SANGAMO THERAPEUTICS, INC
Form 10-Q
November 08, 2018
Ion

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 September 30, 2018

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 THERAPEUTICS, INC.

(exact name of registrant as specified in its charter)

Delaware	68-0359556
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

501 Canal Blvd

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 1, 2018, 102,092,863 shares of the issuer's common stock, par value $0.01 per share, were outstanding.

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SANGAMO THERAPEUTICS, INC.

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

Unless otherwise indicated or the context suggests otherwise, references in this Quarterly Report on Form 10-Q, or Quarterly Report, to "Sangamo," the "Company," "we," "us," and "our" refer to Sangamo Therapeutics, Inc. and our subsidiari including, TX Cell SA.

ZFP Therapeutic®, Engineering Genetic Cures®, and Pioneering Genetic Cures® are registered trademarks of Sangamo Therapeutics, Inc. Any third-party trade names, trademarks and service marks appearing in this Quarterly Report are the property of their respective holders.

Convenience translations between Euros (€) and U.S. dollars provided herein are based on the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on October 29, 2018, or €1.00 = $1.1622. We do not represent that Euros were, could have been, or could be, converted into U.S. dollars at such rate or at any other rate.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some statements contained in this report are forward-looking with respect to our operations, research, development and commercialization activities, clinical trials, operating results and financial condition. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- our strategy;
- product development and commercialization of our products;
- clinical trials;
- the acquisition of TxCell S.A., including the anticipated benefits thereof;
- partnering, other acquisition and other strategic transactions;
- revenues from existing and new collaborations;
- our research and development and other expenses;
- sufficiency of our cash resources;
- our operational and legal risks; and
- our plans, objectives, expectations and intentions and any other statements that are not historical facts.

In some cases, you can identify forward-looking statements by terms such as: “anticipates,” “believes,” “continues,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “seeks,” “should” and “will.” These statements reflect our current views wit to future events and are based on assumptions and subject to risks and uncertainties. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. We discuss many of these risks in greater detail under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” in this Quarterly Report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances arising after the date of such statements. Readers are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
SANGAMO THERAPEUTICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; in thousands, except share and per share amounts)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$39,298	$49,826
Marketable securities	419,272	193,482
Interest receivable	683	240
Accounts receivable	5,567	3,343
Prepaids and other current assets	3,382	1,506
Total current assets	468,202	248,397
Marketable securities, non-current	—	1,012
Property and equipment, net	50,497	31,066
Goodwill	1,585	1,585
Other non-current assets	6,379	1,181
Non-current restricted cash	79,941	3,500
Total assets	$606,604	$286,741
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$16,424	$11,035
Accrued compensation and employee benefits	6,605	5,479
Deferred revenues	51,094	28,345
Total current liabilities	74,123	44,859
Deferred revenues, non-current	123,917	29,244
Build-to-suit lease obligation	26,928	24,738
Non-current liabilities	1,730	—
Total liabilities	226,698	98,841
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 160,000,000 shares authorized, 101,839,668 and 85,598,534 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1,018	856
Additional paid-in capital	923,164	682,809

Accumulated deficit	(544,032)	(495,479)
Accumulated other comprehensive loss	(244)	(286)
Total stockholders' equity	379,906	187,900
Total liabilities and stockholders' equity	$606,604	$286,741

See accompanying notes.

SANGAMO THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Collaboration agreements	$23,538	$11,759	$57,378	$23,042
Research grants	24	53	237	448
Total revenues	23,562	11,812	57,615	23,490
Operating expenses:				
Research and development	28,810	18,425	81,612	46,351
General and administrative	10,993	6,422	32,381	19,734
Total operating expenses	39,803	24,847	113,993	66,085
Loss from operations	(16,241)	(13,035)	(56,378)	(42,595)
Interest and other income, net	3,398	681	6,708	1,118
Net loss	$(12,843)	$(12,354)	$(49,670)	$(41,477)
Basic and diluted net loss per share	$(0.13)	$(0.15)	$(0.52)	$(0.55)
Shares used in computing basic and diluted net loss per share	101,725	83,750	95,165	75,814

See accompanying notes.

SANGAMO THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited; in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$(12,843)	$(12,354)	$(49,670)	$(41,477)
Change in unrealized gain (loss) on available-for-sale securities	(88)	12	43	(131)
Comprehensive loss	$(12,931)	$(12,342)	$(49,627)	$(41,608)

See accompanying notes.

SANGAMO THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2018	2017
Operating Activities:		
Net loss	$(49,670)	$(41,477)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,668	1,030
Amortization of (discount) premium on marketable securities	(4,043)	(310)
Stock-based compensation	10,374	6,969
Taxes paid related to net share settlement of equity awards	—	(71)
Other	715	—
Net changes in operating assets and liabilities:		
Interest receivable	(443)	(259)
Accounts receivable	(2,225)	1,539
Prepaid expenses and other assets	(1,851)	(743)
Accounts payable and accrued liabilities	789	3,676
Accrued compensation and employee benefits	1,127	1,589
Non-current liabilities	1,730	—
Deferred revenues	118,540	56,078
Net cash provided by operating activities	76,711	28,021
Investing Activities:		
Purchases of marketable securities	(451,239)	(229,595)
Maturities of marketable securities	230,547	127,093
Purchases of property and equipment	(15,028)	(2,873)
Other investment	(5,221)	—
Net cash used in investing activities	(240,941)	(105,375)
Financing Activities:		
Proceeds from public offering of common stock, net of issuance costs	215,757	81,573
Taxes paid related to net share settlement of equity awards	(83)	—
Proceeds from issuance of common stock	14,469	3,614
Net cash provided by financing activities	230,143	85,187
Net increase in cash, cash equivalents, and restricted cash	65,913	7,833
Cash, cash equivalents, and restricted cash, beginning of period	53,326	22,061
Cash, cash equivalents, and restricted cash, end of period	$119,239	$29,894
Supplemental disclosure of noncash investing activities:		
Property and equipment included in accrued liabilities	$5,813	$50

See accompanying notes.

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SANGAMO THERAPEUTICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

(Unaudited)

NOTE 1—ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

Sangamo Therapeutics, Inc. was incorporated in the state of Delaware in 1995 and changed its name from Sangamo Biosciences, Inc. in January 2017 ("Sangamo" or the "Company"). Sangamo is focused on the research, development and commercialization of novel genomic therapies for unmet medical needs. Sangamo's genome editing and gene regulation technology platform is enabled by the engineering of a class of transcription factors known as zinc finger DNA-binding proteins ("ZFPs").

Sangamo is currently working on a number of long-term development projects that involve experimental technology. The projects may require several years and substantial expenditures to complete and ultimately may be unsuccessful. The Company plans to finance operations with available cash resources, collaborations and strategic partnerships, research grants and from the issuance of equity or debt securities. Sangamo believes that its available cash, cash equivalents, marketable securities and interest receivable as of September 30, 2018, along with expected revenues from collaborations, strategic partnerships and research grants, will be adequate to fund its operations at least through the next twelve months. Sangamo will need to raise substantial additional capital to fund the development, manufacturing and potential commercialization of its product candidates. Additional capital may not be available on terms acceptable to the Company, if at all. If adequate funds are not available, or if the terms of potential funding sources are unfavorable, the Company's business and ability to develop its technology and product candidates could be harmed. Furthermore, any sales of additional equity securities may result in dilution to the Company's stockholders, and any debt financing may include covenants that restrict the Company's business.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. 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. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The condensed consolidated balance sheet data at December 31, 2017 were derived from the audited consolidated financial statements included in Sangamo's Annual Report on Form 10-K for the year ended December 31, 2017, (the "2017 Annual Report"), as filed with the SEC. The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the audited financial statements and footnotes thereto for the year ended December 31, 2017, included in the 2017 Annual Report.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. On an ongoing basis, management evaluates its estimates, including critical accounting policies or estimates related to revenue recognition, clinical trial accruals, and stock-based compensation. Estimates are based on historical experience and on various other market specific and other relevant assumptions that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Cash and Cash Equivalents

Sangamo considers all highly-liquid investments purchased with original maturities of three months or less at the purchase date to be cash equivalents. Cash and cash equivalents consist of cash and deposits in money market investment accounts.

