SANGSTAT MEDICAL CORP
Form 424B5
February 05, 2002

Filed pursuant to Rule 424(b)(5)
Registration Statement No. 333-76028

**PROSPECTUS SUPPLEMENT**
**(To prospectus dated December 27, 2001)**

# 4,500,000 Shares

# SangStat Medical Corporation

## Common Stock

We are selling 4,500,000 shares of our common stock. The shares are quoted on the Nasdaq National Market under the symbol SANG. On February 4, 2002, the last sale price of the shares as reported on the Nasdaq National Market was $17.60 per share.

**Investing in the common stock involves risks which are described in the Risk Factors section beginning on page S-5 of this prospectus supplement.**

| | Per Share | Total |
|---|---|---|
| Public offering price | $17.25 | $77,625,000 |
| Underwriting discount | $ .99 | $ 4,455,000 |
| Proceeds, before expenses, to SangStat Medical Corporation | $16.26 | $73,170,000 |

The underwriters may also purchase up to an additional 675,000 shares at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about February 8, 2002.

**Merrill Lynch & Co.** **JPMorgan**

**Thomas Weisel Partners LLC**

**Wells Fargo Securities, LLC**

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The date of this prospectus supplement is February 4, 2002.

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**Prospectus Supplement**



**Prospectus**

**Important Notice about Information Presented in this Prospectus Supplement and the Accompanying Prospectus**

In this prospectus supplement and the accompanying prospectus, the terms SangStat, we, us and our refer to SangStat Medical Corporation and its wholly owned subsidiaries.

We provide information to you about the common stock in two separate documents: (a) the accompanying prospectus, which provides general information, and (b) this prospectus supplement, which describes the specific details regarding this offering. If information in this prospectus supplement is inconsistent with the prospectus, you should rely on this prospectus supplement.

You should also read and consider the information in the documents we have referred you to in Incorporation of Certain Information by Reference and Where You Can Find More Information on page 25 of the accompanying prospectus. The information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information, except for any information superseded by information contained directly in the prospectus or this prospectus supplement.

Except as otherwise indicated, the information in this prospectus supplement and the accompanying prospectus assumes no exercise of the underwriters overallotment option to purchase additional shares of common stock.

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You should rely only on the information incorporated by reference or provided in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus supplement and the accompanying prospectus is accurate as of any date other than the date on the front of those documents.

## PROSPECTUS SUPPLEMENT SUMMARY

*This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. This summary does not contain all of the information that you should consider before deciding to invest in our common stock. We urge you to read this entire prospectus supplement and the accompanying prospectus carefully, including the Risk Factors section and the documents identified under Incorporation of Certain Information by Reference and Where You Can Find More Information in the accompanying prospectus.*

### SangStat Medical Corporation

SangStat is a global biotechnology company expanding on its transplantation foundation to discover, develop and market high value therapeutic products in immunology, hematology/oncology and auto-immune disease. Since 1988, we have been dedicated to improving the outcome of organ and bone marrow transplantation through the development and marketing of products to address all phases of transplantation in the worldwide market. We are headquartered in Fremont, California. We maintain a strong European and U.S. presence, including direct sales and marketing forces in all major European markets and the U.S. and distributors throughout the rest of the world.

Historically, our business was comprised of two segments: pharmaceutical products and transplantation services. In October 2000, we implemented a new strategy focused on growing a core business in high value therapeutics that builds on our expertise in transplantation but extends into new therapeutic areas. As a result of this new strategy, we decided to dedicate significant resources to our pharmaceutical products segment, which consists of four marketed products and three principal product candidates. Consequently, on April 20, 2001, we sold our transplantation services segment, The Transplant Pharmacy, to Chronimed.

Our primary marketed product, Thymoglobulin, a treatment for acute rejection of a kidney transplant, was launched in the U.S. in February 1999. Thymoglobulin achieved worldwide sales of $30.6 million in 1999, $37.9 million in 2000 and $37.0 million in the nine months ended September 30, 2001. The success of Thymoglobulin and its potential in areas beyond solid organ transplantation has provided us with the ability to examine and develop new therapeutic opportunities outside of transplantation.

We are now focusing on a variety of therapeutic products and product candidates to address the pre-transplant, acute care and chronic phases of transplantation as well as product candidates in immunology, hematology/oncology and auto-immune disease.

We currently sell the following products:

- Thymoglobulin® (sold under the name Thymoglobuline® outside the U.S.);
- Gengraf® cyclosporine capsule (co-promoted with Abbott Laboratories in the U.S.);
- Lymphoglobuline (outside the U.S.); and
- Celsior®.

Our principal products under development include:

- A smaller-size cyclosporine capsule;
- ABX-CBL (anti-CD147 antibody in co-development with Abgenix, Inc.); and
- RDP58.

**Strategy**

Our objective is to be a leader in the research, development and commercialization of high value therapeutics in the areas of immunology, hematology/oncology and auto-immune disease. Key elements of our business strategy are to:

- leverage our leading transplantation franchise to continue to capture market share and expand use of our transplantation products in the market place;
- expand the use of Thymoglobulin through post-marketing clinical studies and new clinical studies in areas such as hematological disorders and malignancies;
- develop and expand our technology and pipeline of products in transplantation and in new therapeutic areas;
- continue to invest in a biotechnology research and development infrastructure to help us develop new products and bring them to the market; and
- leverage our position as an established biotechnology company with a dedicated sales force in the U.S. and Europe.

**Recent Developments**

On January 22, 2002, we reported that our revenues were $27.3 million for the fourth quarter of 2001, an increase of 48% versus the fourth quarter of 2000 and 9% versus the third quarter of 2001. We also reported at that time that our net income for the fourth quarter of 2001 was $641,000, compared to a net loss of $5.5 million in the fourth quarter of 2000. This resulted in net earnings per share for the fourth quarter of 2001 of $0.03 per share, in comparison to a net loss for the fourth quarter of 2000 of $0.30 per share. In addition, we reported that our revenues for 2001 increased to $94.5 million, in comparison to $63.1 million for 2000, and that our net loss was $9.2 million, in comparison to a net loss of $44.4 million in 2000. Our net loss per share in 2001 was $0.46, in comparison to a net loss per share in 2000 of $2.48. Furthermore, we reported that our cash position grew from $25.5 million at the end of the third quarter of 2001 to $32.8 million as of December 31, 2001.

We have experienced significant operating losses since our incorporation in 1988. As of September 30, 2001, our accumulated deficit was $187.4 million. To date, our product revenues have been primarily derived from sales of Thymoglobulin, Gengraf and Lymphoglobuline. Revenues from Thymoglobulin, Gengraf and Lymphoglobuline were 55%, 30% and 8%, respectively, of total revenues during the nine months ended September 30, 2001. While we expect the quarter ended December 31, 2001 to be our first profitable quarter, we may recognize losses in subsequent quarters for a variety of reasons. If we are unable to maintain or increase sales of our existing products, particularly Thymoglobulin, and develop and subsequently market our products in development, our business and operating results will be adversely affected. We also are subject to litigation. Novartis sued Abbott for patent infringement with respect to Gengraf. Should Novartis succeed in obtaining a preliminary or permanent injunction, this injunction may temporarily or permanently remove Gengraf from the market.

Our principal executive offices are located at 6300 Dumbarton Circle, Fremont, California 94555, and our telephone number is (510) 789-4300. As used in this prospectus supplement, the words we, us, our and SangStat refer to SangStat Medical Corporation, a Delaware corporation, and its wholly owned subsidiaries.

Thymoglobulin®, Thymoglobuline®, Lymphoglobuline, Celsior®, SangCya® and SangStat® are our registered trademarks. Gengraf® is a registered trademark of Abbott Laboratories, Inc. Neoral® is a registered trademark of Novartis A.G.

