SANGAMO BIOSCIENCES INC
Form 10-Q
November 01, 2007

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FORM 10-Q
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from to

Commission file number 000-30171

SANGAMO BIOSCIENCES, INC.

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

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

501 Canal Blvd, Suite A100
Richmond, California 94804
(Address of principal executive offices)

(510) 970-6000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of October 26, 2007, 40,141,534 shares of the issuer s common stock, par value $0.01 per share, were outstanding.

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SANGAMO BIOSCIENCES, INC.

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CERTIFICATIONS

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, sh 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.

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PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2007 (unaudited)	December 31, 2006 (1)
Assets		
Current assets:		
Cash and cash equivalents	$ 16,894	$ 12,702
Marketable securities	67,045	41,218
Interest receivable	217	55
Accounts receivable	20	487
Prepaid expenses	815	594
Total current assets	84,991	55,056
Property and equipment, net	1,304	675
Other assets	49	49
Total assets	$ 86,344	$ 55,780
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,830	$ 1,726
Accrued compensation and employee benefits	902	878
Deferred revenue	5,313	2,596
Total current liabilities	8,045	5,200
Deferred revenue, non current portion	2,475	1,875
Total liabilities	10,520	7,075
Stockholders equity:		
Common stock, $0.01 par value; 80,000,000 shares authorized, 39,963,425 and 35,045,398 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	399	350
Additional paid-in capital	218,266	176,513
Accumulated deficit	(143,080)	(128,272)
Accumulated other comprehensive income	239	114
Total stockholders equity	75,824	48,705
Total liabilities and stockholders equity	$ 86,344	$ 55,780

(1) *Amounts derived from Audited Consolidated Financial Statements dated December 31, 2006 filed as a part of our 2006 Annual Report on Form 10-K.*

See accompanying notes.

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenues:				
Collaboration agreements	$ 1,915	$ 1,431	$ 4,526	$ 4,735
Research grants	410	348	1,805	957
Total revenues	2,325	1,779	6,331	5,692
Operating expenses:				
Research and development	5,916	3,853	17,655	11,470
General and administrative	1,728	1,569	5,840	5,145
Total operating expenses	7,644	5,422	23,495	16,615
Loss from operations	(5,319)	(3,643)	(17,164)	(10,923)
Interest and other income, net	1,051	798	2,356	2,007
Net loss	$ (4,268)	$ (2,845)	$ (14,808)	$ (8,916)
Basic and diluted net loss per share	$ (0.11)	$ (0.08)	$ (0.41)	$ (0.28)
Weighted average number of shares used in computing basic and diluted net loss per share	38,925	33,939	36,387	31,960

See accompanying notes.

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

	Nine months ended September 30,	
	2007	**2006**
Operating Activities:		
Net loss	$ (14,808)	$ (8,916)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	187	126
Amortization of discount on investments	(1,514)	(399)
Stock-based compensation	1,640	1,519
Changes in operating assets and liabilities:		
Interest receivable	(162)	108
Accounts receivable	467	698
Prepaid expenses and other assets	(221)	(187)
Accounts payable and accrued liabilities	104	(378)
Accrued compensation and employee benefits	24	(98)
Deferred revenue	3,317	(3,329)
Net cash used in operating activities	(10,966)	(10,856)
Investing Activities:		
Purchases of investments	(86,088)	(39,596)
Maturities of investments	61,900	27,728
Purchases of property and equipment	(816)	(137)
Net cash used in investing activities	(25,004)	(12,005)
Financing Activities:		
Issuance of common stock in connection with license agreement	8,550	
Proceeds from issuance of common stock	31,612	20,471
Net cash provided by financing activities	40,162	20,471
Net increase in cash and cash equivalents	4,192	(2,390)
Cash and cash equivalents, beginning of period	12,702	18,507
Cash and cash equivalents, end of period	$ 16,894	$ 16,117

See accompanying notes.

Non-Cash Transactions:

Unrealized gains/(loss) on marketable securities	$ 125	$ 47

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SANGAMO BIOSCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2007

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 nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These financial statements should be read in conjunction with the financial statements and footnotes thereto for the year ended December 31, 2006, 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 U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

FOREIGN CURRENCY TRANSLATION

The Company records foreign currency transactions at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. All currency translation adjustments arising from foreign currency transactions are recorded through statements of operations.

REVENUE RECOGNITION

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

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

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

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RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of costs incurred for Company-sponsored as well as collaborative research and development activities. These costs include direct and research-related overhead expenses, which include salaries and other personnel-related expenses, stock-based compensation, pre-clinical and clinical studies, manufacturing costs, facility costs, laboratory supplies and depreciation of facilities and laboratory equipment, as well as the cost of funding research at universities and other research institutions, and are expensed as incurred. Costs to acquire technologies that are utilized in research and development and that have no alternative future use are expensed as incurred.

STOCK-BASED COMPENSATION

On January 1, 2006, we began accounting for employee stock-based compensation in accordance with FAS 123R. Under the provisions of FAS 123R, employee stock-based compensation is estimated at the date of grant based on the employee stock award s fair value using the Black-Scholes option-pricing model and is recognized as expense ratably over the requisite service period in a manner similar to other forms of compensation paid to employees. The Black-Scholes option-pricing model requires the use of certain subjective assumptions. The most significant of these assumptions are our estimates of the expected volatility of the market price of our stock and the expected term of the award. We primarily base our determination of expected volatility through our assessment of the historical volatility of our Common Stock. We do not believe that we are able to rely on our historical exercise and post-vested termination activity to provide accurate data for estimating our expected term for use in determining the fair value of these options. Therefore, as allowed by Staff Accounting Bulletin (SAB) No. 107, Share-Based Payment, we have opted to use the simplified method for estimating our expected term equal to the midpoint between the vesting period and the contractual term. As required under the accounting rules, we review our valuation assumptions at each grant date and, as a result, our valuation assumptions used to value employee stock-based awards granted in future periods may change.