Marketable Securities

Sangamo classifies its marketable securities as available-for-sale which are recorded at estimated fair value based on quoted market prices or observable market inputs of almost identical assets. Unrealized holding gains and losses are included in accumulated other comprehensive income.

The Company’s investments are subject to a periodic impairment review. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair

value has been less than the Company's cost basis, the financial condition and near-term prospects of the investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market value. Realized gains and losses on available-for-sale securities are included in other income, which is determined using the specific identification method.

Fair Value Measurements

The carrying amounts for financial instruments consisting of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities. Marketable securities and liabilities are stated at their estimated fair values. The counterparties to the agreements relating to the Company's investment securities consist of the US Treasury, governmental agencies and various major corporations and financial institutions with investment-grade high credit ratings.

Revenue Recognition

Effective January 1, 2018, the Company adopted the provisions of Accounting Standards Codification ("ASC"), Topic 606, Revenue from Contracts with Customers ("Topic 606") resulting in a change to its accounting policy for revenue recognition. Topic 606 establishes a unified model to determine how revenue is recognized.

The Company's contract revenues consist of strategic partnering collaboration agreements and research activity grants and licensing. Research and licensing agreements typically include upfront signing or license fees, cost reimbursements, research services, minimum sublicense fees, milestone payments and royalties on future licensee's product sales. The Company has both fixed and variable consideration. Non-refundable upfront fees and funding of research and development activities are considered fixed, while milestone payments are identified as variable consideration. Sangamo's research grants are typically multi-year agreements and provide for the reimbursement of qualified expenses for research and development as defined under the terms of the grant agreement. Revenues under grant agreements are recognized when the related qualified research expenses are incurred. Deferred revenue represents the portion of research or license payments received but not earned.

In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under its agreements, the Company performs the following steps: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations based on estimated selling prices; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in Topic 606. The Company's performance obligations include license rights, development services, and services associated with regulatory submission and approval processes. Significant management judgment is required to determine the level of effort required under an arrangement and the period over which the Company expects to complete its performance obligations under the arrangement. If the Company cannot reasonably estimate when its performance obligations either are completed or become inconsequential, then revenue recognition is deferred until the Company can reasonably make such estimates. The Company includes the unconstrained amount of estimated variable consideration in the transaction price. The amount included in the transaction price is constrained to the amount for which it is probable that a significant reversal of cumulative revenue recognized will not occur. At the end of each subsequent reporting period, the Company re-evaluates the estimated variable consideration included in the transaction price and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Revenue is then recognized over the remaining estimated period of performance using the cumulative catch-up method. The estimated period of performance and project costs are reviewed quarterly and adjusted, as needed, to

reflect the Company's current assumptions regarding the timing of its deliverables.

As part of the accounting for these arrangements, the Company must develop assumptions that require judgment to determine the stand-alone selling price of each performance obligation identified in the contract. The Company uses key assumptions to determine the stand-alone selling price, which may include forecasted revenues, development timelines, reimbursement rates for personnel costs, discount rates and probabilities of technical and regulatory success.

During the nine months ended September 30, 2018, revenues related to the hemophilia A collaboration agreement with Pfizer Inc. ("Pfizer") and Kite Pharma, Inc. ("Kite"), a wholly-owned subsidiary of Gilead Sciences, Inc., represented 46% and 29%, respectively, of the Company's total revenue. During the nine months ended September 30, 2017, revenues related to the Company's hemophilia A collaboration agreement with Pfizer and the hemoglobinopathies agreement with Bioverativ, a Sanofi company ("Bioverativ") represented 44% and 39%, respectively, of total revenue. Receivables from collaborations are typically unsecured and are concentrated in the biopharmaceutical industry. Accordingly, the Company may be exposed to credit risk generally associated with biopharmaceutical companies or specific to its collaboration agreements. To date, the Company has not experienced any losses related to these receivables.

Funds received from third parties under contract or grant arrangements are recorded as revenue if the Company is deemed to be the principal participant in the arrangements because the activities under the contracts or grants are part of the Company's

development programs. Contract funds received are not refundable and are recognized when the related qualified research and development costs are incurred and there is reasonable assurance that the funds will be received. Funds received in advance are recorded as deferred revenue.

Recent Accounting Pronouncements

Recently Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updated ("ASU") 2014-09, Revenue from Contracts with Customers ("Topic 606"). This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The main principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Topic 606 provides companies with two implementation methods: (i) apply the standard retrospectively to each prior reporting period presented (full retrospective application); or (ii) apply the standard retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application (modified retrospective application). The Company implemented this standard under the modified retrospective method. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Under Topic 606, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the entity performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Topic 606 also impacts certain other areas, such as the accounting for costs to obtain or fulfill a contract. The Company adopted Topic 606 effective January 1, 2018, using the modified retrospective method with a cumulative effect adjustment of $1.1 million reflected as a decrease to the opening balance of accumulated deficit and a decrease to deferred revenues, respectively.

Refer below for a summary of the amount by which each financial statement line item was affected by the impact of the cumulative adjustment and as compared with the guidance that was in effect prior to the adoption:

	Impact of Topic 606 Adoption on Condensed Consolidated Balance Sheet as of January 1, 2018		
(in thousands)	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Deferred revenue, current portion	$29,626	$ 1,281	$28,345
Deferred revenue, noncurrent portion	$26,846	$ (2,398)	$29,244
Accumulated deficit	$(494,362)	$ 1,117	$(495,479)

(in thousands)	Impact of Topic 606 Adoption on Condensed Consolidated Balance Sheet as of September 30, 2018		
	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Deferred revenue, current portion	$51,094	$ 12,741	$63,835
Deferred revenue, noncurrent portion	$123,917	$ (3,130)	$120,787
Accumulated deficit	$(544,032)	$ (9,611)	$(553,643)

(in thousands)	Impact of Topic 606 Adoption on Condensed Consolidated Statement of Operations and Comprehensive Loss for the Three Months Ended September 30, 2018			Impact of Topic 606 Adoption on Condensed Consolidated Statement of Operations and Comprehensive Loss for the Nine Months Ended September 30, 2018		
	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Collaboration revenue	$23,538	$ (4,461)	$19,077	$57,378	$ (8,495)	$48,883
Net loss	$(12,843)	$ (4,461)	$(17,304)	$(49,670)	$ (8,495)	$(58,165)
Net loss per share - basic and diluted:	$(0.13)	$ (0.04)	$(0.17)	$(0.52)	$ (0.09)	$(0.61)

	Impact of Topic 606 Adoption on Condensed Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2018		
(in thousands)	As reported under Topic 606	Adjustments	Balances without adoption of Topic 606
Net loss	$(49,670)	$ (8,495)	$(58,165)
Changes in deferred revenue	$118,540	$ 8,495	$127,035

