SANGAMO BIOSCIENCES INC
Form 10-Q
August 02, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _____ to _____

Commission file number 000-30171

SANGAMO BIOSCIENCES, INC.

(exact name of registrant as specified in its charter)

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

501 Canal Blvd

Richmond, California 94804

(Address of principal executive offices)

(510) 970-6000

(Registrant s telephone number, including area code)

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

As of July 31, 2013, 54,106,372 shares of the issuer s common stock, par value $0.01 per share, were outstanding.

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SANGAMO BIOSCIENCES, INC.

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;

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. Many of these risks are discussed in greater detail under the headings Risk Factors and Management s Discussion and Analysis of Financial Conditions and 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.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SANGAMO BIOSCIENCES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 12,052	$ 21,679
Marketable securities	35,224	41,868
Interest receivable	273	190
Accounts receivable	4,918	4,129
Other current assets	285	203
Prepaid expenses	969	296
Total current assets	53,721	68,365
Marketable securities, non-current	18,849	12,584
Property and equipment, net	1,587	1,543
Other assets	39	41
Total assets	$ 74,196	$ 82,533
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,294	$ 4,013
Accrued compensation and employee benefits	1,443	2,473
Deferred revenues	2,318	2,304
Total current liabilities	7,055	8,790
Deferred revenues, non-current	7,763	8,847
Total liabilities	$ 14,818	17,637
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.01 par value; 80,000,000 shares authorized, 53,974,452 and 53,058,525 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	$ 540	531
Additional paid-in capital	346,683	339,848
Accumulated deficit	(287,844)	(275,509)
Accumulated other comprehensive income (loss)	(1)	26
Total stockholders equity	59,378	64,896
Total liabilities and stockholders equity	$ 74,196	$ 82,533

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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenues:				
Collaboration agreements	$ 6,157	$ 3,812	$ 10,240	$ 5,475
Research grants	777	762	1,317	2,341
Total revenues	6,934	4,574	11,557	7,816
Operating expenses:				
Research and development	9,278	7,574	17,498	14,857
General and administrative	3,124	2,744	6,432	5,986
Total operating expenses	12,402	10,318	23,930	20,843
Loss from operations	(5,468)	(5,744)	(12,373)	(13,027)
Interest and other income, net	18	16	38	31
Net loss	$ (5,450)	$ (5,728)	$ (12,335)	$ (12,996)
Basic and diluted net loss per share	$ (0.10)	$ (0.11)	$ (0.23)	$ (0.25)
Shares used in computing basic and diluted net loss per share	53,786	52,657	53,583	52,612

See accompanying notes.

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SANGAMO BIOSCIENCES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net loss	$ (5,450)	$ (5,728)	$ (12,335)	$ (12,996)
Changes in unrealized loss on available-for-sale securities	(26)	(4)	(27)	(19)
Comprehensive loss	$ (5,476)	$ (5,732)	$ (12,362)	$ (13,015)

See accompanying notes.

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SANGAMO BIOSCIENCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six months ended June 30,	
	2013	**2012**
Operating Activities:		
Net loss	$ (12,335)	$ (12,996)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	305	334
Amortization of premium / discount on marketable securities	456	490
Stock-based compensation	2,707	2,607
Changes in operating assets and liabilities:		
Interest receivable	(83)	132
Accounts receivable	(789)	(2,322)
Prepaid expenses and other assets	(753)	(268)
Accounts payable and accrued liabilities	(719)	(2,867)
Accrued compensation and employee benefits	(1,030)	(378)
Deferred revenues	(1,070)	12,122
Net cash used in operating activities	(13,311)	(3,146)
Investing Activities:		
Purchases of investments	(27,524)	(47,505)
Maturities of investments	27,420	52,120
Purchases of property and equipment	(349)	(263)
Net cash (used in) / provided by investing activities	(453)	4,352
Financing Activities:		
Proceeds from issuance of common stock	4,137	504
Net cash provided by financing activities	4,137	504
Net increase / (decrease) in cash and cash equivalents	(9,627)	1,710
Cash and cash equivalents, beginning of period	21,679	16,766
Cash and cash equivalents, end of period	$ 12,052	$ 18,476

See accompanying notes.