Employee stock-based compensation expenses recognized in the three-month and nine-month periods ended September 30, 2007 and 2006 were calculated based on awards ultimately expected to vest and has been reduced for estimated forfeitures. FAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table shows total stock-based employee compensation expense included in the condensed consolidated statement of operations for the three-month and nine-month periods ended September 30, 2007 and 2006 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Costs and expenses:				
Research and development	$ 362	$ 247	$ 1,030	$ 874
General and administrative	202	318	600	615
Total stock-based compensation expense	$ 564	$ 565	$ 1,630	$ 1,489

There was no capitalized stock-based employee compensation cost as of September 30, 2007 and 2006. There were no recognized tax benefits during the three-month and nine-month periods ended September 30, 2007 and 2006.

As of September 30, 2007, total compensation cost related to nonvested stock options to be recognized in future periods was $5.0 million, which is expected to be expensed over a weighted average period of 48 months.

Valuation Assumptions

The employee stock-based compensation expense recognized under FAS123R was determined using the Black-Scholes option valuation model. Option valuation models require the input of subjective assumptions and these assumptions can vary over time.

We primarily base our determination of expected volatility through our assessment of the historical volatility of our Common Stock.

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Risk-free interest rate	4.37%	4.80%	4.37-4.99%	4.80-5.10%
Expected life of option	6.25 years	6.25 years	6.25 years	6.25 years
Expected dividend yield of stock	0.0%	0.0%	0.0%	0.0%
Expected volatility	.91	.95	.91-.93	.91-.97

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Risk-free interest rate	4.42-5.01%	5.10-5.20%	3.64-5.10%	4.80-5.20%
Expected life of option	0.5-2 years	0.5-2 yrs	0.5-2 yrs	0.5-2 yrs
Expected dividend yield of stock	0.0	0.0	0.0	0.0
Expected volatility	.50-.62	.50-.98	.46-.77	.41-.98

Stock Option Activity

A summary of Sangamo s stock option activity follows:

		Options Outstanding		
	Shares Available for Grant of Options	Number of Shares	Weighted-Average Exercise per Share Price	Weighted Average Remaining Contractual Term
Balance at January 1, 2007	3,625,021	4,147,812	$ 5.64	
Options granted	(406,250)	406,250	$ 7.23	
Options exercised		(578,143)	$ 5.98	
Options canceled	218,785	(218,785)	$ 6.02	
Balance at September 30, 2007	3,437,556	3,757,134	$ 5.78	6.14
Options exercisable at September 30, 2007		2,308,721	$ 5.66	4.61

There were no shares subject to Sangamo s right of repurchase as of September 30, 2007. The intrinsic value of options exercised were $2,068,000 and $4,000 for the three months ended September 30, 2007 and 2006, respectively, and $2,531,000 and $1,063,000 for the nine months ended September 30, 2007 and 2006, respectively.

The weighted-average estimated fair value per share of options granted were $8.17 and $3.81 for the three-month ended September 30, 2007 and 2006, respectively, and $5.68 and $5.23 for the nine-month ended September 30, 2007 and 2006, respectively, based upon the assumptions in the Black-Scholes valuation model described above.

The weighted-average estimated fair value per share of employee purchase rights during the three months and nine months ended September 30, 2007 and 2006 were $2.51 and $1.11, respectively, and $2.36 and $1.66, respectively, based upon the assumptions in the Black-Scholes valuation model described above.

The following table summarizes information with respect to stock options outstanding at September 30, 2007:

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	Options Outstanding	
Range of Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life (In Years)
$0.15 - $0.15	31,583	1.20
$0.17 - $0.17	400,000	0.60
$0.23 - $3.87	400,751	5.62
$3.95 - $4.11	509,279	8.01
$4.15 - $5.18	185,889	6.77
$5.19 - $5.19	429,079	6.44
$5.30 - $6.69	237,437	6.66
$6.82 - $6.82	450,000	9.20
$6.88 - $7.43	383,250	9.14
$7.49 - $38.00	729,866	4.42
	3,757,134	6.14

At September 30, 2007, the aggregate intrinsic values of the outstanding and exercisable options were $31.8 million and $20.0 million, respectively.

Sangamo did not grant any stock option to consultants during the three months and nine months ended September 30, 2007. The Company granted 10,000 nonqualified stock options in July 2006. The options generally vest over four years at a rate of 25 percent one year from grant date and one-thirty-sixth per month thereafter and expire ten years after the grant date. The fair value of these options was determined using the Black-Scholes Merton model. Total nonqualified stock-based compensation expense was $2,000 and $4,000 for the three month periods ended September 30, 2007 and 2006, respectively, and $9,000 and $30,000 for the nine month periods ended September 30, 2007 and 2006, respectively.

RECENT ACCOUNTING PRONOUNCEMENT

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115, which will become effective in 2008. SFAS No. 159 permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other generally accepted accounting principles. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. The Company is evaluating what impact, if any; the adoption of this standard will have on its financial position or results of operations.