**The Offering**

| | |
|---|---|
| Common stock offered by SangStat Medical Corporation | 4,500,000 shares |
| Shares outstanding after the offering | 25,460,674 shares |
| Use of proceeds | Repayment of existing debt and general corporate purposes, including in-licensing and partnering opportunities. In addition, we may use a portion of any net proceeds to acquire complementary products, product candidates or businesses. See Use of Proceeds in this prospectus supplement. |
| Risk factors | See Risk Factors beginning on page S-5 for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock. |
| Nasdaq National Market symbol | SANG |

The number of shares outstanding after the offering is based on shares outstanding as of December 31, 2001 and excludes:

3,487,577 shares of common stock issuable upon exercise of options and warrants outstanding as of December 31, 2001 at a weighted average exercise price of $18.13 per share;

490,286 shares of common stock issuable upon exercise of stock options reserved for issuance as of December 31, 2001; and

500,773 shares of common stock issuable upon conversion of debt outstanding as of December 31, 2001.

**Summary Consolidated Financial Data**
**(in thousands, except per share data)**

| | Year Ended December 31, | | | | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2000 | 2001 |
| | (in thousands, except per share data) | | | | | | |
| **Consolidated Statements of Operations Data:** | | | | | | | |
| Revenues: | | | | | | | |
| Net sales | $ 2,266 | $ 2,456 | $ 10,202 | $ 42,243 | $ 60,447 | $ 42,726 | $ 64,841 |
| Collaborative agreements | | 750 | 1,092 | 2,060 | 2,698 | 1,957 | 2,368 |
| Total revenues | 2,266 | 3,206 | 11,294 | 44,303 | 63,145 | 44,683 | 67,209 |
| Costs and operating expenses: | | | | | | | |
| Cost of sales | 2,737 | 2,646 | 5,110 | 18,989 | 39,246 | 30,117 | 29,584 |
| Research and development | 8,330 | 16,210 | 17,688 | 14,470 | 20,788 | 15,349 | 13,647 |
| Selling, general and administrative | 5,652 | 9,442 | 23,707 | 39,170 | 41,766 | 33,791 | 25,455 |
| Acquired in-process research and development | | | 3,218 | | | | |
| Amortization of intangible assets | | | 351 | 1,398 | 1,392 | 1,044 | 1,043 |
| Total operating expenses | 16,719 | 28,298 | 50,074 | 74,027 | 103,192 | 80,301 | 69,729 |
| Loss from continuing operations | (14,453) | (25,092) | (38,780) | (29,724) | (40,047) | (35,618) | (2,520) |
| Other income (expense) net | 2,123 | 5,506 | 3,053 | (913) | (1,602) | (1,572) | (5,795) |
| Loss from continuing operations before income taxes | (12,330) | (19,586) | (35,727) | (30,637) | (41,649) | (37,190) | (8,315) |
| Income taxes | | | (257) | (345) | (368) | (106) | (345) |
| Net loss from continuing operations | (12,330) | (19,586) | (35,984) | (30,982) | (42,017) | (37,296) | (8,660) |
| Net loss from discontinued operation | (444) | (1,394) | (2,480) | (2,025) | (2,342) | (1,589) | (1,144) |
| Net loss | $ (12,774) | $ (20,980) | $ (38,464) | $ (33,007) | $ (44,359) | $ (38,885) | $ (9,804) |
| Net loss per share basic and diluted: | | | | | | | |
| Continuing operations | $ (0.99) | $ (1.27) | $ (2.24) | $ (1.83) | $ (2.35) | $ (2.09) | $ (0.43) |
| Discontinued operation | (0.04) | (0.09) | (0.15) | (0.12) | (0.13) | (0.09) | (0.06) |
| | $ (1.03) | $ (1.36) | $ (2.39) | $ (1.95) | $ (2.48) | $ (2.18) | $ (0.49) |
| Shares used in per share computations | 12,405 | 15,376 | 16,080 | 16,888 | 17,910 | 17,857 | 19,973 |

| | September 30, 2001 | |
|---|---|---|
| | Actual | As Adjusted |
| **Consolidated Balance Sheet Data:** | | |
| Cash, cash equivalents and short-term investments | $ 25,542 | $ 82,112 |
| Working capital | 32,224 | 88,794 |
| Total assets | 108,519 | 165,089 |
| Long-term obligations, excluding current portion | 30,596 | 14,596 |
| Accumulated deficit | (187,440) | (187,440) |
| Total stockholders equity | 31,814 | 104,384 |

The adjusted financial data give effect to the application of the proceeds from the sale of the 4,500,000 shares offered hereby at the public offering price of $17.25 per share, after deducting estimated underwriter discounts and commissions and offering expenses.

## RISK FACTORS

*This prospectus supplement contains forward-looking statements based on our current expectations. You should be aware that these statements are projections or estimates as to future events, and actual results may differ materially. You should carefully consider the following risk factors, in addition to the other information contained in this prospectus supplement and in any other documents to which we refer you in this prospectus supplement, before purchasing our securities. The risks and uncertainties described below are not the only ones we face.*

**We have a history of operating losses and our future profitability is uncertain.**

We were incorporated in 1988 and have experienced significant operating losses since that date. As of September 30, 2001, our accumulated deficit was $187.4 million. While we expect the quarter ended December 31, 2001 to be our first profitable quarter, we may recognize losses in subsequent quarters for a variety of reasons. If we are unable to maintain or increase sales of our existing products, particularly Thymoglobulin, and develop and subsequently market our products in development, our business and operating results will be adversely affected.

To date, our product revenues have been primarily derived from sales of Thymoglobulin, Lymphoglobuline, and Gengraf. Revenues from Thymoglobulin were 69%, 60% and 55% of total revenues in 1999, 2000 and the nine months ended September 30, 2001, respectively. Revenues from Lymphoglobuline were 19%, 12% and 8% of total revenues in 1999, 2000 and the nine months ended September 30, 2001, respectively. In addition, revenues from Gengraf were 18% and 30% of total revenues in 2000 and the nine months ended September 30, 2001, respectively. Revenues from SangCya Oral Solution were immaterial in 1999, 2000 and the first nine months of 2001.

Our expectations with respect to achieving positive cash flow and financial reporting profitability are subject to risk and uncertainty. While we recently announced our first profitable quarter, we may not be able to establish positive cash flow or to maintain or increase our financial reporting profitability on a quarterly or annual basis. Our ability to achieve positive cash flow and financial reporting profitability will be significantly dependent upon our success in, among other things:

- maintaining and increasing revenues from Thymoglobulin, Lymphoglobuline and Gengraf, particularly Thymoglobulin;
- successfully commercializing our product candidates, especially ABX-CBL and RDP58;
- limiting our manufacturing and selling, general and administrative expenses; and
- controlling research and development expenses.

Our operating results may also be affected by the licensing of complementary products or the acquisition of strategic companies we may effect in the future. Any such acquisition or licensing could have the immediate effect of causing an operating loss in future periods.

**Fluctuations in quarterly and annual operating results may decrease our stock price.**

Our quarterly and annual operating results may fluctuate due to a variety of factors, and these fluctuations may not match the expectations of investors and any securities analysts. This could cause the trading price of our common stock to decline. We therefore believe that quarter-to-quarter comparisons of our operating results may not be a good indication of our future performance, and you should not rely on them to predict our future performance or the future performance of our stock. Our operating losses have been substantial each year since inception. We also expect our operating results to fluctuate significantly as a result of a number of factors, including:

- the uncertainty in the timing and the amount of revenue we earn upon product sales;
- our achievement of research and development milestones;

expenses we incur for product development, clinical trials and marketing and sales activities;

the licensing of new products or the acquisition of other companies;

the introduction of new products by our competition;

regulatory actions;

market acceptance of our products;

manufacturing capabilities;

cost of litigation; and

third-party reimbursement policies.

