

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 4, 1999

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 Blvd., Suite 410, 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 6, 1999</u>
Common Stock, \$0.01 par value	20,064,014

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

	<u>July 4, 1999</u>	<u>January 3, 1999</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,437	\$ 11,740
Accounts receivable, net of allowance of \$835 and \$487	11,023	12,334
Unbilled contract revenue	8,749	6,847
Other current assets	2,093	1,496
Total current assets	<u>30,302</u>	<u>32,417</u>
Net property, plant and equipment	32,331	30,486
Costs in excess of net assets acquired, net	17,832	18,404
Other assets	3,496	2,030
	<u>\$ 83,961</u>	<u>\$ 83,337</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,706	\$ 2,811
Accounts payable – Genzyme Corporation	1,097	1,487
Due to ATIII LLC	1,728	2,418
Revolving line of credit	15,700	11,096
Accrued expenses	8,554	8,403
Advance payments	9,315	8,317
Current portion of long-term debt	2,954	2,204
Total current liabilities	<u>42,054</u>	<u>36,736</u>
Long-term debt, net of current portion	12,229	9,561
Deferred lease obligation	760	741
Other liabilities	32	95
Total liabilities	<u>55,075</u>	<u>47,133</u>
Stockholders' equity:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; 4,000,000 have been designated as Series A Convertible, of which 16,750 and 20,000 shares are issued and outstanding at July 4, 1999 and January 3, 1999, respectively (Note 4) (liquidation preference \$16,750)	-	-
Common stock, \$.01 par value; 40,000,000 shares authorized; 19,665,801 and 18,384,024 shares issued and outstanding at July 4, 1999 and January 3, 1999, respectively	197	184
Dividend on preferred stock	(1,156)	(1,156)
Capital in excess of par value – preferred stock	15,726	18,777
Capital in excess of par value – common stock	70,779	65,716
Unearned compensation	(345)	(437)
Accumulated deficit	(56,259)	(46,864)
Accumulated other comprehensive loss	(56)	(16)
Total stockholders' equity	<u>28,886</u>	<u>36,204</u>
	<u>\$ 83,961</u>	<u>\$ 83,337</u>

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

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>July 4,</u> <u>1999</u>	<u>June 28,</u> <u>1998</u>	<u>July 4,</u> <u>1999</u>	<u>June 28,</u> <u>1998</u>
Revenues				
Services	\$ 14,314	\$ 12,200	\$ 27,390	\$ 23,388
Sponsored research and development	<u>4,288</u>	<u>2,213</u>	<u>5,981</u>	<u>4,776</u>
	18,602	14,413	33,371	28,164
Costs and operating expenses:				
Services	12,101	10,292	23,584	20,213
Research and development				
Sponsored	2,211	2,291	4,788	4,132
Proprietary	892	1,563	2,178	3,402
Selling, general and administrative	5,152	4,200	9,704	8,086
Equity in loss of joint venture	<u>977</u>	<u>860</u>	<u>1,843</u>	<u>1,724</u>
	<u>21,333</u>	<u>19,206</u>	<u>42,097</u>	<u>37,557</u>
Loss from operations	(2,731)		(8,726)	
		(4,793)		(9,393)
Other income (expense):				
Interest income	13	98	20	110
Interest expense			(1,014)	
	(504)	(299)		(756)
Other income	<u>484</u>	<u>100</u>	<u>484</u>	<u>100</u>
Loss before income taxes	(2,738)		(9,236)	
		(4,8)		(9,939)
Provision (benefit) for income taxes	<u>108</u>	<u>-</u>	<u>159</u>	<u>(10)</u>
Net loss	\$ (2,846)	\$ (4,8)	\$ (9,395)	\$ (9,929)
Dividend to preferred shareholders	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,156)</u>
Net loss available to common shareholders	<u>\$ (2,846)</u>	<u>\$ (4,894)</u>	<u>\$ (9,395)</u>	<u>\$ (11,085)</u>
Net loss per common share (basic and diluted)	<u>\$ (0.15)</u>	<u>\$ (0.15)</u>	<u>\$ (0.15)</u>	<u>\$ (0.15)</u>
Weighted average number of shares outstanding (basic and diluted)	<u>19,268</u>	<u>17,844</u>	<u>18,959</u>	<u>17,655</u>
Comprehensive loss:				
Net loss	(2,846)	(4,894)	(9,395)	(9,929)
Other comprehensive income (loss):				
Unrealized holding losses on available for sale				

securities			<u>(40)</u>	
	<u>(31)</u>	=		=
Total other comprehensive income (loss)			<u>(40)</u>	
	<u>(31)</u>	=		=
Comprehensive loss	<u>\$</u>	<u>\$</u>	<u>\$ (9,435)</u>	<u>\$ (9,929)</u>
	<u>(2,877)</u>	<u>(4,894)</u>		