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows ("Topic 230"). The Company adopted Topic 230 in the beginning of fiscal 2018, which requires the statement of cash flows to explain the change during the period relating to total cash, cash equivalents, and restricted cash. The Company adopted this standard using the retrospective transition method by restating its condensed consolidated statements of cash flows to include restricted cash of $3.5 million as of January 1, 2018 and $79.9 million in the ending cash, cash equivalents, and restricted cash balances for the nine months ended September 30, 2018. The restricted cash balance as of September 30, 2018 includes the letter of credit for $3.5 million established as a deposit for the Brisbane build-to-suit lease and $76.4 million to acquire the equity of TxCell S.A., a French société anonyme ("TxCell"). Net cash flows for the nine months ended September 30, 2017, changed as a result of including restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts presented on the statements of cash flows. Restricted cash was included in other current and other non-current assets on the Company's condensed consolidated balance sheets.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash within the statement of financial position that sum to the total of the same amounts in the statement of cash flows:

	As of September 30,	
(in thousands)	2018	2017
Cash and cash equivalents	$39,298	$29,894
Restricted cash included in other non-current assets	79,941	—
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	$119,239	$29,894

In August 2018, the SEC adopted amendments to certain disclosure requirements in Securities Act Release No. 33-10532, Disclosure Update and Simplification. These amendments eliminate, modify, or integrate into other SEC requirements certain disclosure rules. Among the amendments is the requirement to present an analysis of changes in stockholders' equity in the interim financial statements included in quarterly reports on Form 10-Q. The analysis, which can be presented as a footnote or separate statement, is required for the current and comparative quarter and year-to-date interim periods. The amendments are effective for all filings made on or after November 5, 2018. In light of the anticipated timing of effectiveness of the amendments and expected proximity of effectiveness to the filing date for most filers' quarterly reports, the SEC's Division of Corporate Finance issued a Compliance and Disclosure Interpretation related to Exchange Act Forms, or CDI – Question 105.09, that provides transition guidance related to this disclosure requirement. CDI – Question 105.09 states that the SEC would not object if the filer's first presentation

of the changes in shareholders' equity is included in its Form 10-Q for the quarter that begins after the effective date of the amendments. As such, the Company adopted these SEC amendments on November 5, 2018 and will present the analysis of changes in stockholders' equity in its interim financial statements in its March 31, 2019 Form 10-Q. The Company does not anticipate that the adoption of these SEC amendments will have a material effect on the Company's financial position, results of operations, cash flows or shareholders' equity.

Not yet adopted

In February 2016 the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 amends a number of aspects of lease accounting, including requiring lessees to recognize almost all leases with a term greater than one year as a right-of-use asset and corresponding liability, measured at the present value of the lease payments. The guidance will become effective for the Company beginning in the first quarter of 2019 with early adoption permitted and will be adopted using a modified retrospective approach. The Company expects to adopt the new standard on January 1, 2019 and use the effective date as the date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The Company expects that this standard will have a material effect on the financial statements. While the Company continues to assess the various impacts of adoption, the most significant effects will primarily relate to (1) the recognition of a right-of-use assets and lease liabilities on the balance sheet for the Company's existing operating leases; (2) the derecognition of existing assets and liabilities for sale-leaseback transactions arising from build-to-suit lease arrangements for which construction is complete and we are leasing the constructed asset that currently do not qualify for sale accounting; (3) the derecognition of existing assets and liabilities for certain assets under construction in build-to-suit lease arrangements that the Company will lease when construction is complete; and (4) providing significant new disclosures about leasing activities.

NOTE 2—FAIR VALUE MEASUREMENT

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents, and available-for-sale marketable securities. The fair values of these assets were determined based on a three-tier hierarchy under the authoritative guidance for fair value measurements and disclosures that prioritizes the inputs used in measuring fair value as follows:

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

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; and

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 fair value measurements of the Company's cash equivalents and available-for-sale marketable securities are identified at the following levels within the fair value hierarchy (in thousands):

	September 30, 2018 Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	$18	$ 18	$—	$ —
Total	18	18	—	—
Marketable securities:				
Commercial paper securities	317,119	—	317,119	—
Corporate debt securities	83,579	—	83,579	—
U.S. government-sponsored entity debt securities	18,574	—	18,574	—
Total	419,272	—	419,272	—
Total cash equivalents and marketable securities	$419,290	$ 18	$419,272	—

	December 31, 2017 Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	$24,290	$24,290	$—	$ —
Commercial paper securities	4,595	—	4,595	—
Total	28,885	24,290	4,595	—
Marketable securities:				
Commercial paper securities	110,247	—	110,247	—
Corporate debt securities	75,755	—	75,755	—
U.S. government-sponsored entity debt securities	8,492	—	8,492	—
Total	194,494	—	194,494	—

Total cash equivalents and marketable securities	$223,379	$24,290	$199,089	—

The Company generally classifies its marketable securities as Level 2. Instruments are classified as Level 2 when observable market prices for identical securities that are traded in less active markets are used. When observable market prices for identical securities are not available, such instruments are priced using benchmark curves, benchmarking of like securities, sector groupings, matrix pricing and valuation models. These valuation models are proprietary to the pricing providers or brokers and incorporate a number of inputs, including, listed in approximate order of priority: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. For certain security types, additional inputs may be used, or some of the standard inputs may not be applicable. Evaluators may prioritize inputs differently on any given day for any security based on market conditions, and not all inputs listed are available for use in the evaluation process for each security evaluation on any given day.

NOTE 3—MARKETABLE SECURITIES

The Company classifies its marketable securities as available-for-sale and records its investments at estimated fair value based on quoted market prices or observable market inputs of substantially identical assets. Unrealized holding gains and losses are included

in accumulated other comprehensive income (loss). Investments that have maturities beyond one year as of the end of the reporting period are classified as non-current.

The Company's investments are subject to a periodic impairment review. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than the Company's cost basis, the financial condition and near-term prospects of the investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market value. Realized gains and losses on available-for-sale securities are included in other income, which is determined using the specific identification method

The table below summarizes the Company's investments (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
September 30, 2018				
Cash equivalents:				
Money market funds	$ 18	$ —	$ —	$ 18
Total	18	—	—	18
Available-for-sale securities:				
Commercial paper securities	317,203	11	(95)	317,119
Corporate debt securities	83,684	—	(105)	83,579
U.S. government-sponsored entity debt securities	18,598	—	(24)	18,574
Total	419,485	11	(224)	419,272
Total cash equivalents and available-for-sale securities	$ 419,503	$ 11	$ (224)	$ 419,290
December 31, 2017				
Cash equivalents:				
Money market funds	$ 24,290	$ —	$ —	$ 24,290
Commercial paper securities	4,595	—	—	4,595
Total	28,885	—	—	28,885
Available-for-sale securities:				
Commercial paper securities	110,365	—	(118)	110,247
Corporate debt securities	75,886	—	(131)	75,755
U.S. government-sponsored entity debt securities	8,498	—	(6)	8,492
Total	194,749	—	(255)	194,494
Total cash equivalents and available-for-sale securities	$ 223,634	—	$ (255)	$ 223,379

The Company had no material realized losses or other-than-temporary impairments of its investments for the nine months ended September 30, 2018 and 2017. As of September 30, 2018, all of the Company's investments had maturity dates within one year. The Company has the intent and ability to hold its investments for a period of time sufficient to allow for any anticipated recovery in market value.

NOTE 4—BASIC AND DILUTED NET LOSS PER SHARE

Basic net loss per share has been computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is calculated by dividing net loss by the weighted-average number of shares of common stock and potential dilutive securities outstanding during the period.

