

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 April 2, 2000

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 April 24, 2000</u>
Common Stock, \$0.01 par value	28,615,965

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

	<u>April 2, 2000</u>	<u>January 2, 2000</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 70,449	\$ 7,782
Accounts receivable, net of allowance of \$888 for both periods	10,061	11,335
Unbilled contract revenue, net of allowance of \$75 for both periods	10,469	8,516
Other current assets	2,368	1,971
Total current assets	<u>93,347</u>	<u>29,604</u>
Net property, plant and equipment	34,937	34,302
Costs in excess of net assets acquired, net	16,974	17,260
Other assets	2,927	3,146
	<u>\$ 148,185</u>	<u>\$ 84,312</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,712	\$ 2,977
Accounts payable – Genzyme Corporation	538	559
Payable to ATIII LLC	856	2,151
Revolving line of credit	-	15,750
Accrued expenses	8,674	9,667
Deferred contract revenue	9,668	9,218
Current portion of long-term debt and capital leases	3,102	3,149
Total current liabilities	<u>25,550</u>	<u>43,471</u>
Long-term debt and capital leases, net of current portion	13,285	13,897
Deferred lease obligation	778	779
Total liabilities	<u>39,613</u>	<u>58,147</u>
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized of which 20,000 shares have been designated Series A convertible and 12,500 shares have been designated as Series B convertible		
Series B convertible preferred stock; \$.01 par value; no shares and 6,602 shares were issued and outstanding at April 2, 2000 and January 2, 2000, respectively	-	-
Common stock, \$.01 par value; 40,000,000 shares authorized; 28,613,365 and 22,601,296 shares issued and outstanding at April 2, 2000 and January 2, 2000, respectively	286	226
Dividend on preferred stock	(2,727)	(2,653)
Capital in excess of par value – preferred stock	-	6,647
Capital in excess of par value – common stock	180,473	87,895
Unearned compensation	(254)	(284)
Accumulated deficit	(69,206)	(65,625)
Accumulated other comprehensive loss	-	(41)
Total stockholders' equity	<u>108,572</u>	<u>26,165</u>
	<u>\$ 148,185</u>	<u>\$ 84,312</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>April 2, 2000</u>	<u>April 4, 1999</u>
Revenues		
Services	\$ 15,367	\$ 13,076
Sponsored research and development	<u>3,570</u>	<u>1,693</u>
	18,937	14,769
Costs and operating expenses:		
Services	13,307	11,483
Research and development:		
Sponsored	2,982	2,577
Internal	890	1,286
Selling, general and administrative	4,498	4,552
Equity in loss of joint venture	<u>856</u>	<u>866</u>
	<u>22,533</u>	<u>20,764</u>
Loss from operations	(3,596)	(5,995)
Other income (expense):		
Interest income	553	7
Interest expense	<u>(482)</u>	<u>(510)</u>
Loss from operations before income taxes	(3,525)	(6,498)
Provision for income taxes	<u>56</u>	<u>51</u>
Net loss	<u>\$ (3,581)</u>	<u>\$ (6,549)</u>
Dividend to preferred shareholders	<u>74</u>	<u>-</u>
Net loss available to common shareholders	<u>\$ (3,655)</u>	<u>\$ (6,549)</u>
Net loss per common share (basic and diluted)	<u>\$ (0.14)</u>	<u>\$ (0.35)</u>
Weighted average number of common shares outstanding (basic and diluted)	<u>\$ 26,008</u>	<u>\$ 18,650</u>
Comprehensive loss:		
Net loss	(3,581)	(6,549)
Other comprehensive income/(loss):		
Unrealized holding gain (losses) on available for sale securities	<u>41</u>	<u>(9)</u>
Total other comprehensive income/(loss)	<u>41</u>	<u>(9)</u>
Comprehensive loss	<u>\$ (3,540)</u>	<u>\$ (6,558)</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)

	<u>Three months ended</u>	
	<u>April 2,</u> <u>2000</u>	<u>April 4,</u> <u>1999</u>
Cash flows for operating activities:		
Net loss	\$ (3,581)	\$ (6,549)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,632	1,355
Amortization of unearned compensation	387	25
Equity in loss of joint venture	856	866
Loss on disposal of fixed assets	2	1
Changes in assets and liabilities:		
Accounts receivable and unbilled contract revenue	(679)	882
Inventory and other current assets	(356)	(93)
Accounts payable	(265)	51
Accounts payable – Genzyme Corporation	(21)	(158)
Payable to ATIII LLC	(1,295)	(2,418)
Other accrued expenses	(426)	599
Deferred contract revenue	<u>450</u>	<u>1,706</u>
Net cash used in operating activities	<u>(3,296)</u>	<u>(3,733)</u>
Cash flows for investing activities:		
Purchase of property, plant and equipment	(1,713)	(1,548)
Investment in joint venture	(856)	-
Other assets	<u>62</u>	<u>209</u>
Net cash used in investing activities	<u>(2,507)</u>	<u>(1,339)</u>
Cash flows from financing activities:		
Net proceeds from the issuance of common stock	75,228	-
Net proceeds from the exercise of warrants	6,820	-
Net proceeds from employee stock purchase plan	189	279
Net proceeds from the exercise of stock options	2,756	30
Proceeds from long-term debt	-	545
Repayment of long-term debt	(772)	(628)
Net borrowings (payments) under revolving line of credit	(15,750)	4,654
Other long-term liabilities	<u>(1)</u>	<u>(20)</u>
Net cash provided by financing activities	<u>68,470</u>	<u>4,860</u>
Net increase (decrease) in cash and cash equivalents	62,667	(212)
Cash and cash equivalents at beginning of the period	<u>7,782</u>	<u>11,740</u>
Cash and cash equivalents at end of period	<u>\$ 70,449</u>	<u>\$ 11,528</u>

