

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 1997

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: 0-19311

IDEC PHARMACEUTICALS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware

33-0112644

(State or other jurisdiction of
incorporation or organization)

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

11011 Torreyana Road, San Diego, CA 92121
(Address of principal executive offices) (Zip code)

(619) 550-8500
(Registrant's telephone number, including area code)

Indicate by check mark 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 No

As of July 31, 1997, the Registrant had 18,826,904 shares of its common stock, \$.001 par value, issued and outstanding.

IDEC PHARMACEUTICALS CORPORATION
FORM 10-Q/A -- QUARTERLY REPORT
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1997

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets -- June 30, 1997 and December 31, 1996	1
	Condensed Consolidated Statements of Operations -- Three months ended June 30, 1997 and 1996	
	and six months ended June 30, 1997 and 1996	2
	Condensed Consolidated Statements of Cash Flows -- Six months ended June 30, 1997 and 1996	3
	Notes to Condensed Consolidated Financial Statements	4

Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	5
	Risk Factors	8

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	14
Item 2.	Changes in Securities	14
Item 3.	Defaults upon Senior Securities	14
Item 4.	Submission of Matters to a Vote of Security Holders	14
Item 5.	Other Information	15
Item 6.	Exhibits and Reports on Form 8-K	15

3

PART I -- FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 1997	December 31, 1996
	-----	-----
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,624	\$ 25,337
Securities available-for-sale	51,086	53,390
Current portion of note receivable	868	804
Contract research revenue receivables	3,585	3,635
Due from related party	2,887	1,532
Inventories	6,587	4,384
Prepaid expenses and other current assets	1,696	2,533
	-----	-----
Total current assets	78,333	91,615
Property and equipment, net	23,442	21,453
Note receivable, less current portion	--	445
Deposits and other assets	390	316
	-----	-----
	\$ 102,165	\$ 113,829
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable	\$ 3,588	\$ 3,830
Accounts payable	2,322	3,106
Accrued expenses and other liabilities	10,339	6,751

Total current liabilities	----- 16,249	----- 13,687
Notes payable, less current portion	3,495	5,015
Other long-term liabilities	1,821	1,513
Due to related party	1,000	1,000
Stockholders' equity:		
Convertible preferred stock, \$.001 par value	--	--
Common stock, \$.001 par value	19	18
Additional paid-in capital	177,614	176,448
Unrealized losses on securities available-for-sale	(115)	(37)
Accumulated deficit	(97,918)	(83,815)
Total stockholders' equity	----- 79,600	----- 92,614
	----- \$ 102,165	----- \$ 113,829
	=====	=====

See accompanying notes to condensed consolidated financial statements.

1

4

IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data) (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	1997	1996	1997	1996
Revenues:				
Revenue from unconsolidated joint business	\$ 1,878	\$ --	\$ 1,878	\$ --
Contract research revenues	2,524	3,064	5,188	6,000
License fees	1,000	2,500	5,000	9,500
Sales	--	1,505	--	1,505
	-----	-----	-----	-----
	5,402	7,069	12,066	17,005
Operating expenses:				
Manufacturing expenses	5,214	1,384	5,214	1,384
Research and development	10,292	7,078	17,766	12,719
Selling, general and administrative	2,498	1,607	4,706	3,461
	-----	-----	-----	-----
	18,004	10,069	27,686	17,564
Loss from operations	(12,602)	(3,000)	(15,620)	(559)
Interest income (expense), net	731	(490)	1,517	(1,084)
	-----	-----	-----	-----
Net loss	\$ (11,871)	\$ (3,490)	\$ (14,103)	\$ (1,643)
	=====	=====	=====	=====
Net loss per share common share	\$ (0.63)	\$ (0.22)	\$ (0.76)	\$ (0.11)
	=====	=====	=====	=====
Shares used in computing net loss per common share	18,724	15,687	18,461	15,419
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

2

5

IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

(unaudited)

	Six months ended June 30,	
	1997	1996
Cash flows from operating activities:		
Net cash used in operating activities	\$ (11,523)	\$ (320)
Cash flows from investing activities:		
Purchase of property and equipment	(3,841)	(779)
Purchase of securities available-for-sale	(24,084)	(13,747)
Sales and maturities of securities available-for-sale	26,311	4,816
Net cash used in investing activities	(1,614)	(9,710)
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,185	47,318
Proceeds from issuance of preferred stock	--	12,500
Proceeds from notes payable	--	1,109
Payments on notes payable	(1,761)	(1,721)
Net cash provided by (used in) financing activities	(576)	59,206
Net increase (decrease) in cash and cash equivalents	(13,713)	49,176
Cash and cash equivalents, beginning of period	25,337	18,828
Cash and cash equivalents, end of period	\$ 11,624	\$ 68,004

See accompanying notes to condensed consolidated financial statements.

3

6

IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The information at June 30, 1997, and for the three- and six-month periods ended June 30, 1997 and 1996, is unaudited. In the opinion of management, these condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with IDEC Pharmaceuticals Corporation's (the "Company") Annual Report to Shareholders incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 1996, which was filed with the United States Securities and Exchange Commission on March 31, 1997.