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SANGAMO BIOSCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(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 and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The condensed consolidated balance sheet data at December 31, 2012 were derived from the audited consolidated financial statements included in Sangamo s Form 10-K for the year ended December 31, 2012, 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, 2012, 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

Revenues from research activities made under strategic partnering agreements and collaborations are 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 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 relative selling price method.

For revenue agreements with multiple element arrangements, such as license and development agreements, entered into on or after January 1, 2011, the Company allocates revenue to each non-contingent element based on the relative selling price

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of each element. When applying the relative selling price method, the Company determines the selling price for each deliverable using VSOE 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 AG (Shire) in January 2012 was evaluated under these amended accounting standards.

Additionally, the Company may be entitled to receive certain milestone payments which are contingent upon reaching specified objectives. These milestone payments are recognized as revenue in full upon achievement of the milestone if there is substantive uncertainty at the date the arrangement is entered into that objectives will be achieved and if the achievement is based on the Company s performance.

Minimum annual sublicense fees are also recognized as revenue in the period in which such fees are due. Royalty revenues are generally recognized when earned and collectability of the related royalty payment is reasonably assured. 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 February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02). This newly issued accounting standard requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. This ASU is effective for reporting periods beginning after December 15, 2012. We adopted this standard in the first quarter of 2013 and the adoption of this standard did not have an impact on our financial position or results of operations.

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 and 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
June 30, 2013				
Cash equivalents:				
Money market funds	$ 8,184	$	$	$ 8,184
Total	8,184			8,184
Available-for-sale securities:				
U.S. government sponsored entity debt securities	54,074		(1)	54,073

Total	54,074		(1)	54,073
Total cash equivalents and available-for-sale securities	$ 62,258	$	$ (1)	$ 62,257

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
December 31, 2012				
Cash equivalents:				
U.S. government sponsored entity debt securities	$ 2,997	$	$	$ 2,997
Money market funds	15,839			15,839
Total	18,836			18,836
Available-for-sale securities:				
U.S. government sponsored entity debt securities	54,426	26		54,452
Total	54,426	26		54,452
Total cash equivalents and available-for-sale securities	$ 73,262	$ 26	$	$ 73,288

As of June 30, 2013, none of the available-for-sale securities held by the Company had material unrealized losses and there were no realized losses for the three and six months ended June 30, 2013. The Company had no other-than-temporary impairments of available-for-sale securities for the three and six months ended June 30, 2013 or the twelve months ended December 31, 2012.

Fair Value Measurement

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

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

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

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

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

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

	June 30, 2013 Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	$ 8,184	$ 8,184	$	$
Total	8,184	8,184		
Available-for-sale securities:				
U.S. government sponsored entity debt securities	54,073		54,073	
Total	54,073		54,073	
Total cash equivalents and available-for-sale securities	$ 62,257	$ 8,184	$ 54,073	$

	December 31, 2012 Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
U.S. government sponsored entity debt securities	$ 2,997	$	$ 2,997	$
Money market funds	15,839	15,839		
Total	18,836	15,839	2,997	
Available-for-sale securities:				
U.S. government sponsored entity debt securities	54,452		54,452	
Total	54,452		54,452	
Total cash equivalents and available-for-sale securities	$ 73,288	$ 15,839	$ 57,449	$

NOTE 3 - BASIC AND DILUTED NET LOSS PER SHARE

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

Because Sangamo is in a net loss position, diluted net loss per share excludes the effects of common stock equivalents consisting of options, which are anti-dilutive. The total stock options outstanding excluded from consideration in the calculation of diluted net loss per share for the three and six months ended June 30, 2013 and 2012 were 8,344,138 and 8,233,113, respectively.

NOTE 4 - MAJOR CUSTOMERS, PARTNERSHIPS AND STRATEGIC ALLIANCES

Collaboration Agreements

Collaboration and License Agreement with Shire AG in Human Therapeutics and Diagnostics

In January 2012, the Company entered into a collaboration and license agreement (the Agreement) with Shire AG (Shire), pursuant to which the Company and Shire collaborate to research, develop and commercialize human therapeutics and diagnostics for monogenic diseases based on

