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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1996
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)

California	33-0112644
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:	None
Securities registered pursuant to Section 12(g) of the Act:	Common Stock, no par value
	(Title of class)

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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of January 31, 1997, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $399,448,000. (Based upon the "closing" price as reported by the Nasdaq National Market on January 31, 1997). This number is provided only for the purposes of this report and does not represent an admission by either the Registrant or any such person as to the status of such person.

As of January 31, 1997, the Registrant had 18,085,087 shares of its common stock, no par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held on May 22, 1997 are incorporated by reference into Part III.

IDEC PHARMACEUTICALS CORPORATION

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

TABLE OF CONTENTS

This Form 10-K 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. IDEC Pharmaceuticals Corporation 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 required by the Securities and Exchange Act of 1934 or the rules and regulations promulgated thereunder.

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, 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 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 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 BLA's to the FDA for IDEC-C2B8 (rituximab) as a single agent therapy for the treatment of relapsed low grade or follicular non-Hodgkin's lymphoma. 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 ("EMEA") for marketing IDEC-C2B8 in Europe. There can be no assurance that FDA and EMEA approval of the BLA's 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 exclusivity, 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 IDEC-C2B8, 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 exclusivity for the low grade B-cell lymphoma indication, and it is possible that competitors of the Company could obtain approval, and attendant orphan drug exclusivity, 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 exclusivity 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 exclusivity 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 designation will remain in effect in the future.

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.

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 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 Contact 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 quantities of certain of its products, the Company has not received regulatory approval for such 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 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 its IDEC-C2B8 product and SmithKline Beecham to fulfill all of the manufacturing requirements for IDEC-CE9.1. Genentech is currently constructing a larger manufacturing plant to satisfy such long term demands. 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 antibodies, IDEC-Y2B8 and IDEC-In2B8, which are radiolabeled for the treatment of non-Hodgkin's lymphoma that the Company is also developing in partnership with Genentech. The Company is dependent upon Covance to fulfill its manufacturing demands for clinical quantities of IDEC-Y2B8. 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 designation. The Company has title or exclusive rights to one issued and six allowed United States patents, 29 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 these patents and the plaintiff in such action prevails, the Company could be 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.

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 shareholders. If adequate funds are not available from operations or additional sources of financing, the Company's business could be materially and adversely affected.

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.

History of Operating Losses; Accumulated Deficit

The Company has incurred annual operating losses since its inception in 1985. As of December 31, 1996, the Company's accumulated deficit was approximately $83.8 million. Depending on the commercial success of IDEC-C2B8, the Company anticipates that it will continue to incur operating losses over at least the next one to two years. Such losses have been and will be principally the result of the various costs associated 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.

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 I

ITEM 1. BUSINESS.

IDEC Pharmaceuticals Corporation ("IDEC Pharmaceuticals" or the "Company") is a biopharmaceutical company developing products for the long term management of cancers and autoimmune and inflammatory diseases. The Company is currently focused on non-Hodgkin's B-cell lymphomas, which afflict approximately 240,000 patients in the United States, and rheumatoid arthritis, which afflicts approximately 2 million people in the United States. The Company's two antibody products for treatment of non-Hodgkin's B-cell lymphomas are being developed in collaboration with Genentech, Inc. ("Genentech") in the United States. C2B8 is being developed in collaboration with Genentech's affiliate, F. Hoffmann-La Roche Ltd ("Hoffmann-La Roche"), worldwide except in the United States and Japan, and with Zenyaku Kogyo, Ltd. ("Zenyaku") in Japan. The Company's lead PRIMATIZED antibody product for the treatment of rheumatoid arthritis is being developed worldwide in collaboration with SmithKline Beecham. IDEC Pharmaceuticals has seven additional product candidates in various stages of development.

BACKGROUND

Antibodies and the Immune System

The immune system is composed of specialized cells, including B cells and T cells, that function in the recognition, destruction and elimination of disease causing foreign substances and of virally infected or malignant cells. The role of these specialized cells is determined by receptors on the cell surface which govern the interaction of the cell with foreign substances and with the rest of the immune system. For example, each differentiated B cell of the immune system has a different antibody anchored to its surface which serves as a receptor to recognize foreign substances. This antibody then triggers the production of

additional antibodies which as free-floating molecules bind to and eliminate these foreign substances. Each foreign substance is individually identifiable by structures on its surface known as antigens, which serve as binding sites for the specific antibodies. T cells play more diverse roles, including the identification and destruction of virally infected or malignant cells.

A variety of technologies have been developed to produce antibodies as therapeutic agents. These include hybridoma technology and molecular biology techniques such as gene cloning and expression, which can now be applied to the generation, selection and production of hybrid monoclonal antibody varieties known as chimeric and humanized antibodies, as well as strictly human antibodies. Chimeric antibodies are constructed from portions of non-human species (e.g., mouse) antibodies and human antibodies. In these applications, the portion of the antibody responsible for antigen binding (the "variable region") is taken from a non-human antibody and the remainder of the antibody (the "constant region") is taken from a human antibody. Compared to mouse ("murine") monoclonal antibodies, chimeric antibodies generally exhibit lower immunogenicity (the tendency to trigger an often adverse immune response such as a human anti-mouse antibody, or "HAMA" response), are cleared more slowly from the body and function more naturally in the human immune system. Humanized antibodies can be constructed by grafting several small pieces of a murine antibody's variable region onto a constant region framework provided by a human antibody. This process, known as "CDR grafting," reduces the amount of foreign materials in the antibody, rendering it closer to a human antibody. However, the construction of humanized antibodies by CDR grafting requires complex computer modeling, and the properties of the resulting antibody are not completely predictable and may, in fact, still trigger a HAMA response.

Non-Hodgkin's B-cell Lymphomas

As with other cell types in the body, B cells and T cells may become malignant and grow as immune system tumors, such as lymphomas. Non-Hodgkin's B-cell lymphomas are cancers of the immune system which currently afflict approximately 240,000 patients in the United States. Although there are treatments for non-Hodgkin's B-cell lymphomas, there are currently no products in the United States that have been approved by the FDA for use in treating these cancers. Non-Hodgkin's B-cell lymphomas are diverse with respect to prognosis and treatment, and are generally classified into one of three groups (low, intermediate or high grade) based on histology and clinical features. The Company estimates that approximately 156,000 patients in the United States have low grade, 70,000 have intermediate grade, and 14,000 have high grade non-Hodgkin's B-cell lymphoma. Patients with low grade lymphomas have a fairly long life expectancy from the time of diagnosis (median survival 6.6 years), despite the fact

that low grade lymphomas are almost always incurable. Intermediate grade and high grade lymphomas are more rapidly growing forms of these cancers, which in a minority of cases can be cured with early, aggressive chemotherapy. New diagnoses of non-Hodgkin's lymphomas have increased approximately 7% annually over the past decade, with 53,600 new diagnoses estimated for 1997. The increase is due in part to the increasing prevalence of lymphomas in the AIDS patient population. In approximately 90% of the cases in the United States, non-Hodgkin's lymphomas are of B-cell origin, the remainder are T-cell lymphomas.

Owing to the fluid nature of the immune system, B-cell lymphomas are usually widely disseminated and characterized by multiple tumors at various sites throughout the body at first presentation. Treatment courses with chemotherapy or radiation therapy are the current standard of care and often result in a limited number of remissions for patients with B-cell lymphomas. The majority of patients in remission will relapse and ultimately die either from their cancer or from complications of standard therapy. Fewer patients achieve additional remissions following relapse and those remissions are generally of shorter duration as the tumors become increasingly resistant to subsequent courses of chemotherapy. Therapeutic product development efforts for these

cancers have focused on both improving treatment results and minimizing the toxicities associated with standard treatment regimens. Immunotherapies with low toxicity and demonstrated efficacy can be expected to reduce treatment and hospitalization costs associated with side effects or opportunistic infections, which can result from the use of chemotherapy and radiation therapy.

