

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2008-08-07** | Period of Report: **2008-06-30**  
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### FILER

#### **SANGAMO BIOSCIENCES INC**

CIK: **1001233** | IRS No.: **680359556** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-30171** | Film No.: **08999693**  
SIC: **2836** Biological products, (no diagnostic substances)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-30171

**SANGAMO BIOSCIENCES, INC.**

(exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**68-0359556**

(IRS Employer  
Identification No.)

**501 Canal Blvd, Suite A100**

**Richmond, California 94804**

(Address of principal executive offices)

**(510) 970-6000**

(Registrant's telephone number, including area code)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

As of July 31, 2008, 40,901,795 shares of the issuer's common stock, par value \$0.01 per share, were outstanding.

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[Table of Contents](#)

INDEX

SANGAMO BIOSCIENCES, INC.

<b><a href="#">PART I. FINANCIAL INFORMATION</a></b>	3
Item 1. <a href="#">Financial Statements (Unaudited)</a>	3
<a href="#">Condensed Consolidated Balance Sheets at June 30, 2008 and December 31, 2007</a>	3
<a href="#">Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2008 and 2007</a>	4
<a href="#">Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2008 and 2007</a>	5
<a href="#">Notes to Condensed Consolidated Financial Statements</a>	6
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	11
Item 3. <a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	14
Item 4. <a href="#">Controls and Procedures</a>	15
<b><a href="#">PART II. OTHER INFORMATION</a></b>	15
Item 1. <a href="#">Legal Proceedings</a>	15
Item 1A. <a href="#">Risk Factors</a>	15
Item 4. <a href="#">Submission of Matters to a Vote of Security Holders</a>	26
Item 6. <a href="#">Exhibits</a>	26
<b><a href="#">SIGNATURES</a></b>	27
<b>CERTIFICATIONS</b>	

*Some statements contained in this report are forward-looking with respect to our operations, research and development activities, operating results and financial condition. Statements that are forward-looking in nature should be read with caution because they involve risks and uncertainties, which are included, for example, in specific and general discussions about:*

*our strategy;*

*product development and commercialization of our products;*

*clinical trials;*

*revenues from existing and new collaborations;*

*sufficiency of our cash resources;*

*our research and development and other expenses;*

*our operational and legal risks; and*

*our plans, objectives, expectations and intentions and any other statements that are not historical facts.*

Various terms and expressions similar to them are intended to identify these cautionary statements. These terms include: “anticipates,” “believes,” “continues,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “seeks,” “should” and “will.” Actual results may differ materially from those expressed or implied in those statements. Factors that could cause these differences include, but are not limited to, those discussed under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Sangamo undertakes no obligation to publicly release any revisions to forward-looking statements to reflect events or circumstances arising after the date of this report. Readers are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q.

[Table of Contents](#)

**PART 1. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**SANGAMO BIOSCIENCES, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share and per share amounts)**

	<b>June 30, 2008</b>	<b>December 31, 2007 (1)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$8,658	\$12,275
Marketable securities	55,389	68,813
Interest receivable	248	324
Accounts receivable	8,978	209
Prepaid expenses	587	497
Total current assets	73,860	82,118
Property and equipment, net	2,062	1,770
Other assets	12	12
Total assets	<u>\$75,934</u>	<u>\$83,900</u>

**Liabilities and stockholders' equity**

Current liabilities:

Accounts payable and accrued liabilities	\$2,611	\$3,538
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Accrued compensation and employee benefits	841	1,199
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Deferred revenues	<u>9,067</u>	<u>4,944</u>
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Total current liabilities	12,519	9,681
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Deferred revenues, non-current portion	<u>2,802</u>	<u>2,097</u>
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Total liabilities	<u>15,321</u>	<u>11,778</u>
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Stockholders' equity:

Common stock, \$0.01 par value; 80,000,000 shares authorized, 40,891,889 and 40,315,368 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	409	403
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Additional paid-in capital	225,194	221,176
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Accumulated deficit	(165,140)	(149,752 )
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Accumulated other comprehensive income	<u>150</u>	<u>295</u>
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Total stockholders' equity	<u>60,613</u>	<u>72,122</u>
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Total liabilities and stockholders' equity	<u>\$75,934</u>	<u>\$83,900</u>
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(1) Amounts derived from Audited Consolidated Financial Statements dated December 31, 2007 filed as a part of our 2007 Annual Report on Form 10-K.

*See accompanying notes.*

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
<b>Revenues:</b>				
Collaboration agreements	\$2,378	\$1,461	\$4,462	\$2,611
Research grants	464	1,123	1,145	1,395
Total revenues	2,842	2,584	5,607	4,006
<b>Operating expenses:</b>				
Research and development	8,286	6,309	16,929	11,739
General and administrative	2,545	2,113	5,472	4,112
Total operating expenses	10,831	8,422	22,401	15,851
Loss from operations	(7,989)	(5,838)	(16,794)	(11,845)
Interest and other income, net	570	657	1,406	1,305
Net loss	<u>\$(7,419)</u>	<u>\$(5,181)</u>	<u>\$(15,388)</u>	<u>\$(10,540)</u>
Basic and diluted net loss per share	<u>\$(0.18 )</u>	<u>\$(0.15 )</u>	<u>\$(0.38 )</u>	<u>\$(0.30 )</u>
Shares used in computing basic and diluted net loss per share	<u>40,858</u>	<u>35,136</u>	<u>40,673</u>	<u>35,097</u>

*See accompanying notes.*



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

	<b>Six months ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating Activities:</b>		
Net loss	\$(15,388)	\$(10,540)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	244	110
Amortization of premium / (discount) on investments	(776 )	(953 )
Realized loss on investments	-	16
Stock-based compensation	2,990	1,074
Changes in operating assets and liabilities:		
Interest receivable	76	37
Accounts receivable	(8,769 )	327
Prepaid expenses and other assets	(90 )	(415 )
Accounts payable and accrued liabilities	(927 )	1,042
Accrued compensation and employee benefits	(358 )	(234 )

Deferred revenue	4,828	(881 )
Net cash used in operating activities	<u>(18,170)</u>	<u>(10,417)</u>
<b>Investing Activities:</b>		
Purchases of investments	(41,047)	(36,375)
Maturities of investments	51,125	43,651
Proceeds from sales of investments	3,975	–
Purchases of property and equipment	(534 )	(568 )
Net cash provided by investing activities	<u>13,519</u>	<u>6,708</u>
<b>Financing Activities:</b>		
Proceeds from issuance of common stock	<u>1,034</u>	<u>679</u>
Net cash provided by financing activities	<u>1,034</u>	<u>679</u>
Net decrease in cash and cash equivalents	(3,617 )	(3,030 )
Cash and cash equivalents, beginning of period	<u>12,275</u>	<u>12,702</u>
Cash and cash equivalents, end of period	<u>\$8,658</u>	<u>\$9,672</u>

*See accompanying notes.*

**SANGAMO BIOSCIENCES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2008

(Unaudited)

**NOTE 1-BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of Sangamo Biosciences, Inc. (“Sangamo” or the “Company”) have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The condensed consolidated financial statements include the accounts of Sangamo and its wholly-owned subsidiary, Gendaq Limited, after elimination of all material intercompany balances and transactions. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These financial statements should be read in conjunction with the financial statements and footnotes thereto for the year ended December 31, 2007, included in Sangamo’s Form 10-K as filed with the SEC.

**USE OF ESTIMATES AND CLASSIFICATIONS**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

**STOCK-BASED COMPENSATION**

The following table shows total stock-based compensation expenses included in the condensed consolidated statement of operations for the three-month and six-month periods ended June 30, 2008 and 2007 (in thousands):

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Costs and expenses:				
Research and development	\$ 678	\$ 328	\$1,534	\$676
General and administrative	594	202	1,456	398
Total stock-based compensation expense	<u>\$ 1,272</u>	<u>\$ 530</u>	<u>\$2,990</u>	<u>\$1,074</u>

**RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, “Fair-Value Measurements” (“SFAS 157”) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair-value measurements. The Company adopted SFAS 157 effective January 1, 2008 for all financial assets and liabilities and any other assets and liabilities that are recognized or disclosed at fair value on a recurring basis (see NOTE 5 – FAIR VALUE MEASUREMENT). In accordance with FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* (“FSP 157-2”), for nonfinancial assets and liabilities

measured at fair value on a non-recurring basis, SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company is currently reviewing the application of SFAS 157 for nonfinancial assets and liabilities measured at fair value on a non-recurring basis and has not yet determined how the adoption of SFAS 157 will impact its condensed consolidated financial statements.

In June 2007, the Emerging Issues Task Force (“EITF”) ratified a consensus on EITF Issue No. 07-3 (EITF 07-3), “Accounting for Non-Refundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities”, which concluded that non-refundable advance payments for goods or services for use in research and development activities should be deferred and recognized as an expense in the period that the related goods are delivered or services performed. The Company has adopted EITF 07-3 effective January 1, 2008, and the adoption had no material impact on our consolidated financial position, results of operations and cash flows.

In November 2007, the 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

## [Table of Contents](#)

rights and obligations under the arrangement, the accounting policy for the arrangement and the income statement classification and amounts arising from the arrangement between participants for each period an income statement is presented. EITF 07-1 is effective for us beginning in the first quarter of fiscal year 2009. We are currently evaluating the impact of the provisions of EITF 07-1 on our financial position, results of operations and cash flows and therefore, the impact of the adoption is unknown at this time.

### **NOTE 2-BASIC AND DILUTED NET LOSS PER SHARE**

Basic earnings (loss) per share is calculated based on the weighted average number of shares of common stock outstanding during the period. There are potential dilutive shares of common stock resulting from the assumed exercise of outstanding stock options and equivalents.

Because Sangamo is in a net loss position, diluted earnings (loss) per share excludes the effects of common stock equivalents consisting of options, which are all antidilutive. Had Sangamo been in a net income position, diluted earnings per share would have included the shares used in the computation of basic net loss per share as well as an additional 1,820,960 shares and 2,324,731 shares for the six months ended June 30 2008 and 2007, respectively, related to outstanding options.

