

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 1, 2001

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 0-21794

GENZYME TRANSGENICS CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts

04-3186494

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

175 Crossing Boulevard, Framingham, Massachusetts

01702

(Address of principal executive offices)

(Zip Code)

(508) 620-9700

Registrant's telephone number, including area code

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at August 2, 2001</u>
Common Stock, \$0.01 par value	30,067,269

**GENZYME TRANSGENICS CORPORATION
TABLE OF CONTENTS**

PAGE #

PART I. FINANCIAL INFORMATION

ITEM 1 - Unaudited Consolidated Financial Statements

Consolidated Balance Sheets as of July 1, 2001
and December 31, 20003

Consolidated Statements of Operations for the Three Months and Six Months
Ended July 1, 2001 and July 2, 20004

Consolidated Statements of Cash Flows for
the Six Months Ended July 1, 2001 and July 2, 2000.....5

Notes to Unaudited Consolidated Financial Statements6

ITEM 2

Management's Discussion and Analysis of
Financial Condition and Results of Operations9

ITEM 3

Quantitative and Qualitative Disclosures
About Market Risk12

PART II. OTHER INFORMATION

ITEM 4

Submission of Matters to a Vote of Security Holders13

ITEM 6

Exhibits and Reports on Form 8-K.....13

SIGNATURES.....14

EXHIBIT INDEX.....15

GENZYME TRANSGENICS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited, dollars in thousands except share amounts)

	<u>July 1, 2001</u>	<u>December 31, 2000</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 64,910	\$ 41,024
Marketable securities	13,458	25,508
Marketable securities - CRL stock	22,404	-
Accounts receivable and unbilled contract revenue, net of allowance of \$361 at July 1, 2001 and December 31, 2000	2,043	2,753
Other current assets	495	1,098
Net assets of discontinued contract research operations held for sale	-	37,272
Total current assets	<u>103,310</u>	<u>107,655</u>
Net property, plant and equipment	14,914	13,841
Other assets	12,260	12,907
	<u>\$ 130,484</u>	<u>\$ 134,403</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 851	\$ 1,073
Accounts payable – Genzyme Corporation	860	1,344
Payable to ATIII LLC	1,448	1,096
Accrued expenses	4,267	4,514
Deferred contract revenue	2,857	4,522
Current portion of long-term debt and capital leases	6,328	6,717
Total current liabilities	<u>16,611</u>	<u>19,266</u>
Long-term debt and capital leases, net of current portion	142	223
Deferred lease obligation	62	71
Total liabilities	<u>16,815</u>	<u>19,560</u>
Shareholders' equity:		
Preferred stock, \$.01 par value; 5,000,000 shares authorized no shares were issued and outstanding	-	-
Common stock, \$.01 par value; 100,000,000 shares authorized; 30,067,159 and 29,697,151 shares issued and outstanding at July 1, 2001 and December 31, 2000, respectively	301	297
Capital in excess of par value – common stock	196,923	194,255
Accumulated deficit	(90,240)	(79,766)
Accumulated other comprehensive income	6,685	57
Total shareholders' equity	<u>113,669</u>	<u>114,843</u>
	<u>\$ 130,484</u>	<u>\$ 134,403</u>

The accompanying notes are an integral part of these financial statements.

GENZYME TRANSGENICS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands except per share amounts)