Autoimmune and Inflammatory Diseases

Rheumatoid arthritis, systemic lupus erythematosus ("SLE"), psoriasis, inflammatory bowel disease ("IBD") and multiple sclerosis ("MS") are autoimmune and inflammatory diseases that require ongoing therapy and afflict more than 6 million patients in the United States. Of these, approximately 2 million people are afflicted with rheumatoid arthritis. Autoimmune disease occurs when the patient's immune system goes awry, initiating a cascade of events which results in an attack by the patient's immune system against otherwise healthy tissue and often includes inflammation of the involved tissue. In rheumatoid arthritis, the disease attacks the synovial lining of the patient's joints, usually resulting in the destruction of the joints of the hands, hips and knees. The patient's condition evolves from constantly painful joints to the disability of deformed, misaligned joints. Autoimmune diseases such as rheumatoid arthritis are typically treated with products such as steroids and nonsteroidal, anti-inflammatory agents and with other therapies, all of which are limited for several reasons, including their lack of specificity and ineffectiveness when used chronically. Furthermore, steroids suppress the immune system and make the patient susceptible to infections while nonsteroidal, anti-inflammatory agents have been implicated in the formation of gastro-intestinal ulcerations.

Antibodies and the Regulation of Immune System Cells

Monoclonal antibodies may be used to bind to specific subsets of human immune system cells and may act to deplete or to suppress the activity of the targeted cells. Indeed, the high specificity of monoclonal antibodies enables them to discriminately act against different types of B cells or T cells. Depletion of diseased immune cells or suppression of disease-causing immune activities may be possible by using antibodies that attach to specific determinants on the surface of target immune system cells. In particular, the individual B and T cells of the immune system express a broad variety of surface determinants (cell surface markers). Such determinants not only differentiate one cell type from another, but also differentiate individual cells from other cells with specificity for different antigens.

IDEC PHARMACEUTICALS' TECHNOLOGY

IDEC Pharmaceuticals is developing products for the long term management of cancers and autoimmune and inflammatory diseases. The Company's antibody products bind to specific subsets of human immune system cells and act to deplete or to suppress the activity of these targeted cells. These antibody products are administered intravenously and target cells located in easily accessible compartments of the body, specifically the blood, the lymphatic fluid and the synovial fluid. Where consistent with its business strategy, the Company seeks to in-license technologies that complement and expand its existing technology base.

For treatment of non-Hodgkin's B-cell lymphomas, the Company's products target a cell surface marker known as CD20 which is present only on B cells but not on B cell precursors. These products act to reduce total B cell levels, including both malignant and normal B cells. The depletion of normal B cells observed in clinical experience, to date, has been only temporary, with regeneration occurring within months. The Company believes that the successful development of immunotherapeutic agents, such as IDEC-C2B8 and IDEC-Y2B8, will complement and, in some cases, replace chemotherapeutic agents in the treatment of non-Hodgkin's B-cell lymphomas.

Due to their specificity and affinity for cell surface receptors, monoclonal

antibodies are also an attractive means by which to treat autoimmune diseases. Attachment of monoclonal antibodies to specific cell surface receptors can be used to suppress aberrant and unwanted immune activity. Historically, however, the use of monoclonal antibodies as an ongoing therapy has been limited by the body's rejection of the mouse-derived components of the antibodies. Murine monoclonal antibodies, which are structurally different from human antibodies, tend to trigger adverse immune reactions when used as therapies. These reactions include a HAMA response in which the patient's immune system produces antibodies against the therapeutic antibody, thus limiting its effectiveness.

The Company has developed a proprietary PRIMATIZED antibody technology to overcome HAMA responses and to avoid other immunogenicity problems by developing monoclonal antibodies from primate, rather than mouse, B cells. These antibodies are characterized by their strong similarity to human antibodies and by the absence of mouse components. In March 1996, the Company received a Notice of Allowance for a United States patent application claiming the Company's PRIMATIZED antibodies. Underlying this proprietary technology is the Company's discovery that macaque monkeys produce antibodies that are structurally indistinguishable from human antibodies in their variable (antigen-binding) regions. Further, the Company found that the macaque monkey can be immunized to make antibodies that react with human, but not with macaque, antigens. Genetic engineering techniques are then used to isolate the portions of the macaque antibody gene which encode the variable region from a macaque B cell. This genetic material is combined with constant region genetic material from a human B cell and inserted into a host cell line which then expresses the desired antibody specific to the given antigen. The result is a part human, part macaque PRIMATIZED antibody which appears structurally to be so similar to human antibodies that it may be accepted by the patient's immune system as "self." This development allows the possibility of therapeutic intervention in chronic diseases or other conditions that are not amenable to treatment with antibodies containing mouse components.

The Company has also discovered a proprietary antigen formulation, PROVAX, which has shown the ability to induce cellular immunity, manifested by cytotoxic T lymphocytes, in animals immunized with protein antigens. Cellular immunity is a counterpart to antibody-based immunity and is responsible for the direct destruction of virally infected and malignant cells. PROVAX is a combination of defined chemical entities and may provide a practical means for the development of effective immunotherapies that act through the induction of both antibody and cell-mediated immunity. A United States patent has been issued to the Company covering the PROVAX technology. The Company believes such immunotherapies may be useful for the treatment of certain cancers and viral diseases. Preliminary studies also indicate that PROVAX can be safely administered by injection to human subjects. The Company intends to make PROVAX available through licenses and collaborations to interested partners for development of immunotherapeutic vaccines.

PRODUCT DEVELOPMENT AND RESEARCH PROGRAMS

Immune System Cancers

IDEC Pharmaceuticals' primary objective with respect to treating non-Hodgkin's B-cell lymphomas is to use its pan-B antibodies to target, bind to and selectively eliminate both the patient's normal and malignant B cells.

IDEC-C2B8. IDEC-C2B8 is a genetically engineered, chimeric pan-B antibody designed to harness the patient's own immune mechanisms to destroy tumor cells. Laboratory studies performed by the Company have shown that the antibody attaches to the CD20 antigen on B cells and activates a group of proteins known as "complement," leading to normal and malignant B-cell destruction. Additionally, the antibody, when bound to the CD20 antigen, recruits macrophages and natural killer cells to attack the B cell. Through these and other mechanisms, the antibody utilizes the body's immune defenses to lyse (rupture) and deplete B cells. B cells have the capacity to regenerate from early precursor cells that do not express the CD20 determinant. The depletion of normal B cells observed in clinical

experience to date has been only temporary, with normal B cell regeneration occurring within months. The capacity of a tumor to regrow after treatment with IDEC-C2B8 will depend on the number of malignant B cells, or malignant B-cell precursors (if the malignancy first appeared within a precursor cell), remaining after treatment.

In 1996, the Company and Genentech completed a pivotal Phase III trial of IDEC-C2B8 at over 30 clinical sites including leading cancer centers in the United States and Canada. In this Phase III open label, single arm testing of IDEC-C2B8 as a single agent therapeutic, each of the patients participating in the study received four infusions of the antibody on an outpatient basis during a 22-day period. Of 151 evaluable patients, 76 responded to treatment with IDEC-C2B8, for an overall response rate of 50%. Nine of these responses were complete responses (6%) and 67 were partial responses (44%). Of the responding patients, 70% were still in remission at over nine months' median follow-up. Patients continue to be followed.