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

GENZYME TRANSGENICS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, dollars in thousands except per share amounts)

	Six Months Ended	
	July 4, 1999	June 28, 1998
Cash flows for operating activities:		
Net loss	\$ (9,395)	\$ (9,929)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	2,770	2,399
Amortization of unearned compensation	55	-
Equity in loss of joint venture	1,843	1,724
Changes in assets and liabilities:		
Accounts receivable and unbilled contract revenue	(591)	1,647
Inventory and other current assets	(637)	224
Accounts payable	(105)	131
Accounts payable - Genzyme Corporation	(390)	(1,360)
Other accrued expenses	662	(646)
Advance payments	<u>998</u>	<u>329</u>
Net cash used in operating activities	(4,790)	(5,481)
Cash flows for investing activities:		
Purchase of property, plant and equipment	(3,114)	(3,613)
Investment in ATIII joint venture	(2,460)	-
Other assets	<u>(595)</u>	<u>(77)</u>
Net cash used in investing activities	(6,169)	(3,690)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	-	6,423
Net proceeds from employee stock purchase plan	517	700
Net proceeds from the exercise of stock options	34	445
Proceeds from preferred stock offering	-	19,000
Proceeds from long-term debt	3,802	-
Repayment of long-term debt	(1,257)	(1,038)
Net borrowings (repayment) under revolving line of credit	4,604	(6,000)
Investment and advances by Genzyme Corporation	-	(6,000)
Other long-term liabilities	<u>(44)</u>	<u>(51)</u>
Net cash provided by financing activities	<u>7,656</u>	<u>13,479</u>
Net increase (decrease) in cash and cash equivalents	(3,303)	4,308
Cash and cash equivalents at beginning of the period	<u>11,740</u>	<u>6,383</u>
Cash and cash equivalents at end of the period	\$ <u>8,437</u>	\$ <u>10,691</u>
Noncash Investing and Financing Activities:		
Property acquired under capital leases	\$ 873	\$ 668
Receipt of stock for Accounts Receivable and Advance Payment	-	583
Technology license acquired by issuance of stock	1,000	-

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

GENZYME TRANSGENICS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED 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 January 3, 1999 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 six months ended July 4, 1999 and June 28, 1998 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 January 3, 1999.

Per share information is based upon weighted average number of shares of Common Stock outstanding during the period. Common stock equivalents consisting of warrants, stock options and convertible preferred stock, totaled \$6.5 million and \$4 million at July 4, 1999 and June 28, 1998, respectively. Since the Company incurred a net loss for the period ending July 4, 1999 and June 28, 1998, these common stock equivalents were not used to compute diluted loss per share, as the effect was antidilutive.

Included in the net loss is an equity in loss of joint venture of \$1,843,000 which represents the Company's commitment to fund 30% of the losses incurred in 1999 of the joint venture between the Company and Genzyme Corporation ("ATIII LLC"). Total net losses of the ATIII LLC in the first six months of 1999 were \$5.8 million, and the ATIII LLC did not recognize any revenues.

3. Income Taxes:

Due to the profitability of some of its contract research laboratories in certain states, the Company has recorded a state provision for income taxes for the period ended July 4, 1999.

4. Preferred Stock Conversion:

On January 25, May 4 and May 19, 1999, an institutional investor converted 1,500, 1,000 and 750 shares, respectively, of the Series A Convertible Preferred Stock ("Preferred Stock"), \$.01 par value per share into 321,716, 299,626 and 211,638 shares, respectively, of the Company's common stock at a conversion price of \$4.6625, \$3.3375 and \$3.5438 per share, respectively. The conversion prices represented the average of the five lowest bid prices of the prior 20 trading days before conversion. After these conversions, 16,750 shares of the Preferred Stock remained outstanding.

