

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 September 30, 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.)
<hr/> 175 Crossing Boulevard, Framingham, Massachusetts	<hr/> 01702
(Address of principal executive offices)	(Zip Code)
<hr/> (508) 620-9700 <hr/>	

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 November 6, 2001</u>
Common Stock, \$0.01 par value	30,181,431

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

	<u>September 30,</u> <u>2001</u>	<u>December 31,</u> <u>2000</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 69,275	\$ 41,024
Marketable securities	24,444	25,508
Accounts receivable and unbilled contract revenue, net of allowance of \$361 at September 30, 2001 and December 31, 2000	2,817	2,753
Other current assets	688	1,098
Net assets of discontinued contract research operations held for sale	-	37,272
Total current assets	<u>97,224</u>	<u>107,655</u>
Net property, plant and equipment	15,458	13,841
Other assets	11,937	12,907
	<u>\$ 124,619</u>	<u>\$ 134,403</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 354	\$ 1,073
Accounts payable – Genzyme Corporation	770	1,344
Payable to ATIII LLC	1,290	1,096
Accrued expenses	5,259	4,514
Deferred contract revenue	3,382	4,522
Current portion of long-term debt and capital leases	6,137	6,717
Total current liabilities	<u>17,192</u>	<u>19,266</u>
Long-term debt and capital leases, net of current portion	87	223
Deferred lease obligation	58	71
Total liabilities	<u>17,337</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; 30,181,431 and 29,697,151 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively	302	297
Capital in excess of par value – common stock	197,562	194,255
Accumulated deficit	(90,719)	(79,766)
Accumulated other comprehensive income	137	57
Total shareholders' equity	<u>107,282</u>	<u>114,843</u>
	<u>\$ 124,619</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)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u> <u>2001</u>	<u>October 1,</u> <u>2000</u>	<u>September 30,</u> <u>2001</u>	<u>October 1,</u> <u>2000</u>
Revenues	\$ 5,498	\$ 3,169	\$ 10,693	\$ 10,906
Costs of revenue and operating expenses:				
Research and development	5,893	4,864	15,947	13,306
Selling, general and administrative	2,605	2,154	8,414	6,319
Equity in loss of joint venture	521	977	4,078	3,185
	<u>9,019</u>	<u>7,995</u>	<u>28,439</u>	<u>22,810</u>
Operating loss from continuing operations	(3,521)	(4,826)	(17,746)	(11,904)
Other income (expense):				
Interest income	893	1,175	2,826	2,765
Interest expense	(174)	(224)	(592)	(775)
Realized gain on sale of securities	2,323	-	2,323	-
	<u>2,323</u>	<u>-</u>	<u>2,323</u>	<u>-</u>
Operating loss from continuing operations	(479)	(3,875)	(13,189)	(9,914)
Discontinued operations				
Income (loss) from discontinued contract research operations (less applicable taxes of \$0 and \$55)	-	329	-	(572)
Gain from sale of discontinued contract research operations	-	-	2,236	-
	<u>-</u>	<u>-</u>	<u>2,236</u>	<u>-</u>
Net loss	\$ (479)	\$ (3,546)	\$ (10,953)	\$ (10,486)
Dividend to preferred shareholders	-	-	-	(74)
Net loss available to common shareholders	<u>\$ (479)</u>	<u>\$ (3,546)</u>	<u>\$ (10,953)</u>	<u>\$ (10,560)</u>
Net income (loss) per common share (basic and diluted):				
From continuing operations	<u>\$ (0.02)</u>	<u>\$ (0.13)</u>	<u>\$ (0.44)</u>	<u>\$ (0.36)</u>
From discontinued contract research operations	<u>\$ -</u>	<u>\$ 0.01</u>	<u>\$ 0.07</u>	<u>\$ (0.02)</u>
Net loss	<u>\$ (0.02)</u>	<u>\$ (0.12)</u>	<u>\$ (0.37)</u>	<u>\$ (0.38)</u>
Weighted average number of shares outstanding (basic and diluted)	<u>30,113</u>	<u>29,100</u>	<u>29,906</u>	<u>27,949</u>
Comprehensive loss:				
Net loss	\$ (479)	\$ (3,546)	\$ (10,953)	\$ (10,486)
Other comprehensive income:				
Unrealized holding gain (loss) on available for sale securities	(11)	32	80	15
Total other comprehensive income (loss)	<u>(11)</u>	<u>32</u>	<u>80</u>	<u>15</u>
Comprehensive loss	<u>\$ (490)</u>	<u>\$ (3,514)</u>	<u>\$ (10,873)</u>	<u>\$ (10,471)</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>Nine months ended</u>	
	<u>September</u> <u>30,</u> <u>2001</u>	<u>October 1,</u> <u>2000</u>
Cash flows from operating activities:		
Net loss from continuing operations	\$ (13,189)	\$ (9,914)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,964	1,442
Amortization of unearned compensation	284	1,715
Amortization/accretion marketable securities	198	(659)
Shares to be issued for 401-K match	725	567
Equity in loss of joint venture	1,290	3,185
Gain on sale of CRL stock	(2,323)	-
Changes in assets and liabilities:		
Accounts receivable and unbilled contract revenue	(64)	(1,674)
Other current assets	126	195
Accounts payable	(719)	228
Accounts payable – Genzyme Corporation	(574)	1,062
Other accrued expenses	745	(489)
Deferred contract revenue	(1,140)	(22)
Net cash used in operating activities	<u>(12,677)</u>	<u>(4,364)</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(2,612)	(748)
Investment in joint venture	(1,096)	(2,152)
Purchase of marketable securities	(29,183)	(42,741)
Redemption of marketable securities	29,748	9,784
Sale of CRL stock	18,192	-
Cash paid for acquisition of SMIG	-	(26)
Other assets	<u>-</u>	<u>107</u>
Net cash used in investing activities	15,049	(35,776)
Cash flows from financing activities:		
Net proceeds from the issuance of common stock	284	74,964
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	330	874
Net proceeds from the exercise of stock options	1,973	6,203
Repayment of long-term debt	(716)	(502)
Net payments under revolving line of credit	-	(15,750)
Other long-term liabilities	<u>(13)</u>	<u>(13)</u>
Net cash provided by financing activities	25,734	72,596
Net cash provided by (used in) discontinued operations	<u>145</u>	<u>(4,547)</u>
Net increase in cash and cash equivalents	28,251	27,909
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>\$ 69,275</u>	<u>\$ 35,722</u>
Noncash investing and financing activities:		
SMIG acquired by issuance of stock	\$ -	\$ 11,054
Property acquired under capital lease	-	113
CRL common stock received from the sale of discontinued operations	15,868	-
Assumption of Primedica debt	9,000	-