	Three Months Ended		Six Months Ended	
	July 1, <u>2001</u>	July 2, <u>2000</u>	July 1, <u>2001</u>	July 2, <u>2000</u>
Revenues	\$ 2,261	\$ 4,167	\$ 5,195	\$ 7,737
Costs of revenue and operating expenses:				
Research and development	5,001	4,570	10,054	8,442
Selling, general and administrative	3,379	2,195	5,809	4,165
Equity in loss of joint venture	<u>1,449</u>	<u>1,352</u>	<u>3,557</u>	<u>2,208</u>
	<u>9,829</u>	<u>8,117</u>	<u>19,420</u>	<u>14,815</u>
Loss from continuing operations before interest	(7,568)	(3,950)	(14,225)	(7,078)
Other income (expense):				
Interest income	921	1,037	1,933	1,590
Interest expense	<u>(194)</u>	<u>(237)</u>	<u>(418)</u>	<u>(551)</u>
Loss from continuing operations before interest	(6,841)	(3,150)	(12,710)	(6,039)
Discontinued operations				
Loss from discontinued contract research operations (less applicable taxes of \$92 and \$147)	-	(209)	-	(901)
Gain from sale of discontinued contract research operations	<u>-</u>	<u>-</u>	<u>2,236</u>	<u>-</u>
Net loss	\$ (6,841)	\$ (3,359)	\$ (10,474)	\$ (6,940)
Dividend to preferred shareholders	<u>-</u>	<u>-</u>	<u>-</u>	<u>(74)</u>
Net loss available to common shareholders	<u>\$ (6,841)</u>	<u>\$ (3,359)</u>	<u>\$ (10,474)</u>	<u>\$ (7,014)</u>
Net loss per common share (basic and diluted):				
From continuing operations	<u>\$ (0.23)</u>	<u>\$ (0.11)</u>	<u>\$ (0.43)</u>	<u>\$ (0.22)</u>
From discontinued contract research operations	<u>\$ -</u>	<u>\$ (0.01)</u>	<u>\$ 0.08</u>	<u>\$ (0.04)</u>
Net loss	<u>\$ (0.23)</u>	<u>\$ (0.12)</u>	<u>\$ (0.35)</u>	<u>\$ (0.26)</u>
Weighted average number of shares outstanding (basic and diluted)	<u>29,882</u>	<u>28,738</u>	<u>29,803</u>	<u>27,373</u>
Comprehensive loss:				
Net loss	\$ (6,841)	\$ (3,359)	\$ (10,474)	\$ (6,940)
Other comprehensive income:				
Unrealized holding gain (loss) on available for sale securities	<u>6,571</u>	<u>(24)</u>	<u>6,685</u>	<u>(24)</u>
Total other comprehensive income (loss)	<u>6,571</u>	<u>(24)</u>	<u>6,685</u>	<u>(24)</u>
Comprehensive loss	<u>\$ (270)</u>	<u>\$ (3,383)</u>	<u>\$ (3,789)</u>	<u>\$ (6,964)</u>

The accompanying notes are an integral part of these financial statements.

GENZYME TRANSGENICS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, dollars in thousands)

	<u>Six months ended</u>	
	<u>July 1,</u> <u>2001</u>	<u>July 2,</u> <u>2000</u>
Cash flows from operating activities:		
Net loss from continuing operations	\$ (10,474)	\$ (6,039)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,245	942
Amortization of unearned compensation	284	1,615
Shares to be issued for 401-K match	725	567
Equity in loss of joint venture	3,557	2,208
Gain on sale of discontinued operations	(2,236)	(3,184)
Changes in assets and liabilities:		
Accounts receivable and unbilled contract revenue	710	(2,308)
Inventory and other current assets	319	362
Accounts payable	(222)	(3)
Accounts payable – Genzyme Corporation	(484)	(76)
Other accrued expenses	(247)	(737)
Deferred contract revenue	<u>(1,665)</u>	<u>(202)</u>
Net cash used in operating activities	(8,488)	(6,855)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(1,671)	(208)
Investment in joint venture	(3,205)	(2,151)
Purchase of marketable securities	(9,500)	(31,850)
Redemption of marketable securities	21,261	-
Other assets	<u>-</u>	<u>107</u>
Net cash provided by (used in) investing activities	6,885	(34,102)
Cash flows from financing activities:		
Net proceeds from the issuance of common stock	284	74,971
Net proceeds from the exercise of warrants	-	6,820
Net proceeds from sale of discontinued operations (net of \$2,124 expenses)	23,876	-
Net proceeds from employee stock purchase plan	222	559
Net proceeds from the exercise of stock options	1,441	4,368
Repayment of long-term debt	(470)	(442)
Net payments under revolving line of credit	-	(15,750)
Other long-term liabilities	<u>(9)</u>	<u>(9)</u>
Net cash provided by financing activities	25,344	70,517
Net cash provided by discontinued operations	<u>145</u>	<u>-</u>
Net increase in cash and cash equivalents	23,886	29,560
Cash and cash equivalents at beginning of the period	<u>41,024</u>	<u>7,813</u>
Cash and cash equivalents at end of period	\$ <u>64,910</u>	\$ <u>37,373</u>
Noncash investing and financing activities		
Property acquired under capital lease	\$ -	\$ 113
CRL common stock received from the sale of discontinued operations	15,868	-

The accompanying notes are an integral part of these financial statements.

GENZYME TRANSGENICS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation:

These unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and the financial statements and footnotes included therein. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to Securities and Exchange Commission rules and regulations.