Sangamo s novel zinc finger DNA-binding proteins (ZFP) technology. Under the Agreement, the Company and Shire may develop potential human therapeutic or diagnostic products for seven gene targets. The initial four gene targets selected were blood clotting Factors VII, VIII, IX and X, and products developed for such initial gene targets will be used for treating or diagnosing hemophilia. In June 2012, Shire selected a fifth gene target for the development of a ZFP therapeutic for Huntington s disease, an inherited neurodegenerative disease for which there are currently no therapies available to slow the disease progression. Shire has the right, subject to certain limitations, to designate two additional gene targets. Pursuant to the Agreement, the Company granted Shire an exclusive, world-wide, royalty-bearing license, with the right to grant sublicenses, to use Sangamo s ZFP technology for the purpose of developing and commercializing human therapeutic and diagnostic products for the gene targets. The initial research term of the Agreement is six years and is subject to extensions upon mutual agreement and under other specified circumstances.

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Under the terms of the Agreement, the Company is responsible for all research activities through the submission of an Investigative New Drug Application (IND) or European Clinical Trial Application (CTA), while Shire is responsible for clinical development and commercialization of products generated from the research program from and after the acceptance of an IND or CTA for the product. Shire reimburses Sangamo for its internal and external research program-related costs.

The Company received an upfront license fee of $13.0 million. The Company will also be eligible to receive up to $213.5 million of contingent payments for each gene target if specified research, regulatory, clinical development, commercialization and sales milestone events occur, including payments for each gene target through the acceptance of an IND or CTA submission totaling $8.5 million. The Company will also be eligible to receive royalty payments that are a tiered double-digit percentage of net sales of licensed product sold by Shire or its sublicensees developed under the collaboration, if any. To date, no products have been approved and therefore no royalty fees have been earned under the Agreement with Shire.

All contingent payments under the Agreement, when earned, will be non-refundable and non-creditable. The Company has evaluated the contingent payments under the Agreement with Shire based on the authoritative guidance for research and development milestones and determined that certain of these payments meet the definition of a milestone and that all such milestones are evaluated to determine if they are considered substantive milestones. Milestones are considered substantive if they are related to events (i) that can be achieved based in whole or in part on either the Company s performance or on the occurrence of a specific outcome resulting from the Company s performance, (ii) for which there was substantive uncertainty at the date the agreement was entered into that the event would be achieved and (iii) that would result in additional payments being due to the Company. Accordingly, revenue for the achievement of milestones that are determined to be substantive will be recognized in its entirety in the period when the milestone is achieved and collectability is reasonably assured. Revenue for the achievement of milestones that are not substantive will be recognized over the remaining period of the Agreement.

The Company has identified the deliverables within the arrangement as a license to the technology and on-going research services activities. The Company has concluded that the license is not a separate unit of accounting as it does not have stand-alone value to Shire apart from the research services to be performed pursuant to the Agreement. As a result, the Company will recognize revenue from the upfront payment on a straight-line basis over a six-year initial research term during which the Company will perform research services. As of June 30, 2013, the Company has deferred revenue of $9.9 million related to this Agreement.

Revenues recognized under the agreement with Shire for the three and six months ended June 30, 2013 and June 30, 2012, were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenue related to Shire Collaboration:				
Amortization of upfront fee	$ 542	$ 542	$ 1,083	$ 903
Research services	4,157	1,517	7,372	2,072
Total	$ 4,699	$ 2,059	$ 8,455	$ 2,975

Related costs and expenses incurred under the Shire agreement were $3.7 million and $1.2 million during the three months ended June 30, 2013 and June 30, 2012, respectively and $6.8 million and $1.7 million during the six months ended June 30, 2013 and June 30, 2012, respectively.

Agreement with Sigma-Aldrich Corporation in Laboratory Research Reagents, Transgenic Animal and Commercial Protein Production Cell-line Engineering

In July 2007, Sangamo entered into a license agreement (the Agreement) with Sigma-Aldrich Corporation (Sigma). Under the Agreement, Sangamo agreed to provide Sigma with access to its proprietary ZFP technology and the exclusive right to use the technology to develop and commercialize research reagent products and services in the research field, excluding certain agricultural research uses that Sangamo previously licensed to Dow AgroSciences LLC (DAS), a wholly-owned subsidiary of Dow Chemical Corporation. Under the Agreement, Sangamo and Sigma agreed to conduct a three-year research program to develop laboratory research reagents using Sangamo s ZFP technology during which time Sangamo agreed to assist Sigma in connection with its efforts to market and sell services employing the Company s ZFP technology in the research field. Sangamo has transferred the ZFP manufacturing technology to Sigma.