### **NOTE 3-COMPREHENSIVE LOSS**

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net loss	\$(7,419)	\$(5,181)	\$(15,388)	\$(10,540)
Changes in unrealized gain (loss) on securities available-for-sale	(255 )	18	(145 )	16
Comprehensive loss	<u>\$(7,674)</u>	<u>\$(5,163)</u>	<u>\$(15,533)</u>	<u>\$(10,524)</u>

### **NOTE 4-MAJOR CUSTOMERS, PARTNERSHIPS AND STRATEGIC ALLIANCES**

#### **Agreement with Dow AgroSciences in Plant Agriculture**

In October 2005, we entered into a Research License and Commercial Option Agreement with Dow AgroSciences LLC ("DAS"), a wholly owned indirect subsidiary of Dow Chemical Corporation. Under this agreement, we will provide DAS with access to our proprietary ZFP technology and the exclusive right to use our ZFP technology to modify the genomes or alter the nucleic acid or protein expression of plant cells, plants, or plant cell cultures. We have retained rights to use plants or plant-derived products to deliver ZFP TFs or ZFNs into human or animals for diagnostic, therapeutic, or prophylactic purposes.

Pursuant to the Research License and Commercial Option Agreement, 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 have 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. On exercise of the option to obtain a commercial license, DAS may request that we transfer, at DAS' s expense, the ZFP manufacturing technology to DAS or to a mutually agreed-upon contract manufacturer.

In June 2008, DAS exercised their 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 triggers a one-time commercial license fee of \$6.0 million, payment of the remaining portion of the \$4.0 million in research milestones, minimum annual sublicensing payments totaling to up to \$25.3 million over 11 years, development and commercialization milestone payments for each product, and royalties on sales of products. Furthermore, DAS will have 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 may be extended beyond the initial three-year research term and DAS will provide additional research funding.

Following its exercise of the option and payment of the license fee, DAS may terminate the agreement at any time. In addition, each party may terminate the agreement upon an uncured material breach of the other party. In the event of any termination of the

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## [Table of Contents](#)

agreement, all 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.

In connection with the future payments for the commercial license of \$6.0 million, and the remaining research milestones of \$2.3 million, we will recognize such revenue ratably over the period from option exercise through September 30, 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 compensated by DAS for additional research services. Revenues under the agreement were \$1.7 million and \$1.4 million during the three months ended June 30, 2008 and 2007, respectively, and \$3.0 million and \$2.6 million during the six months ended June 30, 2008 and 2007, respectively. Related costs and expenses incurred under the agreement were \$500,000 during the three months ended June 30, 2008 and 2007, respectively, and \$1.0 million during the six months ended June 30, 2008 and 2007, 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 Dow AgroSciences LLC. 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.

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 \$329,000 and \$658,000 during the three and six months ended June 30, 2008, respectively. Revenues attributable to collaborative research and development performed under the Sigma agreement were \$250,000 and \$500,000 during the three and six months ended June 30, 2008, respectively. Related costs and expenses incurred under the Sigma agreement were \$322,000 and \$639,000 during the three months and six months ended June 30, 2008, respectively.

### **Enabling Technology Collaborations**

#### ***Pharmaceutical Protein Production***

We have established several research collaborations in this area. In December 2004, we announced a research collaboration agreement with Pfizer to use our ZFP technology to develop enhanced cell lines for protein pharmaceutical production. The scope of this agreement was expanded in January 2006 and again in January 2007 and provided further research funding from Pfizer to develop additional cell lines for enhanced protein production. Under the terms of the agreement, Pfizer is funding research at Sangamo and Sangamo will provide our proprietary ZFP technology for Pfizer to assess its feasibility for use in mammalian cell-based protein production. We are generating novel cell lines and vector systems for enhanced protein production as well as novel technology for rapid creation of new production cell lines. Revenues attributable to collaborative research and development performed under the Pfizer agreement were \$0 and \$25,000 during the three months ended June 30, 2008 and 2007, respectively, and \$0 and \$50,000 during six months ended June 30, 2008 and 2007, respectively. Related research and development costs and expenses performed under the Pfizer agreement were \$23,000 and \$113,000 during the three

months ended June 30, 2008 and 2007, respectively, and \$60,000 and \$247,000 during the six months ended June 30, 2008 and 2007, respectively.

In addition, in April 2007, we established a research and license agreement with Genentech, Inc. (“Genentech”). Under our agreement with Genentech, we are developing ZFNs for targeted genome modification to generate cell lines with novel characteristics for protein pharmaceutical production purposes. The agreement was expanded to include further ZFNs in February 2008. Genentech paid an upfront fee of \$400,000, will pay an ongoing technology access fee, and certain payments upon achievement of specified milestones



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## [Table of Contents](#)

relating to the research of ZFNs and the development and commercialization of products manufactured using a modified cell line created by our ZFN technology. Revenues attributable to collaborative research and development performed under the Genentech agreement were \$64,000 and \$21,000 during the three months ended June 30, 2008 and 2007, respectively, and \$264,000 and \$21,000 during six months ended June 30, 2008 and 2007, respectively. Revenues attributable to the achievement of milestones were \$150,000 during both the three and six months ended June 30, 2008. Related research and development costs and expenses performed under the Genentech agreement were \$22,000 and \$19,000 during the three months ended June 30, 2008 and 2007, respectively, and \$54,000 and \$19,000 during the six months ended June 30, 2008 and 2007, respectively.

### ***Transgenic Animals***

On April 2, 2008, we entered into a License Agreement with Open Monoclonal Technology, Inc. (“OMT”). Under the agreement we have granted OMT a royalty-bearing, non-exclusive, sublicensable worldwide license to for the commercial use of a transgenic animal generated using o ZFP technology. We will receive an upfront license fee, payments upon the achievement of certain clinical development milestones, a share of payments received by OMT from sublicensees, and royalties on sales of any products developed using Sangamo’s ZFP technology. For any given OMT product, OMT has the right to buy out its future royalty payment obligations under the agreement by paying a lump sum fee to Sangamo.

### **Funding from Research Foundations**

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

In October 2006, Sangamo announced a partnership with the Juvenile Diabetes Research Foundation International (“JDRF”) to provide financial support to one of Sangamo’s Phase 2 human clinical studies of SB-509 (SB-509-601), 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. 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.

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.

Through June 30, 2008, we have received \$2.5 million from JDRF since inception of the partnership. Revenues attributable to research and development performed under the JDRF partnership were \$375,000 and \$830,000 during the three months ended June 30, 2008 and 2007, respectively, and \$750,000 and \$830,000 during the six months ended June 30, 2008 and 2007, respectively. Related costs and expenses incurred were \$1.1 million and \$764,000 during the three months ended June 30, 2008 and 2007, respectively, and \$2.6 million and \$2.0 million during the six months ended June 30, 2008 and 2007, respectively.

#### ***The Michael J. Fox Foundation for Parkinson’s Research***

In January 2007, Sangamo announced a partnership with the Michael J. Fox Foundation (“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 will pay the Company \$950,000 over a period of two years. Through June 30, 2008, we have received \$679,000 from MJFF since inception of the partnership. Revenues attributable to research and development performed under the MJFF partnership were \$30,000 and \$134,000 during the three months ended June 30, 2008 and 2007, respectively, and \$282,000 and \$184,000 during the six months ended June 30, 2008 and 2007,

respectively. Related costs and expenses incurred under the MJFF partnership were \$124,000 and \$134,000 during the three months ended June 30, 2008 and 2007, respectively, and \$377,000 and \$184,000 during the six months ended June 30, 2008 and 2007, 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. There was no impact from the adoption of Statement No. 157 on the condensed consolidated financial statements. 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 June 30, 2008 (in thousands):

	June 30, 2008			
	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Assets:				
Marketable securities:				
Commercial paper	\$24,411	\$-	\$24,411	\$-
Government agencies	19,550	-	19,550	-
Asset backed securities	4,425	-	4,425	-
Corporate notes	5,996	-	5,996	-
Bank bonds	1,007	1,007	-	-
Total	<u>\$55,389</u>	<u>\$1,007</u>	<u>\$54,382</u>	<u>\$-</u>

**NOTE 6-INCOME TAXES**

We maintain deferred tax assets that 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. These deferred tax assets include net operating loss carryforwards, research credits and capitalized research and development. The net deferred tax asset has been fully offset by a valuation

allowance because of the Company' s history of losses. Utilization of operating losses and credits may be subject to substantial annual limitation due to ownership change provisions of the Internal Revenue Code of 1986, as amended and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

#### **NOTE 7-SUBSEQUENT EVENTS**

On July 2, 2008, we entered into a Research and License Agreement (the "Agreement") with F. Hoffmann- La Roche Ltd and Hoffmann-La Roche Inc. ("Roche"). During an initial research term, we will provide Roche with access to aspects of our proprietary zinc-finger nuclease (ZFN) technology for the targeted modification of a specified gene in a specified species in order to generate ZFN-modified cell lines and animals for research purposes. In addition, Roche has an option to receive an exclusive, worldwide license to use such animals in the production of therapeutic and diagnostic products.

In consideration for the rights and licenses granted to Roche, as well as our efforts in generating the specific ZFN materials provided to Roche, Roche will pay us an initial research event fee, a payment upon delivery of such ZFN materials, and ongoing research maintenance fees during the research term. In the event that Roche exercises its option to receive a commercial license, Roche will pay us an option exercise fee, payments upon the achievement of certain clinical development milestones relating to products produced under such commercial license, and royalties on sales of such products.

We have an existing agreement with Sigma to develop and commercialize research reagents and services and Sigma has the exclusive right to offer certain services involving our ZFN technology that are covered under the research agreement with Roche. Notwithstanding this exclusive right, Sigma has agreed that we may directly offer the ZFN-related services to Roche under the research agreement and will in return receive a share of certain payments made to us.

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## [Table of Contents](#)

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

The discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains trend analysis, estimates and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include, without limitation, statements containing the words "believes," "anticipates," "expects," "continue," and other words of similar import or the negative of those terms or expressions. Such forward-looking statements are subject to known and unknown risks, uncertainties, estimates and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual results could differ materially from those set forth in such forward-looking statements as a result of, but not limited to, the "Risk Factors" described below. You should read the following discussion and analysis along with the financial statements and notes attached to those statements included elsewhere in this report and in our annual report on Form 10-K for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on March 3, 2008.

#### **Overview**

We were incorporated in June 1995. From our inception through June 30, 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 June 30, 2008, we had an accumulated deficit of \$165.1 million.

Our revenues have consisted primarily of revenues from our corporate partners for ZFP TFs and 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.

We have continued to place more emphasis on higher-value therapeutic product development and related strategic partnerships and less emphasis on our Enabling Technology collaborations. 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 filed an Investigational New Drug (IND) application with the U.S. Food and Drug Administration (FDA) and have initiated three Phase 2 clinical trials of a ZFP Therapeutic in patients with diabetic neuropathy. 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, pre-clinical and clinical studies, laboratory supplies, stock-based compensation expenses, allocated facilities costs, subcontracted research expenses, and expenses for 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 development is critical to attaining our strategic objectives. We expect these expenses will increase significantly as we focus increasingly 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, professional fees, patent prosecution expenses, allocated facilities costs and other general corporate expenses. As we pursue commercial

development of our therapeutic leads we expect the business aspects of the Company to become more complex. We may be required in the future to add personnel and incur additional costs related to the maturity of our business.