New Accounting Standard

On March 3, 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 "Earnings per Share" ("Statement No. 128"). Statement No. 128 supersedes Accounting Principles Board Opinion No. 15 ("APB No. 15") and replaces "primary" and "fully diluted" earnings per share ("EPS") under APB No. 15 with "basic" and "diluted" EPS. Unlike primary EPS, basic EPS excludes the dilutive effects of options, warrants and other convertible securities. Diluted EPS reflects the potential dilution of securities that could share in the earnings of an entity, similar to fully diluted EPS. Statement No. 128 is effective for years ending after December 15, 1997. The Company is currently evaluating the impact of the implementation of Statement No. 128.

Reclassification

The prior year balances in preferred stock, common stock and additional

paid-in capital have been reclassified to effect the change in par value to \$.001 per share resulting from stockholder approval on May 22, 1997, of a change in the state of incorporation of the Company from the State of California to the State of Delaware.

NOTE 2. RELATED PARTY ARRANGEMENTS

In March 1995, the Company and Genentech, Inc. ("Genentech") entered into a collaborative agreement for the clinical development and commercialization of the Company's anti-CD20 monoclonal antibody, Rituxan(TM) (formerly IDEC-C2B8), for the treatment of non-Hodgkin's B-cell lymphomas. In February 1996, the parties extended this collaboration to include two radioconjugates, IDEC-Y2B8 and IDEC-In2B8, also for the treatment of B-cell lymphomas. Concurrent with the collaborative agreement, the Company and Genentech also entered into an expression technology license agreement for a proprietary gene expression technology developed by the Company and a preferred stock purchase agreement providing for certain equity investments in the Company by Genentech. Under the terms of these agreements, the Company may receive payments totaling \$57,000,000, subject to the attainment of certain milestone events. Genentech may terminate this agreement for any reason. For the six months ended June 30, 1996, the Company recognized \$1,500,000, in license fees under these agreements.

In addition, the Company and Genentech will co-promote Rituxan and IDEC-Y2B8 in the United States and the Company and Genentech's sublicensee will co-promote Rituxan in Canada under a joint business arrangement, with the Company receiving a share of the profits. Additionally, the Company has an obligation to supply Rituxan for the first two years after regulatory approval of Rituxan with an option to continue supplying Rituxan thereafter. Included in inventory at June 30, 1997, is \$3,577,000 in finished goods inventory that will be sold to Genentech. Included in revenue from unconsolidated joint business for the three and six months ended June 30, 1997 is \$1,878,000 for bulk Rituxan sold to Genentech.

Under the terms of separate agreements with Genentech, commercialization of Rituxan outside the United States will be the responsibility of F. Hoffmann-La Roche Ltd, one of the world's largest pharmaceuticals firms, except in Japan where Zenyaku Kogyo Co., Ltd. ("Zenyaku") will be responsible for development, marketing and sales. The Company will receive royalties on sales outside the U.S. and Canada. Additionally, the Company will receive royalties on sales of any Genentech products manufactured using the Company's proprietary gene expression system.

4

7

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

IDEC Pharmaceuticals Corporation (the "Company") is primarily engaged in the research and development of targeted immunotherapies for the treatment of cancer and autoimmune and inflammatory diseases. To date, the Company has not received any revenues from the commercial sale of its products. The Company has funded its operations primarily through the sale of equity securities as well as through contract research and license fee revenues received in connection with collaborative arrangements entered into with the Company's strategic partners.

The Company has incurred increasing annual operating expenses and, as the Company prepares for product commercialization, it expects such trends to continue. The Company has incurred annual operating losses since its inception in 1985, and the transition of the Company to profitability will be dependent upon the timing of regulatory approval and the commercial success of Rituxan(TM) (formerly IDEC-C2B8). As of June 30, 1997, the Company had an accumulated deficit of \$97.9 million.

RESULTS OF OPERATIONS

Revenue from unconsolidated joint business consist of bulk Rituxan sales to Genentech, Inc. ("Genentech"), the Company's development partner.

Contract research revenues for the three and six months ended June 30, 1997 totaled \$2.5 million and \$5.2 million, respectively, compared to \$3.1 million and \$6.0 million for the comparable periods in 1996. The decrease in contract research revenues for the three and six months ended June 30, 1997 is primarily due to the expiration in December 1996 of a collaborative and license agreement with Mitsubishi Chemical Corporation.

License fees for the three and six months ended June 30, 1997 totaled \$1.0 million and \$5.0 million, respectively, compared to \$2.5 million and \$9.5 million for the comparable periods in 1996. License fees for the six months ended June 30, 1997 consist of a license fee received from Boehringer Ingelheim

GmbH for the license of the Company's proprietary gene expression technology for the manufacture of recombinant proteins ("gene expression technology"). License fees for the six months ended June 30, 1996, resulted from the achievement of a \$2.5 million patent milestone under the Company's collaboration with Genentech, \$4.5 million received for the license to Chugai Pharmaceutical Co., Ltd. of the Company's gene expression technology, \$1.5 million from Genentech for the expansion of its collaboration with the Company to include two radioconjugates, IDEC-Y2B8 and IDEC-In2B8 for the treatment and imaging, respectively, of B-cell lymphomas and \$1.0 million from Seikagaku Corporation ("Seikagaku") for the achievement of a product development milestone event. The Company continues to pursue other collaborative and license arrangements; however, no assurance can be given that discussions in this regard will result in any such arrangements or that the Company will receive significant revenues from any such collaborative or license arrangements.