The adverse events associated with IDEC-C2B8 are mostly infusion-related. These side effects consist primarily of mild to moderate flu-like symptoms (e.g., fevers, chills) and occur with greatest frequency upon initial administration. The symptoms are limited in duration to the period of infusion, may be ameliorated with oral acetaminophen and diphenhydramine and decrease significantly in frequency with subsequent infusions.

In addition to these findings, the Company observed the disappearance from the patients bone marrow of bcl-2, a chromosomal marker associated with malignant cells, which was present prior to treatment. The tumor marker gene reverted to negative in the peripheral blood of over 70% of the patients who were positive at baseline, and in the bone marrow of over 50% of patients who were positive at baseline. Researchers have previously reported clearance of this marker from bone marrow with marrow transplantation regimens incorporating ex vivo marrow purging and only rarely with chemotherapy regimens. However, the clinical significance of bcl-2 conversion has not yet been determined.

The completion of this Phase III clinical trial supported the submission in February 1997, by the Company and Genentech, of BLA's to the FDA for IDEC-C2B8 (rituximab) as a single agent therapy for the treatment of relapsed low grade or follicular non-Hodgkin's lymphoma. 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 ("EMEA") for marketing IDEC-C2B8 in Europe.

In 1996, the Company completed a Phase II clinical trial of IDEC-C2B8 in combination with chemotherapy for the treatment of low-grade, B-cell lymphoma. In this trial, patients were given alternating cycles of IDEC-C2B8 and CHOP combination chemotherapy (a standard regimen of cyclophosphamide, doxorubicin, vincristine and prednisone), beginning and ending with the antibody. In this single arm trial, patients with low grade or follicular lymphoma received six doses of IDEC-C2B8 over 21 weeks. Within this same time period, they also received six cycles of CHOP chemotherapy. Of the 35 patients completing all treatments, 35 responded to treatment, for an overall response rate of 100%. Twenty-two patients (63%) achieved a complete response and 13 (37%) achieved a partial response. Patients tolerated the combination of IDEC-C2B8 and CHOP well; adverse events did not exceed those routinely observed with CHOP alone or those associated with IDEC-C2B8 alone, indicating compatibility of the two therapies. In addition, because IDEC-C2B8's mode of action is separate from that of conventional anti-cancer drugs, the two treatments do not exhibit overlapping toxicities. The addition of IDEC-C2B8 to the conventional chemotherapy regimen is designed to extend both the quality and duration of tumor remissions achievable with chemotherapy alone, without adding significantly to the toxicity of chemotherapy. This trial is an additional step in the development of this product to show the possible breadth of applications of antibody therapy for treatment of lymphomas.

In 1996, the Company's strategic partner, Zenyaku, completed patient accrual for a Phase I multi-dose clinical study in Japan of IDEC-C2B8. Doses of 250 and 375 mg/m2 were administered by intravenous infusion weekly for four weeks to 12 patients with B-cell lymphoma. The clinical study is designed to study safety and toxicity.

IDEC-Y2B8 and IDEC-In2B8. Due to the sensitivity of B-cell tumors to radiation, radiation therapy has historically played, and continues to play, an

important role in the management of B-cell lymphomas. Radiation therapy currently consists of external beam radian focused on certain areas of the body with tumor burden. IDEC Pharmaceuticals is developing two antibody products which are intended to deliver targeted immunotherapy by means of injectable radiation to target sites expressing the CD20 determinant, such as lymphatic B-cell tumors. In clinical testing, IDEC-In2B8 is first used to image the patient's tumor and to provide information for determining the proper dose of the therapeutic product. The low energy gamma particle emitted by IDEC-In2B8 is detectable outside the body, thereby allowing an image to be taken. The companion therapeutic product, IDEC-Y2B8, provides targeted radiation therapy by emitting a high energy beta particle which is absorbed by surrounding tissue, leading to tumor

destruction. The Company's objective with these products is to provide safer, more effective radiation therapy than is possible with external beam radiation and to provide this radiation therapy in an outpatient setting.

IDEC-Y2B8 is an anti-CD20 murine antibody that is radiolabeled with the isotope yttrium-90. This radioisotope is well suited for therapeutic purposes because of its energy, radius of activity and half-life. It emits only beta radiation. Other radioisotopes, such as iodine-131, emit both beta and gamma radiation and at certain therapeutic doses require that the patient be hospitalized and isolated in a lead-shielded room for several days. In contrast, the beta particle emitted by yttrium-90 is absorbed by tissue immediately adjacent to the antibody. The Company believes that this short penetrating radiation will permit the use of the product in outpatient therapy.

In August 1996, the Company initiated a Phase I/II clinical trial which incorporates both IDEC-Y2B8 and IDEC-C2B8. In this open label, Phase I/II clinical trial, patients with advanced, relapsed non-Hodgkin's B-cell lymphoma receive pretreatment with IDEC-C2B8 to maximize tumor localization and efficacy of subsequently administered IDEC-Y2B8.

The Company completed a dose-escalating Phase I clinical trial with IDEC-Y2B8 in early 1995. Single doses of IDEC-Y2B8 showed clinical activity comparable to that of intensive, multiple dose, salvage chemotherapy, with response durations exceeding those of the patients' most recent chemotherapy.

Autoimmune and Inflammatory Products

IDEC Pharmaceuticals is developing a new class of antibodies, termed PRIMATIZED antibodies, that are of part human, part macaque monkey origin. These antibodies are structurally similar to, and potentially indistinguishable by a patient's immune system from, human antibodies. PRIMATIZED antibodies may provide therapeutic intervention for diseases or conditions not amenable to chronic treatment with mouse-derived antibodies. The Company's objective with its PRIMATIZED antibodies is to provide therapies that can be used to control autoimmune diseases characterized by overactive immune functions. The Company has entered into research and development collaborations with SmithKline Beecham p.l.c. ("SmithKline Beecham"), Mitsubishi Chemical Corporation ("Mitsubishi"), Seikagaku Corporation ("Seikagaku") and Eisai Co. Ltd. ("Eisai") which all utilize the Company's PRIMATIZED technology and which target distinct, cell surface determinants. See "--License and Technology Related Agreements."

PRIMATIZED IDEC-CE9.1. Through its collaboration with SmithKline Beecham, IDEC Pharmaceuticals is developing therapeutic products for the treatment of autoimmune disease based on PRIMATIZED anti-CD4 antibodies. In order to develop a PRIMATIZED anti-CD4 antibody, Company scientists immunized macaque monkeys with the human CD4 antigen and harvested the resulting antibody-producing immune cells. The gene responsible for the production of the desired anti-CD4 antibody was isolated and used to develop the PRIMATIZED anti-CD4 antibody, IDEC-CE9.1. This antibody consists of a variable region from a macaque monkey and a constant region, that portion responsible for interaction with the immune system, from a human. Upon analysis of the amino acid sequences comprising the

IDEC-CE9.1 antibody, its structure was found to be indistinguishable from antibodies normally produced by humans. In addition, IDEC-CE9.1 binds tightly to the CD4 antigen and exhibits desirable immunosuppressive activities.

In December 1996, SmithKline Beecham initiated a multinational Phase III trial of IDEC-CE-9.1/SB 210396. This randomized, placebo-controlled Phase III trial is intended to demonstrate efficacy of several regimens in relieving the signs and symptoms of rheumatoid arthritis as defined by the American College of Rheumatology ("ACR 20 criteria"). The effects on disease progression will also be measured. Based on the Phase II experience, Phase III dosing has been slightly modified. Patients in the current Phase III trial will receive either twice weekly doses, weekly doses or placebo during the first month of treatment. This "induction" regimen will be followed by periodic administration of single doses of IDEC-CE9.1 with a goal of maintaining or extending disease remissions while reducing the frequency of drug administration.