In September 2006 the FASB issued FASB Statement No. 157, Fair Value Measurements, or SFAS 157. The standard provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS 157 must be adopted prospectively as of the beginning of the year it is initially applied. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is evaluating what impact, if any; the adoption of this standard will have on its financial position or results of operations.

NOTE 2-BASIC AND DILUTED NET LOSS PER SHARE

Net 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 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 2,089,721 shares and 2,185,930 shares for the nine months ended September 30, 2007 and 2006, respectively, related to outstanding options.

NOTE 3-COMPREHENSIVE LOSS

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

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	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net loss	$ (4,268)	$ (2,845)	$ (14,808)	$ (8,916)
Changes in unrealized gain on securities available-for-sale	110	76	125	47
Comprehensive loss	$ (4,158)	$ (2,769)	$ (14,683)	$ (8,869)

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NOTE 4-MAJOR CUSTOMERS, PARTNERSHIPS AND STRATEGIC ALLIANCES

Laboratory Research Reagents License Agreement

On July 10, 2007, Sangamo entered into a License Agreement with Sigma-Aldrich Corporation (Sigma). Under the License Agreement, Sangamo will provide Sigma with access to Sangamo s proprietary zinc finger DNA-binding protein (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 the research field, excluding certain agricultural research uses that Sangamo previously licensed to Dow AgroSciences LLC.

The agreement provides for an initial three-year research term during which time Sangamo will work with Sigma to develop laboratory research reagents using Sangamo s ZFP technology. In addition, for three years Sangamo will assist Sigma s efforts to market and sell services employing Sangamo s ZFP technology in the research field. Sangamo 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, Sangamo will be responsible for supplying ZFPs for use by Sigma in performing services in the research field.

Pursuant to the License Agreement, Sigma has paid Sangamo $13.5 million, which was comprised of an equity investment by Sigma in 1.0 million shares of Sangamo s common stock valued at $8.55 million, a $3.95 million license fee and $1.0 million of research funding. Under the License Agreement, Sangamo 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 License 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 has the right to sublicense the ZFP technology for research reagent applications. Sangamo will receive 50% of any sublicensing revenues in the first two years and 25% of any sublicensing revenues thereafter.

Sangamo retains the sole right to use and license its 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 $275,000 during the three months ended September 30, 2007. Revenues attributable to collaborative research and development performed under the Sigma agreement were $208,000 during the three months ended September 30, 2007. Related costs and expenses incurred under the Sigma agreement were $208,000 during the three months ended September 30, 2007.

Enabling Technology Collaborations for Pharmaceutical Protein Production

On April 27, 2007, Sangamo entered into a research and license agreement with the Genentech, Inc. to provide Genentech with access to Sangamo s proprietary zinc finger DNA-binding protein technology. Under the agreement, Sangamo will design and engineer ZFP nucleases for Genentech to evaluate and potentially use to generate cell lines with novel characteristics for protein pharmaceutical production purpose. Upon successful development of such ZFNs, Sangamo will transfer these ZFNs and the modified cell lines to Genentech and will provide technical support to Genentech with respect to the use of the transferred ZFN technology. In consideration for the rights and licenses granted to Genentech, as well as Sangamo s development efforts, Genentech has paid Sangamo an upfront fee and initial technology access fee. Genentech will also pay an ongoing annual technology access fee. Genentech has also agreed to make certain payments upon on achievement of specified milestones relating to the research of ZFNs and the development and commercialization of products manufactured using a modified cell line created by ZFN technology or any other technology covered by Sangamo s intellectual property rights. Revenues attributable to collaborative research and development performed under the Genentech agreement were $62,000 and $83,000 during the three months and nine months ended September 30, 2007, respectively. Related research and development costs and expenses performed under the Genentech agreement were $38,000 and $57,000 during the three months and nine months ended September 30, 2007 respectively.

On December 2004, we announced a research collaboration agreement with Pfizer Inc to use our ZFP technology to develop enhanced cell lines for protein pharmaceutical production. The scope of this agreement was expanded in December 2006 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 for enhanced protein production as well as novel

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technology for rapid creation of new production cell lines. Revenues attributable to collaborative research and development performed under the Pfizer agreement were $25,000 and $156,000 during the three months ended September 30, 2007 and 2006, respectively. Revenues for the nine-month periods ended September 30, 2007 and 2006 were $75,000 and $463,000, respectively. Related research and development costs and expenses performed under the Pfizer agreement were $71,000 and $87,000 during the three months ended September 30, 2007 and 2006, respectively, and $318,000 and $242,000 during the nine months ended September 30, 2007 and 2006, respectively.

Terminated Strategic Partnership with Edwards Lifesciences

In December 2006, Sangamo entered into an Asset Purchase Agreement with Edwards Lifesciences LLC (Edwards) to acquire all of the assets in Edwards ZFP TF angiogenesis program, including regulatory filings, clinical data, and GMP product in exchange for one million shares of our unregistered common stock and certain royalties. This transaction was valued at $5.8 million based on the fair value of our publicly traded stock at the closing date of the transaction less a discount for lack of marketability in the unregistered common stock. Under the agreement, Sangamo agreed to pay Edwards royalties generated by the sales of certain human therapeutic products, including products to treat ischemic cardiovascular and vascular disease and diabetic neuropathy, based upon ZFP TF activation of the VEGF gene: the first product is not expected to be available for sale before 2012. The amount of royalties payable to Edwards is equal to (i) five percent (5%) of the net sales of each such product sold by Sangamo and (ii) the greater of (a) five percent (5%) of the net sales of each such product sold by a sublicensee of Sangamo or (b) twenty-five percent (25%) of the royalty payment received by Sangamo from its sublicensee on account of such product sold by such sublicensee; provided that total royalties paid by Sangamo under the agreement shall not exceed $20 million in any calendar year or $100 million in the aggregate. In connection with this transaction, the Company and Edwards terminated their prior agreements entered in January 2000.