Sales for the six months ended June 30, 1996 were a result of the Company completing a contract manufacturing arrangement.

Manufacturing expenses totaled \$5.2 million for the three and six months ended June 30, 1997, compared to \$1.4 million for the comparable periods in 1996. Manufacturing expenses for 1997 consist of manufacturing costs related to production of bulk Rituxan sold to Genentech and includes approximately \$2.0 million of costs associated with the start-up of the Company's manufacturing facility. Manufacturing expenses for 1996 were a result of the Company completing a contract manufacturing arrangement. The Company expects to continue incurring substantial additional manufacturing expenses as the Company continues to build Rituxan inventory in anticipation of marketing clearance from the United States Food and Drug Administration.

Research and development expenses totaled \$10.3 million and \$17.8 million for the three and six months ended June 30, 1997, respectively, compared to \$7.1 million and \$12.7 million for the comparable periods in 1996. Research and development expenses for the three and six months ended June 30, 1997 increased primarily due to an accrual of a \$3.0 million up-front licensing fee to Pharmacia & Upjohn for exclusive rights to 9-aminocamptothecin, a broad spectrum anti-cancer agent, and \$2.0 million of contract manufacturing costs representing about two-thirds of the production costs, for IDEC-Y2B8 in preparation for Phase III trials. These one-

5

8

time charges were partially offset by the utilization of the Company's manufacturing facility for bulk production of Rituxan inventory in 1997 compared to research and development manufacturing production in 1996 of clinical material used for clinical trials. The Company expects to continue incurring substantial additional research and development costs in the future, due to expansion or addition of research and development programs; technology inlicensing costs and regulatory-related costs; preclinical and clinical testing of the Company's various products under development; and production scale-up and manufacturing of products used in clinical trials.

General and administrative expenses totaled \$2.5 million and \$4.7 million for the three and six months ended June 30, 1997, compared to \$1.6 million and \$3.5 million for the comparable periods in 1996. General and administrative expenses increased in 1997 due to higher personnel costs to support expanded manufacturing operations and initial costs incurred for the creation of a marketing and sales organization. General and administrative costs necessary to support expanded manufacturing capacity, expanded clinical trials, research and development and the creation of a marketing and sales organization are expected to increase in the foreseeable future.

Net interest income totaled \$0.7 million and \$1.5 million for the three and six months ended June 30, 1997, respectively, compared to net interest expense of \$0.5 million and \$1.1 million during the comparable periods in 1996. The increase in net interest income in 1997 from net interest expense in 1996 is due to higher balances in cash, cash equivalents and securities available-for-sale, a decrease in noncash interest charges for common stock warrants issued in connection with certain debt financings and a decrease in interest expense due to lower balances in notes payable.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations and capital expenditures since inception principally through the sale of equity securities, license fees, contract research revenues, lease financing transactions and interest income. The Company expects to finance its current and planned operating requirements principally through cash on hand and with funds from existing collaborative agreements and contracts which the Company believes will be sufficient to meet its near-term operating requirements. Existing agreements and contracts, however, could be canceled by the contracting parties. In addition, the Company may pursue additional capital through a combination of new collaborative

agreements, strategic alliances and equity and debt financings. However, no assurance can be provided that additional capital will be obtained through these sources on favorable terms or at all. Should the Company not enter into any such arrangements, the Company anticipates its cash, cash equivalents and securities available-for-sale, together with the existing agreements and contracts, will be sufficient to finance the Company's currently anticipated needs for operating and capital expenditures through early commercialization of its first product. If adequate funds are not available from additional sources of financing, or if the commercialization of Rituxan is delayed, the Company's business could be adversely affected.

The Company's working capital and capital requirements will depend upon numerous factors, including the progress of the Company's preclinical and clinical testing; manufacturing; research and development programs; timing and cost of obtaining regulatory approvals; levels of resources that the Company devotes to the development of manufacturing and marketing capabilities; technological advances; status of competitors; and the ability of the Company to establish collaborative arrangements with other organizations.

Until required for operations, the Company's policy under established guidelines is to keep its cash reserves in bank deposits, certificates of deposit, commercial paper, corporate notes, United States government instruments and other readily marketable debt instruments, all of which are investment-grade quality.

At June 30, 1997, the Company had \$62.7 million in cash, cash equivalents and securities available-for-sale compared to cash, cash equivalents and securities available-for-sale of \$78.7 million at December 31, 1996. Sources of cash, cash equivalents and securities available-for-sale at June 30, 1997 include \$1.2 million from the issuance of common stock under employee stock option and employee stock purchase plans. Uses of cash, cash equivalents and securities available-for-sale during the six months ended June 30, 1997 include \$11.5 million used in operations, \$3.8 million used to purchase capital equipment and \$1.8 million used to pay notes payable.