Subsequent to the date of these financial statements on July 23 and July 27, 1999, several institutional investors converted 1,000 and 750 shares of the Preferred Stock into 223,462 and 167,131 shares of the Company's stock at a conversion price of \$4.475 and \$4.485 per share, respectively. After these conversions, 15,000 shares of the Preferred Stock remained outstanding.

5. Segment Information:

Below is the Company's segment information for its two reportable segments: Contract research organization ("Primedica") and research and development ("Transgenics"). During 1999, the Company began to allocate certain corporate expenses to the Primedica segment in its evaluation of the segments loss from operations. Certain reclassifications have been made to prior year's numbers to conform to 1999 classifications.

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>July 4,</u> <u>1999</u>	<u>June 28,</u> <u>1998</u>	<u>July 4,</u> <u>1999</u>	<u>June 28,</u> <u>1998</u>
Revenues:				
Primedica - external customers	\$ 14,314	\$ 12,200	\$ 27,390	\$ 23,388
Primedica - intersegment	345	526	776	890
Transgenics	4,288	2,213	5,981	4,776
	<u>18,947</u>	<u>14,939</u>	<u>34,147</u>	<u>29,054</u>
Elimination of intersegment revenues	<u>(345)</u>	<u>(526)</u>	<u>(776)</u>	<u>(890)</u>
	<u>\$ 18,602</u>	<u>\$ 14,413</u>	<u>\$ 33,371</u>	<u>\$ 28,164</u>
Loss from operations:				
Primedica	\$ (384)	\$ (230)	\$ (1,277)	\$ (1,132)
Transgenics	(34)	(2,638)	(3,290)	(4,678)
Unallocated amounts:				
Corporate expenses	(1,336)	(1,065)	(2,316)	(1,859)
Equity in loss of joint venture	<u>(977)</u>	<u>(860)</u>	<u>(1,843)</u>	<u>(1,724)</u>
	<u>\$ (2,731)</u>	<u>\$ (4,793)</u>	<u>\$ (8,726)</u>	<u>\$ (9,393)</u>

6. ACT License Agreement:

In June 1999, the Company entered into an Exclusive License and Development Agreement (“the Agreement”) with Advanced Cell Technology, Inc. (“ACT”). The Company paid \$1,750,000 to ACT in consideration of the license granted to the Company from ACT of which \$1.0 million was in the form of 216,798 shares of Company stock and \$750,000 was in cash. The number of shares was based on a price of \$4.6125 per share, the Company has capitalized the amount paid for the license fee and is amortizing it over ten years based on its estimated economic life. Additionally, the Company paid to ACT \$250,000 in cash as an advance payment. The advance payment shall be fully creditable against ACT services for which parties have separately contracted, milestone payments, royalties, sublicense revenues or other payments payable or to become payable to ACT from the Company under this Agreement or any other agreement between the parties.

7. Facility Lease:

In April 1999, the Company entered into a seven year facility lease for 12,468 square feet located in Framingham, Massachusetts. The monthly payment for years one and two is \$26,945, years three and four is \$27,534 and years five through seven is \$28,573.

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

RESULTS OF OPERATIONS

Three months ended July 4, 1999 and June 28, 1998

Total revenues for the three-month period ending July 4, 1999 were \$18.6 million, compared with \$14.4 million in the comparable period of 1998, an increase of \$4.2 million or 29%. Service revenues increased to \$14.3 million in the second quarter of 1999 from \$12.2 million in the second quarter of 1998, an increase of \$2.1 million or 17% due to increased volume. Research and development revenue increased to \$4.3 million in the second quarter of 1999 from \$2.2 million in the second quarter of 1998, an increase of \$2.1 million or 95%. The increase is a result of a \$1.5 million milestone payment received in the second quarter of 1999 from Bristol Meyers Squibb for achieving an expression level greater than 7.5 grams per liter of CTLA4Ig and a \$500,000 milestone received in the second quarter of 1999 from BASF for achieving equivalent results between the control antibody and purified antibody in the pharmacokinetic and immunogenicity studies.