In October 1996, the Company and SmithKline Beecham completed a Phase II clinical trial of IDEC-CE9.1. The Phase II trial was a placebo- controlled study of IDEC-CE9.1 in which a total of 122 evaluable patients received either 40mg, 80mg or 140mg intravenous doses of IDEC-CE9.1 or intravenous placebo. Patients were randomized to treatment after withdrawal from DMARD therapy and a four-week period of disease stabilization. The respective

doses were administered twice weekly over a four-week period. A clinically significant treatment response, as measured in accordance with the ACR 20 criteria, was experienced by 77% of the patients in the highest dosage group (140mg). Likewise, 47% of patients responded to treatment in the 80mg group, and 42% responded in the 40mg group compared to 17% of patients in the placebo group. The ACR 20 guidelines require an improvement in tender and swollen joint counts that is at least more than 20%, along with improvement in three of five other disease-related categories. In the 140mg, 80mg and 40mg groups, the median time to clinical response was one week, two weeks and two and one-half weeks, respectively. Treatment of the 140mg group was discontinued due to the development of mild to moderate rashes in three patients; however, this adverse event was not observed in the other dose groups. In addition, IDEC Pharmaceuticals and SmithKline Beecham have begun expanding their investigation of IDEC-CE9.1 for potential use in the treatment of asthma.

In trials to date, IDEC-CE9.1 has been very well tolerated without serious adverse events at doses associated with clinical improvement. This experience suggests potential for an improved safety profile compared to the current so-called DMARDS used in rheumatoid arthritis such as methotrexate, corticosteroids and gold compounds. Further, in contrast to mouse-derived antibodies, IDEC-CE9.1 has not been associated with serious infusion-related adverse events.

PRIMATIZED Anti-B7. In November 1993, the Company entered into a research and development collaboration with Mitsubishi that focuses on the development of PRIMATIZED antibodies directed at a B7 determinant. This B7 determinant appears on the surface of antigen-presenting cells and is involved in the interaction of these cells with T cells in triggering a cascade of immune system responses. Antibodies directed at B7 determinants may block this cascade and, therefore, may be useful in preventing unwanted immune responses in certain inflammatory and chronic autoimmune conditions. Mitsubishi has actively shared in the development process, generating animal models and participating in research with the Company. This effort has resulted in the identification of a PRIMATIZED antibody lead candidate which will undergo preclinical testing, process development and manufacturing of clinical material during 1997.

PRIMATIZED Anti-CD23. In December 1994, the Company entered into a collaboration with Seikagaku aimed at the development of PRIMATIZED anti-CD23 antibodies for the potential treatment of allergic rhinitis, asthma and other allergic conditions. Antibodies against the CD23 receptor on certain white blood cells inhibit the production of an immune system molecule called immunoglobulin class E, or IgE, which is known to trigger allergic conditions.

At the same time, anti-CD23 antibodies do not affect the production of the immunoglobulins (the patient's own antibodies) responsible for granting protective immunity to infectious agents. Thus, PRIMATIZED anti-CD23 antibodies may provide a unique new approach to treating chronic illness such as allergic rhinitis and asthma. This effort has resulted in the identification of a PRIMATIZED antibody lead candidate which will undergo preclinical testing, process development and manufacturing of clinical material during 1997.

Humanized and PRIMATIZED Anti-gp39. In December 1995, the Company entered into a research and development collaborative agreement with Eisai. The collaboration focuses on developing humanized and PRIMATIZED antibodies against the gp39 antigen. This antigen, also referred to as the CD40 ligand, is an essential immune system trigger for B-cell activation and antibody production. Potential target indications include transplantation and antibody-mediated autoimmune diseases such as idiopathic thrombocytopenic purpura ("ITP") and SLE.

The development of a humanized anti-gp39 antibody is based on technology that the Company licensed from Dartmouth University where researchers have shown that the binding of gp39 to its CD40 receptor on B cells is essential for proper immune system function. These researchers generated anti-gp39 antibodies that blocked this T-cell and B-cell interaction and halted disease progression in a variety of animal models of disease characterized by abnormal or unwanted immune response. Moreover, when researchers ended the animals' anti-gp39 treatments, the animals' antibody-producing capacity returned to normal levels, but their disease remained suppressed. Treatment with the anti-gp39 antibodies appeared to have reset the animals' immune systems and restored a normal immune response. Under the collaborative agreement, the Company and Eisai have agreed to develop a humanized anti-gp39 antibody and launch additional efforts to develop a second generation, PRIMATIZED anti-gp39 antibody. This effort has resulted in the identification of a humanized anti-gp39 antibody lead candidate which will undergo preclinical testing, process development and manufacturing of clinical trial material in early 1997.

Other Products

The Company has discovered certain other products through the application of its technology platform.

Human Anti-RSV Antibodies. The Company has applied its technology to the discovery and generation of fully human antibodies directed against the respiratory syncytial virus ("RSV") which infects the lungs. RSV is responsible for approximately 100,000 hospitalizations in the United States each year. The Company intends to seek a commercial strategic partner with an infectious disease franchise to conduct human clinical studies and to commercialize the anti-RSV antibodies.

PROVAX. The Company has developed a proprietary antigen formulation, PROVAX, that when mixed with soluble antigens, safely induces antibody responses. CTLs are important effectors of the immune response against virally infected or cancerous cells and act by recognizing specific antigen fragments on those cells. The Company announced in December 1995 that it had received a notice of allowance for a United States patent covering methods using PROVAX to induce specific CTL-mediated responses in humans and animals. The Company intends to seek strategic partners for the development of PROVAX as an antigen formulation for therapeutic vaccines.

Research and development expenses of the Company were $26.8 million, $22.5 million and $21.2 million in 1996, 1995 and 1994, respectively, of which approximately 53%, 46% and 76%, respectively, was sponsored by the Company and the remainder of which was funded pursuant to product development collaboration arrangements. See "License and Technology-Related Agreements."

MANUFACTURING

From its inception, the Company has focused on establishing and maintaining a leadership position in cell culture techniques for antibody manufacturing. Cell

culture provides a method for manufacturing of clinical and commercial grade protein products by reproducible techniques at various scales, up to many kilograms of antibody. The Company's state-of-the-art manufacturing facility is based on the suspension culture of mammalian cells in stainless steel vessels. Suspension culture fermentation provides greater flexibility and more rapid production of the large amounts of antibodies required for pivotal trials than the bench scale systems that were previously utilized by the Company. During 1995, the Company doubled the cell culture manufacturing capacity of its facility with the installation of a second 2,750-liter production vessel that is supported by existing upstream and downstream equipment. Consequently, the Company believes it may be able to utilize its current facility for the early commercialization of IDEC-C2B8 in the United States prior to relying on additional capacity from a larger manufacturing plant currently under construction by Genentech. However, commercial sale of product manufactured at the Company's manufacturing facility may occur only after approval of a BLA including facility inspection by the FDA. See "--Government Regulation." During 1996, the Company added a clinical manufacturing area to supplement its existing manufacturing facility. The clinical manufacturing area has the capacity to manufacture limited preclinical and clinical quantities of its product candidates now under development.

During 1996, the Company manufactured IDEC-C2B8, IDEC-Y2B8, IDEC-In2B8 and other product candidates for clinical trials at its manufacturing facility in San Diego, California. The Company anticipates that its facility in San Diego should provide sufficient production capacity to meet clinical and early commercial requirements of IDEC-C2B8. The Company is relying on Genentech to fulfill long term manufacturing demands for its IDEC-C2B8 product and SmithKline Beecham to fulfill all of the manufacturing requirements for IDEC-CE9.1. The Company is considering the addition of another manufacturing facility to meet its long term requirements for its future pipeline products.