During the second quarter the Company completed the acquisition of worldwide rights from Pharmacia & Upjohn to 9-aminocamptothecin, a broad spectrum anti-cancer agent. Under the terms of the agreement, the Company will reimburse Pharmacia & Upjohn for a portion of their development costs by making an initial payment of \$3.0 million during the third quarter of 1997. Terms of the agreement require the Company to pay additional license fees upon the achievement of certain development milestone events. No royalties are payable to Pharmacia & Upjohn under

6

9
the agreement. The acquisition costs for these technology rights are included in research and development expenses in the condensed consolidated financial statements as of June 30, 1997.

In July 1997, the Company received a \$3.0 million loan commitment to finance planned equipment purchases. Although no assurances can be provided that such loan will result, the Company anticipates finalizing the terms of this loan in the third quarter of 1997.

In August 1995, the Company completed receipt of funding under a \$10.0 million lease financing agreement to finance both equipment and facility improvements. Terms of the financing agreement require final principal payments of \$1.1 million and \$0.4 million in July 1998 and January 1999, respectively.

This quarterly report contains predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties. While this outlook represents our current judgment on the future direction of the business, such risks and uncertainties could cause actual results to differ materially from any future performance suggested above. The Company undertakes no obligation to release publicly the results of any revisions to these forward-looking statements to reflect events or circumstances arising after the date hereof other than as required by the Securities Exchange Act of 1934, as amended.

7

10

RISK FACTORS

Lengthy Regulatory Process; No Assurance of Regulatory Approvals

The testing, manufacturing, labeling, advertising, promotion, export, and marketing, among other things, of IDEC Pharmaceuticals Corporation's ("IDEC Pharmaceuticals" or the "Company") products are subject to extensive regulation

by governmental authorities in the United States and other countries. In the United States, pharmaceutical products are regulated by the United States Food and Drug Administration ("FDA") under the Federal Food, Drug, and Cosmetic Act and other laws, including, in the case of biologics, the Public Health Service Act. At the present time, with the exception of 9-aminocamptothecin, the Company believes that its products will be regulated by the FDA as biologics. Manufacturers of biologics may also be subject to state regulations.

The steps required before a biologic may be approved for marketing in the United States generally include (i) preclinical laboratory tests and animal tests, (ii) the submission to the FDA of an Investigational New Drug application ("IND") for human clinical testing, which must become effective before human clinical trials may commence, (iii) adequate and well-controlled human clinical trials to establish the safety and efficacy of the product, (iv) the submission to the FDA of a Biological License Application ("BLA"), (v) FDA review of the BLA, and (vi) satisfactory completion of a FDA inspection of the manufacturing facility or facilities at which the product is made to assess compliance with current Good Manufacturing Practices ("cGMP"). The testing and approval process requires substantial time, effort and financial resources and there can be no assurance that any approval will be granted on a timely basis, if at all. The FDA may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable safety risk.

The results of the preclinical studies and clinical studies, together with detailed information on the manufacture and composition of the product, are submitted to the FDA in the form of a BLA requesting approval to market the product. Before approving a BLA, the FDA will inspect the facilities at which the product is manufactured, and will not approve the product unless safety and efficacy criteria and cGMP compliance is satisfactory. The FDA may deny a BLA if applicable regulatory criteria are not satisfied, may require additional testing or information, and/or may require postmarketing testing and surveillance to monitor the safety or efficacy of a product. There can be no assurance that FDA approval of any BLA submitted by the Company will be granted on a timely basis, if at all. Also, if regulatory approval of a product is granted, such approval may entail limitations on the indicated uses for which the product may be marketed.

Both before and after approval is obtained, violations of regulatory requirements may result in various adverse consequences, including the FDA's delay in approving or refusal to approve a product, withdrawal of an approved product from the market, and/or the imposition of criminal penalties against the manufacturer and/or license holder. For example, license holders are required to report certain adverse reactions among patients who use the Company's products to the FDA, and to comply with certain requirements concerning advertising and promotional labeling for their products. Also, quality control and manufacturing procedures must continue to conform to cGMP regulations after approval, and the FDA periodically inspects manufacturing facilities to assess compliance with cGMP. Accordingly, manufacturers must continue to expend time, monies and effort in the area of production and quality control to maintain cGMP compliance. In addition, discovery of problems may result in restrictions on a product, manufacturer or holder, including withdrawal of the product from the market. Also, new government requirements may be established that could delay or prevent regulatory approval of the Company's products under development.

The Company will also be subject to a variety of foreign regulations governing clinical trials and sales of its products. Whether or not FDA approval has been obtained, approval of a product by the comparable regulatory authorities of foreign countries must be obtained prior to the commencement of marketing of the product in those countries. The approval process varies from country to country and the time may be longer or shorter than that required for FDA approval. At least initially, the Company intends, to the extent possible, to rely on foreign licensees, other than in Canada, to obtain regulatory approval for marketing its products in foreign countries.