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 2, 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 months ended April 2, 2000 and April 4, 1999 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 2, 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 3 million at April 2, 2000 and common stock equivalents consisting of warrants, stock options and convertible preferred stock, totaled 6.6 million at April 4, 1999. Since the Company was in a net loss position at April 2, 2000 and April 4, 1999, 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 \$856,000 which represents the Company's commitment to fund its 30% share of the losses incurred in 2000 of the joint venture between the Company and Genzyme Corporation ("ATIII LLC"). Total net losses of the ATIII LLC were \$2.9 million and the ATIII LLC did not record any revenues.

3. Income Taxes:

Due to the profitability of some of its contract research laboratories in certain states, the Company has recorded a provision for income taxes for the period ended April 2, 2000. This is solely a provision for state, not federal, income taxes.

4. Facility Consolidation Costs:

During the first quarter of 2000, the Company paid out \$282,000 relating to the facility consolidation reserve recorded in 1999, which had a balance of \$943,000

at January 2, 2000. Of this amount, \$64,000 related to severance and \$218,000 related to rental and lease terminations.

The Company also recorded a reduction to the reserve of \$24,000 as severance and employee related items are now expected to be lower. Similarly, the Company has increased the rental and lease termination reserves for an additional \$78,000 based on changed circumstances. These reductions and changes have been included in selling, general and administrative expenses for the first quarter of 2000. The remaining balance of the severance accrual and the rental and lease termination accrual as of April 2, 2000 was \$164,000 and \$135,000, respectively.

5. Public Offering:

In February 2000, the Company completed a public offering of 3.5 million shares of common stock at \$20 per share. The Company granted the underwriters an option to purchase an additional 525,000 shares of its common stock to cover overallotments, which was exercised. In total, the Company issued 4,025,000 shares, including underwriter's overallotment, with net proceeds to the Company of \$75.2 million. Subsequent to the completion of the public offering, the Company paid down the outstanding balance of \$15.8 million on its revolving credit line which remains available for future borrowing.

In conjunction with the offering, the Company issued a Notice of Redemption to Genzyme for all outstanding shares of the Company's Series B Convertible Preferred Stock (the "Series B Preferred Stock"). Prior to the effectiveness of this redemption, Genzyme converted the Series B Preferred Stock into 1,048,021 shares of common stock. The Company paid a cash dividend of \$157,000 in conjunction with the conversion of which \$83,000 and \$74,000 was recorded in the fourth quarter of 1999 and the first quarter of 2000, respectively. After the conversion of the Series B Preferred Stock and completion of the public offering, Genzyme owned approximately 31% of the Company's common stock. If Genzyme converted all outstanding warrants, the ownership would be 37%. As a result of the offering, the \$6.3 million Genzyme Credit Line was eliminated. As of April 2, 2000, Genzyme owned approximately 29.6% of the Company's common stock.

6. Series A Convertible Preferred Stock Warrant Exercise:

In March 2000, the Company issued a warrant call notice for 450,000 warrants issued in connection with the Series A Convertible Preferred Stock (the "Series A Preferred Stock"). Each warrant has an exercise price of \$15.16 per share. All of the warrants were exercised in March with proceeds to the Company of \$6.8 million.

7. Segment Information:

Below is the Company's segment information for its two reportable segments: contract research organization ("Primedica") and research and development ("Transgenics").

	<u>Three months ended</u>	
	<u>April 2, 2000</u>	<u>April 4, 1999</u>
Revenues:		
Primedica - external customers	\$ 15,367	\$ 13,076
Primedica - intersegment	273	431
Transgenics	<u>3,570</u>	<u>1,693</u>
	19,210	15,200
Elimination of intersegment revenues	<u>(273)</u>	<u>(431)</u>
	<u>\$ 18,937</u>	<u>\$ 14,769</u>
Loss from operations:		
Primedica	\$ (469)	\$ (893)
Transgenics	(1,497)	(3,256)
Unallocated amounts:		
Corporate expenses	(774)	(980)
Equity in loss of joint venture	<u>(856)</u>	<u>(866)</u>
	<u>\$ (3,596)</u>	<u>\$ (5,995)</u>

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

RESULTS OF OPERATIONS

Three months ended April 2, 2000 and April 4, 1999

Total revenues for the three-month period ending April 2, 2000 were \$18.9 million, compared with \$14.8 million for the comparable period in 1999, an increase of \$4.1 million or 28%. Service revenues increased to \$15.4 million in the first quarter of 2000 from \$13.1 million in the first quarter of 1999, an increase of \$2.3 million or 18%. The increase in service revenues is due to a concerted effort to focus on faster growing, higher value-added service areas. Research and development revenue increased to \$3.6 million in the first quarter of 2000 from \$1.7 million in the first quarter of 1999, an increase of \$1.9 million or 112%. The increase in research and development revenue is due to revenue being earned on an increasing number of transgenic programs.