### **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

## [Table of Contents](#)

period. Such estimates are described in Note 1, Basis of Presentation and Summary of Significant Accounting Policies to the Unaudited Notes to Condensed Consolidated Financial Statements. 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

Three months and six months ended June 30, 2008 and 2007

#### Revenues

	Three months ended June 30,				Six months ended June 30,			
	(in thousands, except percentage values)				(in thousands, except percentage values)			
	2008	2007	Change	%	2008	2007	Change	%
Revenues:								
Collaboration agreements	\$2,378	\$1,461	\$917	63 %	\$4,462	\$2,611	\$1,851	71 %
Research grants	464	1,123	(659 )	(59 %)	1,145	1,395	(250 )	(18 %)
Total revenues	\$2,842	\$2,584	\$258	(10 %)	\$5,607	\$4,006	\$1,601	40 %

Total revenues consist of revenues from collaboration agreements, strategic partnerships and research grants.

Revenues from our corporate collaboration and strategic partnering agreements were \$2.4 million for the three months ended June 30, 2008, compared to \$1.5 million in the corresponding period in 2007. The increase in collaboration agreements was primarily attributable to revenues of \$579,000 in connection with our laboratory research reagents license agreement with Sigma-Aldrich Corporation ("Sigma"), increased revenues of \$304,000 in connection with our research license and commercial option agreement with Dow AgroSciences LLC ("DAS") and increased revenues of \$43,000 in connection with our research and license agreement with Genentech, Inc. ("Genentech"), partially offset by decreased revenues of \$25,000 from Pfizer. Research grant revenues were \$464,000 for the three months ended June 30, 2008, compared to \$1.1 million in the corresponding period in 2007. The decrease in research grant revenues was primarily due to decreased revenues of \$455,000 in connection with our grant from the Juvenile Diabetes Research Foundation ("JDRF"), decreased revenues of \$137,000 in connection with our Advanced Technical Program (ATP) grant awarded by the National Institute of Standards and Technology ("NIST") and decreased revenues of \$104,000 related to the Michael J. Fox Foundation ("MJFF") grant, partially offset by revenues of \$59,000 in connection with our grant from the Defense Advanced Research Projects Agency ("DARPA").

Revenues from our corporate collaboration and strategic partnering agreements were \$4.5 million for the six months ended June 30, 2008, compared to \$2.6 million in the corresponding period in 2007. The increase in collaboration agreements was primarily attributable to revenues of \$1.2 million in connection with our laboratory research reagents license agreement with Sigma, revenues of \$243,000 in connection with our research and license agreement with Genentech and increased revenues of \$484,000 in connection with our research license and commercial option agreement with DAS, partially offset by decreased revenues of \$50,000 from Pfizer. Research grant revenues were \$1.1 million for the six months ended June 30, 2008, compared to \$1.4 million in the corresponding period in 2007. The decrease in research grant revenues was primarily due to decreased revenues of \$337,000 in connection with our ATP grant awarded by the NIST and decreased revenues of \$80,000 in connection with our grant from JDRF, partially offset by increased revenues of \$98,000 related to the MJFF grant and increased revenues of \$113,000 in connection with our DARPA grant. We anticipate continued revenues from collaboration agreements, and

we have applied for, and plan to continue to apply for research grants in the future to support the development of applications of our technology platform. Although we have negotiated collaboration agreements and received research grants in the past, we cannot assure that these efforts will be successful in the future.

***Operating Expenses***

	<u>Three months ended June 30,</u>				<u>Six months ended June 30,</u>			
	<u>(in thousands, except percentage values)</u>				<u>(in thousands, except percentage values)</u>			
	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>%</u>	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>%</u>
Operating Expenses:								
Research and development	\$8,286	\$6,309	\$1,977	31 %	\$16,929	\$11,739	\$5,190	44 %
General and administrative	2,545	2,113	432	20 %	5,472	4,112	1,360	33 %
Total expenses	\$10,831	\$8,422	\$2,409	29 %	\$22,401	\$15,851	\$6,550	41 %



## [Table of Contents](#)

### **Research and development**

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. 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 \$8.3 million for the three months ended June 30, 2008, compared to \$6.3 million in the corresponding period in 2007. The increase in research and development expenses was primarily attributable to increased pre-clinical and clinical studies and manufacturing expenses of \$1.3 million, primarily associated with our diabetic neuropathy program, and increased salaries and personnel expenses of \$495,000, including increased stock-based compensation expenses of \$337,000. The increase in stock-based compensation was due to increased grant activity, higher Black-Scholes value per share and a lower estimated forfeiture rate which the Company believes is more representative of its historical experience. Consulting expenses increased by \$374,000 primarily in support of our diabetic neuropathy program and facility expenses increased by \$145,000 primarily due to the Company leasing additional space and increased headcount. This was partially offset by decreased expenses related to laboratory supplies of \$197,000.

Research and development expenses were \$16.9 million for the six months ended June 30, 2008, compared to \$11.7 million in the corresponding period in 2007. The increase in research and development expenses was primarily attributable to increased pre-clinical and clinical studies and manufacturing expenses of \$2.9 million, primarily associated with our diabetic neuropathy program, and increased salaries and personnel expenses of \$1.3 million, including increased stock-based compensation expenses of \$858,000. The increase in stock-based compensation was due to increased grant activity, higher Black-Scholes value per share and a lower estimated forfeiture rate which the Company believes is more representative of its historical experience. Consulting expenses increased by \$695,000 primarily in support of our diabetic neuropathy program and facility expenses increased by \$373,000 primarily due to the Company leasing additional space and increased headcount. This was partially offset by decreased expenses related to laboratory supplies of \$125,000.

### **General and administrative**

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 costs, expenses for patent prosecution 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 \$2.5 million for the three months ended June 30, 2008, compared to \$2.1 million in the corresponding period in 2007. This increase is primarily attributable to increased salaries and personnel expenses of \$634,000, including increased stock-based compensation expenses of \$392,000. 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. This is partially offset by decreased expenses related to professional services of \$214,000.

General and administrative expenses were \$5.5 million for the six months ended June 30, 2008, compared to \$4.1 million in the corresponding period in 2007. This increase is primarily attributable to increased salaries and personnel related expenses of \$1.5 million, including increased stock-based compensation expenses of \$1.1 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 as noted above. This is partially offset by decreased expenses related to professional services of \$171,000.

### ***Interest and Other Income, net***

<u>Three months ended June 30,</u>				<u>Six months ended June 30,</u>			
<u>(in thousands, except percentage values)</u>				<u>(in thousands, except percentage values)</u>			
<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>%</u>	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>%</u>

Interest and other income, net

\$ 570    \$ 657    \$ (87 )    (13 %)    \$ 1,406    \$ 1,305    \$ 101    8 %

Interest and other income, net, was \$570,000 for the three months ended June 30, 2008, compared to \$657,000 in the corresponding period in 2007. The decrease was primarily related to a lower foreign currency translation gain of \$81,000 during the quarter ended June 30, 2008.

Interest and other income, net, was \$1.4 million for the six months ended June 30, 2008, compared to \$1.3 million in the corresponding period in 2007. The increase was primarily related to interest earned on higher average investment balances during the six months ended June 30, 2008.

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## Table of Contents

### **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 June 30, 2008, we had cash, cash equivalents, short-term investments and interest receivable totaling \$64.3 million.

Net cash used in operating activities was \$18.2 million for the six months ended June 30, 2008. Net cash used in operating activities consisted of the net loss for the six-month period of \$15.4 million and a net change of \$5.2 million in operating assets and liabilities, partially offset by non-cash charges of \$2.5 million. The net increase in operating liabilities of \$3.5 million was primarily comprised of increases in deferred revenues of \$4.8 million, partially offset by decreases in accounts payable and accrued liabilities of \$927,000 and decreases in accrued compensation and employee benefits of \$358,000. The net increase in operating assets of \$8.8 million was primarily comprised of increased accounts receivable balances of \$8.8 million. The non-cash charges included \$3.0 million related to stock-based compensation and \$244,000 related to depreciation and amortization, partially offset by amortization of premium / discount on investments of \$776,000.

Net cash used in operating activities was \$10.4 million for the six months ended June 30, 2007. Net cash used in operating activities consisted primarily of the net loss for the six month period of \$10.5 million and a net change of \$124,000 in operating assets and liabilities, partially offset by non-cash charges of \$247,000. The net decrease in operating liabilities of \$73,000 was primarily comprised of increases in accounts payable and accrued liabilities of \$1.0 million, partially offset by decreases in accrued compensation and employee benefits of \$234,000 and deferred revenue of \$881,000. The net increase in operating assets of \$51,000 was comprised of increases in prepaid expenses and other assets of \$415,000, partially offset by decreases in accounts receivable balances of \$327,000 and interest receivable of \$37,000. The non-cash charges consisted primarily of \$1.1 million related to stock-based compensation and \$110,000 related to depreciation and amortization, partially offset by amortization of premium / discount on investments of \$953,000.

Net cash provided by investing activities was \$13.5 million for the six months ended June 30, 2008 and was comprised of cash proceeds associated with maturities of investments of \$51.1 million and proceeds from sales of investments of \$4.0 million, partially offset by cash used to purchase investments and fixed assets of \$41.0 million and \$534,000, respectively. Net cash provided by investing activities was \$6.7 million for the six months ended June 30, 2007 and was comprised of cash proceeds associated with maturities of investments of \$43.7 million, partially offset by cash used to purchase investments and fixed assets of \$36.4 million and \$568,000, respectively.

Net cash provided by financing activities for the six-months ended June 30, 2008 and 2007 was \$1.0 million and \$679,000, respectively. Proceeds from both years were solely related to proceeds from the 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 2009. 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.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our exposure to market risk for changes in interest rates relates primarily to our cash equivalents and investments. The investments are available-for-sale. We do not use derivative financial instruments in our investment portfolio. We attempt to ensure the safety and preservation of our invested funds by limiting default and market risks. Our cash and investments policy emphasizes liquidity and preservation of principal over other portfolio considerations. We select investments that maximize interest income to the extent possible within these guidelines. We satisfy liquidity requirements by investing excess cash in securities with different maturities to match projected cash needs and limit concentration of credit risk by diversifying our investments among a variety of high credit-quality issuers. We mitigate default risk by investing in only investment-grade securities. The portfolio includes marketable securities with active secondary or resale markets to ensure portfolio liquidity. All investments have a fixed interest rate and are carried at market value, which approximates cost.