In February 1997, the Company and Genentech, Inc. ("Genentech") submitted BLAs to the FDA for Rituxan(TM) (formerly IDEC-C2B8) as a single agent therapy for the treatment of relapsed low grade or follicular non-Hodgkin's lymphoma and in July 1997, Rituxan was recommended unanimously for marketing clearance by the Biological Response Modifiers Advisory Committee to the FDA. F. Hoffmann-La Roche Ltd ("Hoffmann-La Roche"), also submitted, through one of its subsidiaries in the European Union, a Marketing Authorization Application ("MAA")

with the European Medicines Evaluation Agency ("EMA") for marketing Rituxan in Europe. There can be no assurance that the FDA and the EMA approval of the BLAs and MAA submitted by the Company, Genentech and Hoffmann-La Roche will be granted on a timely basis, if at all, and delays in receipt or failure to receive regulatory approval could have a material adverse effect on the Company's business, financial condition and results of operations.

Under the Orphan Drug Act, the FDA may grant orphan drug designation to drugs intended to treat a "rare disease or condition," which generally is a disease or condition that affects fewer than 200,000 individuals in the United States. Orphan drug designation must be requested before submitting a BLA. After the FDA grants orphan drug designation, the generic identity of the therapeutic agent and its potential orphan use are publicly disclosed by the FDA. Orphan drug designation does not convey any advantage in, or shorten the duration of, the regulatory review and approval process. If a product that has an orphan drug designation subsequently receives FDA approval for the indication for which it has such designation, the product is entitled to orphan drug status, i.e., the FDA may not approve any other applications to market the same drug for the same indication, except in certain very limited circumstances, for a period of seven years.

In 1994, the Company obtained orphan drug designation for Rituxan, IDEC-Y2B8 and IDEC-In2B8 from the FDA to treat low grade B-cell lymphoma. There can be no assurance that any of these compounds will receive orphan drug status for the low grade B-cell lymphoma indication, and it is possible that competitors of the Company could obtain approval, and attendant orphan drug status, for these same compounds for the low grade B-cell lymphoma indication, thus precluding the Company from marketing its products for the same indication in the United States. In addition, even if the Company does obtain orphan drug status for any of its compounds for low grade B-cell lymphoma, there can be no assurance that competitors will not receive approval of other, different drugs or biologics for low grade B-cell lymphoma. Although obtaining FDA approval to market a product with orphan drug status can be advantageous, there can be no assurance that the scope of protection or the level of marketing exclusivity that is currently afforded by orphan drug status will remain in effect in the future.

Reliance on Third Party Development and Marketing Efforts

The Company has adopted a research, development and product commercialization strategy that is dependent upon various arrangements with strategic partners and others. The success of the Company's products is substantially dependent upon the success of these outside parties in performing their obligations, which include, but are not limited to, providing funding, performing research and development, fulfilling long term manufacturing demands and marketing, distribution and sales with respect to the Company's products. The Company's strategic partners may also develop products that may compete with the Company. Although the Company believes that its partners have an economic incentive to succeed in performing their contractual obligations, the amount and timing of resources that they devote to these activities is not within the control of the Company. There can be no assurance that these parties will perform their obligations as expected or that any revenue will be derived from such arrangements. The Company has entered into collaborative research and development and license agreements with Genentech, Zenyaku Kogyo, Ltd. ("Zenyaku"), SmithKline Beecham p.l.c. ("SmithKline Beecham"), Mitsubishi Chemical Corporation ("Mitsubishi"), Seikagaku Corporation ("Seikagaku") and Eisai Co., Ltd. ("Eisai"). These agreements generally may be terminated at any time by the strategic partner, typically on short notice to the Company. If one or more of these partners elect to terminate their relationship with the Company, or if the Company or its partners fail to achieve certain milestones, it could have a material adverse effect on the Company's ability to fund the related programs and to develop and market any products that may have resulted from such collaborations. There can be no assurance that these collaborations will be successful. In addition, some of the Company's current partners have certain rights to control the planning and execution of product development and clinical programs, and there can be no assurance that such partners' rights to control aspects of such programs will not impede the Company's ability to conduct such programs in accordance with the schedules currently contemplated by the Company for such programs and will not otherwise impact the Company's strategy.

Limited Manufacturing Experience and Dependence on Contract Manufacturer

The Company has not yet commercialized any therapeutic products. To conduct clinical trials on a timely basis, to obtain regulatory approval and to be commercially successful, the Company must manufacture its products either directly or through third parties in commercial quantities in compliance with regulatory requirements and at an acceptable cost. Although the Company has produced its products in the laboratory, scaled its production process to pilot levels and has the ability to manufacture limited commercial bulk quantities of certain of its products, the Company

has not received regulatory approval for such commercial production. The Company anticipates that production of its products in commercial quantities will create technical as well as financial challenges for the Company. The Company has limited experience in manufacturing and no fill/finish experience and capacity.

No assurance can be given as to the ultimate performance of the Company's manufacturing facility in San Diego, its suitability for approval for commercial production or the Company's ability to make a successful transition to commercial production.

The Company is dependent upon Genentech to fulfill long term manufacturing demands for Rituxan and SmithKline Beecham to fulfill all of the manufacturing requirements for IDEC-CE9.1 and IDEC-151. Genentech is currently constructing a larger manufacturing plant to satisfy long term demands for Rituxan and SmithKline Beecham has constructed a larger manufacturing plant for IDEC-CE9.1 and IDEC-151. The Company is considering the addition of another manufacturing facility to meet its long term requirements for additional products under development. Failure by the Company or its strategic partners to establish additional manufacturing capacity on a timely basis would have a material adverse effect on the Company.