The total number of shares subject to stock options and restricted stock units outstanding, which are all anti-dilutive, were excluded from consideration in the calculation of diluted net loss per share. Stock options and restricted stock units outstanding as of September 30, 2018 and 2017 were 8,770,775 and 9,581,024, respectively.

NOTE 5—MAJOR CUSTOMERS, PARTNERSHIPS AND STRATEGIC ALLIANCES

Collaboration Agreements

Kite Pharma, Inc.

In February 2018, the Company entered into a collaboration and license agreement with Kite, for the research, development and commercialization of potential engineered cell therapies for cancer. Kite will be responsible for all clinical development and commercialization of any resulting products. The Kite agreement became effective on April 5, 2018 when the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and other customary closing conditions were completed.

Subject to the terms of this agreement, the Company granted Kite an exclusive, royalty-bearing, worldwide, sublicensable license, under the Company's relevant patents and know-how, to develop, manufacture and commercialize, for the purpose of treating cancer, specific cell therapy products that may result from the research program and that are engineered ex vivo using selected zinc finger nucleases ("ZFNs") and adeno-associated viral vectors ("AAVs") developed under the research program, to express chimeric antigen receptors ("CARs"), T-cell receptors ("TCRs") or NK-cell receptors ("NKRs") directed to candidate targets.

During the research program term and subject to certain exceptions, except pursuant to this agreement, the Company is prohibited from researching, developing, manufacturing and commercializing, for the purpose of treating cancer, any cell therapy product that, as a result of ex vivo genome editing, expresses a CAR, TCR or NKR that is directed to a target expressed on or in a human cancer cell. After the research program term concludes and subject to certain exceptions, except pursuant to this agreement, the Company will be prohibited from developing, manufacturing and commercializing, for the purpose of treating cancer, any cell therapy product that, as a result of ex vivo genome editing, expresses a CAR, TCR or NKR that is directed to a candidate target.

Following the effective date, in April 2018, the Company received a $150.0 million upfront payment from Kite. In addition, Kite will reimburse the Company's direct costs to conduct the joint research program, and Kite will be responsible for all subsequent development, manufacturing and commercialization of any licensed products. Sangamo is also eligible to receive contingent development- and sales-based milestone payments that could total up to $3.01 billion if all of the specified milestones set forth in this agreement are achieved. Of this amount, approximately $1.26 billion relates to the achievement of specified research, clinical development, regulatory and first commercial sale milestones, and approximately $1.75 billion relates to the achievement of specified sales-based milestones if annual worldwide net sales of licensed products reach specified levels. Each development- and sales-based milestone payment is payable (i) only once for each licensed product, regardless of the number of times that the associated milestone event is achieved by such licensed product, and (ii) only for the first ten times that the associated milestone event is achieved, regardless of the number of licensed products that may achieve such milestone event. In addition, the Company will be entitled to receive escalating, tiered royalty payments with a percentage in the single digits based on potential future annual worldwide net sales of licensed products. These royalty payments will be subject to reduction due to patent expiration, entry of biosimilar products to the market and payments made under certain licenses for third-party intellectual property.

The initial research term in the agreement is six years. Kite has an option to extend the research term of the agreement for up to two additional one-year periods for a separate upfront fee of $10.0 million per year. All contingent payments under the agreement, when earned, will be non-refundable and non-creditable. The transaction price of $185.9 million includes the upfront license fee of $150.0 million and $35.9 million estimated reimbursable service costs for identified research projects over the estimated performance period. Estimated fees for the presumed exercise of the research term extension options and all milestone amounts are fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including the fact that achievement of the milestones at this time is uncertain and contingent upon future periods when the uncertainty related to the variable consideration is resolved. The Company will re-evaluate the transaction price, including the estimated variable consideration included in the transaction price and all constrained amounts, in each reporting period and as uncertain events are resolved or other changes in circumstances occur. None of the development and sales-based milestone payments have been included in transaction price.

Kite has the right to terminate this agreement, in its entirety or on a per licensed product or per candidate target basis, for any reason after a specified notice period. Each party has the right to terminate this agreement on account of the other party's bankruptcy or material, uncured breach.

The Company has identified the primary performance obligations within the Kite agreement as a license to the technology and on-going services. The Company concluded that the license is not discrete as it does not have stand-alone value to Kite apart from the services to be performed by the Company pursuant to the agreement. As a result, the Company recognizes revenue from the upfront payment on a straight-line basis through June 2024, the estimated period the Company will perform research services. The estimated period of performance and project cost is reviewed quarterly and adjusted, as needed, to reflect the Company's current assumptions regarding the timing of its deliverables. As of September 30, 2018, the Company had deferred revenue of $137.8 million related to this agreement.

Revenues recognized under the agreement for the three and nine months ended September 30, 2018 were as follows (in thousands):

	September 30, 2018	
	Three Months Ended	Nine Months Ended
Revenue related to Kite Collaboration:		
Recognition of upfront fee	$6,296	$12,249
Research services	2,732	4,295
Total	$9,028	$16,544

Pfizer Inc.

SB-525 Global Collaboration and License Agreement

In May 2017, the Company entered into an exclusive, global collaboration and license agreement with Pfizer, pursuant to which it established a collaboration for the research, development and commercialization of SB-525, its gene therapy product candidate for hemophilia A, and closely related products.

Under this agreement, the Company is responsible for conducting the Phase 1/2 clinical trial and certain manufacturing activities for SB-525, while Pfizer is responsible for subsequent worldwide development, manufacturing, marketing and commercialization of SB-525. Sangamo may also collaborate in the research and development of additional AAV-based gene therapy products for hemophilia A.

The Company received an upfront fee of $70.0 million and is eligible to receive development milestone payments contingent on the achievement of specified clinical development, intellectual property, regulatory and first commercial sale milestones for SB-525 and potentially other products. In addition, Sangamo is eligible to receive up to $208.5 million in payments upon the achievement of specified clinical development, intellectual property and regulatory milestones and up to $266.5 million in payments upon first commercial sale milestones for SB-525 and potentially other products. The total amount of potential clinical development, intellectual property, regulatory, and first commercial sale milestone payments, assuming the achievement of all specified milestones in the hemophilia A Pfizer agreement, is up to $475.0 million, which includes up to $300.0 million for SB-525 and up to $175.0 million for other products that may be developed under the agreement, subject to reduction on account of payments made under certain licenses for third party intellectual property. In addition, Pfizer agreed to pay the Company royalties for each potential licensed product developed under the agreement that are an escalating tiered, double-digit percentage of the annual net sales of such product and are subject to reduction due to patent expiration, entry of biosimilar products to the market and payment made under certain licenses for third party intellectual property. To date, no milestone payments have been received and no products have been approved and therefore no royalty fees have been earned under the hemophilia A Pfizer agreement. Sangamo is responsible for internal and external research costs as part of the upfront fee and has the ability to request additional reimbursement from Pfizer if certain conditions are met.

None of the clinical or regulatory milestones have been included in the $70.0 million transaction price, as all milestone amounts are fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including the fact that achievement of the milestones at this time is uncertain and contingent upon future periods when the uncertainty related to the variable consideration is resolved. The Company will re-evaluate the transaction price, including its estimated variable consideration included in the transaction price and all constrained amounts, in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

Subject to the terms of the agreement, the Company granted Pfizer an exclusive, worldwide, royalty-bearing license, with the right to grant sublicenses, to use certain technology controlled by the Company for the purpose of developing, manufacturing and commercializing SB-525 and related products. Pfizer granted the Company a non-exclusive, worldwide, royalty free, fully paid license, with the right to grant sublicenses, to use certain manufacturing technology developed under the agreement and controlled by Pfizer to manufacture the Company's products that utilize the AAV delivery system. During a specified period, neither the Company nor Pfizer will be permitted to clinically develop or commercialize, outside of the collaboration, certain AAV-based gene therapy products for hemophilia A.