Our market risks at June 30, 2008 have not changed materially from those discussed in Item 7A of our Form 10-K for the year ended December 31, 2007 on file with the Securities and Exchange Commission.



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## [Table of Contents](#)

### ITEM 4. CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report were functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Principal Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

#### (b) Change in Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are not party to any material pending legal proceedings, other than routine litigation incidental to our business.

### ITEM 1A. RISKS FACTORS

This Form 10-Q contains forward-looking information based on our current expectations. Because our actual results may differ materially from any forward-looking statements made by or on behalf of Sangamo, this section includes a discussion of important factors that could affect our actual future results, including, but not limited to, our revenues, expenses, net loss and loss per share.

#### ***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 the first of these trials of SB-509 for diabetic neuropathy and thus far have not observed any serious drug-related adverse events. However if our lead ZFP Therapeutic fails one of its initial safety studies, it could reduce our ability to attract new investors and corporate partners. In January 2005, we filed an IND 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). Some 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 the initial safety study of our lead therapeutic was halted due to safety concerns, this would negatively affect our operations and the value of our stock.

#### ***The results of early Phase 1 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.***

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. Our first Phase 2 clinical trial (SB-509-601) for safety and efficacy has enrolled 110 patients. Actual results

with more data points may not confirm favorable results from earlier stage trials. 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 demonstrate the safety and effectiveness of our ZFP Therapeutic products in larger patient populations could have a material adverse effect on our business that would cause our stock price to decline significantly.

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## [Table of Contents](#)

### ***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 initiated several 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 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 IND. If the FDA does not comment on the IND, 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, or RAC, which is the advisory board to the National Institutes of Health, or 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 filing date.

Clinical trials:

must be conducted in conformance with the FDA's good clinical practices ICH guidelines 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 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 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.

***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



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## Table of Contents

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 and have fewer resources invested in our Enabling Technology programs. In the short term, this change may reduce our revenues and 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 2008 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.

***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.

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## Table of Contents

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 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 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

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## [Table of Contents](#)

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;

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 2007, 2006 and 2005 were \$21.5 million, \$17.9 million and \$13.3 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;

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## [Table of Contents](#)

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.

***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. The effectiveness of these competing products has reduced the revenues generated by our Enabling Technology. Competing technologies may include other methods of regulating gene expression or modifying genes. ZFP TFs and ZFNs have broad application in the life sciences and compete with a broad array of new technologies and approaches being applied to genetic research by many companies. 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 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.

***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.



## [Table of Contents](#)

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 revenue from strategic partnering agreements, Enabling Technology collaborations, federal government research grants and grants awarded by research foundations. As of June 30, 2008, we had an accumulated deficit of approximately \$165.1 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, 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 2009, 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.

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

During the quarter ended June 30, 2008, our common stock price ranged from a low of \$8.77 to high of \$13.65. During the past two years, our common stock price has fluctuated significantly, ranging from a low of \$6.22 to a high of \$19.08 during the year ended December 31, 2007, and a low of \$4.10 to a high of \$8.00 during the year ended December 31, 2006. 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 the following factors, some of which are beyond our control:

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;

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.

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## [Table of Contents](#)

***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 July 21, 2008 was approximately 432,660 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.

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.

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## Table of Contents

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 pending in Canada and Japan. As of January 25, 2008, US patent numbers US5,792,640 and US6,265,196, licensed to Sangamo from The Johns Hopkins University, were undergoing re-examination, and we do not know what the outcome of the process will be.

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 79 full-time employees as of July 1, 2008 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.

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

On July 10, 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. The license agreement provides 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. In addition to an upfront payment of \$13.5 million, 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. The commercial milestones and royalties are based upon net sales of licensed products. We believe that the last commercial milestone payment may not be received before 2011. Our right to

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## [Table of Contents](#)

receive royalty payments from Sigma will continue until the later of (i) the expiration of the last to expire valid claim of such licensed product and (ii) the 15th anniversary of the effective date of the License Agreement. We cannot be certain that Sigma and Sangamo will succeed in the development of commercially viable products in these fields of use, and there is no guarantee that Sangamo and Sigma will achieve the milestones set forth in the license agreement. To the extent Sangamo and Sigma do not succeed in developing and commercializing products or if Sangamo and Sigma fail to achieve such milestones, our revenues and benefits under the license agreement will be limited. In addition, the license agreement may be terminated by Sigma at any time by providing us with a 90-day notice. In the event Sigma decides to terminate the license agreement, our ability to generate revenue under the license agreement will cease.

***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 the license agreements may be limited.***

On July 10, 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 on June 12, 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.

***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.



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## [Table of Contents](#)

***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. Effective as of October 1, 2005, we entered into a Research License and Commercial Option Agreement with DAS. On June 12, 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.

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 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;

## [Table of Contents](#)

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

limit who may call a special meeting of stockholders.

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 July 15, 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The annual meeting of shareholders was held on June 4, 2008. Two matters were voted on and each was approved. The results are as follows:

### **PROPOSAL I**

To elect seven director nominees to hold office until the 2009 Annual Meeting of Stockholders or until their successors are duly elected and qualified:

<u>NOMINEE</u>	<u>VOTES FOR</u>	<u>VOTES WITHHELD</u>
Edward O. Lanphier, II	32,281,310	277,888
William G. Gerber, M.D.	32,058,483	500,715
John W. Larson	26,752,053	5,807,145
Margaret A. Liu, M.D.	32,194,609	364,589
Steven J. Mento, Ph.D.	32,346,872	212,326
Thomas G. Wiggans	32,337,859	221,339

**PROPOSAL II**

The proposal to ratify the selection of Ernst & Young LLP as the Company' s independent registered public accounting firm for the fiscal year ending December 31, 2008 was approved.

**FOR**

	<u>AGAINST</u>	<u>ABSTAINED</u>	<u>NON VOTES</u>
32,259,287	171,028	128,883	0

**ITEM 6. EXHIBITS**

## (a) Exhibits:

10.1 (+) License Agreement dated as of April 2, 2008 between Open Monoclonal Technology, Inc., and Sangamo BioSciences, Inc.

10.2 Plan Amendment to 2004 Stock Incentive Plan

31.1 Rule 13a – 14(a) Certification by President and Chief Executive Officer

31.2 Rule 13a – 14(a) Certification by Principal Financial and Accounting Officer

32.1 Certification Pursuant to 18 U.S.C. Section 1350.

(+) 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.

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[Table of Contents](#)

**SIGNATURES**

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

SANGAMO BIOSCIENCES, INC. Dated: August 7, 2008

/s/ H. Ward Wolff

\_\_\_\_\_

H. Ward Wolff

Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**NOTE: Portions of this Exhibit are the subject of a Confidential Treatment Request by the Registrant to the Securities and Exchange Commission (the “Commission”). Such portions have been redacted and are marked with a “[\*\*\*]” in place of the redacted language. The redacted information has been filed separately with the Commission.**

#### LICENSE AGREEMENT

THIS LICENSE AGREEMENT (the “**Agreement**”) is made and entered into effective as of April 2, 2008 (the “**Effective Date**”) by and between SANGAMO BIOSCIENCES, INC., a Delaware corporation with offices at 501 Canal Blvd., Suite A100, Richmond, California 94804 (“**Sangamo**”), and OPEN MONOCLONAL TECHNOLOGY, INC., a Delaware corporation with offices at 2747 Ross Road, Palo Alto, CA 94303 (“**OMT**”). Sangamo and OMT may be referred to herein individually as a “**Party**”, and collectively as the “**Parties**.”

#### RECITALS

WHEREAS, Sangamo has expertise in and owns or controls proprietary technology relating to zinc finger nucleases and their use to alter the genomes and/or protein expression capabilities of organisms and cells, including animals and animal cells;

WHEREAS, pursuant to an exclusive license from Sangamo, Sigma-Aldrich Co. (“**Sigma**”) has the right to offer products and services based on Sangamo’s proprietary zinc finger nuclease technology for research use only;

WHEREAS, OMT and Sigma have entered into a Research Products Agreement, of even date herewith (the “**Sigma Agreement**”), under which Sigma and OMT agreed to undertake research program for the purpose of generating a genetically modified [\*\*\*] using zinc finger nuclease technology;

WHEREAS, pursuant to the Sigma Agreement, Sigma has granted OMT a license to use such genetically modified [\*\*\*] for research purposes; and

WHEREAS, OMT further desires a license from Sangamo to use such genetically modified [\*\*\*] for clinical and commercial purposes, and Sangamo is willing to provide such license under the terms and conditions of this Agreement.

**\*\*\* CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION**

NOW THEREFORE, in consideration of the foregoing and the covenants and promises contained herein, the Parties agree as follows:

## ARTICLE 1

### DEFINITIONS

As used in this Agreement, the following capitalized terms shall have the following meanings:

**1.1 “Affiliate”** means, with respect to a particular Party, any other person or entity that directly or indirectly controls, is controlled by, or is in common control with such Party. As used in this Section 1.1, the term “controls” (with correlative meanings for the terms “controlled by” and “under common control with”) means the ownership, directly or indirectly, of more than fifty percent (50%) of the voting securities or other ownership interest of entity, or the possession, directly or indirectly, of the power to direct the management or policies of the entity, whether through the ownership of voting securities, by contract, or otherwise.

**1.2 “Confidential Information”** means each Party’s confidential information, inventions, non-public know-how or non-public data disclosed pursuant to this Agreement and shall include, without limitation, manufacturing, marketing, financial, personnel and other business information and plans, whether in oral, written, graphic or electronic form.

**1.3 “Control”** means, with respect to an item of Information or intellectual property right, that a Party owns or has a license to such item or right and has the ability to disclose such item and/or grant a license or sublicense as provided for in this Agreement under such item or right without violating the terms of any agreement or other arrangement with any Third Party.

**1.4 “Decision Date”** means [\*\*\*] days after the date that OMT achieves the milestone set forth in Section 3.2 of the Sigma Agreement.

**1.5 “Drug Approval Application”** means (a) in the U.S., a Biologics License Application (as such term is defined under United States statutes or regulations, as amended) for an OMT Product, or any equivalent or successor application for regulatory approval required before commercial sale of an OMT Product for use in humans in the United States and (b) in the rest of the Territory, an equivalent application for regulatory approval required before commercial sale of an OMT Product for use in humans in a regulatory jurisdiction.

**\*\*\* CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION**

**1.6 “Executive Officer”** means the Chief Executive Officer of the applicable Party, or another senior executive officer of such Party who has been duly appointed by the Chief Executive Officer to act as the representative of the Party.