Plant Agriculture Agreement

Sangamo scientists and collaborators have shown that ZFP TFs and ZFP nucleases (ZFNs) can be used to regulate and modify genes in plants with similar efficacy to that shown in various mammalian cells and organisms. The ability to regulate gene expression with engineered ZFP TFs may lead to the creation of new plants that increase crop yields, lower production costs, are more resistant to herbicides, pesticides, and plant pathogens; and permit the development of branded agricultural products with unique nutritional and processing characteristics. In addition, ZFNs may be used to facilitate the efficient and reproducible generation of transgenic plants. Effective as of October 1, 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 will retain rights to use plants or plant-derived products to deliver ZFP TFs or ZFNs into human or animals for diagnostic, therapeutic, or prophylactic purposes.

Our agreement with DAS provides for an initial three-year research term during which time we will work together to validate and optimize the application of our ZFP technology to plants, plant cells and plant cell cultures. A joint committee having equal representation from both companies will oversee this research. During the initial three-year research term, DAS will have the option 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. This commercial license will be exclusive for all such products other than animal and human health products. In the event that DAS exercises this option, DAS may elect to extend the research program beyond the initial three-year term on a year-to-year basis.

Pursuant to the Research License and Commercial Option Agreement, DAS made an initial cash payment to us of $7.5 million and agreed to purchase up to $4.0 million of our common stock in the next financing transaction meeting certain criteria. 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 gross proceeds of $3.9 million. In addition, DAS will provide between $4.0 million and $6.0 million in research funding over the initial three-year research term and may make an additional payment of up to $4.0 million in research milestone payments to us during this same period, depending on the success of the research program. In the event that DAS elects to extend the research program beyond the initial three-year

term, DAS will provide additional research funding. If DAS exercises its option to obtain a commercial license, we will be entitled to full payment of the $4.0 million in research milestones, a one-time exercise fee of $6.0 million, minimum annual payments of up to $25.25 million, 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.

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We have agreed to supply DAS and its sublicensees with ZFP TFs and/or ZFNs for both research and commercial use. If DAS exercises its 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.

The Research License and Commercial Option Agreement will terminate automatically if DAS fails to exercise its option for a commercial license by the end of the initial three-year research term. DAS may also terminate the agreement at the end of the second year of the initial research term if the joint committee overseeing the research determines that disappointing research results have made it unlikely that DAS will exercise the option; we are guaranteed to receive $4.0 million in research funding from DAS prior to such a termination. Following DAS s exercise of the option and payment of the exercise 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 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. Revenues related to the research license under the DAS agreement are being recognized ratably over the initial three-year research term of the agreement and were $625,000 during both the three months ended September 30, 2007 and 2006 and $1.9 million during both the nine months ended September 30, 2007 and 2006. Revenues attributable to collaborative research and development performed under the DAS agreement were $500,000 during both the three months ended September 30, 2007 and 2006 and $1.5 million and $1.9 million during the nine months ended September 30, 2007 and 2006, respectively. Revenues attributable to milestone payments were $220,000 and $510,000 during both the three and nine month periods ended September 30, 2007. Related costs and expenses incurred under the DAS agreement were $500,000 during both the three months ended September 30, 2007 and 2006 and $1.5 million and $1.9 million during the nine months ended September 30, 2007 and 2006, respectively.

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Funding from Research Foundations

The Michael J. Fox Foundation

On January 23, 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. Revenues attributable to research and development performed under the MJFF partnership were $116,000 and $300,000 during the three months and nine months ended September 30, 2007, respectively. Related costs and expenses incurred under the MJFF partnership were $116,000 and $300,000 during the three month and nine month periods ended September 30, 2007, respectively.

The Juvenile Diabetes Research Foundation International

On October 26, 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, 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.

During the three months and nine months ended September 30, 2007, the Company received $500,000 and $1.5 million, respectively from JDRF upon the achievement of three milestones. Revenues attributable to research and development performed under the JDRF partnership were $295,000 and $1.1 million, respectively, during the three months and nine months ended September 30, 2007. Related costs and expenses incurred were $1.0 million and $3.0 million during the three months and nine months ended September 30, 2007, respectively.

NOTE 5-STOCKHOLDERS EQUITY

On July 20, 2007, Sangamo completed a registered direct offering to a group of institutional investors, in which Sangamo sold an aggregate of 3,278,689 shares of common stock at a price of $9.15 per share to such investors, resulting in gross proceeds of approximately $30.0 million.

On July 10, 2007, Sangamo entered into a license agreement with Sigma. Under the agreement and a related stock purchase agreement, Sangamo sold to Sigma 1.0 million shares of Sangamo s common stock valued at $8.55 million.

On April 30, 2007, Sangamo has issued 61,195 shares under company s employee stock purchase program.

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NOTE 6-INCOME TAXES

On January 1, 2007, the Company adopted the provisions of Financial Standards Accounting Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FIN 48). There was no impact on the Company s financial statements upon adoption. Because of the Company s historical significant net operating losses, it has not been subject to income tax since inception. There were no unrecognized tax benefits during all the periods presented.