In October 2009, Sangamo expanded its Agreement with Sigma. In addition to the original terms of the Agreement, Sigma received exclusive rights to develop and distribute ZFP-modified cell lines for commercial production of protein pharmaceuticals and certain ZFP-engineered transgenic animals for commercial applications. Under the terms of the

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Agreement, Sigma made upfront cash payment of $20.0 million consisting of a $4.9 million purchase of 636,133 shares of Sangamo common stock, valued at $4.9 million, and a $15.1 million upfront license fee. The upfront license fee was recognized on a straight-line basis from the effective date of the expanded license through July 2010, which represents the period over which Sangamo was obligated to perform research services for Sigma. Sangamo is also eligible to receive commercial license fees of $5.0 million based upon a percentage of net sales and sublicensing revenue and thereafter a reduced royalty rate of 10.5% of net sales and sublicensing revenue. In addition, upon the achievement of certain cumulative commercial milestones Sigma will make milestone payments to Sangamo up to an aggregate of $25.0 million. In April 2013, the Company recognized $1.3 million in sublicense revenues under the agreement with Sigma.

Revenues recognized under the agreement with Sigma for the three and six months ended June 30, 2013 and June 30, 2012, were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenue related to Sigma Collaboration:				
Royalty revenues	$ 196	$ 306	$ 510	$ 607
License fee and milestone revenues	1,250	1,000	1,250	1,000
Total	$ 1,446	$ 1,306	$ 1,760	$ 1,607

Related costs and expenses incurred under the Sigma agreement were $0.1 million during both the three months ended June 30, 2013 and 2012. Related costs and expenses incurred under the Sigma agreement were $0.1 million and $0.2 million during the six months ended June 30, 2013 and 2012, respectively.

Agreement with Dow AgroSciences in Plant Agriculture

In October 2005, Sangamo entered into an exclusive commercial license agreement (the Agreement) with DAS. Under the Agreement, Sangamo provides DAS with access to its proprietary ZFP technology and the exclusive right to use the technology to modify the genomes or alter the nucleic acid or protein expression of plant cells, plants, or plant cell cultures. Sangamo has retained rights to use plants or plant-derived products to deliver ZFP transcription factors (ZFP TFs) or ZFP nucleases (ZFNs) into humans or animals for diagnostic, therapeutic, or prophylactic purposes. The Agreement with DAS provided for an initial three-year research term. In June 2008, DAS exercised its option under the agreement to obtain a commercial license to sell products incorporating or derived from plant cells generated using the Company s ZFP technology, including agricultural crops, industrial products and plant-derived biopharmaceuticals. The exercise of the option triggered a one-time commercial license fee of $6.0 million, payment of the remaining $2.3 million of the previously agreed $4.0 million in research milestones, development and commercialization milestone payments for each product, and royalties on sales of products. Furthermore, DAS has the right to sublicense Sangamo s ZFP technology to third parties for use in plant cells, plants, or plant cell cultures. Sangamo will be entitled to 25% of any cash consideration received by DAS under such sublicenses. In December 2010, the Company amended the Agreement with DAS to extend the period of reagent manufacturing services and research services through December 31, 2012.

The Agreement also provides for minimum sublicense fees each year due to Sangamo every October, provided the Agreement is not terminated by DAS. Annual fees range from $250,000 to $3.0 million and total $25.3 million over 11 years. The Company does not have any performance obligations with respect to the sublicensing activities to be conducted by DAS. DAS has the right to terminate the Agreement at any time; accordingly, the Company s actual sublicense fees over the term of the Agreement could be lower than $25.3 million. In addition, each party may terminate the Agreement upon an uncured material breach by the other party. In the event of any termination of the Agreement, all rights to use the Company s ZFP technology will revert to Sangamo, and DAS will no longer be permitted access to Sangamo s ZFP technology or to develop or, except in limited circumstances, commercialize any products derived from the Company s ZFP technology.