The financial statements for the three and six months ended July 1, 2001 and July 2, 2000 are unaudited but include, in the Company's opinion, all adjustments (consisting only of normally recurring accruals) necessary for a fair presentation of the results for the periods presented.

2. Accounting Policies:

The accounting policies underlying the quarterly financial statements are those set forth in Note 2 of the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Per share information is based upon the weighted average number of shares of common stock outstanding during the period. Common stock equivalents consisting of warrants and stock options, totaled 2.6 million and 2.7 million at July 1, 2001 and July 2, 2000, respectively. Since the Company was in a net loss position at July 1, 2001 and July 2, 2000, these common stock equivalents were not used to compute diluted loss per share, as the effect was antidilutive.

Included in the net loss for the six months ended July 1, 2001 is the Company's equity in the loss of joint venture of \$3.6 million which represents the Company's commitment to fund its share of the losses incurred in 2001 with respect to the joint venture between the Company and Genzyme Corporation ("ATIII LLC"). Prior to February 2, 2001, the Company and Genzyme each funded 50% of the losses. In March 2001, the Company and Genzyme signed an Interim Funding Agreement (the "Agreement") under which the Company fully funded ATIII LLC costs subsequent to February 2, 2001, pending the Company's evaluation of alternative indications for ATIII. In July 2001, the Company reacquired Genzyme's ownership interest in the ATIII LLC (see Note 7). Total net losses of the ATIII LLC in the first six months of 2001 were \$4 million, and the ATIII LLC did not record any revenues.

3. Shareholders' Equity:

In March 2001, the Company's Board of Directors restored all unissued or reacquired shares of the Company's Series A Preferred Stock and Series B Preferred Stock to the status of authorized but undesignated and unissued shares of preferred stock.

4. Sale of Contract Research Operations:

On February 26, 2001, the Company completed the sale of its preclinical research operation, Primedica Corporation ("Primedica"), to Charles River Laboratories, Inc. ("CRL"). The total value of the transaction was \$51 million. The transaction involved the sale of all of the Company's interest in Primedica for \$26 million in cash, 658,945 shares of CRL common stock then valued at \$15.9 million and the assumption by CRL of all of Primedica's approximately \$9 million of facility mortgages and long-term capital leases. The net book value of Primedica at the time of the sale was \$38.4 million. The sale resulted in a book gain of \$2.2 million and no taxable gain due to the utilization of the Company's net operating losses. In July 2001, the Company sold all of its holdings of CRL common stock in a secondary offering (see Note 7). At July 1, 2001, the CRL common stock was classified as available for sale and was reflected at the then current market value of \$34 per share for a total value of \$22 million.

5. New Accounting Pronouncements:

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. SFAS No. 142 requires that ratable amortization of goodwill be replaced with periodic tests of the goodwill's impairment and that intangible assets other than goodwill be amortized over their useful lives. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001 and for all business combinations accounted for by the purchase method for which the date of acquisition is after June 30, 2001. The provisions of SFAS No. 142 will be effective for fiscal years beginning after December 15, 2001, and will thus be adopted by the Company, as required, in fiscal year 2002. The Company does not expect any significant impact from the adoption of SFAS No. 141 and SFAS No. 142 on the Company's financial statements.

6. Shareholder Rights Agreement:

On May 31, 2001, the Board of Directors adopted a Shareholder Rights Plan (the “Plan”) as set forth in the Shareholder Rights Agreement, dated May 31, 2001, between the Company and American Stock Transfer & Trust Company, as Rights Agent (the “Rights Agreement”). A series of preferred stock of the Company designated as Series C Junior Participating Cumulative Preferred Stock (the “Series C Preferred Stock”), par value \$.01 per share, has been created in accordance with the Rights Agreement. The Plan is designed to deter coercive takeover tactics, including the accumulation of shares in the open market or through private transactions, and to prevent an acquirer from gaining control of the Company without offering a fair and adequate price and terms to all of the Company’s shareholders. As such, the Plan enhances the Board of Directors’ ability to protect shareholder interests and ensure that shareholders receive fair and equal treatment in the event any proposed takeover of the Company is made in the future. Pursuant to the Agreement, the Board of Directors declared a dividend distribution of one preferred stock purchase right for each outstanding share of the Company’s common stock to shareholders of record as of June 1, 2001. The preferred stock purchase rights are attached to, and will trade with, the Company’s common stock. The purchase rights are currently unexercisable, and will only become exercisable upon the occurrence of certain triggering events described in the Rights Agreement.