In November 1996, the Company contracted with Covance for the manufacture of the Company's antibodies, IDEC-Y2B8 and IDEC-In2B8, for the radiolabeled treatment of non-Hodgkin's lymphoma that the Company is developing in partnership with Genentech. The Company is dependent upon Covance to fulfill its manufacturing demands for its clinical development of IDEC-Y2B8 and IDEC-In2B8.

The Company has developed a method of engineering mammalian cell cultures using a proprietary gene expression technology that rapidly and reproducibly selects for stable cells, producing high levels of desired proteins.

This technology allows the efficient production of proteins at yields that may be significantly higher, and costs that may be significantly lower, than current, competing cell culture methods. In February 1997, the Company received a Notice of Allowance for two United States patent applications covering the Company's proprietary gene expression technology. IDEC Pharmaceuticals has successfully applied this technology to the commercial scale production of IDEC-C2B8.

The Company has made its production technology platform available for licensing to a small number of other biopharmaceutical and pharmaceutical companies. This technology has been licensed to Genentech, Chugai and Boehringer Ingelheim GmbH. Additionally, the Company is applying its gene expression technology on a contract basis to develop specific high yielding cell lines for firms seeking to shorten product development cycles and reduce production costs. In 1996, the Company completed cell line development contracts with Hoffmann-La Roche, Biogen and Pharmacia & Upjohn and a manufacturing contract with OraVax, Inc.

PATENTS AND PROPRIETARY TECHNOLOGY

The biopharmaceutical field is characterized by a large number of patent filings. 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 may 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. There can be no assurance that patents do not exist in the United States or in foreign countries or that patents will not be issued that would have an adverse effect on the Company's ability to market 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 the field. There can be no assurance that the licenses, which might be required for the Company's processes or products, would be available on commercially acceptable terms, if at all. The ability to license any such patents and the likelihood of successfully contesting the scope 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.

IDEC Pharmaceuticals has title or exclusive rights to one issued and six allowed United States patents, 29 United States patent applications and numerous corresponding foreign patent applications. Certain other patents and/or applications owned by third parties have been exclusively licensed, as in the case of anti-gp39 technology licensed from Dartmouth University, or non-exclusively licensed by IDEC Pharmaceuticals. The Company has filed trademark applications in the United States, Canada and in certain international markets for the trademarks "PRIMATIZED," "PROVAX" and "IDEC Pharmaceuticals." "IDEC Pharmaceuticals" and "PRIMATIZED" have been registered as trademarks in the United States.

The Company has a pending United States patent application and foreign counterparts broadly directed to its pan-B antibody technology, including IDEC-C2B8, and the radioimmunoconjugates, IDEC-Y2B8 and IDEC-In2B8. The Company's radioimmunoconjugate products include a patented chelating agent that is nonexclusively licensed to the Company. The Company has received a Decision to Grant from the European Patent Office on a patent covering IDEC-C2B8. Genentech, IDEC Pharmaceuticals' collaborative partner for IDEC-C2B8, has recently secured an exclusive license to a United States patent and counterpart foreign patent applications assigned to Xoma Corporation ("XOMA") that relate to chimeric antibodies against the CD20 antigen. Genentech has granted IDEC Pharmaceuticals a sublicense to make, have made, use, and sell certain products, including IDEC-C2B8, under such patents/applications. Genentech and the Company will share certain up front licensing fees and any royalties due to XOMA in the Genentech/IDEC co-promotion territory.

The Company has filed for worldwide patent protection on its PRIMATIZED antibody technology and its proprietary gene expression technology. In March 1996, the Company received a Notice of Allowance for a United States patent application claiming the Company's PRIMATIZED antibodies and in February 1997, the Company received Notices of Allowance for two United States patent applications covering its proprietary gene expression technology. These applications generically and specifically cover the Company's PRIMATIZED antibody and proprietary gene expression technology.

PROVAX, the Company's antigen formulation, is the subject matter of an issued United States Patent; foreign counterparts are pending. In addition, United States and foreign patent applications have been filed on aspects of the Company's proprietary high-yield gene expression technology. 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, including:

(i) United States patent applications and foreign counterparts filed by Bristol-Myers that disclose antibodies to a B7 antigen.

(ii) A recently issued United States patent assigned to Columbia University which the Company believes has been exclusively licensed to Biogen, disclosing monoclonal antibodies to the 5C8 antigen found on T cells. The Company believes the 5C8 antigen and gp39, the target for the Company's anti-gp39 antibodies and its collaboration with Eisai, may be the same protein expressed on the surface of T cells.

(iii) A number of issued patents that relate to various aspects of radioimmunotherapy or to methods of treating patients with anti-CD4 antibodies.

(iv) An issued United States patent assigned to Burroughs Wellcome that relates to expression of immunoglobulins in CHO cells.

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 these patents and the plaintiff in such action prevails, the Company could be 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 using such technology. An inability to commercialize such products would have a material adverse effect on the Company's operations and ability to pursue its long-term objectives.

If the Company is required to enforce any of its patents, such enforcement may require the use of substantial financial and human resources of the Company. The Company may also have to participate in interference proceedings if declared by the United State Patent and Trademark Office to determine priority of invention, which typically take years to resolve and could also result in substantial costs to the Company.

Moreover, should the Company need to circumvent existing patents, substantial delays and expense in product redesign and development or significant legal expense and uncertainty in asserting noninfringement, invalidity and/or unenforceability of any patent may also result. The Company also relies upon unpatented trade secrets, and no assurance can be given that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to the Company's trade secrets or disclose such technology, or that the Company can meaningfully protect such rights.

IDEC Pharmaceuticals requires its employees, consultants, outside scientific collaborators and sponsored researchers and other advisers to execute confidentiality agreements upon the commencement of employment or consulting relationships with the Company. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with IDEC Pharmaceuticals is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of employees of the Company, the agreement provides that all inventions conceived by such employees shall be the exclusive property of the Company. There can be no assurance, however, that these agreements will provide meaningful protection or adequate remedies for the Company's trade secrets in the event of unauthorized use or disclosure of such information.

LICENSE AND TECHNOLOGY RELATED AGREEMENTS

The Company has entered into one or more strategic partnering arrangements for each of its principal product development programs. Through these strategic partners, the Company is funding a significant portion of its product development costs and is capitalizing on the production, development, regulatory, marketing and sales capabilities of

its partners. Unless otherwise indicated, the amounts shown below as potential payments include license fees, research and development fees and, with respect to Genentech, SmithKline Beecham and Zenyaku, equity investments, but do not include potential royalties. The Company's entitlement to such payments depends on achieving milestone events related to development, clinical trials results and regulatory approvals and other factors. These arrangements include:

Genentech Inc. In March 1995, the Company and Genentech entered into a collaborative agreement for the clinical development and commercialization of the Company's anti-CD20 monoclonal antibody, 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. 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 $57.0 million, subject to the attainment of certain milestone events, of which $31.0 million has been recognized as of December 31, 1996. In addition, the Company and Genentech will co-promote IDEC-C2B8 and IDEC- Y2B8 in the United States and the Company and Genentech's sublicensee will co-promote IDEC-C2B8 in Canada with the Company receiving a share of profits. Genentech will retain commercialization rights throughout the rest of the world, except in Japan where Zenyaku will be responsible for development, marketing and sales. Genentech has granted Hoffmann-La Roche marketing rights outside of the United States. The Company will receive royalties on sales outside the United States and Canada. Additionally, pursuant to an expression technology license agreement, the Company is entitled to receive royalties on sales of Genentech products manufactured with the Company's proprietary gene expression technology. Genentech may terminate this agreement for any reason beginning on the date of availability of data from the first Phase III clinical trial of IDEC-C2B8. In connection with the collaboration, Genentech purchased shares of the Company's convertible preferred stock. The collaborative agreement between the Company and Genentech provides two independent mechanisms by which either party may purchase or sell its rights in the co-promotion territory from/to the other party. Upon the occurrence of certain events that constitute a change of control of the Company, Genentech may elect to present an offer to the Company to purchase the Company's co-promotion rights. The Company must then accept Genentech's offer or purchase Genentech's co-promotion rights for an amount scaled (using the profit sharing ratio between the parties) to Genentech's offer. Under a second mechanism, after a specified period of commercial sales and (i) upon a certain number of years of declining co-promotion profits or (ii) if Genentech files for U.S. regulatory approval on a competitive product during a limited period of time, either party may offer to purchase the other party's co-promotion rights. The offeree may either accept the offer price or purchase the offeror's co-promotion rights at the offer price scaled to the offeror's share of co-promotion profits.