In November 1996, the Company contracted with Covance Biotechnology Services, Inc. ("Covance") for the manufacture of the Company's antibody used in its IDEC-Y2B8 and IDEC-In2B8 products, which are radiolabeled for the treatment of non-Hodgkin's lymphoma. The Company is also developing this product in partnership with Genentech. The Company is dependent upon Covance to fulfill its manufacturing demands for clinical quantities of IDEC-Y2B8 and IDEC-In2B8. There can be no assurance that Covance will be able to complete any such manufacturing contract in a timely or cost-effective manner, if at all, or that the Company could obtain such capacity from others. Failure by Covance to meet the Company's manufacturing needs will result in delayed clinical trials for IDEC-Y2B8 and IDEC-In2B8 and may have a material adverse effect on the Company.

Patents and Proprietary Rights

The Company's success will depend, in large part, on its ability to maintain a proprietary position in its products through patents, trade secret and orphan drug status. The Company has title or exclusive rights to two issued and nine allowed United States patents, 27 United States patent applications and numerous corresponding foreign patent applications, and has licenses to patents or patent applications of other entities. No assurance can be given, however, that the patent applications of the Company or the Company's licensors will be issued or that any issued patents will provide competitive advantages for the Company's products or will not be successfully challenged or circumvented by its competitors. Moreover, there can be no assurance that any patents issued to the Company or the Company's licensors will not be infringed by others or will be enforceable against others. In addition, there can be no assurance that the patents, if issued, would not be held invalid or unenforceable by a court of competent jurisdiction. Enforcement of the Company's patents may require substantial financial and human resources. Moreover, the Company may have to participate in interference proceedings if declared by the United States Patent and Trademark Office to determine priority of inventions, which typically take several years to resolve and could result in substantial cost to the Company.

A substantial number of patents have already been issued to other biotechnology and biopharmaceutical companies. Particularly in the monoclonal antibody field, competitors may have filed applications for or have been issued patents and are likely to obtain additional patents and proprietary rights relating to products or processes competitive with or similar to those of the Company. To date, no consistent policy has emerged regarding the breadth of claims allowed in biopharmaceutical patents, however, patents may issue with claims that conflict with the Company's own patent filings or read on its own products. There can be no assurance that patents do not already exist in the United States or in foreign countries or that patents will not be issued that would entail substantial costs to challenge and that, if unsuccessfully challenged, would have a material adverse effect on the Company's ability to market its products. Specifically, the Company is aware of several patents and patent applications which may affect the Company's ability to make, use and sell its products. Accordingly, the Company expects that commercializing monoclonal antibody-based products may require licensing and/or cross-licensing of patents with other companies in this field. There can be no assurance that the licenses, which might be required for the Company's processes or products, would be available, if at all, on commercially acceptable terms. The ability to license any such patents and the likelihood of successfully contesting infringement or validity of such patents are uncertain and the costs associated therewith may be significant. If the Company is required to acquire rights to valid and enforceable patents but cannot do so at a reasonable cost, the Company's ability to manufacture or market its products would be materially adversely affected.

The owners, or licensees of the owners, of these patents may assert that one or more of the Company's products infringe one or more claims of such patents. If legal action is commenced against the Company to enforce any of

prevented from practicing the subject matter claimed in such patents. In such event or under other appropriate circumstances, the Company may attempt to obtain licenses to such patents. However, no assurance can be given that any owner would license the patents to the Company at all or on terms that would permit commercialization of the Company's products. An inability to commercialize such products could have a material adverse effect on the Company's operations and ability to pursue its long term objectives.

Limited Sales and Marketing Experience

Commercialization of the Company's products is expensive and time-consuming. The Company has adopted a strategy of pursuing collaborative agreements with strategic partners that provide for co-promotion of certain of the Company's products. In the event that the Company elects to participate in co-promotion efforts in the United States or Canada, and, in those instances where the Company has retained exclusive marketing rights in specified territories, the Company will need to build a sales and marketing capability in the targeted markets. The Company currently has limited marketing and sales personnel. There can be no assurance that the Company will be able to establish a successful direct sales and marketing capability in any or all targeted markets or that it will be successful in gaining market acceptance for its products. To the extent that the Company enters into co-promotion or other licensing arrangements, any revenues received by the Company will be dependent on the efforts of third parties and there can be no assurance that such efforts will be successful. Outside of the United States and Canada, the Company has adopted a strategy to pursue collaborative arrangements with established pharmaceutical companies for marketing, distribution and sale of its products. There can be no assurance that any of these companies or their sublicensees will successfully market, distribute or sell the Company's products or that the Company will be able to establish and maintain successful co-promotion or distribution arrangements. Failure to establish a sales capability in the United States or outside the United States may have a material adverse effect on the Company.