Cost of services for the second quarter of 1999 were \$12.1 million compared to \$10.3 million in the comparable period of 1998, an increase of \$1.8 million or 18% due to the increase in revenues. Sponsored research and development expenses decreased to \$2.2 million in the second quarter of 1999 from \$2.3 million in the second quarter of 1998, a decrease of 3%. Proprietary research and development expenses decreased to \$892,000 in the second quarter of 1999 from \$1.6 million in the second quarter of 1998, a decrease of \$700,000 or 43%. The decrease is due to decreased work on the cancer vaccine program and a shifting of resources to sponsored research and development.

Gross profit, defined as revenues less service costs and research and development costs, for the second quarter of 1999 amounted to a profit of \$3.4 million versus a profit of \$267,000 in the second quarter of 1998 due to the increase in revenues. Gross profit on services for the second quarter of 1999 was \$2.2 million, a gross margin of 15%, versus \$1.9 million, a gross margin of 16%, in the second quarter of 1998

Selling, general and administrative ("SG&A") expenses increased to \$5.2 million in the second quarter of 1999 from \$4.2 million in the second quarter of 1998, an increase of \$1.0 million or 23%. The increase is due to the increased marketing activities including promotional materials and advertising and to the addition of administrative personnel required to support the growth in transgenic research and development programs and additional patent expenditures.

Interest income decreased to \$13,000 in the second quarter of 1999, from \$98,000 in the second quarter of 1998, due to lower funds available for investment. Interest expense increased to \$504,000 in the second quarter of 1999 from \$299,000 in the second quarter of 1998 due to

increased borrowings in 1999. Other income increased to \$484,000 in the second quarter of 1999, from \$100,000 in the second quarter of 1998, due to the receipt of an insurance settlement.

The Company recognized \$977,000 of Joint Venture losses incurred on the joint venture ("ATIII LLC") between the Company and Genzyme Corporation ("Genzyme") during the second quarter of 1999 as compared to \$860,000 incurred during the second quarter of 1998.

Six months ended July 4, 1999 and June 28, 1998

Total revenues for the six-month period ending July 4, 1999 were \$33.4 million, compared with \$28.2 million in the comparable period of 1998, an increase of \$5.2 million or 18%. Service revenues increased to \$27.4 million during the first six months of 1999 from \$23.4 million in the comparable period of 1998, an increase of \$4 million or 17% due to increased volume. Research and development revenue increased to \$6.0 million during the first six months of 1999 from \$4.8 million in the comparable period of 1998, an increase of \$1.2 million or 25%. The increase is a result of a \$1.5 million milestone payment received in the second quarter of 1999 from Bristol Meyers Squibb for achieving an expression level greater than 7.5 grams per liter of CTLA4Ig and a \$500,000 milestone received in the second quarter of 1999 from BASF for achieving equivalent results between the control antibody and purified antibody in the pharmacokinetic and immunogenicity studies versus a \$1.0 million milestone payment received in the first quarter of 1998.

Cost of services during the first six months of 1999 were \$23.6 million compared to \$20.2 million in the comparable period of 1998, an increase of \$3.4 million or 17% due to the increase in revenues. Sponsored research and development expenses increased to \$4.8 million in the first six months of 1999 from \$4.1 million in the comparable period of 1998, an increase of \$700,000 or 16%. The increase in expense is due to an increase in activity on sponsored research. Proprietary research and development expenses decreased to \$2.2 million in the first six months of 1999 from \$3.4 in the comparable period of 1998, a decrease of \$1.2 million or 36%. The decrease is due to decreased work on the cancer vaccine program and a shifting of resources to sponsored research and development.

Gross profit for the first six months of 1999 amounted to a profit of \$2.8 million versus a profit of \$417,000 in the comparable period of 1998 due to the increase in revenues. Gross profit on services for the first six months of 1999 was \$3.8 million, a gross margin of 14%, versus \$3.2 million, a gross margin of 14%, in the comparable period of 1998.

Selling, general and administrative ("SG&A") expenses increased to \$9.7 million in the first six months of 1999 from \$8.1 million in the comparable period of 1998, an increase of \$1.6 million or 20%. The increase is due to the increased marketing activities including promotional materials and advertising and to the addition of administrative personnel required to support the growth in transgenic research and development programs and additional patent expenditures.