Fluctuations in our operating results have affected our stock price in the past and are likely to continue to do so in the future. In particular, the realization of any of the risks described in this prospectus supplement could have a significant and adverse impact on the market price for our stock.

**Our future growth depends on sales of key products.**

We expect to derive most of our future revenues from sales of Thymoglobulin, Lymphoglobuline, and Gengraf. We have limited experience selling our products in the U.S. Our sales of Thymoglobulin began in the U.S. in February 1999. We began distributing Gengraf in May 2000. We are marketing Gengraf in the U.S. under a co-promotion agreement with Abbott Laboratories. Abbott may not effectively market Gengraf, and its failure to do so may adversely impact sales of these products.

Because we expect Thymoglobulin, Lymphoglobuline and Gengraf to be key revenue-generating products, any factor decreasing sales of these products, particularly Thymoglobulin, would harm our financial results. In addition, a delay in regulatory approval of our cyclosporine capsule product would harm our future financial results. The following factors could harm the sale or approval of these products:

the timing of regulatory approval and market entry relative to competitive products;

the availability of alternative therapies;

perceived clinical benefits and risks;

competitive changes;

regulatory issues;

ease of use;

changes in the prescribing practices of physicians;

the availability of third-party reimbursement; or

product liability claims.

In particular, with respect to Thymoglobulin, the following factors may decrease sales:

the price of our products relative to alternative therapies;

manufacturing or supply interruptions; or

competitive pressures from Novartis, Pharmacia and Roche.

With respect to Gengraf and our proposed smaller-size cyclosporine capsule, the following factors may, in particular, decrease revenue:

- perceptions of both patients and physicians regarding use of a generic version of a critical, life-saving therapeutic;
- perception of bioequivalence;
- number of contracts with managed care providers and group purchasing organizations;
- pricing pressure from other generic competitors;
- intense competitive pressure from Novartis; and
- Novartis s litigation with the Food and Drug Administration, the Medicines Control Agency in the U.K. and Abbott.

From time to time, we have experienced seasonality in our product sales, which in the past has resulted in weakness in our first quarter results. We may experience similar seasonality in this or other quarters in the future.

**Two wholesalers account for a high percentage of our revenues, and the failure to maintain or expand these relationships could harm our business.**

A substantial portion of demand for our products is from customers such as hospitals and pharmacies who purchase our products from wholesalers, including Cardinal Health Inc. and McKesson HBOC. Approximately 13% and 15%, respectively, of total revenues in 2000 were derived from sales to customers who place orders through these two wholesalers, and during the nine months ended September 30, 2001, sales to Cardinal Health Inc. and McKesson HBOC accounted for approximately 27% and 18%, respectively, of total revenues. We expect that we will continue to derive a substantial portion of our revenue from Cardinal Health Inc. and McKesson HBOC. The loss of either of these wholesalers could harm our business and operating results.

**We may not be able to manufacture or obtain sufficient quantities of our products, which could lead to product shortages and harm our business.**

Our manufacturing facility in Lyon, France, must meet FDA standards of Good Manufacturing Practices and other regulatory guidelines. The FDA and other regulatory authorities inspect our manufacturing facility to ensure that it meets regulatory standards. We expect the FDA to inspect our Lyon facility as part of its regular inspection process. The FDA last inspected the Lyon facility from July 31 August 6, 2000. The FDA identified several deficiencies as a result of that inspection. We informed the FDA of our plans for addressing these issues. The FDA will review the adequacy of these actions at its next routine inspection. The FDA recently notified us that the next inspection of our Lyon facility and the Aventis manufacturing facilities would occur in March of 2002. In addition, the Canadian Bureau of Biologics has scheduled an inspection of our Lyon facility for February. If the FDA or Canadian authority believes that we are not complying with its guidelines, it can issue a warning letter or prevent the import of Thymoglobulin into the U.S. or Canada, which would cause an immediate and significant adverse effect on our business and operating results. In addition, Thymoglobulin and Lymphoglobuline are biological products, which are more difficult to manufacture than chemical compounds. Before our acquisition of the IMTIX division of Aventis in 1998, certain batches of Thymoglobulin did not meet manufacturing specifications, resulting in a shortage of Thymoglobulin for commercial sale. We still rely on Aventis for certain important manufacturing services, including quality assurance, quality control, and lyophilization, a step in the manufacturing process which involves removing the water from the product, similar to freeze-drying. Aventis may not continue to effectively and continuously provide us these critical manufacturing services. In addition, we may have difficulties manufacturing Thymoglobulin or Lymphoglobuline in the future that may impair our ability to deliver products to our customers, which could reduce our revenues.

Although we primarily use our own facilities to manufacture Thymoglobulin and Lymphoglobuline, we rely on third parties to supply us with raw materials. These third parties may stop supplying us with the materials we need at any time, and we may have to find new suppliers. We have six suppliers of rabbit serum used for the manufacturing of Thymoglobulin. We recently had a dispute with two former suppliers of rabbit serum. IFFA CREDO and Elevage Scientifique des Dombes, two affiliated suppliers, sued our French subsidiary for breach of contract after we reduced our orders of rabbit serum from them. As a result of a court ruling against us in this lawsuit, we recorded a charge of $3.3 million to other expense net in the quarter ended March 31, 2001 which, combined with reserves recorded in fiscal 2000, fully provide for the court award of $3.6 million. Although we believe the ruling was in error and have appealed the decision, we may lose this appeal.

**Our reliance on third parties for manufacturing may delay product approval or, once approved, result in a product shortage, which would reduce our revenues.**

Except for Thymoglobulin and Lymphoglobuline, third parties manufacture all of our products and product candidates. We rely on Abbott Laboratories and Gensia Sicor for the manufacture of bulk cyclosporine. Abbott Laboratories manufactures Gengraf, and Fresenius Kabi France manufactures Celsior for us. Some of the risks associated with using third parties for manufacturing are as follows:

- the manufacturer may not pass a pre-approval inspection or, once approved, may not continue to manufacture to the FDA s and other regulatory authorities standards;
- the manufacturer may not timely deliver adequate supplies of a sufficiently high quality product in the time-line necessary to meet product demand; and
- we may not be able to obtain commercial quantities of a product at an economically viable price.

In addition, we may not be able to enter into commercial scale manufacturing contracts on a timely or commercially reasonable basis, or at all, for our product candidates. Abgenix, from whom we have licensed ABX-CBL, is responsible for maintaining the manufacturing agreement for ABX-CBL with Lonza Biologics PLC, the third party manufacturer of this product candidate. Similarly, we rely on Accucaps Industries Limited to supply us with cyclosporine capsules and UCB S.A. to supply us with bulk RDP58 for research and clinical purposes. For some of our potential products, we will need to develop our production technologies further for use on a larger scale to conduct human clinical trials and produce such products for sale at an acceptable cost.

If our manufacturers fail to perform their obligations effectively and on a timely basis, these failures may delay clinical development or submission of products for regulatory approval or, once a product is approved, result in product shortages, which could harm our business and operating results. Additionally, because our manufacturers can only manufacture our products in facilities approved by the applicable regulatory authorities, we may not be able to replace our manufacturing capacity quickly or efficiently in the event that our manufacturers are unable to manufacture our products.