Uncertainties Associated with Clinical Trials

The Company has conducted and plans to continue to undertake extensive and costly clinical testing to assess the safety, efficacy and applicability of its potential products. The rate of completion of the Company's clinical trials is dependent upon, among other factors, the rate of patient enrollment. Patient enrollment is a function of many factors, including the nature of the Company's clinical trial protocols, existence of competing protocols, size of the patient population, proximity of patients to clinical sites, changes in managed care and eligibility criteria for the study. Delays in patient enrollment will result in increased costs, which could have a material adverse effect on the Company. The Company cannot ensure that patients enrolled in the Company's clinical trials will respond to the Company's product candidates. Setbacks are to be expected in conducting human clinical trials. Failure to comply with the FDA regulations applicable to such testing can result in delay, suspension or cancellation of such testing, and/or refusal by the FDA to accept the results of such testing. In addition, the FDA may suspend clinical trials at any time if it concludes that the subjects or patients participating in such trials are being exposed to unacceptable health risks. Thus, there can be no assurance that Phase I, Phase II or Phase III testing will be completed successfully within any specific time period, if at all, with respect to any of the Company's potential products. Further, there can be no assurance that human clinical testing will show any current or future product candidate to be safe and effective or that data derived therefrom will be suitable for submission to the FDA or will support the Company's submission of a BLA.

Additional Financing Requirements and Uncertain Access to Capital Markets

The Company has expended and will continue to expend substantial funds to complete the research, development, manufacturing and marketing of its products. The Company may seek additional funding for these purposes through a combination of new collaborative arrangements, strategic alliances, additional equity or debt financings or from other sources. There can be no assurance that such additional funds will be available on acceptable terms, if at all. Even if available, the cost of funds may result in substantial dilution to current stockholders. If adequate funds are not available from operations or additional sources of financing, the Company's business could be materially and adversely affected.

History of Operating Losses; Accumulated Deficit

The Company has incurred annual operating losses since its inception in 1985. As of June 30, 1997, the Company's accumulated deficit was approximately \$97.9 million.

with the Company's research and development, clinical and manufacturing activities. The Company has not generated operating profits from the sale of its products. All revenues to date have resulted from collaborative research, development and licensing arrangements, contract manufacturing arrangements, research grants and interest income. The Company has no products approved by the FDA or any foreign authority and does not expect to achieve profitable operations on an annual basis unless product candidates now under development receive FDA or foreign regulatory approval and are thereafter commercialized successfully.

Possible Volatility of Stock Price

The stock market has from time to time experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies. In addition, the market price of the Company's common stock, like the stock prices of many publicly traded biotechnology companies, has been highly volatile. Announcements of technological innovations or new commercial products by the Company or its competitors, developments or disputes concerning patent or proprietary rights, publicity regarding actual or potential medical results relating to products under development by the Company or its competitors, regulatory developments in both the United States and foreign countries, public concern as to the safety of biotechnology products and economic and other external factors, as well as period-to-period fluctuations in financial results may have a significant impact on the market price of the Company's common stock. It is likely that, in some future quarter, the Company's operating results will be below the expectations of public market analysts and investors. In such event, the price of the Company's common stock would likely be materially adversely affected.

Uncertainties Regarding Health Care Reimbursement and Reform

The future revenues and profitability of biopharmaceutical companies as well as the availability of capital may be affected by the continuing efforts of government and third party payors to contain or reduce costs of health care through various means. For example, in certain foreign markets pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States, there have been, and the Company expects that there will continue to be, a number of federal and state proposals to implement similar government controls. While the Company cannot predict whether any such legislative or regulatory proposals will be adopted, the announcement or adoption of such proposals could have a material adverse effect on the Company's business, financial condition or prospects.

The Company's ability to commercialize its products successfully will depend, in part, on the extent to which appropriate reimbursement levels for the cost of such products and related treatment are obtained from governmental authorities, private health insurers and other organizations, such as health maintenance organizations ("HMOs"). Third party payors are increasingly challenging the prices charged for medical products and services. Also, the trend toward managed health care in the United States and the concurrent growth of organizations such as HMOs, which could control or significantly influence the purchase of health care services and products, as well as legislative proposals to reform health care or reduce government insurance programs may all result in lower prices for the Company's products. The cost containment measures that health care payors and providers are instituting and the effect of any health care reform could materially adversely affect the Company's ability to operate profitably.

Product Liability Exposure

Clinical trials, manufacturing, marketing and sale of any of the Company's or its strategic partners' pharmaceutical products or processes licensed by the Company may expose the Company to product liability claims. The Company currently carries limited product liability insurance. There can be no assurance that the Company or its strategic partners will be able to continue to maintain or obtain additional insurance or, if available, that sufficient coverage can be acquired at a reasonable cost. An inability to obtain sufficient insurance coverage at an acceptable cost or otherwise protect against potential product liability claims could prevent or inhibit the commercialization of pharmaceutical products developed by the Company or its strategic partners. A product liability claim or recall would have a material adverse effect on the business and financial condition of the Company.

15 Environmental Concerns

The Company's research and development involves the controlled use of hazardous materials, chemicals and radioactive compounds. Although the Company believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable

for any damages that result and any such liability could exceed the resources of the Company. In addition, disposal of radioactive materials used by the Company in its research efforts may only be made at approved facilities. Approval of a site in California has been delayed indefinitely. The Company currently stores such radioactive materials on site. The Company may incur substantial cost to comply with environmental regulations.