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.

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 consolidated 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, 2006 as filed with the SEC on March 1, 2007.

Overview

We were incorporated in June 1995. From our inception through September 30, 2007, 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 September 30, 2007, we had an accumulated deficit of $143.1 million.

Our revenues have consisted primarily of revenues from our corporate partners for ZFP transcription factors (ZFP TFs) and zincfinger nucleases (ZFNs), contractual payments from strategic partners for research programs and research milestones, and research grant funding. We expect revenues will continue to fluctuate from period to period and there can be no assurance that new collaborations or partner fundings will continue beyond their initial terms. Commencing in 2005, we have placed more internal emphasis on higher-value therapeutic product development and less emphasis on non therapeutic programs. 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 it increases our financial risk by increasing expenses associated with product development. We have filed an Investigational New Drug (IND) application with the U.S. Food and Drug Administration (FDA) and have initiated two Phase 2 clinical trials of a ZFP Therapeutic in patients with diabetic neuropathy during the first nine months of 2007. Development of novel therapeutic products is costly and is subject to a lengthy and uncertain regulatory process by the FDA. Our future products are nucleic acid-based therapeutics. Adverse events in both our own clinical program and other programs in

gene therapy and RNAi may have a negative impact on regulatory approval, the willingness of potential commercial partners to enter into agreements and the perception of the public.

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Research and development expenses consist primarily of salaries and related personnel expenses, including stock-based compensation, clinical trials and manufacturing cost, laboratory supplies, allocated facilities costs, subcontracted research expenses, trademark registration and technology licenses. Research and development costs incurred in connection with collaborator-funded activities are expensed as incurred. We believe that continued investment in research and development is critical to attaining our strategic objectives. We expect these expenses will increase significantly as we increase our focus on development of ZFP Therapeutics. We are also developing ZFNs for therapeutic gene correction and therapeutic gene modification as a treatment for certain monogenic and infectious diseases and cancer. Additionally, in order to develop ZFP TFs and ZFNs as commercially relevant therapeutics, we expect to expend additional resources for expertise in the manufacturing, regulatory affairs and clinical research aspects of biotherapeutic development.

General and administrative expenses consist primarily of salaries and related personnel expenses for executive, finance and administrative personnel, stock-based compensation, 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 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. We believe the critical accounting policies described in our annual report on Form 10-K for the year ended December 31, 2007 have significant effect in the preparation of our consolidated financial statements.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2007 and 2006

Revenues

	Three months ended September 30, (in thousands, except percentage values)				Nine months ended September 30, (in thousands, except percentage values)			
	2007	2006	Change	%	2007	2006	Change	%
Revenues:								
Collaboration agreements	$ 1,915	$ 1,431	$ 484	34%	$ 4,526	$ 4,735	$ (209)	(4%)
Research grants	410	348	62	18%	1,805	957	848	89%
Total revenues	$ 2,325	$ 1,779	$ 546	31%	$ 6,331	$ 5,692	$ 639	11%

Total revenues increased to $2.3 million for the three months ended September 30, 2007 from $1.8 million in the corresponding period in 2006. The increase in collaboration agreement revenues for the three months ended September 30, 2007 was principally due to revenues of $483,000 in connection with our License Agreement with Sigma, $220,000 from our collaboration with DAS and $62,000 with Genentech, offset by decreased collaboration-related revenues of approximately $150,000 and $131,000 from Johnson and Johnson and Pfizer, respectively. The increase in research grant revenues for the three months ended September 30, 2007 was principally due to revenues of $295,000 in connection with our JDRF grant and $116,000 related to the MJFF grant, offset by

decreased revenues of approximately $286,000 and $63,000 from Advanced Technology Program ATP and other research grants, respectively. Total revenues increased to $6.3 million for the nine months ended September 30, 2007 from $5.7 million in the corresponding period in 2006. The decrease in collaboration agreement revenues for the nine months ended September 30, 2007 was principally due to revenues of $450,000 and $388,000 in connection with our Johnson & Johnson and Pfizer collaboration agreements, respectively, offset by increased collaboration-related revenues of approximately $483,000 and $83,000 from Sigma and Genentech, respectively. The increase of research grant revenues for the nine months ended September 30, 2007 was principally due to increased revenues of $1.1 million and $300,000 in connection with our JDRF grant and MJFF grant, respectively, offset by decreased revenues

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of approximately $427,000 and $149,000 from ATP and other research grants, respectively. We anticipate continued revenues from collaboration agreements through the end of 2010, 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 you that these efforts will be successful in the future.

