

SANGAMO BIOSCIENCES INC
Form 10-Q
May 07, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from to

Commission file number 000-30171

SANGAMO BIOSCIENCES, INC.

(exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

68-0359556
(IRS Employer

Identification No.)

501 Canal Blvd

Richmond, California 94804

(Address of principal executive offices)

(510) 970-6000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of April 30, 2012, 52,586,590 shares of the issuer's common stock, par value \$0.01 per share, were outstanding.

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CERTIFICATIONS**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

our strategy;

product development and commercialization of our products;

clinical trials;

partnering;

revenues from existing and new collaborations;

our research and development and other expenses;

sufficiency of our cash resources;

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our operational and legal risks; and

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

In some cases, you can identify forward-looking statements by terms such as: anticipates, believes, continues, could, estimates, expects, may, plans, seeks, should and will. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. Many of these risks are discussed in greater detail under the headings Risk Factors and Management's Discussion and Analysis of Financial Results of Operations in this Form 10-Q. 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.

ZFP Therapeutic[®] is a registered trademark of Sangamo BioSciences, Inc.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SANGAMO BIOSCIENCES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share amounts)**

	March 31, 2012 (unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 24,490	\$ 16,766
Marketable securities	55,206	67,366
Interest receivable	370	331
Accounts receivable	1,508	919
Prepaid expenses	250	310
Total current assets	81,824	85,692
Marketable securities, non-current	6,906	
Property and equipment, net	1,653	1,603
Other assets	41	41
Total assets	\$ 90,424	\$ 87,336
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,445	\$ 5,515
Accrued compensation and employee benefits	996	1,672
Deferred revenues	2,171	17
Total current liabilities	5,612	7,204
Deferred revenues, non-current portion	10,472	
Total liabilities	\$ 16,084	\$ 7,204
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; 80,000,000 shares authorized, 52,586,590 and 52,554,795 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	526	526
Additional paid-in capital	334,330	332,839
Accumulated deficit	(260,513)	(253,245)
Accumulated other comprehensive income (loss)	(3)	12
Total stockholders' equity	74,340	80,132
Total liabilities and stockholders' equity	\$ 90,424	\$ 87,336

See accompanying notes.

Table of Contents**SANGAMO BIOSCIENCES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(In thousands, except per share amounts)****(Unaudited)**

	Three months ended March 31,	
	2012	2011
Revenues:		
Collaboration agreements	\$ 1,663	\$ 1,487
Research grants	1,579	713
Total revenues	3,242	2,200
Operating expenses:		
Research and development	7,283	8,262
General and administrative	3,242	3,539
Total operating expenses	10,525	11,801
Loss from operations	(7,283)	(9,601)
Interest and other income, net	15	23
Net loss	\$ (7,268)	\$ (9,578)
Basic and diluted net loss per share	\$ (0.14)	\$ (0.21)
Shares used in computing basic and diluted net loss per share	52,567	45,461
Net loss	\$ (7,268)	\$ (9,578)
Changes in unrealized gain (loss) on available-for-sale securities	(15)	20
Comprehensive loss	\$ (7,283)	\$ (9,558)

See accompanying notes.

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

	Three months ended March 31,	
	2012	2011
Operating Activities:		
Net loss	\$ (7,268)	\$ (9,578)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	168	162
Amortization of premium / discount on marketable securities	272	320
Stock-based compensation	1,383	1,963
Changes in operating assets and liabilities:		
Interest receivable	(39)	(55)
Accounts receivable	(589)	(1,104)
Prepaid expenses and other assets	60	48
Accounts payable and accrued liabilities	(3,070)	(3,146)
Accrued compensation and employee benefits	(676)	(491)
Deferred revenues	12,626	(77)
Net cash provided by / (used in) in operating activities	2,867	(11,958)
Investing Activities:		
Purchases of investments	(12,853)	(15,122)
Maturities of investments	17,820	22,438
Purchases of property and equipment	(218)	(110)
Net cash provided by investing activities	4,749	7,206
Financing Activities:		
Proceeds from issuance of common stock	108	847
Net cash provided by financing activities	108	847
Net increase / (decrease) in cash and cash equivalents	7,724	(3,905)
Cash and cash equivalents, beginning of period	16,766	10,784
Cash and cash equivalents, end of period	\$ 24,490	\$ 6,879

See accompanying notes.