Revenues under the agreement were $0.4 million during the three months ended June 30, 2012, and $0.9 million during the six months ended June 30, 2012. Related costs and expenses incurred under the agreement were $0.1 million during the three months ended June 30, 2012, and $0.3 million during the six months ended June 30, 2012. There were no such revenues or related expenses during the three and six months ended June 30, 2013.

Funding from Research Foundations

California Institute for Regenerative Medicine

In October 2009, the California Institute for Regenerative Medicine (CIRM), a State of California entity, granted a $14.5 million Disease Team Research Award to develop an AIDS-related lymphoma therapy based on the application of ZFN gene editing technology in stem cells. The four year grant supports an innovative research project conducted by a multidisciplinary team of investigators, including investigators from the University of Southern California, City of Hope

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National Medical Center and Sangamo BioSciences. Sangamo expects to receive funding up to $5.2 million from the total amount awarded based on expenses incurred for research and development efforts by Sangamo as prescribed in the agreement, and subject to its terms and conditions. The award is intended to substantially fund Sangamo s research and development efforts related to the agreement. The State of California has the right to receive, subject to the terms and conditions of the agreement between Sangamo and CIRM, payments from Sangamo resulting from sales of a commercial product resulting from research and development efforts supported by the grant, not to exceed two times the amount Sangamo receives in funding under the agreement with CIRM.

Revenues attributable to research and development performed under the CIRM grant agreement were $0.3 million and $0.3 million during the three months ended June 30, 2013 and 2012, respectively and $0.7 million and $0.6 million during the six months ended June 30, 2013 and 2012, respectively. Related costs and expenses incurred under the CIRM agreement were $0.5 million and $0.3 million during the three months ended June 30, 2013 and 2012, respectively, and $0.9 million and $0.6 million during the six months ended June 30, 2013 and 2012, respectively.

CHDI Foundation, Inc.

In April 2011, Sangamo entered into an agreement with the CHDI Foundation, Inc. (CHDI) to develop a novel therapeutic for Huntington s disease based on Sangamo s proprietary ZFP technology. Under the agreement with CHDI, and subject to its terms and conditions, CHDI paid the Company $1.3 million, the total funds due under the agreement, over a period of one year which is intended to substantially fund the Company s research efforts related to the agreement. During 2012, the agreement was amended to extend the project through August 2012 and to increase total potential funding from $1.3 million to $2.1 million, plus reimbursement for certain direct expenses related to the project. The research grant from CHDI was completed in August 2012.

Revenues attributable to research and development performed under the CHDI collaboration agreement were $0.4 million and $0.8 million during the three and six months ended June 30, 2012, respectively. Related costs and expenses incurred under the CHDI agreement were $0.4 million and $0.8 million during the three and six months ended June 30, 2012, respectively. There were no revenues or related expenses during the three and six months ended June 30, 2013.

The Juvenile Diabetes Research Foundation International

In October 2006, Sangamo entered into an agreement with the Juvenile Diabetes Research Foundation International (JDRF) to provide financial support for one of Sangamo s Phase 2 human clinical studies of the Company s product candidate SB-509, a ZFP Therapeutic that was in development for the treatment of diabetic neuropathy. In January 2010, JDRF and Sangamo amended the agreement and, subject to its terms and conditions, JDRF agreed to provide additional funding of up to $3.0 million for a Phase 2b trial in diabetic neuropathy.

In October 2011, the Company announced of the termination of its SB-509 program. In March 2012, the Company received a final payment of $0.8 million for work performed under the JDRF agreements. The Company does not expect to receive additional funding under these agreements.

Revenues attributable to research and development activities performed under the JDRF agreements were $0 for the three months ended June 30, 2012 and $0.8 million during the six months ended June 30, 2012. There were no such revenues during the three and six months ended June 30, 2013.

NOTE 5 - INCOME TAXES

The Company maintains 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. Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain based on the Company s history of losses. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. 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.

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NOTE 6 - STOCK-BASED COMPENSATION

The following table shows total stock-based compensation expense included in the condensed consolidated statement of operations for the three month and six months ended June 30, 2013 and 2012 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Costs and expenses:				
Research and development	$ 723	$ 646	$ 1,408	$ 1,421
General and administrative	655	578	1,299	1,186
Total stock-based compensation expense	$ 1,378	$ 1,224	$ 2,707	$ 2,607

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ITEM 2.