**Government regulation imposes significant costs and restrictions on the development and commercialization of our products, and we may not obtain regulatory approvals for our products.**

Our research, preclinical development, clinical trials, manufacturing, marketing and distribution of our products in the U.S. and other countries are subject to extensive regulation by numerous governmental authorities including, but not limited to, the FDA. In order to obtain regulatory approval of a drug product, we must demonstrate to regulatory agencies, among other things, that the product is safe and effective for its intended uses and that the manufacturing facilities are in compliance with Good Manufacturing Practices requirements. The process of obtaining FDA and other required regulatory approvals is lengthy and will require the expenditure of substantial resources, and we do not know if we will obtain the necessary approvals for our product candidates. Further, for our approved products, the marketing, distribution and manufacture of our products remains subject to extensive ongoing regulatory requirements administered by the FDA and other regulatory bodies. Failure to comply with applicable regulatory requirements can result in, among other things, warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal of the

government to grant pre-market clearance or pre-market approval, withdrawal of approvals and criminal prosecution of SangStat and our employees.

**We may not achieve the anticipated benefits from the acquisition or licensing of other products or companies, and any such transaction could harm our business and operating results.**

We may use a portion of the funds from this offering or issue additional shares in connection with the licensing of new products or the acquisition of other companies. We expect that the licensing or acquisition of products or companies in an early stage of development would require substantial additional investment prior to yielding anticipated returns. Moreover, we may fail to ultimately realize any anticipated benefits for a variety of reasons including risks inherent to the research and development of early-stage products, competition, and integration risks related to new products, technology and human resources. Moreover, integration of new products or companies may strain our existing financial and managerial controls, reporting systems and procedures. This may result in the diversion of management and financial resources from our core business objectives and needs. Because we only recently expect to realize quarterly profitability, we would expect that any such acquisition or licensing could have the immediate effect of causing an operating loss in future periods. Furthermore, the licensing or acquisition of new products or companies for cash could limit our financial resources, and the issuance of our stock in such a transaction could result in substantial dilution to existing stockholders.

**Significant movements in foreign currency exchange rates may harm our financial results.**

Many of our foreign sales are invoiced in local currencies, creating receivables denominated in currencies other than the U.S. dollar, primarily in the Euro and the Japanese yen but also in the U.K. pound. The risk due to foreign currency fluctuations associated with these receivables is partially reduced by local payables denominated in the same currencies, and presently we do not consider it necessary to hedge these exposures. We may revise our hedging policy from time to time as our foreign operations change.

**A change in marketing strategy and a delay in product approval have created excess perishable inventories that may result in significant reductions in our future gross margins.**

We have significant amounts of bulk cyclosporine active ingredient inventory that we are not using to manufacture finished product in the amount anticipated. This inventory was originally purchased for use in cyclosporine finished products to be sold in the U.S. and Europe. However, since we are now distributing Gengraf in the U.S. and we have withdrawn SangCya Oral Solution from the U.S. market, we are dependent on the European market to use this inventory. We recalled SangCya Oral Solution from the U.S. in July 2000 in response to a study in healthy volunteers that identified that SangCya is not bioequivalent to Neoral oral solution when mixed with apple juice as recommended in its labeling. We are no longer marketing this product. In addition, since our CycloTech product is only intended for use with the SangCya Oral Solution, we have discontinued the distribution of CycloTech. Although we plan to obtain marketing approval for a cyclosporine capsule product in Europe, the inherent uncertainty of the approval process makes it very difficult to forecast a launch date for this product. We currently expect to file for marketing approval of a cyclosporine capsule product in a European country by the end of 2002. If the approval and product launch are delayed, we may not be able to convert all the inventory into finished product and sell it before its expiration date. As a result, we could write off portions of our bulk active ingredient in the future, which could significantly reduce the gross margin reported for that future period.

**If we do not develop and market new products, our business will be harmed.**

To maintain profitable operations, we must successfully develop, obtain regulatory approval for, manufacture, introduce and market new products and product candidates. We may not be able to successfully do this. Our product candidates will require extensive development and testing, as well as regulatory approval before marketing to the public. Our cyclosporine capsule product candidate in Europe has been delayed and we

do not anticipate filing for approval of a cyclosporine capsule product in Europe until late 2002. In addition, cost overruns and product approval delays could occur due to the following:

unanticipated regulatory delays or demands;

unexpected adverse side effects; or

insufficient therapeutic efficacy.

These events would prevent or substantially slow down the development effort and ultimately would harm our business. Furthermore, there can be no assurance that our product candidates under development will be safe, effective or capable of being manufactured in commercial quantities at an economical cost, or that our products will not infringe the proprietary rights of others or will be accepted in the marketplace.

**If our preclinical and clinical testing of potential products is unsuccessful, our business will be harmed.**

Before obtaining regulatory approval for the sale of any of our product candidates, we must subject these candidates to extensive preclinical and clinical testing to establish their safety and efficacy. If these tests are unsuccessful, we will be unable to commercialize these products. Interim results of trials do not necessarily predict final results, and acceptable results in early trials may not be repeated in later trials. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful. For example, we have delayed our expected filing for our cyclosporine capsule by approximately six months due to unanticipated results on an initial clinical trial for that product, and we could experience further delays in the future for this and other products. Moreover, preclinical and clinical data can be interpreted in different ways, which could delay, limit or prevent regulatory approval. Negative or inconclusive results or adverse medical events during a clinical trial could cause a clinical trial to be repeated or a program to be terminated. We typically rely on third-party clinical investigators to conduct our clinical trials and other third-party organizations to perform data collection and analysis and, as a result, we may face additional delaying factors outside our control. The rate of completion of clinical trials depends, in part, on the enrollment of patients, which in turn depends on many factors such as the size of the patient population, the proximity of target patients to clinical sites, the eligibility criteria for the trial, the trial design, perceived risks and benefits, availability of the study drug and the existence of competitive experimental or approved therapies. Any delay in planned patient enrollment in our current or future clinical trials may result in increased costs, trial delays or both. Our product development costs will increase if we have delays in testing or approval or if we need to perform more or larger clinical trials than planned. If the delays are significant, our financial results and the commercial prospects for our products will be harmed.

**Our business exposes us to the risk of product liability claims for which we may not be adequately insured.**

We face an inherent business risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in adverse effects. Such risk exists even with respect to those products that are manufactured in licensed and regulated facilities or that otherwise received regulatory approval for commercial sale. We could be subject to significant product liability claims. We currently have product liability insurance in the amount of $25 million per claim and $25 million in the aggregate on a claims-made basis, which may not be adequate to cover potential liability exposures. In addition, adequate insurance coverage may not be available in the future on commercially reasonable terms, if at all. The loss of insurance coverage or the assertion of a product liability claim or claims could harm our operating results.

**We may be unable to attract or retain key personnel.**

Our ability to develop our business depends in part upon our attracting and retaining qualified management and scientific personnel. As the number of qualified personnel is limited, competition for such personnel is intense. We may not be able to continue to attract or retain such people on acceptable terms, given the competition for such personnel among biotechnology, pharmaceutical and healthcare companies, universities and

nonprofit research institutions. The loss of our key personnel or the failure to recruit additional key personnel could significantly impede attainment of our objectives and harm our financial condition and operating results.

**Our litigation with Novartis may be resolved adversely and could consume our time and resources.**

We are involved in litigation with Novartis in the U.S., Italy and the U.K., which could potentially harm sales of Gengraf in the U.S. (due to the U.S. regulatory litigation which would impact the labeling for all generic cyclosporine products), and SangCya Oral Solution and our cyclosporine capsule product candidates in Europe. The course of litigation is inherently uncertain, and we may not achieve a favorable outcome. The litigation, whether or not resolved favorably to us, is likely to be expensive, lengthy and time consuming, and divert management s attention.