**1.7 “Field”** means use of Modified [\*\*\*] to produce antibodies for clinical or commercial purposes.

**1.8 “First Commercial Sale”** means, with respect to a country in the Territory, the first sale to a Third Party of an OMT Product in such country by or on behalf of OMT or any of its Affiliates or licensees after the granting of Regulatory Approval with respect to such country.

**1.9 “Information”** means information, results and data of any type whatsoever, in any tangible or intangible form whatsoever, including without limitation, databases, inventions, practices, methods, techniques, specifications, formulations, formulae, knowledge, know-how, skill, experience, test data including pharmacological, biological, chemical, biochemical, toxicological and clinical test data, analytical and quality control data, stability data, studies and procedures, and patent and other legal information or descriptions.

**1.10 “Modified [\*\*\*]”** means a [\*\*\*] having a genomic modification that results from the use of the ZFN Deliverable created in the course of work performed under the Sigma Agreement, and any progeny or components thereof or any biological material derived therefrom (other than OMT Products).

**1.11 “Net Sales”** means the gross amounts actually received for OMT Products sold or otherwise disposed of for consideration by or on behalf of OMT or its Affiliates to unrelated Third Parties, reduced by the following amounts, to the extent allocable to sales or other disposition of OMT Products: (a) the amounts actually allowed as volume, quantity, trade and/or cash discounts; (b) credits actually given in connection with retroactive price reductions, or as a result of returns or rejections; (c) transportation and insurance charges, and (d) import, export, sales, excise and turnover taxes and customs duties imposed directly on and actually paid by OMT or its Affiliates (and not reimbursed), all of the foregoing calculated in accordance with United States Generally Accepted Accounting Principles consistently applied across OMT’s organization.

**\*\*\* CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION**



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When calculating the Net Sales, the amount of such sales in foreign currencies shall be converted into United States Dollars at the spot rate for buying United States Dollars published in the Wall Street Journal as of last day of the applicable measurement or activity period (e.g., calendar quarter, month, etc.). OMT shall provide reasonable documentation of the calculation and reconciliation of the conversion figures on a country-by-country basis as part of its report of Net Sales for the period covered under the report.

If OMT or its Affiliates receive non-cash consideration in place of cash consideration for an OMT Product sold or otherwise transferred to an unrelated Third Party, the Net Sales for such OMT Product shall be deemed to be the gross invoice price that OMT or its Affiliate (as applicable) currently charges unrelated Third Parties for such OMT Product, in either case reduced by any applicable amounts in subsections (a) through (d) above. For clarity, each OMT Product shall be subject to only one royalty payment, and amounts received by OMT with respect to OMT Products as Sublicensee Income shall not be included in the calculation of Net Sales.

**1.12 “OMT Product”** means any product that is created or produced directly or indirectly by or on behalf of OMT, its Affiliates, or its licensees or sublicensees through use or practice of Sangamo Technology, including, without limitation, any Modified [\*\*\*] or any antibodies created or produced through the use of a Modified [\*\*\*].

**1.13 “Patents”** means (a) all patents and patent applications (including provisional applications), (b) any substitutions, divisions, continuations, continuations-in-part, reissues, renewals, registrations, confirmations, re-examinations, extensions, supplementary protection certificates and the like of the foregoing, and (c) any foreign or international equivalents of any of the foregoing.

**1.14 “Phase I Trial”** means a human clinical trial of an OMT Product that would satisfy the requirements of 21 C.F.R. Part 312.21(a) (as amended from time to time) or other comparable regulation imposed by an applicable regulatory authority in any country other than the United States, the principal purpose of which is to determine safety, metabolism and pharmacokinetic properties and clinical pharmacology of such product.

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**1.15 “Phase II Trial”** means a human clinical trial of an OMT Product that would satisfy the requirements of 21 C.F.R. Part 312.21(b) (as amended from time to time) or other comparable regulation imposed by an applicable regulatory authority in any country other than the United States, the principal purposes of which are to make a preliminary determination that such OMT Product is safe for its intended use and to obtain sufficient information about such product’s efficacy to permit the design of further clinical trials. A Phase II Trial shall be deemed initiated upon the enrollment of the first patient.

**1.16 “Phase III Trial”** means a pivotal human clinical trial of an OMT Product that would satisfy the requirements of 21 C.F.R. Part 312.21(c) (as amended from time to time) or other comparable regulation imposed by an applicable regulatory authority in any country other than the United States, the results of which could be used to evidence efficacy of the OMT Product in a target population and to obtain expanded evidence of safety for such OMT Product as a basis for submission of an application for Regulatory Approval. For clarity, a phase II/III trial designed to support a filing for Regulatory Approval shall be deemed a Phase III Trial. A Phase III Trial shall be deemed initiated upon the enrollment of the first patient.

**1.17 “Regulatory Approval”** means the approval of a Drug Approval Application by the applicable regulatory authority in a regulatory jurisdiction.

**1.18 “Sangamo Patents”** means all Patents that (a) are Controlled by Sangamo or its Affiliates as of the Effective Date or anytime during the term of this Agreement; and (b) claim or cover the Modified [\*\*\*] or the use of the Modified [\*\*\*].

**1.19 “Sangamo Technology”** means the Sangamo Patents.

**1.20 “Sublicensee Income”** means all cash consideration actually received by OMT or its Affiliates from licensees in connection with (a) the grant or maintenance of a license or other right to commercially research or develop, manufacture or sell OMT Products, or (b) the sale or other disposition of OMT Products, including without limitation upfront license fees, annual license payments, milestone payments, royalties received from the licensee and other similar license-related payments; provided, however, that amounts received with respect of the following items are expressly excluded: (i) the purchase of OMT’s or its Affiliate’s stock (but

**\*\*\* CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION**

solely to the extent that such payment is at a price equal to or less than 100% of the fair market value of such stock at the date of purchase, it being understood that, for so long as OMT is a private company, a stock price set in and paid by at least one professional, non-strategic investor shall be deemed to be the fair market price of such stock), (ii) reasonable research and development support, (iii) reasonable patent prosecution and/or litigation, or (iv) the manufacturing or supply of Modified [\*\*\*] for research purposes, where such manufacturing or supply is billed at cost or with a reasonable manufacturing markup (not to exceed [\*\*\*]).

When calculating the Sublicensee Income, the amount of cash consideration received by OMT or its Affiliates in foreign currencies shall be converted into United States Dollars at the spot rate for buying United States Dollars published in the Wall Street Journal as of last day of the applicable measurement or activity period (e.g., calendar quarter, month, etc).

**1.21** “**Target**” has the meaning given to such term in the Sigma Agreement.

**1.22** “**Third Party**” means any individual or entity other than the Parties or their respective Affiliates.

**1.23** “**Territory**” means the entire world.

**1.24** “**ZFN Deliverable**” has the meaning given to such term in the Sigma Agreement.

**1.25** “**ZFPs**” means zinc-finger proteins (including a zinc-finger transcription factor or a zinc-finger nuclease), or a nucleic acid encoding and capable of expressing such protein in a cell or tissue.

## ARTICLE 2

### LICENSE GRANT

**2.1 Licenses to OMT.** Subject to the terms and conditions of this Agreement, Sangamo agrees to grant to OMT a royalty-bearing, worldwide, non-exclusive license under the Sangamo Technology to use, distribute, reproduce, modify (without the use of ZFN Deliverables) and sell Modified [\*\*\*] solely for the purpose of making, using and selling OMT Products. Notwithstanding anything to the contrary in this Agreement, such license (a) does not

**\*\*\* CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION**

include a license with respect to any genomic modifications that may be present in a Modified [\*\*\*] that do not arise from or relate to a modification of the Target and (b) does not include any rights to any ZFPs. Sangamo shall not (nor shall it authorize or assist any Third Party to) develop, use or transfer a ZFN Deliverable for the benefit of itself or any Third Party for use in connection with (whether directly or indirectly) inactivation of [\*\*\*] expression in [\*\*\*] cells, tissues or whole animals for any purpose other than non-commercial research purposes provided, however, that OMT's sole remedy for any material breach of this covenant by Sangamo or its Affiliates shall be [\*\*\*].

**2.2 Restrictions on Exercise of License.** OMT shall have no right to exercise the license granted in Section 2.1 unless and until OMT pays Sangamo in full the amount set forth in Section 3.1. Prior to OMT making such payment in full, OMT shall not use Modified [\*\*\*] for any purpose other than as permitted under the Sigma Agreement.

**2.3 Sublicensing.** After OMT pays Sangamo in full the amount set forth in Section 3.1, OMT may freely sublicense the rights granted under Section 2.1 or transfer any Modified [\*\*\*] to any Third Party or OMT Affiliate, provided that OMT shall require each licensee to be bound in writing by (and shall cause each licensee to similarly bind any sublicense to) provisions that are as protective of Sangamo as the terms of Sections 2.4, 7.2, 7.3 and 8.4(b) (in each case, as if such licensee were OMT) . Notwithstanding the grant of sublicense hereunder, OMT shall remain fully responsible for performance of its obligations under this Agreement. Any sublicense granted by OMT under this Agreement shall be consistent with the terms and conditions of this Agreement Within thirty (30) days prior to delivery of the first payment to Sangamo with respect to a sublicense agreement, OMT shall provide Sangamo with the name of the sublicense (provided that OMT has the authority to disclose such name, which authority OMT agrees to use commercially reasonable efforts to obtain) and a summary of the relevant financial provision(s) relevant to any payments that Sangamo might receive under Section 3.4 hereunder, which information shall be deemed to be the Confidential Information of OMT.

**2.4 No Non-Permitted Use.** OMT hereby covenants that it shall not, nor shall it permit any Affiliate or licensee, to use or practice, directly or indirectly, any Sangamo Technology for any purposes other than those expressly permitted by this Agreement.

**\*\*\* CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION**

**2.5 No Prohibition on Sangamo.** Except as set forth in Section 2.1, nothing in this Agreement shall prevent Sangamo from making, using, offering for sale, selling, or importing ZFPs for all purposes (including for purposes in the Field), and to grant to Third Parties the right to do the same.

**2.6 Third Party Licenses.** OMT shall be solely responsible for obtaining, at its sole expense, any other licenses from Third Parties that OMT determines, in its sole discretion, are required in order to lawfully make, use, sell, offer for sale, or import OMT Products.

**2.7 Compliance with Law.** Each party shall comply, and shall ensure that its Affiliates, licensees and Third Party contractors comply, with all applicable laws, regulations, and guidelines, including without limitation those relating to the transport, storage, and handling of Modified [\*\*\*].

**2.8 Diligence.** OMT shall use commercially reasonable efforts to develop and obtain Regulatory Approval for OMT Products and to commercialize any OMT Products for which Regulatory Approval is obtained.