Interest income decreased to \$20,000 in the first six months of 1999, from \$110,000 in the comparable period of 1998, due to lower funds available for investment. Interest expense

increased to \$1.0 million in the first six months of 1999 from \$756,000 in the comparable period of 1998 due to increased borrowings in 1999. Other income increased to \$484,000 in the first six months of 1999, from \$100,000 in the comparable period of 1998, due to the receipt of an insurance settlement.

The Company recognized \$1.8 million of Joint Venture losses incurred on the joint venture (“ATIII LLC”) between the Company and Genzyme Corporation (“Genzyme”) during the first six months of 1999 as compared to \$1.7 million incurred during the comparable period of 1998.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash and cash equivalents of \$8.4 million at July 4, 1999. During the first six months of 1999, the Company had a \$3.3 million net decrease in cash: \$7.3 million of cash used in operations (due primarily to the net loss of \$9.4 million offset by a decrease in non-cash working capital of \$2.5 and \$4.6 million of non-cash charges), \$3.1 million was invested in capital equipment, further expansion of the transgenic production facility and the expansion of the laboratory facilities and \$1.3 million was used to pay down long-term debt. Sources of funds during the period included \$4.6 million in net borrowings under a commercial bank revolving line of credit, \$3.8 million of proceeds from issuance of long-term debt and \$551,000 of proceeds from the issuance of common stock under various employee stock plans.

The Company had a working capital deficit of \$11.8 million at July 4, 1999 compared to a deficit of \$4.3 million at January 4, 1999. As of July 4, 1999, the Company had approximately \$6.4 million available under the Genzyme Convertible Debt and Development Agreement, \$300,000 available under a line of credit with a commercial bank, \$4.1 million was available under various capital lease lines and \$1.5 million available under a term loan for facility expansion. Under the Company’s 1999 operating plan, existing cash balances along with funds available under the bank and lease lines and the Convertible Debt and Development Agreement are expected to be sufficient to fund the Company through the third quarter of 2000. In the second quarter of 1999, the Company re-evaluated its clinical trial strategy with respect to ATIII, and eliminated plans to engage in a clinical trial comparing rh ATIII with plasma derived product, but is completing its two placebo-controlled trials evaluating ATIII use in achieving adequate anti-coagulation in heparin-resistant patients about to undergo cardiopulmonary bypass surgery. The Company is considering various alternative financing strategies, such as collaborative arrangements, public or private sales of its securities, including securities in certain subsidiaries, additional mortgage or lease financing, asset sales and other sources.

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 results of the Company’s testing services business, the ability of the Company to enter into any 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, regulatory requirements and the Company’s ability to complete the financing for the Mason Laboratory expansion. If the Company experiences

increased losses, the Company may have to seek additional financing through collaborative arrangements or from public or private sales of its securities, including equity securities. There can be no assurance that additional funding will be available on terms acceptable to the Company, if at all. If additional financing cannot be obtained on acceptable terms, to continue its operations the Company could be forced to delay, scale back or eliminate certain of its research and development programs or to enter into license agreements with third parties for the commercialization of technologies or products that the Company would otherwise undertake itself.

Impact of the Year 2000

Certain companies may face problems if the computer processors and software upon which they directly or indirectly rely are unable to process date values correctly upon the turn of the millennium ("Year 2000"). Such a system failure and corruption of data of the Company or its customers or suppliers could disrupt the Company's operations, including, among other things a temporary inability to process transactions or engage in other business activities or to receive information or services from suppliers.

The Company has appointed a Year 2000 task force to address the issues and assess the potential impact of the Year 2000 problem. The task force is evaluating the Company's financial systems, computers, software and other equipment to ensure that the programs and systems will be Year 2000 compliant. The Company presently believes that its computer systems, software and other equipment will be Year 2000 compliant by the end of the Summer of 1999. The Company has spent approximately \$250,000 and estimates that it will spend approximately \$300,000 to \$400,000 in capital replacement of computers, equipment and software upgrades. The Company will incur another \$100,000 to \$200,000 for costs of implementation. The Company has initiated communications with third party suppliers and is requesting that they represent that their products and services are to be Year 2000 compliant and that they have a program to test for compliance. Additionally, the Company is assessing those vendors that are not Year 2000 compliant and is in the process of finding alternative vendors that are compliant.