Unless earlier terminated, the agreement has a term that continues, on a per product and per country basis, until the later of (i) the expiration of patent claims that cover the product in a country, (ii) the expiration of regulatory exclusivity for a product in a country, and (iii) fifteen years after the first commercial sale of a product in a country. Pfizer has the right to terminate the agreement without cause in its entirety or on a per product or per country basis. The agreement may also be terminated by either party based on an uncured material breach by the other party or the bankruptcy of the other party. Upon termination for any reason, the license granted by the Company to Pfizer to develop, manufacture and commercialize SB-525 and related products will automatically terminate. Upon termination by the Company for cause or by Pfizer in any country or countries, Pfizer will automatically grant the

Company an exclusive, royalty-bearing license under certain technology controlled by Pfizer to develop, manufacture and commercialize SB-525 in the terminated country or countries.

The Company has identified the performance obligations within the hemophilia A Pfizer agreement as a license to the technology and on-going services. The Company concluded that the license is not discrete as it does not have stand-alone value to Pfizer apart from the services to be performed by the Company pursuant to the agreement. As a result, the Company recognizes revenue from the upfront payment based on proportional performance through 2020, the estimated period the Company will perform research services. The estimated period of performance and project cost is reviewed quarterly and adjusted, as needed, to reflect the Company's current assumptions regarding the timing of its deliverables. As of September 30, 2018, the Company had deferred revenue of $21.5 million related to this agreement.

Revenues recognized under the agreement for the three and nine months ended September 30, 2018 and 2017 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue related to Pfizer Collaboration for SB-525:				
Recognition of upfront fee	$10,421	$6,624	$26,262	$10,384

C9ORF72 Research Collaboration and License Agreement

In December 2017, the Company entered into a separate exclusive, global collaboration and license agreement with Pfizer for the development and commercialization of potential gene therapy products that use ZFP transcription factors ("TFs") to treat amyotrophic lateral sclerosis ("ALS") and frontotemporal lobar degeneration ("FTLD") linked to mutations of the C9ORF72 gene. Pursuant to this agreement, the Company agreed to work with Pfizer on a research program to identify, characterize and preclinically develop ZFP-TFs that bind to and specifically reduce expression of the mutant form of the C9ORF72 gene.

The Company received a $12.0 million upfront payment from Pfizer and is eligible to receive up to $60.0 million in development milestone payments from Pfizer contingent on the achievement of specified preclinical development, clinical development and first commercial sale milestones, and up to $90.0 million commercial milestone payments if annual worldwide net sales of the licensed products reach specified levels. In addition, Pfizer will pay the Company royalties based on an escalating tiered, mid- to high-single digit percentage of the annual worldwide net sales of the licensed products. These royalty payments are subject to reduction due to patent expiration, entry of biosimilar products to the market and payments made under certain licenses for third party intellectual property. Each party will be responsible for the cost of its performance of the research program. Pfizer will be operationally and financially responsible for subsequent development, manufacturing and commercialization of the licensed products.

None of the clinical or regulatory milestones have been included in the $12.0 million transaction price, as all milestone amounts are fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including the fact that achievement of the milestones at this time is uncertain and contingent upon future periods when the uncertainty related to the variable consideration is resolved. The Company will re-evaluate the transaction price, including is estimated variable consideration included in the transaction price and all constrained amounts, in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

Subject to the terms of this agreement, the Company granted Pfizer an exclusive, royalty-bearing, worldwide, license under the Company's relevant patents and know-how to develop, manufacture and commercialize gene therapy products that use resulting ZFP-TFs that satisfy pre-agreed criteria. During a specified period, neither the Company nor Pfizer will be permitted to research, develop, manufacture or commercialize outside of the collaboration any ZFPs that specifically bind to the C9ORF72 gene.

Unless earlier terminated, the agreement has a term that continues, on a per licensed product and per country basis, until the later of (i) the expiration of patent claims that cover the licensed product in a country, (ii) the expiration of regulatory exclusivity for a licensed product in a country, and (iii) fifteen years after the first commercial sale of a licensed product in a major market country. Pfizer also has the right to terminate the agreement without cause in its entirety or on a per product or per country basis. The agreement may also be terminated by either party based on an uncured material breach by the other party or the bankruptcy of the other party. The agreement will also terminate if the Company is unable to identify any lead candidates for development within a specified period of time or if Pfizer elects not to advance a lead candidate beyond a certain development milestone within a specified period of time. Upon termination for any reason, the license granted by the Company to Pfizer to develop, manufacture and commercialize licensed products under the agreement will automatically terminate. Upon termination by the Company for cause or by Pfizer without cause for any licensed product or licensed products in any country or countries, the Company will have the right to negotiate with Pfizer to obtain a non-exclusive, royalty-bearing license under certain technology controlled by Pfizer to develop, manufacture and commercialize the licensed product or licensed products in the terminated country or countries.

Following termination by the Company for Pfizer's material breach, Pfizer will not be permitted to research, develop, manufacture or commercialize ZFPs that specifically bind to the C9ORF72 gene for a period of time. Following termination by Pfizer for the Company's material breach, the Company will not be permitted to research, develop, manufacture or commercialize ZFPs that specifically bind to the C9ORF72 gene for a period of time.

The Company has identified the performance obligations within this agreement as a license to the technology and on-going services. The Company concluded that the license is not discrete as it does not have stand-alone value to Pfizer apart from the services to be performed by the Company pursuant to the agreement. As a result, the Company recognizes revenue from the upfront payment based on proportional performance through March 31, 2019 the estimated period the Company will perform research services. The estimated period of performance and project cost is reviewed quarterly and adjusted, as needed, to reflect the Company's current assumptions regarding the timing of its deliverables. As of September 30, 2018, the Company had deferred revenue of $10.5 million related to this agreement. During the three and nine months ended September 30, 2018 the Company recognized revenue of $0.4 million and $1.5 million, respectively, related to the upfront fee that was received upon entering into the agreement.

Bioverativ, a Sanofi company.

In January 2014, the Company entered into an exclusive worldwide collaboration and license agreement with Bioverativ to develop therapeutics for hemoglobinopathies, focused on beta-thalassemia and sickle cell disease ("SCD"). Under the agreement, the Company is jointly conducting two research programs: the beta-thalassemia program and the SCD program. In the beta-thalassemia program, the Company is responsible for all discovery, research and development activities through the first human clinical trial. In the SCD program, both parties are responsible for research and development activities through the submission of an investigational new drug ("IND") application for ZFP therapeutics intended to treat SCD.

Under both programs, Bioverativ is responsible for subsequent worldwide clinical development, manufacturing and commercialization of licensed products developed under the agreement. At the end of the specified research terms for each program or under certain specified circumstances, Bioverativ has the right to step in and take over any of our remaining activities. Furthermore, the Company has an option to co-promote in the United States any licensed products to treat beta-thalassemia and SCD developed under the agreement, and Bioverativ will compensate the Company for such co-promotion activities. Subject to the terms of the agreement, the Company has granted Bioverativ an exclusive, royalty-bearing license, with the right to grant sublicenses, to use certain ZFP and other technology controlled by the Company for the purpose of researching, developing, manufacturing and commercializing licensed products developed under the agreement. The Company also granted Bioverativ a

non-exclusive, worldwide, royalty-free, fully paid license, with the right to grant sublicenses, under the Company's interest in certain other intellectual property developed pursuant to the agreement. During the term of the agreement, the Company is not permitted to research, develop, manufacture or commercialize, outside of the agreement, certain gene therapy products that target genes relevant to the licensed products.