7. Subsequent Events:

On July 25, 2001, the Company completed the sale of all of its holdings of CRL common stock. In total, 658,945 shares were sold at \$29 per share (\$27.61 net of underwriters commission) resulting in proceeds of \$18.1 million and a \$2.3 million realized gain.

On July 30, 2001, the Company completed the reacquisition of Genzyme’s ownership interest in the ATIII LLC. In consideration, Genzyme will receive a royalty based on the Company’s sales of ATIII, if any, in all territories except Asia, commencing three years after the first commercial sale and subject to a cumulative maximum of \$30 million.

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

RESULTS OF OPERATIONS

Three months ended July 1, 2001 and July 2, 2000

Total revenues for the three-month period ending July 1, 2001 were \$2.3 million, compared with \$4.2 million for the comparable period in 2000, a decrease of \$1.9 million or 46%. The decrease in revenues is due to the recognition in 2000 of milestone revenues earned in association with progress on its transgenic programs.

Research and development expenses increased to \$5 million in the second quarter of 2001 from \$4.6 million in the second quarter of 2000, an increase of \$400,000 or 9%. The increase is primarily due to a higher investment in the research and development programs, including recombinant serum albumin (rhSA) and further development of the Company's core technologies.

There was a loss of \$2.7 million on research and development in the second quarter of 2001 versus a loss of \$403,000 in the second quarter of 2000. The increase in the loss on research and development is due to the timing of milestone revenues earned in the 2000 as well as a higher investment in research and development programs in 2001.

Selling, general and administrative ("SG&A") expenses increased to \$3.4 million in the second quarter of 2001 from \$2.2 million in the second quarter of 2000, an increase of \$1.2 million or 54%. The increase is primarily due to a charge related to the contractual obligations in connection with the resignation of the Company's former President and Chief Executive Officer, as well as to an increase in consulting and professional fees in 2001.

The Company recognized \$1.4 million of joint venture losses incurred on the joint venture ("ATIII LLC") between the Company and Genzyme Corporation ("Genzyme") during the second quarter of both 2001 and 2000.

Interest income decreased to \$921,000 in the second quarter of 2001, from \$1,037,000 in the second quarter of 2000, due to the impact of lower interest rates in 2001.

Interest expense decreased to \$194,000 in the second quarter of 2001 from \$237,000 in the second quarter of 2000 due to lower outstanding borrowings in 2001.

Six months ended July 1, 2001 and July 2, 2000

Total revenues for the six-month period ending July 1, 2001 were \$5.2 million, compared with \$7.7 million in the comparable period of 2000, a decrease of \$2.5 million or 33%. The decrease is due to the recognition in 2000 of milestones earned in association with progress on its transgenic programs.

Research and development expenses increased to \$10.1 million in the first six months of 2001 from \$8.4 million in the comparable period of 2000, an increase of \$1.6 million, or 19%. The increase is primarily due to a higher investment in the research and development programs, including recombinant human serum albumin (rhSA) and further development of the Company's core technologies.

There was a loss of \$4.9 million on research and development in the first six months of 2001 versus a loss of \$705,000 in the comparable period of 2000. The increase in the loss on research and development is due to the recognition of milestones earned in the first six months of 2000 as well as a higher investment in research and development programs in 2001.

SG&A expenses increased to \$5.8 million in the first six months of 2001 from \$4.2 million in the comparable period of 2000, an increase of \$1.6 million or 39%. The increase is primarily due to a charge related to contractual obligations in connection with the resignation of the Company's former President and Chief Executive Officer, as well as to an increase in consulting and professional fees in 2001.

The Company recognized \$3.6 million of joint venture losses incurred on ATIII LLC between the Company and Genzyme during the first six months of 2001 as compared to \$2.2 million incurred during the comparable period of 2000. The increase was due to an Interim Funding Agreement (the "Agreement") with Genzyme under which the Company fully funded ATIII LLC costs subsequent to February 2, 2001, pending the Company's evaluation of alternative indications for ATIII. In July 2001, the Company reacquired Genzyme's ownership interest in the ATIII LLC in exchange for a royalty based on the Company's sales of ATIII, if any, commencing three years after the first commercial sale up to a cumulative maximum of \$30 million (see Note 7).

