Company's Form 8-K filed on November 14, 2005).
10.13	Research and Commercial Option License Agreement, dated October 5, 2005, between Sangamo and Dow AgroSciences LLC (incorporated by reference to Exhibit 10.23 to the Company's  Annual Report on Form 10-K, filed March 16, 2006).
10.14	Research, Development and Commercialization Agreement dated October 24, 2006 between Sangamo and Juvenile Diabetes Research Foundation International (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K, filed March 1, 2007).
10.15	Asset Purchase Agreement dated December 1, 2006 by and between Sangamo and Edwards Lifesciences LLC (incorporated by reference to the Company's Form 8-K filed on December 28, 2006).
10.16	Research and License Agreement between Sangamo and Genentech, Inc., dated April 27, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-Q, filed August 9, 2007).
10.17	License Agreement between Sangamo and Sigma-Aldrich Corporation, dated July 10, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-Q, filed November 1, 2007).
10.18	Common Stock Purchase Agreement between Sangamo and Sigma-Aldrich Corporation, dated July 10, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on July 10, 2007).
10.19	Letter Agreement between Sangamo and Sigma-Aldrich Corporation, dated February 25, 2008 (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed on May 9, 2008).
10.20	Second Research and License Agreement between Sangamo and Genentech, Inc., dated February 27, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on May 9, 2008).
10.21	License Agreement between Sangamo and Open Monoclonal Technology, Inc., dated April 2, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on August 8, 2008).
10.22	Research and License Agreement between Sangamo and F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc., dated July 2, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on November 4, 2008).
10.23	Letter Agreement between Sangamo and Sigma-Aldrich Corporation, dated July 2, 2008 (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed on November 4, 2008).
10.24(+)	Plan Amendment to 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed on August 7, 2008).
10.25	License Agreement between Sangamo and Pfizer Inc, dated December 19, 2008.
10.26(+)	

Amended and Restated Employment Agreement between Sangamo and H. Ward Wolff, dated December 31, 2008.

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**Exhibit**

<b>Number</b>	<b>Description of Document</b>
10.27(+)	First Amendment to Employment Agreement between Sangamo and Edward O. Lanphier, dated December 31, 2008.
21.1	Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K, filed March 27, 2003).
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Principal Financial Officer.
32.1	Certification Pursuant to 18 U.S.C. Section 1350.

Confidential treatment has been granted for certain information contained in this document pursuant to an order of the Securities and Exchange Commission. Such information has been omitted and filed separately with the Securities and Exchange Commission.

Confidential treatment has been requested for certain information contained in this document. Such information has been omitted and filed separately with the Securities and Exchange Commission.

(+) Indicates management contract or compensatory plan or arrangement.