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SANGAMO BIOSCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(Unaudited)

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Sangamo Biosciences, Inc. (Sangamo or the Company) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The condensed consolidated balance sheet data at December 31, 2011 were derived from the audited consolidated financial statements included in Sangamo s Form 10-K for the year ended December 31, 2011, as filed with the SEC. These financial statements should be read in conjunction with the financial statements and footnotes thereto for the year ended December 31, 2011, included in Sangamo s Form 10-K, as filed with the SEC.

Use of Estimates and Classifications

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

Revenue Recognition

Revenue from research activities made under strategic partnering agreements and 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 collectability is reasonably assured. Revenue generated from research and licensing agreements typically includes upfront signing or license fees, cost reimbursements, research services, minimum sublicense fees, milestone payments and royalties on future licensee s product sales.

Multiple Element Arrangements prior to the adoption of ASU No. 2009-13, Revenue Recognition Multiple Deliverable Revenue Arrangements (ASU 2009-13). For revenue arrangements entered into before January 1, 2011, that include multiple deliverables, the elements of such agreement were divided into separate units of accounting if the deliverables met certain criteria, including whether the fair value of the delivered items could be determined and whether there was evidence of fair value of the undelivered items. In addition, the consideration was 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. Prior to the adoption of ASU 2009-13, the Company recognized nonrefundable signing, license or non-exclusive option fees as revenue when rights to use the intellectual property related to the license were delivered and over the period of performance obligations if the Company had continuing performance obligations. The Company estimated the performance period at the inception of the arrangement and reevaluated it each reporting period. Changes to these estimates were recorded on a prospective basis.

Multiple Element Arrangements after the adoption of ASU 2009-13. ASU 2009-13 amended the accounting standards for certain multiple element revenue arrangements to:

provide updated guidance on whether multiple elements exist, how the elements in an arrangement should be separated, and how the arrangement consideration should be allocated to the separate elements;

require an entity to allocate arrangement consideration to each element based on a selling price hierarchy, also called the relative selling price method, where the selling price for an element is based on vendor-specific objective evidence (VSOE), if available; third-party evidence (TPE), if available and VSOE is not available; or the best estimate of selling price (ESP), if neither VSOE nor TPE is available; and

eliminate the use of the residual method and require an entity to allocate arrangement consideration using the selling price hierarchy. For revenue agreements with multiple element arrangements, such as license and development agreements, entered into on or after January 1, 2011, the Company will allocate revenue to each non-contingent element based on the relative selling price of each element. When applying the relative selling price method, the Company determines the selling price for each deliverable using VSOE

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of selling price or TPE of selling price. If neither exists the Company uses ESP for that deliverable. Revenue allocated is then recognized when the basic four revenue recognition criteria are met for each element. The collaboration and license agreement entered into with Shire in January 2012 was evaluated under these updated accounting standards. The potential future impact of the adoption of this update will depend on the nature of any new arrangements entered into, or material modifications of existing arrangements, in the future.

Additionally, the Company recognizes milestone payments, which are subject to substantive contingencies, upon completion of specified milestones, which represents the culmination of an earnings process, according to contract terms. Fees from licensees upon sublicensing Sangamo technologies by them to third parties (sublicense fees) are recognized as revenue in the period such fees are due. Minimum annual sublicense fees are also recognized as revenue in the period in which such fees are due. Royalties are generally recognized as revenue upon the receipt of the related royalty payment. The Company recognizes cost reimbursement revenue under collaborative agreements as the related research and development costs for services are rendered. Deferred revenue represents the portion of research or license payments received which have not been earned.

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

Recent Accounting Pronouncement

In June 2011, Accounting Standards Codification Topic 220, *Comprehensive Income* was amended to increase the prominence of items reported in other comprehensive income. Accordingly, a company can present all non-owner changes in stockholders' equity either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company adopted this guidance during the first quarter of 2012 and elected to disclose other comprehensive income in a single continuous statement during interim reporting periods.

NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENT**Investments**

Sangamo classifies its marketable securities as available-for-sale and records its investments at fair value. Available-for-sale securities are carried at estimated fair value based on quoted market prices, with the unrealized holding gains and losses included in accumulated other comprehensive income. Marketable securities which have maturities beyond one year as of the end of the reporting period are classified as non-current. The Company's investments are subject to a periodic impairment review. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time and extent to which the fair value has been less than the Company's cost basis, the financial condition and near-term prospects of the investee, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market value.

The table below summarizes the Company's available-for-sale securities (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
March 31, 2012				
Cash equivalents:				
Money market funds	\$ 14,218	\$	\$	\$ 14,218
Total	14,218			14,218
Marketable securities:				
U.S. government sponsored entity debt securities	31,949			