SmithKline Beecham, p.l.c. In October 1992, the Company and SmithKline Beecham entered into an exclusive worldwide collaborative research and license agreement limited to the development and commercialization of therapeutic products based on the Company's PRIMATIZED anti-CD4 antibodies. Under the terms of this agreement, the Company may receive payments in excess of $60.0 million, subject to the attainment of certain milestone events, of which $32.6 million has been recognized as of December 31, 1996. The Company will receive funding for anti-CD4 related research and development programs, as well as royalties and a share of co-promotion profits in the United States and Canada on sales of products which may be commercialized as a result of the collaboration. At any time, SmithKline Beecham may terminate this agreement by giving the Company 30 days' written notice based on a reasonable determination that the products do not justify continued development or marketing. In connection with the collaboration, SmithKline Beecham purchased shares of common stock and warrants exercisable into common stock.

Mitsubishi Chemical Corporation. In November 1993, the Company entered into a collaborative development agreement and a license agreement with Mitsubishi for the development of a PRIMATIZED anti-B7 antibody. The collaborative development agreement expired automatically on December 31, 1996. Under the terms of the agreements, the Company may receive payments totaling $12.2 million to fund research of the PRIMATIZED anti-B7 antibody, subject to the attainment of certain milestone events, of which $7.2 million has been recognized as of December 31, 1996. Under the license agreement, which remains in effect, the Company has granted Mitsubishi an exclusive license in Asia to make, use and sell PRIMATIZED anti-B7 antibody products. The Company will receive royalties on sales of the developed products by Mitsubishi. At any time, Mitsubishi may terminate the license agreement by giving the Company 30

days' written notice based on a reasonable determination that the products do not justify continued development or marketing or based on failure to reach milestones.

Seikagaku Corporation. In December 1994, the Company and Seikagaku entered into a collaborative development agreement and a license agreement aimed at the development and commercialization of therapeutic products based on the Company's PRIMATIZED anti-CD23 antibodies. Under the terms of these agreements, Seikagaku may provide up to $26.0 million in milestone payments and support for research and development, subject to the attainment of certain milestone events, of which $8.0 million has been recognized as of December 31, 1996. Under the agreement, Seikagaku has received exclusive rights in Europe and Asia to all products emerging from the collaboration. The Company will receive royalties on eventual product sales by Seikagaku. At any time, Seikagaku may terminate this agreement by giving the Company 60 days' written notice based on a reasonable determination that the products do not justify continued development or marketing.

Eisai Co., Ltd. In December 1995, the Company and Eisai entered into a collaborative development agreement and a license agreement aimed at the development and commercialization of humanized and PRIMATIZED anti-gp39 antibodies. Under the terms of these agreements, Eisai may provide up to $37.5 million in milestone payments and support for research and development, subject to the attainment of certain milestone events, of which $10.8 million has been recognized as of December 31, 1996. Eisai will receive exclusive rights in Asia and Europe to develop and market resulting products emerging from the collaboration, with the Company receiving royalties on eventual product sales by Eisai. At any time, Eisai may terminate this agreement by giving the Company 60 days' written notice based on a reasonable determination that the products do not justify continued development or marketing.

Boehringer Ingelheim International GmbH and Chugai Pharmaceutical Co., Ltd. In January 1997, the Company and Boehringer Ingelheim International GmbH ("Boehringer Ingelheim") and in March 1996, the Company and Chugai entered into worldwide license agreements (co-exclusive with IDEC Pharmaceuticals, Genentech and up to one additional company) for IDEC Pharmaceuticals' proprietary gene expression technology. As part of the agreements, Boehringer Ingelheim and Chugai will pay license issue fees and royalties on sales of products manufactured using the technology.

GOVERNMENT REGULATION

The testing, manufacturing, labeling, advertising, promotion, export and marketing, among other things, of the Company's proposed 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 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, the Company believes that its products will be regulated by the FDA as biologics. Manufacturers of biologics may also be subject to state regulation.

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 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 PLA and ELA, or in certain circumstances (discussed below) a BLA, (v) FDA review of the PLA and the ELA, or, where applicable, the BLA, and (vi) satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the product is made to assess compliance with 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.

Preclinical tests include laboratory evaluation of the product, as well as animal studies to assess the potential safety and efficacy of the product. The results of the preclinical tests, together with manufacturing information and analytical data, are submitted to the FDA as part of an IND, which must become effective before human clinical trials may be commenced. The IND will automatically become effective 30 days after receipt by the FDA, unless the FDA

before that time raises concerns or questions about the conduct of the trials as outlined in the IND. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before clinical trials can proceed. There can be no assurance that submission of an IND will result in the FDA allowing it to become effective.

Clinical trials involve the administration of the investigational product to healthy volunteers or patients under the supervision of a qualified principal investigator. Further, each clinical study must be reviewed and approved by an independent Institutional Review Board.

Clinical trials typically are conducted in three sequential phases, but the phases may overlap. In Phase I, the initial introduction of the drug into human subjects, the drug is usually tested for safety (adverse effects), dosage tolerance, absorption, metabolism, distribution, excretion and pharmacodynamics. Phase II usually involves studies in a limited patient population to (i) evaluate preliminarily the efficacy of the drug for specific targeted indications, (ii) determine dosage tolerance and optimal dosage and (iii) identify possible adverse effects and safety risks. Phase III trials generally further evaluate clinical efficacy and test further for safety within an expanded patient population.

In the case of products for severe or life-threatening diseases, the initial human testing is sometimes done in patients rather than in healthy volunteers. Since these patients are already afflicted with the target disease, it is possible that such studies may provide evidence of efficacy traditionally obtained in Phase II trials. These trials are frequently referred to as "Phase I/II" trials. Furthermore, 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 health 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 PLA/ELA or BLA requesting approval to market the product. Before approving a PLA/ELA or BLA, the FDA will inspect the facilities at which the product is manufactured, and will not approve the product unless cGMP compliance is satisfactory. The FDA may deny a PLA/ELA or BLA if applicable regulatory criteria are not satisfied, require additional testing or information, and/or require postmarketing testing and surveillance to monitor the safety or efficacy of a product. There can be no assurance that FDA approval of any PLA/ELA or BLA submitted by the Company will be granted on a timely basis or at all. Also, if regulatory approval of a product is granted, such approval may entail limitations on the indicated uses for which it may be marketed.

On May 14, 1996, the FDA adopted a new regulation, effective May 24, 1996, regarding the license application process for certain biological products. Those biological products that fall within the regulation will be reviewed on the basis of a single BLA, rather than a PLA/ELA. The BLA includes the same information as the current PLA, but certain of the data now required as part of the ELA does not have to be submitted or reviewed during the approval process. This new rule is intended, at least in part, to lessen the regulatory burden on manufacturers of certain biologics and accelerate the approval process. The Company believes that its products currently in clinical trials fall within the new regulation as monoclonal antibody products for invivo use. There can be no assurance, however, that the FDA will consider the new regulation applicable to any of the Company's products, or that the BLA process, if applicable to the Company's products, will have the intended effect of reducing review times.