### ARTICLE 3

#### COMPENSATION

**3.1 License Fee.** OMT shall pay Sangamo [\*\*\*] no later than the Decision Date. For clarity, OMT may make such payment at any time prior to the Decision Date, if it so elects. Any payment made under this Section 3.1 shall be non-creditable and non-refundable.

**\*\*\* CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION**

**3.2 Clinical Development Milestone Payments.** For each OMT Product, OMT shall pay Sangamo the following non-creditable and non-refundable milestone payments no later than thirty (30) days after achievement of the corresponding milestone event by OMT or any of its Affiliates:

<u>Milestone Event</u>	<u>Payment</u>
***	***
***	***
***	***
***	***

For a given OMT Product, each milestone payment shall only be paid once, the first time the applicable milestone event is reached for such OMT Product and irrespective of the number of times such milestone event may be subsequently reached for such OMT Product.

**3.3 Royalties.** For each calendar quarter in which there are Net Sales, OMT shall pay a royalty to Sangamo equal to \*\*\* of Net Sales in such quarter. OMT's obligation to pay royalties under this Section 3.3 with shall expire on a country-by-country basis upon the later of (a) expiration of the last to expire Sangamo Patent that would be infringed by use of the ZFN Deliverable to create or generate a Modified \*\*\* and (b) ten (10) years after First Commercial Sale of the first OMT Product.

**3.4 Sublicensee Income.** OMT shall pay to Sangamo an amount equal to \*\*\* of Sublicensee Income received by OMT or its Affiliates in such calendar quarter. OMT's obligation to pay Sublicensee Income under this Section 3.4 with shall expire on a country-by-country basis upon the later of (a) expiration of the last to expire Sangamo Patent that would be infringed by use of the ZFN Deliverable to create or generate a Modified \*\*\* and (b) ten (10) years after First Commercial Sale of the first OMT Product.

**3.5 Acknowledgement.** The Parties acknowledge and agree that the royalty rate for OMT Products and sharing of Sublicensee Income are in consideration for (a) the licenses granted by Sangamo in Section 2.1 and (b) Sangamo entering into this Agreement, absent which the Sigma Agreement would prohibit OMT from using the Modified \*\*\* for commercial purposes (including clinical development). In addition, the parties acknowledge and agree that the Sangamo Technology will be used by OMT to develop Modified \*\*\* for the purpose of directly and indirectly making, using and selling OMT Products, but there is no assurance that such Sangamo Technology would be required by OMT or its Affiliates, licensees or sublicensees on an ongoing basis to make, use or sell OMT Products. In light of such considerations, the

\*\*\* CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION

Parties have agreed that (i) OMT' s royalty obligations under this Agreement shall apply to the sales (or other disposition) by OMT or its Affiliates of any OMT Product and such royalty obligation shall consist of the single royalty rate set forth in Section 3.3 applied during the royalty term set forth in Section 3.3, and (ii) OMT' s obligation to share Sublicensee Income under this Agreement shall apply to all consideration received by OMT or its Affiliates within the definition of Sublicensee Income, and such sharing obligation shall consist of the percentage of Sublicensee Income set forth in Section 3.4 applied during the term that OMT or its Affiliates receives Sublicensee Income. The Parties further agree that this method of calculating royalties and sharing of Sublicensee Income is more convenient and advantageous for the parties than attempting to resolve the question of whether the development, manufacture, or commercialization of each particular OMT Product licensed, developed or sold actually embodied or involved the practice of any Sangamo Technology.

**3.6 Buy-out Option.** Notwithstanding the above, on an OMT Product-by OMT Product basis, OMT may choose to buyout the total amount payable to Sangamo for a given OMT Product by providing Sangamo with written notice of such choice and paying to Sangamo, in lieu of the future royalties and Sublicensee Income due, a single one-time payment of [\*\*\*].

**3.7 Reports.** For each calendar quarter in which there are Net Sales or Sublicensee Income, OMT shall provide to Sangamo, no later than forty-five (45) days after the end of such calendar quarter, a written report stating (a) the total sales volume of OMT Products sold by or on behalf of OMT or its Affiliates in such quarter, (b) an itemized calculation of Net Sales in such quarter, (c) a calculation of the royalty due to Sangamo under Section 3.3, (d) an itemized list of the amount of each payment received by OMT or its Affiliates in such quarter that constitutes Sublicensee Income, and (e) a calculation of the Sublicensee Income payment due to Sangamo under Section 3.4. Concurrent with the delivery of each quarterly report, OMT shall make the payments due to Sangamo under Sections 3.3 and 3.4 for the calendar quarter covered by such report.

**3.8 Records.** OMT shall keep complete and accurate records for a period of at least three (3) years after the relevant payment is owed pursuant to this Agreement, setting forth the sales and other disposition of OMT Products and the amount of Sublicensee Income in sufficient

**\*\*\* CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION**

detail to enable royalties and compensation based on Sublicensee Income payable to Sangamo hereunder to be determined. OMT further agrees to permit its books and records (including any license agreements) to be examined upon reasonable notice during normal business hours by an internationally recognized independent accounting firm that (i) has no affiliation with either party, (ii) has been selected by Sangamo and approved by OMT (which approval shall not be unreasonably withheld), and (iii) that has executed and delivered to OMT, OMT's standard form confidentiality agreement, solely to verify reports provided for in Section 3.7 and to verify OMT's compliance with Section 2.3 when granting licenses; such independent accounting firm shall only report whether or not the reports provided by OMT are accurate (and if not accurate, the extent of such inaccuracy) and whether or not the licenses granted by OMT comply with Section 2.3. Such audit shall not be performed more frequently than once per calendar year. Such examination is to be made at the expense of Sangamo, except in the event that the results of the audit reveal an underpayment by OMT of five percent (5%) or more over the period being audited or material violations of Section 2.3, in which case the reasonable, documented expenses incurred by Sangamo in connection with such examination shall be paid by OMT. OMT shall in any event promptly remedy any underpayment revealed by any such audit. OMT shall require its Affiliates to afford OMT the same rights as those granted Sangamo in this Section 3.8.

**3.9 Method of Payment.** All payments due to Sangamo under this Agreement shall be paid in United States dollars by wire transfer to a bank in the U.S. designated in writing by Sangamo. All references to "dollars" or "\$" herein shall refer to United States dollars.

**3.10 Taxes.** If provision is made in law or regulation of any country for withholding of taxes of any type, levies or other charges with respect to any amounts payable hereunder to Sangamo, such taxes shall be OMT's sole responsibility and shall not reduce the amounts payable to Sangamo hereunder. OMT shall provide Sangamo with official receipts issued by the appropriate taxing authority, or such other evidence as is reasonably requested by Sangamo to establish that such taxes have been paid. Sangamo shall reasonably cooperate with OMT if OMT seeks to claim an exemption from any such tax under double taxation or similar agreement or treaty from time to time in force.



**3.11 Late Payments.** Any amount owed by OMT to Sangamo under this Agreement that is not paid within the applicable time period set forth herein shall accrue interest at the lower of (a) two percent (2%) per day above the then-applicable prime commercial lending rate of Citibank, N.A., in San Francisco, California, or (b) the highest rate permitted under applicable law.

## ARTICLE 4

### INTELLECTUAL PROPERTY

**4.1 Ownership.** Subject to the license granted under Section 2.1, all rights in the Sangamo Technology shall remain with Sangamo.

**4.2 Patent Prosecution.** Sangamo shall have the sole right, but not the obligation, to conduct and control the filing, prosecution and maintenance of the Sangamo Patents. At the request of Sangamo, OMT shall reasonably cooperate with Sangamo in connection with such filing, prosecution, and maintenance, at Sangamo's expense.

**4.3 Infringement of Patents by Third Parties.** Sangamo shall have the sole right, but not the obligation, to take appropriate action against any person or entity directly or indirectly infringing any Sangamo Patent (or asserting that a Sangamo Patent is invalid or unenforceable) (collectively, "**Infringement**"), either by settlement or lawsuit or other appropriate action. OMT shall reasonably cooperate with Sangamo with respect to the investigation and prosecution of any alleged, threatened, or actual Infringement, at Sangamo's expense. OMT shall promptly notify Sangamo in writing of any alleged, threatened, or actual Infringement of which it becomes aware.

## ARTICLE 5

### CONFIDENTIALITY

**5.1 Confidentiality.** Except to the extent expressly authorized by this Agreement or otherwise agreed in writing by the Parties, each Party agrees that, for the term of this Agreement and for [\*\*\*] years thereafter, it shall keep confidential and shall not publish or otherwise disclose and shall not use for any purpose other than as provided for in this Agreement any

**\*\*\* CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION**

Confidential Information disclosed to it by the other Party pursuant to this Agreement, except to the extent that the receiving Party can demonstrate by competent evidence that specific Confidential Information:

- (a) was already known to the receiving Party, other than under an obligation of confidentiality, at the time of disclosure by the other Party;
- (b) was generally available to the public or otherwise part of the public domain at the time of its disclosure to the receiving Party;
- (c) became generally available to the public or otherwise part of the public domain after its disclosure and other than through any act or omission of the receiving Party in breach of this Agreement;
- (d) was disclosed to the receiving Party, other than under an obligation of confidentiality to a Third Party, by a Third Party who had no obligation to the disclosing Party not to disclose such information to others; or
- (e) was independently discovered or developed by the receiving Party without the use of Confidential Information belonging to the disclosing Party, as documented by the receiving Party's written records.

**5.2 Authorized Disclosure.** Notwithstanding the limitations in this Article 5, either Party may disclose the Confidential Information belonging to the other Party to the extent such disclosure is reasonably necessary in the following instances:

- (a) complying with applicable laws or regulations or valid court orders, *provided that* the Party making such disclosure provides the other Party with reasonable prior written notice of such disclosure and makes a reasonable effort to obtain, or to assist the other Party in obtaining, a protective order preventing or limiting the disclosure and/or requiring that the terms and conditions of this Agreement be used only for the purposes for which the law or regulation required, or for which the order was issued;
- (b) disclosure to investors and potential investors, acquirers, or merger candidates who agree to maintain the confidentiality of such information, provided that such

disclosure is used solely for the purpose of evaluating such investment, acquisition, or merger (as the case may be); and

(c) disclosure on a need-to-know basis to Affiliates, licensees, sublicensees, employees, consultants or agents who agree to be bound by obligations of confidentiality and non-use at least equivalent in scope to those set forth in this Article 5.