**Novartis s patent lawsuit against Abbott with respect to Gengraf may be resolved adversely.**

Novartis sued Abbott in August 2000 claiming that Gengraf infringes certain Novartis patents. The trial was scheduled for February 20, 2002, but has been postponed and a new trial date has not yet been set. Novartis s complaint includes a plea for injunctive relief to prevent the sale of Gengraf in the U.S. The course of litigation is inherently uncertain: Novartis may choose to name us in this suit, Abbott may not prevail, or Abbott may choose to settle on terms adverse to our interests. If Novartis names us in this suit, we may incur expenses before reimbursement, if any, by Abbott, who is obligated under our agreement to indemnify us against such suits but their indemnity may not cover lost sales, if any. Should Novartis succeed in obtaining a preliminary or permanent injunction, this injunction may temporarily or permanently remove Gengraf from the market. If Abbott or we were forced to remove Gengraf from the market before our co-promotion agreement with Abbott expires on December 31, 2004, our revenues would decrease materially.

**Failure to protect our intellectual property will harm our competitive position.**

Our success depends in part on our ability to obtain and enforce patent protection for our products and to preserve our trade secrets. We hold patents and pending patent applications in the U.S. and abroad. Some of our patents involve specific claims and thus do not provide broad coverage. Our patent applications or any claims of these patent applications may not be allowed, valid or enforceable. These patents or claims of these patents may not provide us with competitive advantages for our products. Our competitors may successfully challenge or circumvent our issued patents and any patents issued under our pending patent applications. Further, although we received orphan drug designation for Thymoglobulin for treatment of Myelodysplastic Syndrome, also known as pre-leukemia, we do not have patents on Thymoglobulin or Lymphoglobuline. Therefore, we are primarily dependent upon our trade secrets for these products. We have not conducted extensive patent and prior art searches with respect to our product candidates and technologies, and we do not know if third-party patents or patent applications exist or have been filed in the U.S., Europe or other countries. This would have an adverse effect on our ability to market our products. We do not know if claims in our patent applications would be allowed, be valid or enforceable, or that any of our products would not infringe on others patents or proprietary rights in the U.S. or abroad. We also have patent licenses from third parties whose patents and patent applications are subject to the same risks as ours.

We also rely on trade secrets and proprietary know-how that we seek to protect, in part, by confidentiality agreements with our employees and consultants. Our employees and/or consultants, however, may breach these agreements. We may not have adequate remedies for any such breach. In addition, our trade secrets may be independently developed or misappropriated by competitors, which could harm our business and operating results.

We have registered or applied for trademark registration of the names of all of our marketed products and plan to register the names of our products under development once we select a name for the product candidate. We have registered or applied for trademark registration of the names of most of our products under development or commercialized for research and development use. However, we may fail to obtain these trademark registrations or our competitors may challenge them.

**We face substantial competition.**

Each of the drugs we develop competes with existing and new drugs being created by pharmaceutical, biopharmaceutical, biotechnology companies and universities. Many of these entities have significantly greater research and development capabilities, as well as substantial marketing, manufacturing, financial and managerial resources and represent significant competition. The principal factors upon which our products compete are product utility, therapeutic benefits, ease of use, effectiveness, marketing, distribution and price. With respect to our products, we are competing against large companies that have significantly greater financial resources and established marketing and distribution channels for competing products. A list of our key products and product candidates, identifying principal competitive products as well as the relevant competitors, is included in the Business section of this prospectus supplement under Competition.

The drug industry is intensely price competitive, and we expect we will face this and other forms of competition. Developments by others may render our products or technologies obsolete or noncompetitive, and we may not be able to keep pace with technological developments. Many of our competitors have developed or are in the process of developing technologies that are, or in the future may be, the basis for products that compete with our own. Some of these products may have an entirely different approach or means of accomplishing the desired therapeutic effect than our products and may be more effective, more convenient or less costly. In addition, many of these competitors have significantly greater experience than we do in undertaking preclinical testing and human clinical trials of pharmaceutical products, obtaining regulatory approval of such products and manufacturing them. Accordingly, our competitors may succeed in commercializing products more rapidly than we can.

Other treatments for problems associated with transplantation that our products seek to address are currently available and under development. To the extent these products address the problems associated with the diseases on which we have focused, they may represent significant competition.

**We depend on collaborative relationships and any failure by our strategic partners to perform may harm our competitive position.**

We have several strategic relationships for the development and distribution of our products. In particular, we have entered into a multi-year co-promotion, distribution and research agreement for Gengraf in the U.S. with Abbott. We are dependent upon Abbott for certain regulatory, manufacturing, marketing, and sales activities under the agreement and for defending the Novartis patent lawsuit. Abbott may not perform satisfactorily and any such failure may impair our ability to deliver products on a timely basis, or otherwise impair our competitive position, which would harm our business. We have also entered into a Co-Development, Supply and License Agreement with Abgenix, Inc. with respect to the development, marketing and sale of ABX-CBL. We are dependent upon Abgenix for certain development and manufacturing activities under the agreement. Abgenix may not perform satisfactorily and any such failure may delay regulatory approval, product launch, impair our ability to deliver products on a timely basis, or otherwise impair our competitive position, which would harm our business. We may enter into additional collaborative relationships with corporate and other partners to develop and commercialize certain of our potential products. We may not be able to negotiate acceptable collaborative arrangements in the future, or such collaborations may not be available to us on acceptable terms or, if established, be scientifically or commercially successful.

**Our stock price has historically been volatile, and you could lose some or all of your investment.**

The market prices for securities of pharmaceutical and biotechnology companies, including ours, are highly volatile. For example, during 2001, the price of our common stock ranged from $7.50 to $24.87 per share. The stock market has from time to time experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies. The market price for our common stock may fluctuate as a result of factors such as:

announcements of new therapeutic products by us or our competitors;

announcements regarding collaborative agreements;

governmental regulations;

our clinical trial results or clinical trial results from our competitors;

fluctuations in our revenues or profitability;

the licensing or acquisition of new products or other companies;

developments in patent or other proprietary rights;

public concern as to the safety of drugs developed by us or others;

comments made by securities analysts; and

general market conditions.

**Adverse economic conditions could affect our customers.**

A recession or other downturn in the U.S. or other regional economy could adversely affect our customers, including wholesalers, which could reduce our sales or make it more difficult to collect payments from them on a timely basis. Terrorist attacks in New York, Washington, D.C. and Pennsylvania in September of 2001 have disrupted commerce throughout the U.S. and Europe. The continued threat of terrorism within the U.S. and Europe and any ongoing military action and heightened security measures in response to this threat may cause significant disruption to commerce throughout the world. To the extent that this disruption results in delays or cancellations of orders, a general decrease in spending on pharmaceutical products or our inability to effectively market and ship our products, our business and operating results could be harmed. In particular, our Thymoglobulin and Lymphoglobuline products are perishable and require express shipping, which may be curtailed or delayed because of security restrictions and border inspections. We are unable to predict whether the threat of terrorism or the responses thereto will result in any long-term commercial disruptions or if such activities or responses will have a long-term adverse effect on our business or operating results.

**The uncertainty of pharmaceutical pricing and reimbursement may decrease the commercial potential of our products.**

Our ability to successfully commercialize our products may depend in part on the extent to which adequate reimbursement for the cost of such products and related treatment will be available from third-party payers, such as government health administration authorities, private health coverage insurers and other organizations. Third-party payers increasingly are challenging or seeking to negotiate the pricing of medical services and products. In some cases, third-party payers will pay or reimburse a user or supplier of a prescription drug product only a portion of the purchase price of the product. In the case of our prescription products, payment or reimbursement by third-party payers of only a portion of the cost of such products could make such products less attractive, from a cost perspective, to users, suppliers and prescribing physicians. Reimbursement, if available, may not be adequate. If government entities or other third-party payers for our products do not provide adequate reimbursement levels, our results of operations would be harmed. The pricing, availability of distribution channels and reimbursement status of newly approved healthcare products is highly uncertain.