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 nine months ended September 30, 2001 and October 1, 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 3 million at September 30, 2001 and October 1, 2000, respectively. Since the Company was in a net loss position at September 30, 2001 and October 1, 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 nine months ended September 30, 2001 is the Company's \$4.1 million equity in loss of joint venture, 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 under which the Company fully funded ATIII LLC costs subsequent to February 2, 2001, pending the Company's evaluation of alternative indications for ATIII. On July 31, 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.

Total net losses of the ATIII LLC in the first nine months of 2001 were \$4.5 million before the reacquisition from Genzyme on July 31, 2001, 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. On July 25, 2001, the Company completed the sale of all of its holdings of CRL common stock. The shares were sold at \$29 per share (\$27.61 net of underwriters commission) resulting in net proceeds of \$18.2 million and a \$2.3 million realized gain.

5. New Accounting Pronouncements:

In July 2001, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 141 ("SFAS No. 141"), "Business Combinations" and FASB Statement No. 142 ("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.

On October 3, 2001, FASB issued FASB Statement No. 144 ("SFAS No. 144" or the "Standard"), *Accounting for the Impairment or Disposal of Long-Lived Assets*. The objectives of SFAS 144 are to address significant issues relating to the implementation of FASB Statement No. 121 ("SFAS No. 121"), *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and to develop a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, its provisions are to be applied prospectively. The Company does not expect the above accounting pronouncements to have a significant impact on the Company.

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, par value \$.01 per share (the "Series C Preferred Stock"), 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.

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

RESULTS OF OPERATIONS

Three months ended September 30, 2001 and October 1, 2000

Total revenues for the three-month period ending September 30, 2001 were \$5.5 million, compared with \$3.2 million for the comparable period in 2000, an increase of \$2.3 million or 73%. The increase in revenues includes the recognition in 2001 of revenues earned in association with option payments of approximately \$3.8 million received from Fresenius. These options were exercised by Fresenius to gain additional marketing rights for North America and Asia, exclusive of Japan.

Research and development expenses increased to \$5.9 million in the third quarter of 2001 from \$4.9 million in the third quarter of 2000, an increase of \$1 million or 21%. The increase is primarily due to a higher investment in the research and development programs, including recombinant serum albumin (rhSA), recombinant human antithrombin III (rhATIII) and further development of the Company's core technologies. The Company reacquired Genzyme's ownership interest in the ATIII LLC on July 31, 2001. As a result of the reacquisition, all rhATIII related costs subsequent to July 31, 2001, are included in the Company's research and development expenses.

Selling, general and administrative expenses increased to \$2.6 million in the third quarter of 2001 from \$2.2 million in the third quarter of 2000, an increase of \$451,000 or 21%. The increase is primarily due to increased investment in information technology personnel related expenses, recruiting costs and professional fees in 2001.

The Company recognized \$521,000 of joint venture losses incurred on the joint venture ("ATIII LLC") between the Company and Genzyme Corporation ("Genzyme") during the third quarter of 2001 as compared to \$977,000 during the third quarter of 2000. The decrease is a result of the Company reacquiring Genzyme's ownership interest in the ATIII LLC on July 31, 2001, in exchange for a royalty to Genzyme based on the Company's sales of rhATIII, if any, commencing three years after the first commercial sale, up to a cumulative maximum of \$30 million.