Under the agreement, the Company received an upfront license fee of $20.0 million and is eligible to receive development and sales milestone payments upon the achievement of specified regulatory, clinical development and sales milestones. In addition, the Company will also be eligible to receive up to $115.8 million in payments upon the achievement of specified clinical development and regulatory milestones, as well as up to $160.5 million in payments upon the achievement of specified sales milestones. The total amount of potential regulatory, clinical development, and sales milestone payments, assuming the achievement of all specified milestones in the agreement, is up to $276.3 million. In addition, the Company will receive royalty payments for each licensed product that are a tiered double-digit percentage of annual net sales of each product. Bioverativ reimburses Sangamo for agreed upon costs incurred in connection with research and development activities conducted by Sangamo. To date, no milestone payments have been received and no products have been approved and therefore no royalty fees have been earned under the Bioverativ agreement.

The agreement may be terminated by (i) the Company or Bioverativ for the uncured material breach of the other party, (ii) the Company or Bioverativ for the bankruptcy or other insolvency proceeding of the other party; (iii) Bioverativ, upon 180 days' advance

written notice to the Company and (iv) Bioverativ, for certain safety reasons upon written notice to, and after consultation with, the Company. As a result, actual future milestone payments could be lower than the amounts stated above.

All contingent payments under the agreement, when earned, will be non-refundable and non-creditable. The transaction price of $75.7 million includes the upfront license fee of $20.0 million and $55.7 million estimated reimbursable service costs for identified research projects over the estimated performance period, as all milestone amounts are fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including the fact that achievement of the milestones at this time is uncertain and contingent upon future periods when the uncertainty related to the variable consideration is resolved. The Company will re-evaluate the transaction price, including the estimated variable consideration included in the transaction price and all constrained amounts, in each reporting period and as uncertain events are resolved or other changes in circumstances occur. None of the clinical or regulatory milestones have been included in transaction price.

The Company has identified the performance obligations within this arrangement as a license to the technology and on-going research services activities. The Company concluded that the license is not discrete as it does not have stand-alone value to Bioverativ apart from the research services to be performed pursuant to the agreement. As a result, the Company recognizes revenue from the upfront payment based on proportional performance through 2022, the estimated period the Company will perform research services. The estimated period of performance and project cost is reviewed quarterly and adjusted, as needed, to reflect the Company's current assumptions regarding the timing of its deliverables. As of September 30, 2018, the Company had deferred revenue of $5.1 million related to this agreement.

Revenues recognized under the agreement for the three and nine months ended September 30, 2018 and 2017 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue related to Bioverativ agreement:				
Recognition of upfront fee	$1,094	$442	$3,432	$1,326
Research services	1,146	2,959	7,707	7,736
Total	$2,240	$3,401	$11,139	$9,062

California Institute for Regenerative Medicine

In May 2018, the California Institute for Regenerative Medicine ("CIRM") granted a Strategic Partnership Award for $8.0 million to fund the clinical studies of a potentially curative ZFP Therapeutic for the treatment of beta-thalassemia based on the application of Sangamo's ZFN genome editing technology. The grant exists through December 31, 2022 and provides matching funds to support the evaluate ST-400, a gene-edited cell therapy candidate for people with transfusion-dependent beta-thalassemia. As of September 30, 2018, the Company had received $1.7 million under the award.

Under the terms of the CIRM grants, the Company is obligated to pay royalties and licensing fees based on a low single digit royalty percentage on net sales of CIRM-funded product candidates or CIRM-funded technology. The Company has the option to decline any and all amounts awarded by CIRM and as an alternative to revenue sharing, the Company has the option to convert the award to a loan. No such election has been made as of the date of the

issuance of these financial statements. In the event that the Company terminates a CIRM-funded clinical trial, it will be obligated to repay the remaining CIRM funds on hand, therefore as of September 30, 2018, the $1.7 million related to this award is recorded as a loan in other long-term liabilities on the accompanying consolidated balance sheet.

Shire International GmbH

In January 2012, the Company entered into a collaboration and license agreement with Shire to research, develop and commercialize a ZFP therapeutic for treating Huntington's disease. The Company received an upfront license fee of $13.0 million. In 2014, Sangamo recognized a $1.0 million milestone payment related to the hemophilia program. Shire does not have any milestone payment obligations, but is required to pay single digit percentage royalties to the Company, up to a specified maximum cap, on the commercial sales of therapeutic products for Huntington's disease. The Company is required to pay single digit percentage royalties to Shire, up to a specified maximum cap, on commercial sales of therapeutic products from programs returned under the original agreement (which include blood clotting Factors VIII and IX) that use two zinc fingers.

Pursuant to the agreement, the Company granted Shire an exclusive, world-wide, royalty-bearing license, with the right to grant sublicenses, to use the Company's ZFP technology for the purpose of developing and commercializing human therapeutic and diagnostic products for the HTT gene. During the term of the agreement, the Company is not permitted to research, develop or commercialize, outside of the agreement, certain products that target the HTT gene. The Company satisfied the deliverables and research services responsibilities within the amended arrangement which were completed in 2017. The agreement may be terminated by (i) the Company or Shire, in whole or in part, for the uncured material breach of the other party, (ii) the Company or Shire for the

bankruptcy or other insolvency proceeding of the other party and (iii) Shire, in its entirety, effective upon at least 90 days' advance written notice.

The Company has concluded that the license is not a separate unit of accounting as it does not have stand-alone value to Shire apart from the research services to be performed pursuant to the Shire agreement. The Company satisfied the deliverables and research services responsibilities within the amended arrangement which were completed in 2017. As a result, the Company recognized the remaining $2.3 million of deferred revenue from the upfront payment during the year ended December 31, 2017.

Revenues recognized under the agreement for the three and nine months ended September 30, 2018 and 2017 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue related to Shire agreement:				
Recognition of upfront fee	$—	$1,166	$—	$2,333
Research services	—	6	—	116
Total	$—	$1,172	$—	$2,449

NOTE 6—INCOME TAXES

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that affected 2017, the current year and onwards, including, but not limited to, a reduction of the U.S. federal corporate tax rate from as high as 35% to 21%, a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries, net operating loss deduction limitations, and 100% disallowance of entertainment expense.

In addition, on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under Accounting Standards Codification 740, Income taxes for the year ended December 31, 2017. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. The Company is still within the measurement period as of September 30, 2018 and no further conclusions have been made, as the Company reviews the law change and the impact to the Company.

Due to the Company's valuation allowance against its deferred tax assets, it does not expect that the provisions of the Tax Act will have a material impact on the Company's financial position, results of operations, or income tax expense or benefit.