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Operating Expenses

	Three months ended September 30, (in thousands, except percentage values)				Nine months ended September 30, (in thousands, except percentage values)			
	2007	2006	Change	%	2007	2006	Change	%
Operating Expenses:								
Research and development	$ 5,916	$ 3,853	$ 2,063	54%	$ 17,655	$ 11,470	$ 6,185	54%
General and administrative	1,728	1,569	159	10%	5,840	5,145	695	14%
Total expenses	$ 7,644	$ 5,422	$ 2,222	41%	$ 23,495	$ 16,615	$ 6,880	41%

Research and development

Research and development expenses have consisted primarily of salaries and related personnel expenses including stock-based compensation as well as clinical trials and manufacturing cost, laboratory supplies, allocated facilities costs, subcontracted research expenses, 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 and through 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 for the third quarter of 2007 increased to $5.9 million compared to $3.9 million for the third quarter of 2006. The increase in research and development expenses for the three months ended September 30, 2007 was primarily attributable to increased external development expenses of $1.3 million, associated with clinical trials and manufacturing costs related to our diabetic neuropathy program, increased personnel and facility-related expenses of $261,000 and $136,000, respectively, primarily due to increased headcount, stock-based compensation of $114,000 and licensing expenses of $125,000. Research and development expenses for the nine-months ended September 30, 2007 increased to $17.7 million compared to $11.5 million for the corresponding period of 2006. The increase in research and development expenses for the nine months ended September 30, 2007 was primarily attributable to increased external development expenses of $3.8 million, primarily associated with clinical trials and manufacturing cost related to our diabetic neuropathy program, increased personnel and laboratory supply expenses of $1.1 million and $546,000, respectively, due to increased headcount, increased facility-related expenses of $326,000 and increased licensing expenses of $221,000.

General and administrative

General and administrative expenses consist primarily of salaries and related personnel expenses for executive, finance and administrative personnel, stock-based compensation, professional fees, patent prosecution expenses, allocated facilities costs, other general corporate expenses and stock-based compensation. 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 $1.7 million for the three months ended September 30, 2007, as compared to $1.6 million during the corresponding period of 2006. This increase is primarily related to increased professional service-related expenses of $209,000. General and administrative expenses were $5.8 million for the nine months ended September 30, 2007, as compared to $5.1 million during the corresponding period of 2006. This increase is primarily related to increased expenses related to professional services and salary and benefit of $639,000 and $37,000, respectively.

Interest income, net

	Three months ended September 30,	Nine months ended September 30,

	(in thousands, except percentage values)				(in thousands, except percentage values)			
	2007	2006	Change	%	2007	2006	Change	%
Interest and other income, net	$1,051	$798	$253	32%	$2,356	$2,007	$349	17%

Interest and other income, net, increased to $1.1 million for the three months ended September 30, 2007 from $798,000 in the corresponding period in 2006. The increase was primarily related to an increase in interest income of $249,000 related to higher average investment balances during the three months ended September 30, 2007. Interest and other income, net, increased to $2.4 million for the nine months ended September 30, 2007 from $2.0 million in the corresponding period of 2006. The increase was primarily related to an increase in interest income of $466,000 related to higher average investment balances during the nine months

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ended September 30, 2007. This increase was partially offset by a decrease foreign currency translation gain of $109,000 during the nine months ended September 30, 2007.

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 September 30, 2007, we had cash, cash equivalents, investments and interest receivable totaling $84.2 million. On July 10, 2007, we entered into a license agreement with Sigma under which Sigma has paid us $13.5 million, which was comprised of an equity investment by Sigma in our common stock valued at $8.55 million, a $3.95 million license fee and $1.0 million of research funding. On July 20, 2007, we completed a registered direct offering to a group of institutional investors, in which we sold an aggregate of 3,278,689 shares of common stock at a price of $9.15 per share to such investors pursuant to an effective registration statement filed on April 27, 2007, resulting in net proceeds of approximately $28.0 million.

Net cash used for operating activities was $11.0 million for the nine months ended September 30, 2007. Net cash used consisted of the net loss for the nine-month period of $14.8 million, amortization of discount on investment of $1.5 million. This was partially offset by a net change of $3.5 million in operating assets and liabilities, stock-based compensation charges of $1.6 million and depreciation and amortization of $187,000. Net cash used for operating activities was $10.8 million for the nine months ended September 30, 2006. Net cash used consisted primarily of the net loss for the nine-month period of $8.9 million, a net change of $3.2 million in operating assets and liabilities and amortization of discount on investments of $399,000. This was partially offset by stock-based compensation charges of $1.5 million and depreciation and amortization of $126,000.

Net cash used by investing activities was $25.0 million for the nine months ended September 30, 2007 and was primarily comprised of purchases of investments and property and equipment of $86.2 million and $816,000, respectively, partially offset by cash proceeds associated with maturities of investments of $61.9 million. Net cash used in investing activities was $12.0 million for the nine months ended September 30, 2006 and was primarily comprised of cash used to purchase investments and property and equipment of $39.6 million and $137,000, respectively, partially offset by cash proceeds associated with maturities of investments of $27.7 million.

Net cash provided by financing activities for the nine-month period ended September 30, 2007 was $40.1 million. Proceeds were related to net proceeds from the issuance of common stock related to a registered direct offering to a group of institutional investors of $28.0 million, issuance of common stock in connection with license agreement of $8.6 million and stock option exercises of $3.6 million, respectively. Net cash provided by financing activities for the nine month period ended September 30, 2006 was $20.5 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 price of $6.75 per share, resulting in net proceeds of approximately $20.15 million after deducting underwriter s discount. All other cash provided by financing activities for the first nine months of 2006 was 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, in support of 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.

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Our market risks at September 30, 2007 have not changed materially from those discussed in Item 7A of our Form 10-K for the year ended December 31, 2006 on file with the Securities and Exchange Commission.

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) or 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.

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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.

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 are increasing the emphasis and focus of our internal research and development activities on ZFP Therapeutics and have fewer resources invested in non therapeutic 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 our collaborators and strategic partners. Our proprietary research programs consist of research which is funded largely by the Company and where the Company retains exclusive rights to therapeutic products generated by the research. This is in contrast to certain of our non therapeutic programs that may be funded by corporate partners and in which we may share in the value of any resulting products. We have conducted proprietary research since our 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 prosecute our ongoing 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. 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.