Interest income decreased to \$893,000 in the third quarter of 2001, from \$1.2 million in the third quarter of 2000, due to the impact of lower interest rates in 2001.

Interest expense decreased to \$174,000 in the third quarter of 2001 from \$224,000 in the third quarter of 2000 due to lower outstanding borrowings, as well as lower interest rates, in 2001.

The realized gain on the sale of securities is a result of the sale, in July 2001, of all the shares of Charles River Laboratories, Inc. common stock received as part of the purchase price in the Company's February, 2001 sale of Primedica Corporation.

Nine months ended September 30, 2001 and October 1, 2000

Total revenues for the nine-month period ending September 30, 2001 were \$10.7 million, just slightly lower than the \$10.9 million in the comparable period of 2000.

Research and development expenses increased to \$15.9 million in the first nine months of 2001 from \$13.3 million in the comparable period of 2000, an increase of \$2.6 million, or 20%. The increase is primarily due to a higher investment in the research and development programs, including recombinant human serum albumin, recombinant human antithrombin III and further development of the Company's core technologies. The Company reacquired Genzyme's ownership interest in the ATIII LLC on July 31, 2001. As a result of the reacquisition, all rhATIII related costs subsequent to July 31, 2001, are included in the Company's research and development expenses.

Selling, general and administrative expenses increased to \$8.4 million in the first nine months of 2001 from \$6.3 million in the comparable period of 2000, an increase of \$2.1 million or 33%. The increase is due to an increased investment in information technology personnel related expenses, higher professional fees and recruiting costs, as well as to a charge related to contractual obligations in connection with the resignation of the Company's former President and Chief Executive Officer.

The Company recognized \$4.1 million of joint venture losses incurred on ATIII LLC between the Company and Genzyme during the first nine months of 2001 as compared to \$3.2 million incurred during the comparable period of 2000. The increase was due to an Interim Funding 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 rhATIII. On July 31, 2001, the Company reacquired Genzyme's ownership interest in the ATIII LLC in exchange for a royalty to Genzyme based on the Company's sales of rhATIII, if any, commencing three years after the first commercial sale, up to a cumulative maximum of \$30 million.

Interest income was \$2.8 million in both the first nine months of 2001 and 2000. The investment of proceeds generated by the sale of the Company's contract research operations, Primedica to Charles River Laboratories in February 2001, along with higher cash and marketable security balances in the first nine months of 2001, are offset by the impact of lower interest rates in 2001.

Interest expense decreased to \$592,000 in the first nine months of 2001 from \$775,000 in the comparable period of 2000 due to lower outstanding borrowings, as well as lower interest rates, in 2001.

The realized gain on the sale of securities is a result of the sale, in July 2001, of all the shares of Charles River Laboratories common stock received as part of the purchase price in the Company's February, 2001 sale of Primedica.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash, cash equivalents and marketable securities of \$93.7 million at September 30, 2001. This amount includes cash and cash equivalents of \$69.3 million.

During the first nine months of 2001, the Company had a \$28.3 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, \$18.2 million from the sale of the Charles River Laboratories common stock, \$29.7 million from the redemption of marketable securities and \$2.6 million from the issuance of common stock under various employee stock plans. Uses of funds during the period included \$12.7 million used in operations, \$2.6 million invested in capital equipment and further expansion of the transgenic production facility, \$1.1 million of funding of the ATIII LLC, \$29.2 million used to purchase marketable securities and \$716,000 used to pay down long-term debt.

The Company had working capital of \$80 million at September 30, 2001 compared to \$88.4 million at December 31, 2000. As of September 30, 2001 the Company had \$15.8 million available under a line of credit with a commercial bank.

The Company is preparing plans to expand its existing transgenic production facilities in central Massachusetts as well as to establish 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 developed as a second production site. The Company anticipates investing between \$6 million and \$8 million in capital expenditures over the next 18-24 months.

On July 31, 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 both filed for and received acceptance of our clinical trial exemption for rhATIII in Europe to begin clinical study of ATIII patients with a hereditary deficiency. A pharmacokinetic trial in Europe will begin in the fourth quarter of 2001.

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 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

No reports were filed on Form 8-K during the quarter ended September 30, 2001.

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

September 30, 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: November 13, 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	Executive Employment Agreement between the Company and Geoffrey F. Cox, dated as of July 18, 2001.
10.2	Purchase Agreement between the Company and Genzyme Corporation, dated as of July 31, 2001.
10.3	Services Agreement between the Company and Genzyme Corporation, dated as of July 31, 2001.
10.4	Amended and Restated Collaboration Agreement among the Company, Genzyme Corporation and ATIII LLC, dated as of July 31, 2001.