Because the Company currently anticipates that it will achieve Year 2000 compliance, it has not formulated a contingency plan. However, should the Company determine there is significant risk that it may be unable to adhere to its compliance timetable, it will assess reasonably likely scenarios resulting from noncompliance and establish a contingency plan to address such scenarios.

The Company's ability to achieve Year 2000 compliance is subject to various uncertainties including the Company's ability to successfully identify systems and programs not Year 2000 compliant, the nature and amount of programming required to correct or replace affected programs, the availability and magnitude of labor and consulting costs and the success of the Company's business partners, vendors and clients in addressing the Year 2000 issue. Therefore, while the financial impact of implementing Year 2000 compliance remediation has not been and is not anticipated to be material to the Company's business, financial position or results of operations, the Company can make no assurances with respect to the costs of remediation efforts

not yet incurred. Additionally, the Company cannot be certain that it will achieve adequate Year 2000 compliance in a timely manner or that any impact of a failure to achieve such compliance will not have a material adverse effect on the Company's business, financial condition or results of operation.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's market risk since January 3, 1999. The Company's market risk disclosures are discussed in the Genzyme Transgenics Corporation Form 10-K under the heading Item 7A, Quantitative and Qualitative Disclosures About Market Risk.

PART II

ITEM 2: Changes in Securities

On May 4, 1999, May 19, 1999, July 23, 1999 and July 27, 1999, several institutional investors converted 1,000, 750, 1,000 and 750 shares of their Series A Convertible Preferred Stock, \$.01 par value per share, of the Company (the "Preferred Stock"), into 299,626, 211,638, 223,462 and 167,131 shares of the Company's Common Stock, \$.01 par value per share (the "Common Stock"), at conversion prices of \$3.3375, \$3.5438, \$4.475 and \$4.485 per share of Preferred Stock, respectively. These conversions resulted in the issuance of an aggregate of 901,857 shares of the Company's Common Stock during the quarter ended July 4, 1999. The Company believes the issuance of its Common Stock upon conversion of the Preferred Stock qualified as a transaction by an issuer not involving a public offering within the meaning of Section 4(2) of the Securities Act of 1933, as amended, based on the number and nature of the holders.

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

At the Annual Meeting of Stockholders held on May 25, 1999, the Company's stockholders voted as follows:

- (a) 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>
Henry E. Blair	16,992,266	492,742
Francis J. Bullock	16,992,266	492,742
Alan W. Tuck	16,992,266	492,742

In addition, the terms in office of Sandra Nusinoff Lehrman, Robert W. Baldrige, James A. Geraghty, Alan E. Smith and Henri A. Termeer continued after the meeting.

- (b) To amend the Company's 1993 Equity Incentive Plan to increase the number of shares of the Common Stock of the Company that may be subject to awards under the Plan from 3,015,000 shares to 3,390,000 shares.

Total Vote for the Proposal	16,612,962
Total Vote Against the Proposal	799,802
Abstentions	72,244

ITEM 5: Other Information

The Board of Directors of the Company amended the Company's Bylaws on May 25, 1999 to clarify the date by which stockholders must give notice of a stockholder proposal or director nomination in order for such proposal or nomination to be timely for consideration at any special or annual meeting of the stockholders. Under the Company's Bylaws, as amended, in order for a stockholder to bring business before or propose director nominations at the Company's 2000 Annual Meeting of Stockholders, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation by the close of business on the March 13, 2000. This deadline supercedes the deadline established under the Bylaws prior to the amendment which deadline was disclosed in the Proxy Statement for the 1999 Annual Meeting of Stockholders.

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 July 4, 1999.

No reports were filed on Form 8-K during the quarter ended April 4, 1999.

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

July 4, 1999

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 18, 1999

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>
3.1	By-laws of Genzyme Transgenics Corporation, as amended through May 25, 1999. Filed herewith.
10.1	Lease dated March 26, 1999 between Genzyme Transgenics Corporation and NDNE 9/90 Corporate Center LLC. Filed herewith.
10.2	1993 Equity Incentive Plan, as amended through May 25, 1999. Filed herewith.
27	Financial Data Schedule. (EDGAR only.)