**5.3 Publicity.** Any publication, news release or other public announcement relating to this Agreement or to the performance hereunder, shall first be reviewed and approved by both Parties, and neither Party shall use the other Party's name in any such public disclosure without such other Party's prior written consent. Notwithstanding the foregoing, any disclosure which is required by law as advised by the disclosing Party's counsel may be made without the prior consent of the other Party, although the other Party shall be given prompt notice of any such legally required disclosure and to the extent practicable shall provide the other Party an opportunity to comment on the proposed disclosure.

## ARTICLE 6

### REPRESENTATIONS AND WARRANTIES

**6.1 Representations and Warranties of OMT.** OMT hereby represents and warrants to Sangamo that, as of the Effective Date:

(a) **Corporate Power.** OMT is duly organized and validly existing under the laws of Delaware and has corporate full power and authority to enter into this Agreement and to carry out the provisions hereof.

(b) **Due Authorization.** OMT is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder, and the person executing this Agreement on OMT's behalf has been duly authorized to do so by all requisite corporate action.

(c) **Binding Agreement.** This Agreement is a legal and valid obligation binding upon OMT and enforceable in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws affecting creditors' rights, and subject to general equity principles and to

limitations on availability of equitable relief, including specific performance. The execution, delivery and performance of this Agreement by OMT does not conflict with any agreement, instrument or understanding, oral or written, to which it is a party or by which it may be bound. OMT is aware of no action, suit or inquiry or investigation instituted by any governmental agency which questions or threatens the validity of this Agreement.

**6.2 Representations and Warranties of Sangamo.** Sangamo hereby represents and warrants to OMT that, as of the Effective Date:

(a) **Corporate Power.** Sangamo is duly organized and validly existing under the laws of Delaware and has full corporate power and authority to enter into this Agreement and to carry out the provisions hereof.

(b) **Due Authorization.** Sangamo is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder, and the person executing this Agreement on Sangamo's behalf has been duly authorized to do so by all requisite corporate action.

(c) **Binding Agreement.** This Agreement is a legal and valid obligation binding upon Sangamo and enforceable in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws affecting creditors' rights, and subject to general equity principles and to limitations on availability of equitable relief, including specific performance. The execution, delivery and performance of this Agreement by Sangamo does not conflict with any agreement, instrument or understanding, oral or written, to which it is a party or by which it may be bound. Sangamo is aware of no action, suit or inquiry or investigation instituted by any governmental agency which questions or threatens the validity of this Agreement.

(d) **Intellectual Property.** Sangamo is not aware of any actual or potential violation, infringement or misappropriation of any third party's rights (or any claim, or potential claim thereof) by the ZFN Deliverable or the use thereof as contemplated by this Agreement, and as of the Effective Date, Sangamo is not aware of any proceeding that is pending or threatened that questions or challenges the patentability or validity of any claim of any Sangamo

Technology licensed hereunder, except as disclosed to OMT on or prior to the Effective Date, nor, based on the facts known to Sangamo as of the Effective Date, does Sangamo believe that there is a reasonable basis that has not been publicly disclosed that any claim in the Sangamo Technology that has issued and has not been revoked as of the Effective Date is invalid or unenforceable.

**6.3 Warranty Disclaimer.** EXCEPT FOR THE EXPRESS WARRANTIES PROVIDED IN THIS ARTICLE 6, EACH PARTY HEREBY DISCLAIMS ANY AND ALL OTHER WARRANTIES, EITHER EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION ANY WARRANTIES OF TITLE, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR NONINFRINGEMENT OF THE INTELLECTUAL PROPERTY RIGHTS OF THIRD PARTIES.

## ARTICLE 7

### INDEMNIFICATION

**7.1 Indemnification by Sangamo.** Sangamo agrees to indemnify, hold harmless, and defend OMT and its Affiliates and their respective directors, officers, employees, and agents (the “**OMT Indemnitees**”) from and against any and all liabilities, damages, costs, expenses, or losses (including reasonable legal expenses and attorneys’ fees) (collectively, “**Losses**”) resulting from any claims, suits, actions, demands, or other proceedings brought by a Third Party (collectively, “**Claims**”) to the extent arising from the gross negligence or willful misconduct of Sangamo or any of its Affiliates, or their respective employees or agents. Notwithstanding the foregoing, Sangamo shall not have any obligation to indemnify the OMT Indemnitees to the extent that a Claim arises from (i) the gross negligence or willful misconduct of OMT or any of its Affiliates, licensees, or sublicensees, or their respective employees or agents; or (ii) a breach by OMT of a representation, warranty, or covenant of this Agreement.

**7.2 Indemnification by OMT.** OMT agrees to indemnify, hold harmless, and defend Sangamo and its Affiliates and their respective directors, officers, employees, and agents (the “**Sangamo Indemnitees**”) from and against any Losses resulting from Claims, to the extent arising from any of the following: (a) the gross negligence or willful misconduct of OMT or any

of its Affiliates or their respective employees or agents; (b) the use, handling, storage, or transport of Modified [\*\*\*] by or on behalf of OMT or its Affiliates, licensees, or sublicensees; or (c) the design, development, manufacture, regulatory approval, handling, storage, transport, distribution, sale or other disposition of any OMT Product by or on behalf of OMT or its Affiliates, licensees, or sublicensees. Notwithstanding the foregoing, OMT shall not have any obligation to indemnify the Sangamo Indemnitees to the extent that a Claim arises from (i) the gross negligence or willful misconduct of Sangamo or any of its Affiliates, or their respective employees or agents; or (ii) a breach by Sangamo of a representation, warranty, or covenant of this Agreement.

**7.3 Control of Defense.** As a condition precedent to any indemnification obligations hereunder, any entity entitled to indemnification under this Article 7 shall give written notice to the indemnifying Party of any Claims that may be subject to indemnification, promptly after learning of such Claim. If such Claim falls within the scope of the indemnification obligations of this Article 7, then the indemnifying Party shall assume the defense of such Claim with counsel reasonably satisfactory to the indemnified Party. The indemnified Party shall cooperate with the indemnifying Party in such defense. The indemnified Party may, at its option and expense, be represented by counsel of its choice in any action or proceeding with respect to such Claim. The indemnifying Party shall not be liable for any litigation costs or expenses incurred by the indemnified Party without the indemnifying Party's written consent, such consent not to be unreasonably withheld. The indemnifying Party shall not settle any such Claim if such settlement (a) does not fully and unconditionally release the indemnified Party from all liability relating thereto or (b) adversely impacts the exercise of the rights granted to the indemnified Party under this Agreement, unless the indemnified Party otherwise agrees in writing.

**7.4 Insurance.** During the term of this Agreement, OMT shall maintain in effect and good standing a product liability insurance policy issued by a reputable insurance company in amounts considered standard for the industry. At Sangamo's reasonable request, OMT shall provide Sangamo with all details regarding such policy or program, including without limitation copies of the applicable liability insurance contracts.

**\*\*\* CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION**

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## ARTICLE 8

### TERM; TERMINATION

**8.1 Term.** The term of this Agreement shall commence upon the Effective Date and, unless terminated earlier, shall continue until the date on which neither Party has nor will have any additional payment obligations to the other Party under this Agreement.

**8.2 Termination for Material Breach.** Either Party shall have the right to terminate this Agreement upon written notice to the other Party if the other Party commits any material breach of this Agreement that such breaching Party fails to cure within sixty (60) days following written notice from the nonbreaching Party specifying such breach. Notwithstanding the foregoing, if the alleged breaching party provides to the nonbreaching party notice within such sixty (60) day period disputing in good faith such alleged breach, then the nonbreaching party shall not have the right to terminate this Agreement unless and until it has been finally determined by a court of competent jurisdiction that the breaching party had materially breached this Agreement, and the breaching party thereafter fails to cure such breach within sixty (60) days after such determination.

**8.3 Termination by OMT.** OMT shall have the right to voluntarily terminate this Agreement upon written notice to Sangamo at any time.

**8.4 Effect of Termination.** Except as otherwise expressly provided herein, in the event of termination of this Agreement pursuant to Section 8.2 or Section 8.3, the following shall apply:

(a) All rights and licenses granted by Sangamo to OMT under this Agreement shall terminate and shall revert to Sangamo without further action by either Sangamo or OMT.

(b) OMT shall cease, and shall cause its Affiliates, licensees, and sublicensees to cease, all development and, except as provided in this subsection, commercialization of OMT Products, and OMT shall not use or practice, nor shall it cause or permit any of its Affiliates, licensees, or sublicensees to use or practice, directly or indirectly, any Sangamo Technology. For clarity, the foregoing prohibition shall not prevent any OMT Product for which, at the time

of termination, at least preclinical testing or significant pharmacokinetic studies in support of the filing of an IND or equivalent have been conducted by a licensee or sublicensee of OMT, from being further developed or commercialized by such licensee or sublicensee, provided that the obligations of OMT and its licensees and sublicensees with respect to such OMT Products (including but not limited to the payment and audit obligations set forth in this Agreement) shall survive such termination. For further clarity, the amount due Sangamo with respect to such OMT Products shall be an amount equal to [\*\*\*] of all amounts that constitutes Sublicensee Income (subject to the exercise of the [\*\*\*] set forth in [\*\*\*] with respect to such OMT Product).

(c) OMT shall promptly return, or at Sangamo's request, destroy, any ZFN Deliverables in OMT's possession or control at the time of termination.

(d) OMT shall promptly destroy any Modified [\*\*\*] in OMT's possession or control at the time of termination.

(e) Each Party shall promptly return, or at the other party's request destroy, any Confidential Information of the other Party in such Party's possession or control at the time of termination.

(f) Each Party shall retain any and all rights or remedies such Party may have in law or in equity, provided that neither Party may claim compensation for lost opportunity, lost profits, or consequential damages arising out of the fact of such early termination.

**8.5 Surviving Obligations.** Termination or expiration of this Agreement shall not affect any rights of either party arising out of any event or occurrence prior to termination, including, without limitation, any obligation of OMT to pay any amount which became due and payable under the terms and conditions of this Agreement prior to expiration or such termination. The following portions of this Agreement shall survive termination or expiration of this Agreement: Sections 3.7, 3.8, 4.1, 8.4, and 8.5, and Articles 5, 7, 9, and 10.

**\*\*\* CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION**



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## ARTICLE 9

### GOVERNING LAW; DISPUTE RESOLUTION

**9.1 Governing Law.** This Agreement shall be governed by the laws of the State of California, without regard to any conflicts of law principles that would provide for application of the law of a jurisdiction other than California. Any dispute arising from, or governed by, a breach of any term of this Agreement shall be adjudicated only in the state or federal courts located in the Northern District of California.

**9.2 Legal Compliance.** The Parties shall review in good faith and cooperate in taking such actions to ensure compliance of this Agreement with all applicable laws.