In addition, disagreements with our collaborators or strategic partners could develop over rights to our intellectual property with respect to our proprietary research activities. Any conflict with our collaborators or strategic partners could reduce our ability to enter into future collaboration or strategic partnering agreements and negatively impact our relationship with existing collaborators and strategic partners, which could reduce our revenue and delay or terminate our product development.

We have initiated two Phase 2 clinical trials in our lead ZFP Therapeutic program, and ZFP Therapeutics have undergone limited testing in humans. We have completed enrollment and treatment of the patients in a Phase 1 clinical trial 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, dose-escalation trial to measure the laboratory and clinical safety of SB-509 and initiated a Phase 2 clinical trial for this indication. In addition, Phase 1 clinical trials of an identical ZFP TF has 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 or for other reasons, this would negatively affect the value of our stock.

The results of our 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. For example, the

initial results from the Phase 1 clinical trial of our ZFP Therapeutic, SB-509, became available in the first half of 2006 and additional data were presented in June 2007. The primary end point of the trial was clinical and laboratory safety, however we collected some preliminary efficacy data that showed early evidence of clinical improvement in some subjects. Typically, our Phase 1 clinical trials for indications of safety enroll less than 50 patients. We

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have designed our initial Phase 2 clinical trial for safety and efficacy to enroll approximately 100 patients. Actual results with more data points may not confirm the 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. In addition, we do not yet know if early results will be reproducible. 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.

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 begun two Phase 2 clinical trials, 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 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 the development of a ZFP Therapeutics. 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 will 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.

Clinical trials are lengthy and are typically conducted in three sequential phases, but the phases may overlap or be combined. Each trial must be reviewed and approved by an independent ethics committee or institutional review board before it can begin. Phase 1

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usually involves the initial introduction of the investigational drug into healthy volunteers or patients to evaluate certain factors, including its safety, dosage tolerance and, if possible, to gain an early indication of its effectiveness. Phase 2 usually involves trials in a limited patient population to evaluate dosage tolerance and appropriate dosage, identify possible adverse effects and safety risks, and evaluate preliminarily the efficacy of the drug for specific indications. Phase 3 trials usually further evaluate clinical efficacy and test further for safety by using the drug in its final form in an expanded patient population. Later clinical trials may fail to support the findings of earlier trials, which would delay, limit or prevent regulatory approvals.

While we have stated our intention to file additional IND applications and conduct additional clinical trial 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.

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

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.

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 ZFP TFs for thousands of gene sequences, we have not created ZFP TFs for all gene sequences and may not be able 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 human, animal, and other genes in disease and to aid their efforts in drug discovery and development. We also believe that the regulation of gene expression 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 are currently engaged in the research and development of a new application of our technology platform: ZFP-mediated gene modification using ZFNs to effect gene disruption, gene correction or gene addition. Using this technique, Sangamo scientists have engineered ZFNs to cut DNA at a specific site within a target gene, and to rejoin the two ends of the break which frequently results in the disruption of the gene s function; to correct the adjacent sequences with newly synthesized DNA copied from an introduced DNA

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template, resulting in gene correction; or to specifically add a new DNA sequence into a target site. ZFP-mediated gene modification is at an early stage of development. Our scientists have shown ZFP-mediated gene modification to work in isolated cells; however, a significant amount of additional research will be needed before this technique can be evaluated in animals or plants and subsequently tested for applications in human healthcare and plant agriculture.

We may be unable to license gene transfer technologies that we may need to commercialize our ZFP TF and ZFN technology. In order to regulate 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 non therapeutic programs, 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 where necessary 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 research reagents, protein production, therapeutic development, or plant agriculture, they may not be able to commercialize the resulting products or may decide to use other methods competitive with our technology. To date, no company has received marketing approval or has developed or commercialized any therapeutic or agricultural products based on our technology. Should our technology fail to provide safe, effective, useful, or commercially viable approaches to the discovery and development of these products, this would significantly limit our business and future growth and would adversely affect our value.

Even if our product development efforts are successful and even if the requisite regulatory approvals are obtained, our ZFP Therapeutics may not gain market acceptance among physicians, patients, healthcare payers and the medical community. A number of additional factors may limit the market acceptance of products including the following:

rate of adoption by healthcare practitioners;

rate of a product s acceptance by the target population;

timing of market entry relative to competitive products;

availability of alternative therapies;

price of our product relative to alternative therapies;

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 and siRNA may negatively impact regulatory approval or public perception of our potential products. Our potential therapeutic products are delivered to patients as nucleic acid-based drugs. The clinical and commercial success of our potential products will depend in part on public acceptance of the

use of gene therapy and siRNA for the prevention or treatment of human diseases. Public attitudes may be influenced by claims that gene therapy is unsafe or that siRNA is

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ineffective, 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. 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 siRNA or 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 2006, 2005 and 2004 were $17.9 million, $13.3 million and $13.8 million, respectively. To date, our revenues have been generated from non therapeutic collaborations, strategic partners, and research grants. Since 2005, we have placed more 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 may have a significant effect on the actual or perceived value of our shares. Our business is subject to all of the risks inherent in the development of a new technology, which included the need to:

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

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

develop a market for our products;

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

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

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 our value. 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 those partners are unable or unwilling to advance our programs, or if they do not diligently pursue product approval, this may slow our progress and defer our revenues. Our partners may sublicense or abandon development programs or we may have disagreements with our partners, which would cause associated product development to slow or cease. There can be no assurance that we will be able to establish strategic collaborations for ZFP Therapeutic product development. We may require significant time to secure collaborations or

strategic partners because we need to effectively market the benefits of our technology to these future collaborators and strategic partners, which use the time and efforts of research and development personnel and our management. Further, each collaboration or strategic partnering arrangement will involve the negotiation of terms that may be unique to each collaborator or strategic partner. These business development efforts may not result in a collaboration or strategic partnership.