Healthcare providers may purchase Thymoglobulin, and other products, for off-label use (that is, a use not specifically approved by the FDA or similar authority for other countries). Actions by the FDA or other authority to prevent off-label use or a decision by third-party payers not to pay for off-label use would adversely affect sales. As a result, adequate third-party coverage may not be available for us to maintain price levels sufficient for realization of an appropriate return on our investment in product development. In certain foreign markets, pricing or profitability of healthcare products is subject to government control. In the U.S., there have been, and we expect that there will continue to be, a number of federal and state proposals to implement similar governmental control. In addition, we believe that an increasing emphasis on managed care in the U.S. has increased, and will continue to increase, the pressure on pharmaceutical pricing. While we cannot predict the adoption of any such legislative or regulatory proposals or the effect such proposals or managed care efforts may have on our business, the announcement of such proposals or efforts could harm our ability to raise capital, and the adoption of such proposals or efforts could harm our operating results. Further, to the extent that such proposals or efforts harm other pharmaceutical companies that are our prospective corporate partners, this may reduce our ability to establish corporate collaborations. We do not know whether consumers, third-party payers and others will consider our products and product candidates, if approved, cost effective or that reimbursement to the consumer will be available or will be sufficient to allow us to sell our products on a competitive basis.

**Our use of hazardous materials could result in unexpected costs or liabilities.**

In connection with our manufacturing, research and development activities and operations, we are subject to foreign, federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials, biological specimens and wastes. As a result, we may incur significant costs to comply with environmental and health and safety regulations. Our manufacturing, research and development involves the controlled use of hazardous materials, including but not limited to certain hazardous chemicals and infectious biological specimens. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by foreign, state and federal regulations, we cannot eliminate the risk of accidental contamination or injury from these materials. In the event of such an accident, we could be held liable for any damages that result and any such liability could exceed our ability to pay.

**Anti-takeover provisions could limit our share price and delay or deter a change in management.**

Certain provisions of our Certificate of Incorporation and Bylaws contain provisions that could significantly impede the ability of the holders of our common stock to change management or delay or make it more difficult or even prevent a third party from acquiring us without the approval of our incumbent Board of Directors. These provisions could limit or adversely affect the price that investors might be willing to pay in the future for shares of our common stock. These provisions, among other things:

- limit the right of stockholders to call special meetings of stockholders;
- limit the right of stockholders to present proposals, nominate directors for election or otherwise raise matters at annual meetings of stockholders without giving advance notice;
- eliminate the ability of stockholders to take action by written consent;
- prohibit cumulative voting in any election of directors, which may make it more difficult for a third party to gain control of our Board of Directors; and
- authorize our Board of Directors to issue up to five million shares of preferred stock in one or more series and to determine the price, rights, preferences, privileges, and restrictions of those shares without any further vote or action on the part of stockholders.

In addition, we have adopted a stockholder rights plan. Under this plan we may issue a dividend to stockholders who hold rights to acquire our shares or, under certain circumstances, the shares of an acquiring corporation, at less than half their fair market value. The plan could have the effect of delaying, deferring or

preventing a change in control or management. The rights plan, if triggered, could cause substantial dilution to a person or group that attempts to acquire us on terms not approved by the Board of Directors.

Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which will prohibit us from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, even if such combination is favored by a majority of stockholders, unless the business combination is approved in a prescribed manner. The application of Section 203 also could have the effect of delaying or preventing a change of control or management.

**SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS**

This prospectus supplement and the accompanying prospectus contain or incorporate by reference certain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act, including those identified by the words believes, expects and similar expressions. These forward-looking statements include, among others, statements regarding:

- our anticipated financial results for 2002;
- the timeline and potential results of preclinical development and clinical trials;
- potential outcomes of our and Abbott s litigation with Novartis;
- our plans for marketing a cyclosporine capsule in Europe;
- anticipated expenditures and timing related to FDA and foreign approval of our products and facilities; and
- anticipated potential strategic collaborations with others.

These statements are subject to risks and uncertainties, including those set forth in the Risk Factors section, and actual results could differ materially from those expressed or implied in these statements. All forward-looking statements included in this prospectus supplement or the accompanying prospectus are made as of their respective dates. We assume no obligation to update any such forward-looking statement or reason why actual results might differ except as required by the Securities Exchange Act of 1934, as amended.

## USE OF PROCEEDS

We estimate that the net proceeds from the sale of the 4,500,000 shares of common stock that we are offering will be approximately $72.6 million, based upon a public offering price of $17.25 per share, after deducting estimated underwriting discounts and commissions and our estimated offering expenses. If the underwriters exercise their option to purchase 675,000 additional shares in the offering, we estimate the aggregate net proceeds to us will be approximately $83.5 million.

We anticipate that the net proceeds from this offering will be used for repayment of approximately $16.0 million existing indebtedness to Abbott Laboratories and general corporate purposes, including in-licensing and partnering opportunities. In addition, we may use a portion of the net proceeds to acquire complementary products, product candidates or businesses, or to make strategic investments in other companies. We have not identified the amounts we plan to spend on each of these areas or the timing of such expenditures, and we will have significant discretion in the use of any net proceeds. The amounts actually expended for each purpose may vary significantly depending upon numerous factors, including the amount and timing of the proceeds from this offering and progress with our development programs. Expenditures will also depend upon the establishment of collaborative arrangements with other companies, the availability of additional financing and other factors. Investors will be relying on the judgment of our management regarding the application of the proceeds of any sale of the securities. Pending these uses, the net proceeds will be invested in interest-bearing, marketable securities. The loan made available to us by Abbott Laboratories bears an annual interest rate of 8.75 percent. As of December 31, 2001, the aggregate principal amount outstanding was $16.0 million. The loan matures on December 31, 2004.

## PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Since 1993, our common stock has traded on the Nasdaq National Market. We currently trade under the symbol SANG. The following table sets forth the high and low reported sale prices for our common stock for the periods indicated as reported on the Nasdaq National Market.

| | High | Low |
|---|---|---|
| **2002** | | |
| First Quarter through February 4, 2002 | $ 22.80 | $ 17.10 |
| **2001** | | |
| First Quarter | $ 13.19 | $ 7.50 |
| Second Quarter | 17.00 | 8.88 |
| Third Quarter | 19.06 | 12.35 |
| Fourth Quarter | 24.87 | 15.88 |
| **2000** | | |
| First Quarter | $ 48.00 | $ 25.88 |
| Second Quarter | 33.81 | 21.81 |
| Third Quarter | 29.88 | 12.81 |
| Fourth Quarter | 14.50 | 6.50 |

On February 4, 2002, the last reported sale price of our common stock on the Nasdaq National Market was $17.60 per share. As of February 1, 2002, we had approximately 82 stockholders of record.

We have never declared or paid cash dividends on our common stock. We do not intend to declare or pay any cash dividends on our common stock in the foreseeable future. We plan to retain any earnings for use in the operation of our business and to fund future growth.

## CAPITALIZATION

The following table presents our unaudited capitalization as of September 30, 2001:

on an actual basis; and

on an as adjusted basis to reflect the receipt and application of net proceeds of the sale of 4,500,000 shares of common stock in this offering at the public offering price of $17.25 per share, less underwriting discounts and our estimated offering expenses.