Cost of services for the first quarter of 2000 were \$13.3 million compared to \$11.5 million for the comparable period in 1999, an increase of \$1.8 million or 16% primarily due to the increase in revenues. Sponsored research and development expenses increased to \$3 million in the first quarter of 2000 from \$2.6 million in the first quarter of 1999, an increase of \$400,000 or 15%. The increase in expense was due to an increase in sponsored research activity resulting from an increase in the number of transgenic programs. Proprietary research and development expenses decreased to \$900,000 in the first quarter of 2000 from \$1.3 million in the first quarter of 1999, a decrease of \$400,000 or 31%. The decrease is primarily due to a shifting of resources to sponsored research and development.

Gross profit, defined as revenues less service costs and research and development costs, for the first quarter of 2000 amounted to \$1.8 million versus a loss of \$577,000 in the first quarter of 1999. The increase is due to improved service gross profit, improved sponsored research and development gross profit and a decrease in internal research costs. Gross profit on services for the first quarter of 2000 was \$2.1 million, a gross margin of 13%, versus \$1.6 million, a gross margin of 12%, in the first quarter of 1999. The increase in services gross margin is primarily due to the increase in revenues. Gross profit on sponsored research and development for the first quarter of 2000 was \$588,000, a gross margin of 16%, versus a loss of \$884,000 in the first quarter of 1999. The increase in sponsored research and development gross margin is due to increased revenues on sponsored transgenic research and development programs which cover a greater portion of the fixed operating costs.

Selling, general and administrative ("SG&A") expenses decreased to \$4.5 million in the first quarter of 2000 from \$4.6 million in the first quarter of 1999, a decrease of \$100,000 or 2%. The decrease is due to SG&A cost reductions at Primedica resulting from the facility consolidation.

Interest income increased to \$553,000 in the first quarter of 2000, from \$7,000 in the first quarter of 1999, due to the investment of the proceeds generated by the public offering in February 2000. Interest expense decreased to \$482,000 in the first quarter of 2000 from \$510,000 in the first quarter of 1999 due to a decreased balance on outstanding borrowings in 2000.

The Company recognized \$856,000 of joint venture losses incurred on the joint venture ("ATIII LLC") between the Company and Genzyme Corporation ("Genzyme") during the first quarter of 2000 as compared to \$866,000 incurred during the first quarter of 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash and cash equivalents of \$70.4 million at April 2, 2000. During the first quarter of 2000, the Company had a \$62.7 million net increase in cash. Sources of funds during the period included \$82 million of proceeds from issuance of common stock from the \$75.2 million public offering and the exercise of \$6.8 million of warrants and \$2.9 million of proceeds from the issuance of common stock under various employee stock plans. Uses of funds during the period included \$3.3 million used in operations, \$1.7 million invested in capital equipment, further expansion of the transgenic production facility and laboratory facilities, \$856,000 invested in ATIII LLC, \$772,000 used to pay down long-term debt and \$15.8 million used to pay down the bank revolving credit lines, which remain fully available for future borrowing. As a result of the offering, the Genzyme credit line was eliminated.

The Company had working capital of \$67.8 million at April 2, 2000 compared to a deficit of \$13.9 million at January 2, 2000. As of April 2, 2000 the Company had \$15.8 million available under a line of credit with a commercial bank, \$2.9 million available under various capital lease lines and \$793,000 available under a term loan for facility expansion. Under the Company's 2000 operating plan, existing cash balances along with funds available under the bank and lease lines are expected to be sufficient to fund the Company through the next few years.

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 and regulatory requirements. 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's market risk since January 2, 2000. 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

In February 2000, the Company issued a Notice of Redemption to Genzyme for all outstanding shares of the Company's Series B Preferred Stock. Prior to redemption, Genzyme converted 6,602 shares of its Series B Convertible Preferred Stock into 1,048,021 shares of common stock on February 8, 2000. The Company believes that the common stock issued upon conversion of the Series B 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 (the "Securities Act"), based on the fact there was one holder.

In March 2000, the Company issued a warrant call notice for outstanding warrants to purchase 450,000 shares of common stock that had been issued in connection with the Series A Preferred Stock. Each warrant had an exercise price of \$15.1563 per share. As of March 31, 2000, all the warrants were exercised with proceeds to the Company of \$6.8 million. The Company believes that the common stock issued upon exercise of the warrants qualified as a transaction by an issuer not involving a public offering within the meaning of Section 4(2) of the Securities Act.

ITEM 6: Exhibits and Reports on From 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 April 2, 2000.

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

April 2, 2000

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: May 3, 2000

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>
27	Financial Data Schedule. (EDGAR only.)