**9.3 Dispute Resolution.** In the event of any dispute, the Parties shall refer such dispute to their respective Executive Officers for attempted resolution by good faith negotiations within sixty (60) days after such referral is made. In the event such officers are unable to resolve such dispute within such sixty (60) day period, each party may pursue, in a court of competent jurisdiction, any remedies available to it at law or in equity with respect to such dispute.

## ARTICLE 10

### GENERAL PROVISIONS

**10.1 Use of Name.** No right, express or implied, is granted by this Agreement to either Party to use in any manner the name of the other or any other trade name or trademark of the other in connection with the performance of this Agreement.

**10.2 LIMITATION OF LIABILITY.** NEITHER PARTY SHALL BE LIABLE TO THE OTHER FOR ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL, PUNITIVE, OR INDIRECT DAMAGES ARISING FROM OR RELATING TO ANY BREACH OF THIS AGREEMENT, REGARDLESS OF ANY NOTICE OF THE POSSIBILITY OF SUCH DAMAGES. NOTWITHSTANDING THE FOREGOING, NOTHING IN THIS PARAGRAPH IS INTENDED TO LIMIT OR RESTRICT THE INDEMNIFICATION RIGHTS OR OBLIGATIONS OF ANY PARTY UNDER ARTICLE 7, OR DAMAGES AVAILABLE FOR BREACHES OF THE OBLIGATIONS SET FORTH IN SECTION 2.4 OR ARTICLE 5.

**10.3 Independent Parties.** The Parties are not employees or legal representatives of the other Party for any purpose. Neither Party shall have the authority to enter into any contracts in the name of or on behalf of the other Party.

**10.4 Notice.** All notices, including notices of address change, required or permitted to be given under this Agreement shall be in writing and deemed to have been received (a) when received if hand delivered, (b) four (4) days after being sent by certified mail, postage prepaid, (c) one (1) business day after being sent by an internationally recognized overnight delivery service, or (d) when received if sent by confirmed facsimile, in each case sent to the address or facsimile number set forth below (or any updated addresses communicated to the other Party in writing):

If to Sangamo: Sangamo BioSciences, Inc.  
501 Canal Blvd, Suite A100  
Richmond, CA 94804  
Attention: Chief Executive Officer  
Fax: (510) 236-8951

If to OMT: Open Monoclonal Technology, Inc.  
2747 Ross Road  
Palo Alto, CA 9303  
Attention: Chief Executive Officer

**10.5 Severability.** In the event any provision of this Agreement is held to be invalid or unenforceable, the valid or enforceable portion thereof and the remaining provisions of this Agreement will remain in full force and effect.

**10.6 Waiver.** Any waiver (express or implied) by either Party of any breach of this Agreement shall not constitute a waiver of any other or subsequent breach.

**10.7 Entire Agreement; Amendment.** This Agreement and the exhibits attached hereto constitute the entire, final, complete and exclusive agreement between the Parties and supersede all previous agreements or representations, written or oral, with respect to the subject

matter of this Agreement, including that certain Mutual Non-Disclosure Agreement between the Parties dated April 30, 2007 and that certain Non-Disclosure Agreement among the Parties and Sigma, dated September 27, 2007 (collectively, the “**Prior NDAs**”). All information of Sangamo or OMT to be kept confidential by the other Party under the Prior NDAs, as of the Effective Date, shall be maintained as Confidential Information by such other Party under the obligations set forth in Article 5 of this Agreement. This Agreement may not be modified or amended except in a writing signed by a duly authorized representative of each Party.

**10.8 Nonassignability; Binding on Successors.** Any attempted assignment of the rights or delegation of the obligations under this Agreement shall be void without the prior written consent of the nonassigning or nondelegating Party; provided, however, that either party may assign its rights or delegate its obligations under this Agreement without such consent (a) to an Affiliate of such party or (b) to its successor in interest in connection with any merger, acquisition, consolidation, corporate reorganization, or similar transaction, or sale of all or substantially all of its assets, provided that such assignee agrees in writing to assume and be bound by the assignor’s obligations under this Agreement. This Agreement shall be binding upon, and inure to the benefit of, the successors, executors, heirs, representatives, administrators and permitted assigns of the Parties hereto.

**10.9 Force Majeure.** Neither Party shall be liable to the other for its failure to perform any of its obligations under this Agreement, except for payment obligations, during any period in which such performance is delayed because rendered impracticable or impossible due to circumstances beyond its reasonable control, including without limitation earthquakes, governmental regulation, fire, flood, labor difficulties, civil disorder, acts of terrorism and acts of God, provided that the Party experiencing the delay promptly notifies the other Party of the delay.

**10.10 Terms of the Agreement.** Each Party shall treat the terms of this Agreement as the Confidential Information of other Party, subject to the exceptions set forth in Section 5.2. Notwithstanding the foregoing, each Party acknowledges that the other Party may be obligated to file a copy of this Agreement with the United States Securities and Exchange Commission (the “**SEC**”). The filing Party shall be entitled to make such a required filing, provided that it

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requests confidential treatment of certain commercial terms and sensitive technical terms hereof to the extent such confidential treatment is reasonably available to such filing Party. In the event of any such filing, the filing Party shall provide the other Party with a copy of the Agreement marked to show provisions for which such filing Party intends to seek confidential treatment and shall reasonably consider and incorporate such other Party's comments thereon to the extent consistent with the legal requirements governing redaction of information from material agreements that must be publicly filed. Such other Party shall promptly provide any such comments. Such other Party recognizes that United States laws and SEC policies and regulations to which the filing Party is and may become subject may require such filing Party to publicly disclose certain terms of this Agreement that such other Party may prefer not be disclosed, and that such other Party is, after completing the above mentioned procedures, entitled hereunder to make such required disclosures to the extent legally required.

**10.11 No Other Licenses.** Neither Party grants to the other Party any rights or licenses in or to any intellectual property, whether by implication, estoppel, or otherwise, except to the extent expressly provided for under this Agreement.

**10.12 Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which shall constitute together the same instrument.

*[Remainder of page intentionally left blank.]*

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IN WITNESS WHEREOF, the Parties hereto have duly executed this License Agreement.

**SANGAMO BIOSCIENCES, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**OPEN MONOCLONAL TECHNOLOGY, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**AMENDMENT TO 2004 STOCK INCENTIVE PLAN**

**WHEREAS**, the Corporation has implemented the 2004 Stock Incentive Plan (the “Plan”) as a comprehensive equity incentive plan for officers, employees, board members and consultants in the employ of the Corporation or its subsidiaries.

**WHEREAS**, the Board of Directors (the “Board” ) has reserved the right to amend the Plan from time to time, subject to the express limitations of the Plan.

**WHEREAS**, the Board deems it advisable at this time to amend the equity adjustment provisions of the Plan and the awards currently outstanding thereunder to require that equitable adjustments be made to the outstanding awards under the Plan in the event of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the Corporation’ s outstanding common stock as a class without the Corporation’ s receipt of consideration so as to avoid any additional compensation expense under FAS 123R in connection with the actual adjustments made to those awards in the event of such an equity restructuring.

**NOW, THEREFORE, BE IT RESOLVED**, that the Plan amendment, in substantially the form attached hereto as Exhibit A to these resolutions (the “Plan Amendment”), be, and such Plan Amendment hereby is, adopted and approved in its entirety.

**FURTHER RESOLVED**, that all awards currently outstanding under the Plan be, and such awards are, hereby amended to require that equitable adjustments be made to such awards in the event of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the Corporation’ s outstanding common stock as a class without the Corporation’ s receipt of consideration.

**FINALLY RESOLVED**, that each officer of the Corporation be, and each such officer hereby is, authorized and directed, for and on behalf of the Corporation, to take all action and to prepare, execute and deliver all such documents which such officer deems necessary or appropriate in order to carry out the intent of the foregoing resolutions, including (without limitation) the execution and delivery (as required) of the Plan Amendment in such final form as such officer deems advisable to further the purpose and intent of these resolutions.

**EXHIBIT A**

**PLAN AMENDMENT**

**SANGAMO BIOSCIENCES, INC.**

**2004 STOCK INCENTIVE PLAN**

**PLAN AMENDMENT**

The Sangamo Biosciences, Inc. 2004 Stock Incentive Plan (the “Plan”) is hereby amended in the following respects:

1. Section V.E. of Article One of the Plan is hereby deleted in its entirety and replaced with the following new Section V.E., effective immediately, and such amended Section V.E. shall be effective for each stock option, stock appreciation right, restricted stock awards, restricted stock units or other share right awards now or hereafter outstanding under the Plan:

If any change is made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation’s receipt of consideration, equitable adjustments shall be made by the Plan Administrator to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the maximum number and/or class of securities for which any one person may be granted stock options, stand-alone stock appreciation rights, direct stock issuances and other stock-based awards under the Plan per calendar year, (iii) the number and/or class of securities for which grants are subsequently to be made under the Automatic Option Grant Program to new and continuing non-employee Board members, (iv) the number and/or class of securities and the exercise or base price per share in effect under each outstanding option or stock appreciation right under the Plan, (v) the number and/or class of securities subject to each outstanding restricted stock unit or other stock-based award under the Plan and the issue price (if any) payable per share and (vi) the maximum number and/or class of securities by which the share reserve is to increase automatically each calendar year pursuant to the provisions of Section V.B of this Article One. Such adjustments to the outstanding options, stock appreciation rights or other stock-based awards are to be effected in such a manner the Plan Administrator deems appropriate to preclude the enlargement or dilution of rights and benefits thereunder. The adjustments determined by the Plan Administrator shall be final, binding and conclusive.

2. Except as modified by this Amendment, all the terms and provisions of the Plan shall continue in full force and effect.

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**IN WITNESS WHEREOF, SANGAMO BIOSCIENCES, INC.** has caused this Plan Amendment to be executed on its behalf by its duly-authorized officers on this 11<sup>th</sup> day of March 2008.

**SANGAMO BIOSCIENCES, INC.**

By: /s/ Greg Zante

B-3



CERTIFICATION

I, Edward O. Lanphier II, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sangamo BioSciences, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, 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.
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or the persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2008

/s/ Edward O. Lanphier II

Edward O. Lanphier II

President and Chief Executive Officer

CERTIFICATION

I, H. Ward Wolff, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sangamo BioSciences, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, 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.
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or the persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2008

/s/ H. Ward Wolff

\_\_\_\_\_  
H. Ward Wolff

Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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

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

- (1) the Quarterly Report of the Company on Form 10-Q for the quarterly period ended June 30, 2008, as filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Edward O. Lanphier II

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

Date: August 7, 2008

/s/ H. Ward Wolff

H. Ward Wolff  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

Date: August 7, 2008