The number of shares of common stock to be outstanding after this offering does not include:

3,487,577 shares of common stock issuable upon exercise of options and warrants outstanding as of December 31, 2001 at a weighted average exercise price of $18.13 per share;

490,286 shares of common stock issuable upon exercise of stock options reserved for issuance as of December 31, 2001; and

500,773 shares of common stock issuable upon conversion of debt outstanding as of December 31, 2001.

This table should be read with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the accompanying notes appearing elsewhere in this prospectus supplement and incorporated by reference in the accompanying prospectus.

| | September 30, 2001 | |
|---|---|---|
| | Actual | As Adjusted |
| | (in thousands) | |
| Cash, cash equivalents and short term investments | $ 25,542 | $ 82,112 |
| Short-term debt: | | |
| Capital lease obligations current portion | $ 185 | $ 185 |
| Notes payable current portion | 5,405 | 5,405 |
| Total short-term debt | $ 5,590 | $ 5,590 |
| Long-term debt: | | |
| Capital lease obligations | $ 381 | $ 381 |
| Notes payable | 30,215 | 14,215 |
| Total long-term debt | 30,596 | 14,596 |
| Stockholders equity: | | |
| Preferred stock, $.001 par value, 5,000 shares authorized; none outstanding | $ | $ |
| Common stock, $.001 par value, 35,000 shares authorized; outstanding: 2001: 20,883 shares actual; and 25,383 as adjusted | 221,714 | 294,284 |
| Accumulated deficit | (187,440) | (187,440) |
| Accumulated other comprehensive loss | (2,460) | (2,460) |
| Total stockholders equity | 31,814 | $ 104,384 |
| Total capitalization | $ 68,000 | $ 124,570 |

**DILUTION**

If you invest in our common stock, your interest would be diluted to the extent of the difference between the public offering price per share of our common stock and the adjusted net tangible book value per share of our common stock after this offering. Our net tangible book value per share as of September 30, 2001 is $1.53. We calculate net tangible book value per share by dividing net tangible book value, which equals total tangible assets less total tangible liabilities, by the number of outstanding shares of our common stock.

At the public offering price of $17.25 per share, our as adjusted net tangible book value at September 30, 2001 would have been $4.11 per share. This represents an immediate increase in the net tangible book value per share of $2.58 per share to existing stockholders and an immediate dilution of $13.14 per share to new investors purchasing shares of common stock in this offering.

The following table illustrates this dilution on a per share basis:

| | | |
|---|---|---|
| Public offering price per share | | $ 17.25 |
| Net tangible book value per share as of September 30, 2001 | $ 1.53 | |
| Increase per share attributable to new investors | 2.58 | |
| As adjusted net tangible book value per share after this offering | | 4.11 |
| Dilution per share to new investors | | $ 13.14 |

To the extent that outstanding options, convertible debt or warrants are exercised, there may be further dilution to new investors.

## SELECTED CONSOLIDATED FINANCIAL DATA

You should read our selected consolidated financial data set forth below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes thereto contained elsewhere in this prospectus supplement and incorporated by reference in the accompanying prospectus. The selected consolidated statements of operations data for the years ended December 31, 1998, 1999 and 2000 and the selected consolidated balance sheet data as of December 31, 1999 and 2000 are derived from our audited consolidated financial statements contained elsewhere in this prospectus supplement. The consolidated statements of operations data for the years ended December 31, 1996 and 1997 and the consolidated balance sheet data as of December 31, 1996, 1997 and 1998 are derived from our audited consolidated financial statements not included in this prospectus supplement or incorporated by reference in the accompanying prospectus. The consolidated statements of operations data for the nine months ended September 30, 2000 and 2001 and the consolidated balance sheet data as of September 30, 2001 are derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus supplement, and in the opinion of management include all adjustments, consisting only of normal recurring accruals, that are necessary for a fair presentation of our financial position and results of operations for these periods. The historical financial information may not be indicative of our future performance.

| | Year Ended December 31, | | | | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2000 | 2001 |
| | (in thousands, except per share data) | | | | | | |
| **Consolidated Statements of Operations Data:** | | | | | | | |
| Revenues: | | | | | | | |
| Net sales | $ 2,266 | $ 2,456 | $ 10,202 | $ 42,243 | $ 60,447 | $ 42,726 | $ 64,841 |
| Collaborative agreements | | 750 | 1,092 | 2,060 | 2,698 | 1,957 | 2,368 |
| Total revenues | 2,266 | 3,206 | 11,294 | 44,303 | 63,145 | 44,683 | 67,209 |
| Costs and operating expenses: | | | | | | | |
| Cost of sales | 2,737 | 2,646 | 5,110 | 18,989 | 39,246 | 30,117 | 29,584 |
| Research and development | 8,330 | 16,210 | 17,688 | 14,470 | 20,788 | 15,349 | 13,647 |
| Selling, general and administrative | 5,652 | 9,442 | 23,707 | 39,170 | 41,766 | 33,791 | 25,455 |
| Acquired in-process research and development | | | 3,218 | | | | |
| Amortization of intangible assets | | | 351 | 1,398 | 1,392 | 1,044 | 1,043 |
| Total operating expenses | 16,719 | 28,298 | 50,074 | 74,027 | 103,192 | 80,301 | 69,729 |
| Loss from continuing operations | (14,453) | (25,092) | (38,780) | (29,724) | (40,047) | (35,618) | (2,520) |
| Other income (expense) net | 2,123 | 5,506 | 3,053 | (913) | (1,602) | (1,572) | (5,795) |
| Loss from continuing operations before income taxes | (12,330) | (19,586) | (35,727) | (30,637) | (41,649) | (37,190) | (8,315) |
| Income taxes | | | (257) | (345) | (368) | (106) | (345) |
| Net loss from continuing operations | (12,330) | (19,586) | (35,984) | (30,982) | (42,017) | (37,296) | (8,660) |
| Net loss from discontinued operation | (444) | (1,394) | (2,480) | (2,025) | (2,342) | (1,589) | (1,144) |
| Net loss | $ (12,774) | $ (20,980) | $ (38,464) | $ (33,007) | $ (44,359) | $ (38,885) | $ (9,804) |
| Net loss per share basic and diluted | | | | | | | |
| Continuing operations | $ (0.99) | $ (1.27) | $ (2.24) | $ (1.83) | $ (2.35) | $ (2.09) | $ (0.43) |
| Discontinued operation | (0.04) | (0.09) | (0.15) | (0.12) | (0.13) | (0.09) | (0.06) |
| | $ (1.03) | $ (1.36) | $ (2.39) | $ (1.95) | $ (2.48) | $ (2.18) | $ (0.49) |
| Shares used in per share computations | 12,405 | 15,376 | 16,080 | 16,888 | 17,910 | 17,857 | 19,973 |

| | December 31, | September 30, |
|---|---|---|

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| **Consolidated Balance Sheet Data:** | | | | | | |
| Cash, cash equivalents and short-term investments | $ 41,321 | $ 92,036 | $ 29,660 | $ 26,519 | $ 20,607 | $ 25,542 |
| Working capital | 40,727 | 93,812 | 46,828 | 63,991 | 39,774 | 32,224 |
| Total assets | 44,750 | 104,354 | 107,327 | 117,297 | 114,316 | 108,519 |
| Long-term obligations, excluding current portion | 1,100 | 1,557 | 16,402 | 49,496 | 44,689 | 37,702 |
| Accumulated deficit | (40,826) | (61,806) | (100,270) | (133,277) | (177,636) | (187,440) |
| Total stockholders equity | 40,955 | 97,470 | 59,587 | 41,009 | 21,924 | 31,814 |

**MANAGEMENT S DISCUSSION AND ANALYSIS**
**OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with our consolidated financial statements, including the related notes, contained elsewhere in this prospectus supplement. The following discussion also contains forward-looking statements about our plans, objectives and future results. These forward-looking statements are based on our current expectations, and we assume no obligation to update this information. Realization of these plans and results involves risks and uncertainties, and our actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include those set forth under the heading Risk Factors.*

**Overview**

SangStat is a global biotechnology company expanding on its transplantation foundation to discover, develop and market high value therapeutic products in immunology, hematology/oncology and auto-immune disease. Since 1988, we have been dedicated to improving the outcome of organ and bone marrow transplantation through the development and marketing of products to address all phases of transplantation in the worldwide market. We are headquartered in Fremont, California. We maintain a strong European and U.S. presence, including direct sales and marketing forces in all major European markets and the U.S. and distributors throughout the rest of the world.