Interest income increased to \$1.9 million in the first six months of 2001, from \$1.6 million in the comparable period of 2000, due to the investment of proceeds generated by the sale of the Company's contract research operations, Primedica Corporation ("Primedica") to Charles River Laboratories, Inc. ("CRL") in February 2001, as well as to higher cash and marketable security balances in the first six months of 2001, partially offset by the impact of lower interest rates in 2001.

Interest expense decreased to \$418,000 in the first six months of 2001 from \$551,000 in the comparable period of 2000 due to lower outstanding borrowings in 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash, cash equivalents and marketable securities of \$100.8 million at July 1, 2001. This amount includes cash and cash equivalents of \$78.4 million and \$22.4 million of CRL common stock. The CRL common stock was classified as available for sale and was recorded at market value of \$34 per share at the balance sheet date.

During the first six months of 2001, the Company had a \$23.9 million net increase in cash and cash equivalents. Sources of funds during the period included \$23.9 million of net proceeds from the sale of Primedica, \$21.3 million from the redemption of marketable securities and \$1.9 million from the issuance of common stock under various employee stock plans. Uses of funds during the period included \$8.5 million used in operations, \$1.7 million invested in capital equipment and further expansion of the transgenic production facility, \$3.2 million of funding of the ATIII LLC, \$9.5 million used to purchase marketable securities and \$470,000 used to pay down long-term debt.

On July 25, 2001, the Company completed the sale of all of its holdings of CRL common stock at \$29 per share for a total of \$18.1 million. The sale resulted in a \$2.3 million realized gain.

The Company had working capital of \$86.7 million at July 1, 2001 compared to \$88.4 million at December 31, 2000. As of July 1, 2001 the Company had \$15.8 million available under a line of credit with a commercial bank.

The Company is preparing plans for expansion of its existing transgenic production facilities in Central Massachusetts as well as establishment of a second production site in order to facilitate growth in the number of development programs and the commercialization of ongoing transgenic programs. In August 2001, the Company signed an agreement to purchase approximately 135 acres of farm land in eastern New York state for approximately \$450,000 to be used for development as a second production site. The Company anticipates investing between \$6 million and \$8 million in capital expenditures over the next 18-24 months.

In August 2001, the Company reacquired Genzyme's ownership interest in the ATIII LLC. Accordingly, the Company will be required to fully fund any development costs for ATIII until a development partner is obtained. The Company expects to submit in August 2001, a clinical trial exemption ("CTX") for rhATIII to the Medicines Control Agency ("MCA"), in the United Kingdom for permission to conduct a pharmacokinetic trial in hereditary ATIII deficient patients.

Management's current expectations regarding the sufficiency of the Company's cash resources are forward-looking statements, and the Company's cash requirements may vary materially from such expectations. Such forward-looking statements are dependent on several factors, including the ability of the Company to enter into transgenic research and development collaborations in the

future and the terms of such collaborations, the results of research and development and preclinical and clinical testing, competitive and technological advances and regulatory requirements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no other material changes in the Company's market risk since December 31, 2000. The Company's market risk disclosures are discussed in its Form 10-K for the year ended December 31, 2000 under the heading Item 7A, Quantitative and Qualitative Disclosures About Market Risk.

PART II

ITEM 4: Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Shareholders held on May 23, 2001, the Company's shareholders voted as follows:

To reelect each of the following nominees to the Board of Directors for a three-year term.

<u>Nominee</u>	<u>Total Vote "FOR"</u>	<u>Total Vote Withheld</u>
Robert W. Baldrige	26,345,728	130,070
James A. Geraghty	26,348,739	127,059
Henri A. Termeer	26,346,635	129,163

In addition, the terms in office of Henry E. Blair, Francis J. Bullock, Alan W. Tuck and Geoffrey F. Cox continued after the meeting.

ITEM 6: Exhibits and Reports on Form 8-K

(a) Exhibits

See the Exhibit Index immediately following the signature page.

(b) Reports on Form 8-K

On June 1, 2001, the Company filed a Current Report on Form 8-K with the SEC reporting the Company's establishment of a shareholder rights plan.

**GENZYME TRANSGENICS CORPORATION AND SUBSIDIARY
FORM 10-Q**

July 1, 2001

SIGNATURES

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

Date: August 7, 2001

GENZYME TRANSGENICS CORPORATION

BY: /s/ John B. Green

John B. Green
Duly Authorized Officer,
Vice President and
Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
10.1	Separation Agreement and General Release between the Company and Sandra Nusinoff Lehrman dated as of May 16, 2001.