The loss of any future strategic partnering agreements would not only delay or terminate the potential development or commercialization of products we may derive from our technologies, but it may also delay or terminate our ability to test ZFP TFs for specific genes. If any strategic partner fails to conduct the collaborative activities successfully and in a timely manner, the preclinical

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or clinical development or commercialization of the affected product candidates or research programs could be delayed or terminated.

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. 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 non therapeutic applications:

- For protein production: gene amplification, meganucleases, insulator technology, mini-chromosomes;
- For research reagents: antisense, siRNA; and
- For plant agriculture: recombination approaches, mutagenesis approaches, meganucleases, mini-chromosomes.

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

- substantially greater capital resources than ours;
- larger research and development staffs and facilities than ours; 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

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

We anticipate continuing to incur operating losses for the next several years. If material losses continue for a significant period, we may be unable to continue our operations. We have incurred 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 a group of institutional investors, in which we sold an aggregate of 3,278,689 shares of common stock at a price of $9.15 per share to such investors, resulting in net proceeds of approximately $28.0 million. 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 $20.15 million after deducting underwriter s discount. 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 non therapeutic collaborations, ZFP Therapeutic collabrations, strategic partnering agreements, research grants and grants awarded by research foundations. As of September 30, 2007, we had an accumulated deficit of approximately $143.1 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 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 September 30, 2007, our stock price ranged from a low of $8.36 to high of $14.11. During the past two years, our common stock price has fluctuated significantly, ranging from a low of $4.10 to a high of $8.00 during the year ended December 31, 2006, and a low of $3.54 to a high of $5.81 during the year ended December 31, 2005. 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 about the development and commercialization status of ZFP Therapeutics;

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;

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future sales of our common stock or other securities by us, management or directors;

future sale or liquidation of our common stock by investors with large holding of our stock; and

decreases in our cash balances.

Our common stock is relatively moderately traded, which means large transactions in our common stock may be difficult to conduct in a short time frame. We have a relatively moderate 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 October 26, 2007 was approximately 641,590 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.

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 80 full-time employees as of October 31, 2007 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, or scientific advisors, 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 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.

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.

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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.

Third parties have challenged some of our intellectual property and we expect they will continue to do so. We may not be successful in defending all of our intellectual property that is challenged which could impede our ability to conduct our business and exclude potential competitors from using our technology. One of our licensed patents, European Patent No. 0 682 699, entitled Functional Domains in Flavobacterium Okeanokoites Restriction Endonuclease was granted on May 7, 2003 and contained claims covering technologies used in our programs in targeted recombination, targeted integration and gene correction. In December 2005, an interlocutory decision revoking this patent was issued by the European Patent Office and in March 2007, the European Patent Office upheld its decision. We do not believe this decision will have a material impact on our ongoing ability, both in Europe and the United States, to exclude potential competitors in the fields of ZFNs and to develop, partner and commercialize our ZFP technology.

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.

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If we do not successfully commercialize ZFP based research reagents under our license agreement with Sigma, 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 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 certain ZFP Therapeutic programs relating to diabetic neuropathy under our agreement with JDRF, JDRF may have the right to continue to advance the program and we may lose control of the intellectual property generated in the collaboration and development of the product and may only receive a portion of the revenue generated if commercialization by JDRF is successful. On October 24, 2006, we entered into a Research, Development and Commercialization Agreement with JDRF. Under the agreement and subject to its terms and conditions, including our achievement of certain milestones associated with our Phase 2 clinical trial of SB-509 for the treatment of mild to moderate diabetic neuropathy, JDRF will pay us up to $3,000,000. We are obligated to cover the costs of the Phase 2 trial that are not covered by JDRF s grant.

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

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.

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

Laws or public sentiment may limit the production of genetically 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. 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.

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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, 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 certificate of incorporation:

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

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 or our voting stock.

Insiders have substantial control over Sangamo and could delay or prevent a change in corporate control. The interest of management could conflict with the interest of our other stockholders. Our executive officers and directors beneficially own, in the aggregate, approximately 10% of our outstanding common stock. As a result, these stockholders, if they choose to act together, will be able to have a material impact on all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This could have the effect of delaying or preventing a change of control of Sangamo, which in turn could reduce the market price of our stock.

ITEM 6. EXHIBITS

(a) Exhibits:

10.1 (+)	License Agreement dated as of July 10, 2007 between Sigma-Aldrich Corporation., and Sangamo BioSciences, Inc.
10.2	Common Stock Purchase Agreement dated as of July 10, 2007 between Sigma-Aldrich Corporation and Sangamo BioSciences, Inc. (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on July 10, 2007)
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.

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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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SIGNATURES

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

SANGAMO BIOSCIENCES, INC. Dated: November 1, 2007

/s/ Greg S. Zante

Greg S. Zante
Vice President, Finance and Administration
(Principal Financial and Accounting Officer)