Historically, our business was comprised of two segments: pharmaceutical products and transplantation services. In October 2000, we implemented a new strategy focused on growing a core business in high value therapeutics that builds on our expertise in transplantation but extends into new therapeutic areas. As a result of this new strategy, we decided to dedicate significant resources to our pharmaceutical products segment, which consists of four marketed products and three principal product candidates. On April 20, 2001, we sold our transplantation services segment, The Transplant Pharmacy, to Chronimed, for cash proceeds of $1.8 million. Consequently, the historical consolidated statements of operations and cash flows have been restated for all periods presented to account for the transplantation services segment business as a discontinued operation. Unless otherwise indicated, the following discussion relates to our continuing operations and excludes our discontinued operation.

While we allocate scientists and track resources when required pursuant to the terms of a partnering or similar arrangement, members of our research team typically work on a number of products concurrently, and our equipment and intellectual property resources often are deployed over a range of products with a view to maximizing the benefit of our investment. Accordingly, we have not and do not intend to separately track the costs for each of our research projects on a product by product basis. For the nine months ended September 30, 2001, however, we estimate that the majority of our research and development expense was associated with our three leading product candidates, RDP58, ABX-CBL and cyclosporine capsules. The balance of our expense was associated primarily with ongoing development of our marketed products, primarily clinical trials for Thymoglobulin, and early-stage product candidates.

We have completed Phase I clinical trials for RDP58 and subsequently started a Phase II proof-of-principle clinical trial in the U.K. in October 2001. We currently expect to announce results of this trial in the second half of 2002. We are also conducting a Phase II/III study for ABX-CBL, which we expect to complete by the end of 2002. We are conducting bioequivalence and stability studies for a cyclosporine capsule. If the results from these studies are favorable, we expect to file for marketing approval for this product in a major European country, which we currently estimate will occur in late 2002. We also have under way two clinical trials involving Thymoglobulin. One trial compares Thymoglobulin with Simulect. The design of the trial included a pilot study to statistically determine the number of patients. We have completed the pilot study and have expanded the number of patients in this trial. We now expect preliminary communication of the trial results data to occur during the second quarter of 2002 with the final results available in the second quarter of 2003. The second trial investigates the use of Thymoglobulin in myelodysplastic syndrome; we aim to complete enrollment of patients into this study by the end of 2002. The primary end-point is 180 days after enrollment. Of course our timeline is

an estimate that is subject to change from time to time. Due to the inherent risks and uncertainties associated with the development of our proposed drugs, we are unable to further specify with meaningful certainty the estimated completion date or estimated cost of completion of our proposed products, or whether any of our products will eventually be successfully developed.

On January 22, 2002, we reported that our revenues were $27.3 million for the fourth quarter of 2001, an increase of 48% versus the fourth quarter of 2000 and 9% versus the third quarter of 2001. We also reported at that time that our net income for the fourth quarter of 2001 was $641,000, compared to a net loss of $5.5 million in the fourth quarter of 2000. This resulted in net earnings per share for the fourth quarter of 2001 of $0.03 per share, in comparison to a net loss for the fourth quarter of 2000 of $0.30 per share. In addition, we reported that our revenues for 2001 increased to $94.5 million, in comparison to $63.1 million for 2000, and that our net loss was $9.2 million, in comparison to a net loss of $44.4 million in 2000. Our net loss per share in 2001 was $0.46, in comparison to a net loss per share in 2000 of $2.48. Furthermore, we reported that our cash position grew from $25.5 million at the end of the third quarter of 2001 to $32.8 million as of December 31, 2001.

**Results of Operations**

**Nine Months Ended September 30, 2001 and 2000**

*Revenues*. Total revenues for the nine months ended September 30, 2001 were $67,209,000, an increase of $22,526,000 or 50% over net sales including product recall returns of $44,683,000 for the nine months ended September 30, 2000. The increase for the nine months ended September 30, 2001 was due to higher sales of Gengraf, which was launched in the U.S. in May 2000, and increased sales of Thymoglobulin.

Revenues from Thymoglobulin were 55% of total revenues for the nine months ended September 30, 2001 and 62% of total revenues for the nine months ended September 30, 2000. Revenues from Lymphoglobuline were 8% of total revenues for the nine months ended September 30, 2001 and 14% of total revenues for the nine months ended September 30, 2000. Revenues from Gengraf were 30% of total revenues for the nine months ended September 30, 2001 and 13% of total revenues for the nine months ended September 30, 2000. Revenues from SangCya Oral Solution were immaterial both in the nine months ended September 30, 2001 and the nine months ended September 30, 2000.

Included in total revenues was revenue from collaborative agreements of $2,368,000 for the nine months ended September 30, 2001, an increase of $411,000 or 21% over revenue from collaborative agreements of $1,957,000 for the nine months ended September 30, 2000. This revenue relates to milestone payments from Abbott Laboratories under the co-promotion agreement for cyclosporine. The unamortized portion of these milestone payments is shown as deferred revenue on our condensed consolidated balance sheet and will be recognized as revenue on a straight-line basis over the remaining term of the co-promotion agreement.

*Cost of sales*. Cost of product sales and manufacturing expenses were $29,584,000 for the nine months ended September 30, 2001, an increase of $11,028,000 or 59% over cost of product sales and manufacturing expenses of $18,556,000 for the nine months ended September 30, 2000. The increase in cost of product sales and manufacturing expenses was primarily due to increased sales of pharmaceutical products combined with the higher cost of Gengraf as compared to our other products. We anticipate an increase in our total cost of product sales and manufacturing expenses in the fourth quarter of 2001 due to an increase in royalties due to Aventis on sales of Thymoglobulin, an increase in manufacturing costs at our Lyon, France, production facility resulting from a program to improve quality assurance and control, and the higher cost of sales of Gengraf, if Gengraf sales continue to increase as a percentage of total revenues. We further anticipate that this increase in costs may result in a lower gross margin in the fourth quarter of 2001 and that gross margin may remain at this lower level throughout 2002. Total cost of sales for the nine months ended September 30, 2000 included a product recall reserve of $11,561,000 for SangCya Oral Solution that was taken in the second quarter of 2000. No such reserve has been recorded in 2001.

*Research and development*. Research and development expenses were $13,647,000 for the nine months ended September 30, 2001, a decrease of $1,702,000 or 11% from research and development expenses of

$15,349,000 for the nine months ended September 30, 2000. The decrease in spending on research and development mainly relates to a license fee payment and SangStat s share of prior development costs incurred by Abgenix for ABX-CBL totaling $3,400,000 for the nine month period ended September 30, 2000, which did not recur in 2001, and a decrease in spending on SangCya Oral Solution and related products. This decrease in spending was partially offset by an increase in spending on RDP58 and ABX-CBL during the nine month period ended September 30, 2001.

*Selling, general and ad*