PART II -- OTHER INFORMATION

- ITEM 1. LEGAL PROCEEDINGS. None
- ITEM 2. CHANGES IN SECURITIES. None
- ITEM 3. DEFAULTS UPON SENIOR SECURITIES. None
- ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On May 22, 1997, the Company held its Annual Meeting of Stockholders at which the stockholders approved all of the proposals listed below except for proposal number 2:

- (1) The election of William H. Rastetter, Ph.D., Charles C. Edwards, M.D., Alan B. Glassberg, M.D., John Groom, Kazuhiro Hashimoto, Franklin P. Johnson, Jr., Lynn Schenk, and William D. Young to the Board of Directors and to serve until the next annual meeting, or until their successors shall have been duly elected or appointed.
- (2) The amendment to IDEC Pharmaceuticals Corporation's California Amended and Restated Articles of Incorporation providing for the classification of the Board of Directors into three classes, with members of each class serving for staggered terms.
- (3) The amendment to change the state of incorporation from the State of California to the State of Delaware by means of a merger of the Company with and into a wholly-owned Delaware subsidiary of the Company.
- (4) A series of amendments to the 1988 Stock Option Plan (the "Option Plan") of IDEC Pharmaceuticals Corporation, including (i) an increase in the total number of common stock authorized for issuance thereunder from 4,680,000 shares to a total of 5,480,000 shares and (ii) the extension of the term of the Option Plan from July 19, 1998 to December 31, 2002.
- (5) The amendment to the Company's 1995 Employee Stock Purchase Plan to increase the total number of common stock authorized for issuance thereunder from 345,000 shares to a total of 495,000 shares.
- (6) The selection of KPMG Peat Marwick LLP as the Company's independent public accountants for the fiscal year ending December 31, 1997.

The following directors received the number of votes set opposite their respective names:

	For Election -----	Withheld -----
William H. Rastetter, Ph.D.	17,130,583	146,435
Charles C. Edwards, M.D.	17,135,033	141,985
Alan B. Glassberg, M.D.	17,127,015	150,003
John Groom	15,238,624	2,038,394
Kazuhiro Hashimoto	14,786,314	2,490,704
Franklin P. Johnson, Jr.	14,164,915	3,112,103
Lynn Schenk	17,130,543	146,475
William D. Young	17,117,033	159,985

The proposal to amend and restate the California articles of incorporation to provide for classification of the Board of Directors into three classes received 8,197,925 affirmative votes (for the amendment and restatement), 6,347,460 negative votes (against the amendment and restatement), 2,680,328 broker non-votes and 51,305 votes abstained.

17

The proposal to change the state of incorporation from the State of California to the State of Delaware received 9,572,194 affirmative votes (for the reincorporation), 4,598,045 negative votes (against the reincorporation), 3,079,813 broker non-votes and 26,966 votes abstained.

The proposal to amend the Option Plan received 10,748,251 affirmative votes (for the amendment), 6,085,606 negative votes (against the amendment), 387,913 broker non-votes and 55,248 votes abstained.

The proposal to amend the 1995 Employee Stock Purchase Plan received 13,814,602 affirmative votes (for the amendments), 2,847,988 negative votes (against the amendments), 545,431 broker non-votes and 68,997 votes abstained.

The proposal to select KPMG Peat Marwick LLP as the Company's independent public accountants received 17,201,504 affirmative votes (for the selection), 48,007 negative votes (against the selection), and 27,507 votes abstained. This proposal did not receive any broker non-votes.

ITEM 5. OTHER INFORMATION. None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

The following exhibits are referenced.

Exhibit Number -----	Description -----
10.69*	9-AC Asset Transfer Agreement between the Company, Pharmacia & Upjohn S.p.A. and Pharmacia & Upjohn Company dated February 10, 1997.
10.70(1)	Amended and Restated 1988 Stock Option Plan (Amended and Restated through May 22, 1997)
10.71(1)	1995 Employee Stock Purchase Plan (Amended through May 22, 1997)
27.1	Financial Data Schedule.

* Confidential treatment requested as to certain portions of this agreement.

(1) Incorporated by reference to exhibits 99.1 and 99.4, respectively, to the Company's Registration Statement on Form S-8, File No. 333-2969.

b) Report on Form 8-K.

On June 16, 1997, the Company filed a current report on Form 8-K reporting the reincorporation of the Company to the State of Delaware by merging into IDEC Pharmaceuticals Corporation, a Delaware corporation ("IDEC Delaware"), pursuant to the terms of an Agreement and Plan of Merger between the Company and IDEC Delaware. There has been no change in the name, business, management, fiscal year, location of principal facilities, assets or liabilities of the Company as a result of the merger.

18

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 thereunto duly authorized.

IDEC PHARMACEUTICALS CORPORATION

Date: August 15, 1997

By: /s/ William H. Rastetter

William H. Rastetter
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

Date: August 15, 1997

By: /s/ Phillip M. Schneider

Phillip M. Schneider
Vice President and
Chief Financial Officer
(Principal Financial and Accounting
Officer)