Additionally, in March 1996, the FDA announced a new policy intended to accelerate the approval process for cancer therapies. Previously, cancer therapies have been approved primarily on the basis of data regarding patient survival rates and/or improved quality of life. Evidence of partial tumor shrinkage, while often part of the data relied on for approval, was considered insufficient by itself to warrant approval of a cancer therapy, except in limited situations. Under the FDA's new policy, which became effective immediately, the FDA has significantly broadened the circumstances in which evidence of partial tumor shrinkage is considered sufficient for approval. This

policy is intended to make it easier to study cancer therapies and shorten the total time for marketing approvals.

As a general matter, data regarding partial tumor shrinkage can be developed in less time than survival data, and it may therefore be possible under this policy to submit a BLA (or PLA/ELA if necessary) for cancer therapies earlier than had previously been anticipated. There can be no assurance, however, that the FDA's new policy will be deemed to apply to IDEC-C2B8 or any of the Company's other products, or that, if applicable, the policy will, in fact, accelerate the approval process. Moreover, the accelerated approval process does not necessarily increase the likelihood that any of the Company's products will be approved by the FDA.

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 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 license 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 to obtain regulatory approval for marketing its products in foreign countries.

Orphan Drug Designation. 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 PLA/ELA or 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 which has an orphan drug designation subsequently receives FDA approval for the indication for which it has such designation, the product is entitled to orphan exclusivity, 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 IDEC-C2B8, 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 exclusivity for the low grade B-cell lymphoma indication, and it is possible that competitors of the Company could obtain approval, and attendant orphan drug exclusivity, for these same compounds for the low grade B-cell lymphoma indication, thus precluding the Company from marketing its product(s) for the same indication in the United States. In addition, even if the Company does obtain orphan exclusivity 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 exclusivity 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 designation will remain in effect in the future.

COMPETITION

The development of therapeutic agents for human disease is intensely competitive. Many different approaches are being developed or have already been adopted into routine use for the management of diseases targeted by the Company. Competitive approaches to the Company's products include radioimmunotherapies and antibody-drug and antibody-toxin conjugates for cancers, and chemotherapeutic agents and various immunologically based agents for cancers and autoimmune disorders. Ultimately, the Company believes that its products will be competitive or complementary to existing products and other products still in development. In some cases, the Company's products may be used along with other agents in "combination therapies."

Many of the Company's existing or potential competitors have substantially greater financial, technical and human resources than the Company and may be better equipped to develop, manufacture and market products. In addition, many of these companies have extensive experience in preclinical testing and human clinical trials. These

companies may develop and introduce products and processes competitive with or superior to those of the Company. The Company is aware that certain other companies are in the process of clinical testing of potentially competitive biotechnology-based products. If approved for the same indications for which the Company is developing products, such products may make it more difficult for the Company to obtain approval of its own products or reduce the potential market shares for the Company's products.

The Company's competition will be determined in part by the potential indications for which the Company's antibodies are developed and ultimately approved by regulatory authorities. For certain of the Company's potential products, an important factor in competition may be the timing of market introduction versus that of competitive products. Accordingly, the relative speed with which the Company develops its products, completes the required approval processes and generates and markets commercial product quantities are expected to be important competitive factors. The Company expects that competition among products approved for sale will be based, among other factors, on product activity, safety, reliability, availability, price, patent position and new usage and purchasing patterns established by managed care and other group purchasing organizations.

The Company's competitive position also depends upon its ability to attract and retain qualified personnel, obtain patent protection or otherwise develop proprietary products or processes, secure sufficient capital resources to complete product development and regulatory processes, to build a marketing and sales organization and to build or obtain large scale manufacturing facilities, if required beyond its facility in San Diego.

SALES AND MARKETING

IDEC Pharmaceuticals has directly retained marketing or co-promotion rights to all of its products for the United States and Canadian markets. Within the United States and Canada, the Company's strategy with its initial products is to develop a sales and marketing organization targeted at the oncology and hematology market, including co-promotion with Genentech in the United States and with Genentech or its sublicensee in Canada. The Company believes this segment of the market can be satisfactorily addressed with a small, experienced, highly trained sales force augmented with managed care specialists. At the appropriate time, the Company intends to develop a similarly focused strategy for the marketing and sales of its autoimmune

products, including co-promotion with SmithKline Beecham.

Outside of the United States and Canada, the Company's strategy is to enter into collaborative agreements with established pharmaceutical companies as partners for marketing, distribution and sales of its products. In this regard, the Company has entered into agreements with Genentech and Zenyaku for its lymphoma products and with SmithKline Beecham, Mitsubishi, Seikagaku and Eisai for its various humanized or PRIMATIZED antibodies.

EMPLOYEES

As of January 31, 1997, the Company employed 268 persons, including 265 full-time and three part-time employees. The Company has 213 employees in research and development, of whom 27 hold Ph.D. or M.D. degrees. None of the Company's employees are represented by a labor union or bound by a collective bargaining agreement. Management believes that its overall relations with its employees are good.

ENVIRONMENTAL REGULATION

The Company's research and development involves the controlled use of hazardous materials, chemicals and various 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. The Company may incur substantial cost to comply with environmental regulations. The Company anticipates no material capital expenditures to be incurred for environmental compliance in fiscal year 1997. 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.

EXECUTIVE OFFICERS

The executive officers of the Company are as follows:

Name	Age	Title
William H. Rastetter, Ph.D.	48	Chairman, President and Chief Executive Officer
Antonio J. Grillo-Lopez, M.D.	57	Senior Vice President, Medical and Regulatory Affairs
Nabil Hanna, Ph.D.	53	Senior Vice President, Research and Preclinical Development
William R. Rohn	53	Senior Vice President, Commercial Operations
Christopher J. Burman	47	Vice President, Manufacturing Sciences
John Geigert, Ph.D.	49	Vice President, Quality
Connie L. Matsui	43	Vice President, Planning and Resource Development
Phillip M. Schneider	40	Vice President and Chief Financial Officer
Kenneth J. Woolcott	38	Vice President, Secretary, General Counsel and Licensing Executive

BUSINESS EXPERIENCE

DR. RASTETTER was appointed Chairman of the Board of Director of the Company on May 22, 1996. He has served as President and Chief Executive Officer of the Company since December 1986 and Chief Financial Officer from 1988 to 1993. Dr. Rastetter has served as a Director of the Company since 1986. From 1984 to 1986, he was Director of Corporate Ventures at Genentech, Inc. From 1982 to 1984, Dr. Rastetter served in a scientific capacity at Genentech, Inc., directing the Biocatalysis and Chemical Sciences groups. From 1975 to 1982, he held various faculty positions at the Massachusetts Institute of Technology. Dr. Rastetter serves on the Board of Directors for Argonaut Technologies, Inc., a privately held life science company and serves on the boards of the California Health Care Institute and BIOCOM San Diego. Dr. Rastetter also sits on the California Governor's Council on Biotechnology. Dr. Rastetter received his Ph.D. in chemistry from Harvard University in 1975.