NOTE 7—STOCK-BASED COMPENSATION

The following table shows total stock-based compensation expense included in the condensed consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Research and development	$2,093	$1,331	$5,972	$3,766
General and administrative	1,717	888	4,402	3,203
Total stock-based compensation expense	$3,810	$2,219	$10,374	$6,969

NOTE 8—COMMITMENTS AND CONTINGENCIES

Brisbane Build-to-Suit Lease

In November 2017, the Company entered into a long-term property lease which includes construction by the lessor of a building with approximately 87,700 square feet of space, in Brisbane, California. Substantial completion of the building is estimated to occur in the last quarter of 2018. The lease agreement expires in May 2029, approximately ten years after substantial completion of the building. A letter of credit for $3.5 million was established as the deposit and is classified as restricted cash within restricted cash and

other noncurrent assets in the accompanying financial statements. The Company has two options to extend the lease term for up to a combined additional ten years.

The Company is deemed, for accounting purposes only, to be the owner of the entire project including the building shell, even though it is not the legal owner as a result of the cold shell condition of the building and involvement in the construction process. In connection with the Company's accounting for this transaction, the Company capitalized the costs of construction as a build-to-suit property within property and equipment, net, and recognize a corresponding build-to-suit lease obligation, including interest. Fair value of the building was estimated at $20.9 million using comparable market prices per square foot for similar space for public real estate transactions in the surrounding area and is considered a Level 2 fair value measurement. As of September 30, 2018, $39.5 million was capitalized with a corresponding build-to-suit lease obligation recognized related to this lease for the building and construction costs.

Contingencies

Sangamo is not party to any material pending legal proceedings or contingencies. From time to time, the Company may be involved in legal proceedings arising in the ordinary course of business.

NOTE 9— STOCKHOLDERS' EQUITY

In April 2018, Sangamo completed an underwritten public offering of its common stock, in which the Company sold an aggregate of 14.2 million shares of its common stock at a public offering price of $16.25 per share. The net proceeds to Sangamo from the sale of shares in this offering, after deducting underwriting discounts and commissions and other estimated offering expenses, were approximately $215.8 million.

In May 2017, the Company entered into an amended and restated sales agreement with Cowen and Company, LLC ("Cowen") (the "ATM Facility") pursuant to which the Company may offer and sell, in its sole discretion, shares of common stock having an aggregate offering price of up to $75.0 million through Cowen acting as the Company's sales agent. Sales of the Company's common stock, if any, will be made at market prices by any method that is deemed to be an "at the market offering" as defined in Rule 415 under the Securities Act of 1933, as amended. The Company has not sold any common stock under the ATM Facility. As of September 30, 2018, the full $75.0 million provided for under the ATM Facility remained available for sale, subject to certain conditions as specified in the agreement.

NOTE 10— SUBSEQUENT EVENTS

On July 20, 2018, the Company entered into a Share Purchase Agreement (the "SPA") with certain shareholders (the "Sellers") of TxCell, and the Company and TxCell entered into a Tender Offer Agreement (the "TOA"). Pursuant to the SPA and the TOA, the Company expects to acquire 100% of the equity interests of TxCell for approximately €72 million, on a debt-free and cash-free basis.

On October 1, 2018, pursuant to the SPA, the Company purchased all of the ordinary shares of TxCell the "Ordinary Shares") held by the Sellers for €2.58 per share in cash (such per share price being the "Offer Price" and such purchase

being the "Block Transaction"). The Sellers owned 13,519,036 Ordinary Shares, which represented approximately 53% of the share capital and voting rights of TxCell. Subsequent to the completion of the Block Transaction, as of November 7, 2018, we owned approximately 80% of the share capital and voting rights of TxCell.

Promptly following the completion of the Block Transaction, the Company designated a number of directors on the board of directors of TxCell representing a majority of the TxCell board.

Pursuant to the TOA, on November 1, 2018, the Company, commenced a cash tender offer (the "Offer") to acquire all of the Ordinary Shares of TxCell not held by the Company for the Offer Price. In addition, the Company has agreed to: (a) grant to certain employees (including certain members of management) of TxCell stock options to purchase approximately 150,000 shares of Company common stock, which will be granted under the Company's existing 2018 Equity Incentive Plan, with standard vesting conditions; and (b) enter into arrangements with holders of 495,396 "free shares" of TxCell, pursuant to which the Company would purchase such shares from the holders thereof from time to time through mid-2021. The purchase price for each such free share will be based on the performance of the Company's stock price from the announcement of the transactions contemplated by the SPA and TOA (at which time each free share was valued at €2.58 per share through the time of purchase (such that, for example, if the Company's stock price doubles during that time period, the value of each free share would similarly double).

The Sellers and TxCell have made limited representations and warranties in the TOA as are customary for such an agreement governed under French law. The TOA also contains customary termination rights.

If, following completion of the Offer, as it may be extended, the Company owns at least 95% of the share capital and voting rights of TxCell, it plans to acquire the remaining Ordinary Shares for the Offer Price through a compulsory squeeze-out procedure under French law. At this time, the Company is assessing the accounting impact of the agreement.

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," "strategy," "will," "intend" 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 our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements, including but not limited to those described under the caption "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q. 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, 2017, or the 2017 Annual Report, as filed with the Securities and Exchange Commission, or SEC, on March 1, 2018.

Overview

We are a clinical stage biotechnology company focused on translating ground-breaking science into genomic therapies that transform patients' lives using our platform technologies in genome editing, gene therapy, gene regulation and cell therapy.

We are a leader in the research and development of zinc finger proteins, or ZFPs, a naturally occurring class of proteins found in humans. We have used our knowledge and expertise to develop a proprietary technology platform in both genome editing and gene regulation. ZFPs can be engineered to make zinc finger nucleases, or ZFNs, proteins that can be used to specifically modify DNA sequences by adding or knocking out specific genes, or genome editing, and ZFP transcription factors, or ZFP TFs, proteins that can be used to increase or decrease gene expression, or gene regulation. In the process of developing this platform, we have accrued significant scientific, manufacturing and regulatory capabilities and know-how that are generally applicable in the broader field of gene therapy and have capitalized this knowledge into a conventional gene therapy platform.

With the acquisition of Tx Cell S.A., or TxCell, we are now also focused on the development of platforms for innovative, personalized T-cell immunotherapies for the treatment of severe inflammatory and autoimmune diseases with high unmet medical need. Through our subsidiary, TxCell, we believe we will accelerate our entry in to the clinic with a CAR-Treg (which is a regulatory T cell, or Treg, genetically modified with a chimeric antigen receptor, or CAR) therapy. We are targeting solid organ transplantation as well as a range of autoimmune diseases, such as multiple sclerosis, rheumatoid arthritis, inflammatory bowel diseases or inflammatory skin diseases. In addition, we intend to use our ZFN gene editing technology to potentially develop next-generation autologous and allogeneic CAR-Treg cell therapies for use in treating autoimmune diseases.

Our strategy is to maximize the value and therapeutic use of our technology platforms. In certain therapeutic areas we intend to capture the value of our proprietary genome editing and gene therapy products by forward integrating into manufacturing, development and commercial operations. In other therapeutic areas we intend to partner with biopharmaceutical companies to develop products.

We have an ongoing Phase 1/2 clinical trial evaluating SB-525, a gene therapy for the treatment of hemophilia A, a bleeding disorder. We also have ongoing Phase 1/2 clinical trials evaluating three product candidates using

our proprietary in vivo genome editing approach: SB-FIX for the treatment of hemophilia B, a bleeding disorder; SB-318, for the treatment of Mucopolysaccharidosis Type I, or MPS I; and SB-913 for the treatment of Mucopolysaccharidosis Type II, or MPS II. MPS I and MPS II are rare lysosomal storage disorders, or LSDs. We also have an ongoing Phase1/2 clinical trial evaluating ST-400, developed using our proprietary ZFN-mediated ex vivo cell therapy platform, for the treatment of beta-thalassemia, a blood disorder. We also plan to initiate a Phase 1/2 clinical trial of for TxCell's first CAR-Treg investigational product candidate for solid organ transplant, or TX 200, in 2019.

In August 2018, we announced positive preliminary data from the Phase 1/2 clinical trial evaluating SB-525, a cDNA gene therapy candidate for hemophilia A, or the Alta study. SB-525 is being developed as part of a global collaboration between us and Pfizer Inc. for the development and commercialization of potential gene therapy programs for hemophilia A. In October 2018, the independent safety monitoring committee, or SMC, of the Phase 1/2 Alta Study evaluating SB-525 for hemophilia A reviewed accumulated safety and efficacy data from the six patients enrolled in three dose cohorts. As of that review, SB-525 exhibited dose dependent efficacy on serum factor levels and was generally well-tolerated with no treatment-related serious adverse events and no use of tapering courses of oral steroids. The SMC recommended that the study continue with escalation to an additional dose. We plan to present safety and efficacy data from the Alta Study after dose escalation is complete and the clinical trial has progressed to the cohort expansion phase.

In October 2018, the SMC reviewed accumulated safety and efficacy data from both the EMPOWERS Study and the CHAMPIONS Study. In accordance with the recommendation of the SMC, the second patient enrolled in the EMPOWERS Study received the 5e13 vg/kg dose, or the highest dose.

We also announced in September 2018 preliminary safety and efficacy data from the Phase 1/2 clinical trial evaluating SB-913 for the treatment of MPS II, or the CHAMPIONS Study. In cohort 2 of the CHAMPIONS study, at 16 weeks post-dosing, mean reductions were observed in total urinary glycosaminoglycans, or GAGs (which is a key biomarker of MPS II disease pathophysiology), dermatan sulfate, and heparan sulfate of 51%, 32%, and 61%, respectively. Due to the sensitivity of the current assay we are utilizing to measure plasma iduronate-2-sulfatase, or IDS, enzyme levels, we were unable to detect IDS in any of the patients over the 16 weeks following treatment with SB-913. In October, the independent SMC of the CHAMPIONS Study reviewed accumulated safety and efficacy data from all three cohorts and made the following three recommendations: 1) proceed to the cohort expansion phase of the clinical trial with the dose used at the third dose cohort (5e13 vg/kg); 2) initiate screening and enrollment of adolescent subjects (12 to 17 years of age); and 3) initiate the withdrawal of enzyme replacement therapy, or ERT, when appropriate.

In addition, we have proprietary preclinical and discovery stage programs in other LSDs, hematological disorders and monogenic diseases, including certain central nervous system, or CNS, disorders, cancer immunotherapy, immunology and infectious disease.

In October 2018, we completed the acquisition of approximately 53% of the outstanding share capital and voting rights of TxCell for approximately €34.9 million pursuant to a July 2018 Share Purchase Agreement with TxCell and certain of its shareholders, or the SPA. We refer to this purchase as the Block Transaction. Following our acquisition of control of TxCell, TxCell operates as our subsidiary. Subsequent to the completion of the Block Transaction, as of November 7, 2018, we owned approximately 80% of the share capital and voting rights of TxCell. We recently initiated a simplified cash tender offer to acquire the remaining ordinary shares of TxCell at a price of €2.58 per share, the same price per share paid in the Block Transaction as contemplated by the July 2018 Tender Offer Agreement between Sangamo and TxCell, or the TOA. We expect to close the tender offer late in fourth quarter of 2018. If we successfully acquire at least 95% of the outstanding ordinary shares of TxCell, we will launch a squeeze out procedure to acquire any remaining TxCell ordinary shares. Following the expected squeeze out procedure, we plan to delist TxCell from Euronext Paris. For more information relating to the acquisition of TxCell, or the TxCell Acquisition, see Note 10 to our consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q.

In February 2018, we entered into a global collaboration and license agreement with Kite Pharma, Inc., or Kite, a wholly owned subsidiary of Gilead Sciences, Inc., for the research, development and commercialization of potential engineered cell therapies for cancer. The Kite agreement became effective in April 2018 when the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended and other customary closing conditions were completed. In this collaboration, we are working together with Kite on a research program under which we are designing ZFNs and AAVs to disrupt and insert certain genes in T cells and natural killer, or NK, cells, including the insertion of genes that encode chimeric antigen receptors, T-cell receptors, and NK-cell receptors directed to mutually agreed targets. Kite is responsible for all clinical development and commercialization of any resulting products.

In December 2017, we entered into a research collaboration and license agreement with Pfizer Inc., or Pfizer, for the development and commercialization of potential gene therapy products that use ZFP TFs to treat amyotrophic lateral sclerosis, or ALS, and frontotemporal lobar degeneration, or FTLD, linked to mutations of the C9ORF72 gene. Under this agreement, we are working with Pfizer on a research program to identify, characterize and preclinically develop

ZFP TFs that satisfy pre-agreed criteria. Pfizer is responsible for subsequent development, manufacturing and commercialization of licensed products.

In May 2017, we entered into a global collaboration and license agreement with Pfizer for the research, development and commercialization of SB-525, our gene therapy product candidate for hemophilia A, and closely related products. Under this agreement, we are responsible for conducting the Phase 1/2 clinical trial and certain manufacturing activities for SB-525, while Pfizer is responsible for subsequent worldwide development, manufacturing, marketing and commercialization of SB-525. We and Pfizer may also collaborate in the research and development of additional AAV-based gene therapy products for hemophilia A.

We have also established a collaborative partnership with Bioverativ, a Sanofi company, or Bioverativ, to research, develop and commercialize therapeutic gene-edited cell therapy products in hemoglobinopathies, including beta-thalassemia and sickle cell disease, or SCD. Bioverativ is responsible for subsequent development, manufacturing and commercialization of licensed products.

We have a substantial intellectual property position in the genome editing field including the design, selection, composition and use of engineered ZFPs to support our research and development activities. With the TxCell Acquisition, we also have gained an intellectual property position in the Treg and CAR-Treg fields. As of September 30, 2018, we either owned outright or have exclusively licensed the commercial rights to over 904 patents issued in the United States and foreign jurisdictions, and over 702 patent applications pending worldwide. We continue to license and file new patent applications that strengthen our core and accessory

patent portfolio. We believe that our intellectual property position is a critical element in our ability to research, develop and commercialize products and services based on genome editing, gene therapy, gene regulation and cell therapy.

Comparability

We adopted Accounting Standards Codification Topic 606—Revenue from Contracts with Customers, or Topic 606, on January 1, 2018, resulting in a change to our accounting policy for revenue recognition. We used the modified retrospective method and recognized the cumulative effect of initially applying Topic 606 as an adjustment to the opening balances of deferred revenues and accumulated deficit at January 1, 2018. Accordingly, comparative information has not been adjusted and continues to be reported under previous accounting standards. Refer to Note 1 in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

Critical Accounting Estimates

The accompanying discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements and the related disclosures, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts in our condensed consolidated financial statements and accompanying notes. 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 the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Except for the change to our accounting policy for revenue recognition as a result of adopting Topic 606, there have been no significant changes in our critical accounting policies and estimates disclosed in our 2017 Annual Report.

Results of Operations

Three and nine months ended September 30, 2018 and 2017

Revenues

Three Months Ended September 30, (in thousands, except percentage values)				Nine Months Ended September 30, (in thousands, except percentage values)			
2018	2017	Change	%	2018	2017	Change	