DR. GRILLO-LOPEZ joined IDEC Pharmaceuticals as Vice President, Medical and Regulatory Affairs in November 1992 from Du Pont Merck Pharmaceutical Company. In January 1996, he was promoted to Senior Vice President, Medical and Regulatory Affairs. He was employed by Du Pont Merck from 1987 to 1992, where he most recently was Executive Medical Director for International Clinical Research and Development and previously held various clinical and medical director positions at the company. From 1980 to 1987, Dr. Grillo-Lopez was a Vice President in charge of clinical therapeutics and Director of Clinical Oncology Research at Warner Lambert Company's Parke Davis Pharmaceutical Research Division. He trained as a hematologist and oncologist at the University of Puerto Rico School of Medicine, San Juan, where he received his medical degree and subsequently held faculty appointments. He has been an adjunct associate professor in the Department of Medicine (Hematology and

Medical Oncology) at the University of Michigan Medical School; was a founder of the Puerto Rico Society of Hematology and the Latin American Society of Hematology; and is a fellow of the International Society of Hematology and the Royal Society of Medicine (London).

DR. HANNA joined the Company in February 1990 as Vice President, Research and Preclinical Development. In 1993, Dr. Hanna was promoted to Senior Vice President, Research and Preclinical Development. From 1981 to 1990, Dr. Hanna served as Associate Director and then Director of the Department of Immunology at a SmithKline Beecham company focusing on autoimmune and chronic inflammatory diseases. From 1978 to 1981, he was a research scientist at the NCI-Frederick Cancer Research Center, where he studied the role of immune system cells in host defenses against cancer. From 1973 to 1978, Dr. Hanna was a lecturer in the Department of Immunology at the Hebrew University Medical School in Israel, where he received his Ph.D. in immunology.

MR. ROHN joined the Company in August 1993 as Senior Vice President, Commercial and Corporate Development and in April 1996 he was appointed Senior Vice President, Commercial Operations. Prior to joining IDEC Pharmaceuticals, Mr. Rohn was employed by Adria Laboratories from 1984, most recently as Senior Vice President of Sales and Marketing with responsibilities for strategic and commercial partnerships as well as all sales and marketing functions in the United States. Prior to Adria, Mr. Rohn held marketing and sales management positions at Abbott Laboratories, Warren-Teed Pharmaceuticals, Miles Laboratories and Mead Johnson Laboratories. Mr. Rohn has a B.A. from Michigan State University.

MR. BURMAN joined IDEC Pharmaceuticals in May 1992 as Vice President, Manufacturing Sciences. He previously served from 1989 to 1992 as Director of Manufacturing Technology at Life Sciences International. From 1985 to 1989, he was t-PA Operations and Technical Services Manager at Genentech, Inc., where he was responsible for the start up of the t-PA manufacturing facility and commercial scale manufacturing operations. From 1967 to 1985, he held a series of positions at Wellcome Biotech Ltd., culminating in responsibility for worldwide cell culture-based manufacturing operations. Mr. Burman holds a

B.Sc. degree with honors in Applied Biology from the Council for National Academic Awards in the United Kingdom. He also holds graduate qualifications in Industrial Microbiology.

DR. GEIGERT joined IDEC Pharmaceuticals in May 1996 as Vice President, Quality. He previously served from 1991 to 1996 as Vice President, Quality Control at Immunex Corporation. From 1973 to 1991, he was employed by Cetus Corporation Laboratories where he served most recently as Director of Quality Control and Product Evaluation. Dr. Geigert holds a B.S. degree from Washington State University and a Ph.D. from Colorado State University.

MS. MATSUI joined IDEC Pharmaceuticals in November 1992 as Senior Director, Planning and Resource Development with primary responsibility for strategic planning and human resources. In December 1994, Ms. Matsui was promoted to Vice President, Planning and Resource Development. As a consultant during 1992, Ms. Matsui assisted in the planning and implementation of the Company's unification from sites in Northern and Southern California to its present site in San Diego. From 1977 to 1991, she served in a variety of marketing and general management positions at Wells Fargo Bank including Vice President and Manager responsible for Consumer Retirement Programs and Vice President and Manager in charge of companywide employee relations and communications. Ms. Matsui has a B.A. and an M.B.A. from Stanford University.

MR. SCHNEIDER joined the Company in February 1987 as Director, Finance and Administration and served as Senior Director, Finance and Administration from 1990 to 1991. In 1991, he became Vice President, Finance and Administration and in 1996 he was appointed Vice President and Chief Financial Officer. From 1984 to 1987, Mr. Schneider served as the Manager of Financial Reporting and as a Senior Analyst for Syntex Laboratories. He earned his C.P.A. while working for KPMG Peat Marwick LLP as a Senior Accountant. Mr. Schneider earned his M.B.A. at the University of Southern California and a B.S. in biochemistry from the University of California at Davis.

MR. WOOLCOTT joined IDEC Pharmaceuticals in March 1989 as Intellectual Property Counsel. In 1990, he became Intellectual Property and Licensing Counsel. Mr. Woolcott was promoted to Deputy General Counsel in 1991 and General Counsel in 1992. In 1993, Mr. Woolcott was appointed Secretary of the Company. In 1994, he was promoted to Vice President, Secretary, General Counsel & Licensing Executive. From 1985 to 1987, he served as Patent Counsel and Associate Counsel at Hybritech, Inc. From 1987 to 1989, he was engaged in the private

practice of law in Seattle, Washington. Mr. Woolcott earned his J.D. from George Washington University and a B.S. in biochemistry from Pacific Lutheran University.

Executive officers are appointed to serve at the discretion of the Board of Directors until their successors are appointed. There are no family relationships among executive officers of the Company.

ITEM 2. PROPERTIES.

IDEC Pharmaceuticals currently leases approximately 118,000 square feet of administrative, laboratory, manufacturing and warehouse space at two locations in San Diego, California. The Company's principal executive offices, primary research facilities and manufacturing plant are located 11011 Torreyana Road in San Diego, California. This facility is leased pursuant to a 15-year operating lease which commenced in 1993. The Company has the option to extend the term of the lease for two additional periods of five years each. In August 1996, the Company entered into a 7-year operating lease for additional administrative and warehouse space at 3030 Callan Road in San Diego, California. The Company has the option to extend the term of the Callan Road lease for two additional years.

ITEM 3. LEGAL PROCEEDINGS.

(a) The Company is not a party to any material legal proceedings.

(b) No material legal proceedings were terminated in the fourth quarter of 1996.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the Company's shareholders during the last quarter of the year ended December 31, 1996.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

(a) Market Information

The information required by this item is contained under the caption "Common Stock Information" in the Company's Annual Report to Shareholders for the year ended December 31, 1996, which information is included as Exhibit 13.0 to this Form 10-K.

(b) Holders

As of January 31, 1997, there were approximately 424 shareholders of record of the Company's common stock.

(c) Dividends

The Company has not paid dividends since its inception. The Company currently intends to retain all earnings, if any, for use in the expansion of its business and therefore does not anticipate paying any dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA.

The information required by this item is contained under the caption "Selected Financial Data" in the Company's Annual Report to Shareholders for the year ended December 31, 1996 which information is included as Exhibit 13.1 to this Form 10-K.

ITEM 7. MANAGEMENTS' DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information required by this item is contained under the caption "Managements' Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report to Shareholders for the year ended December 31, 1996, which information is included as Exhibit 13.2 to this Form 10-K.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA:

The information required by this item is contained under the caption "Financials" in the Company's Annual Report to Shareholders for the year ended December 31, 1996, which information is included as Exhibit 13.3 to this Form 10-K:

Consolidated Balance Sheets -- December 31, 1996 and 1995
Consolidated Statements of Operations -- Years ended December 31, 1996,

1995 and 1994
Consolidated Statements of Shareholders' Equity -- Years ended December 31, 1996, 1995 and 1994
Consolidated Statements of Cash Flows -- Years ended December 31, 1996, 1995 and 1994
Notes to Consolidated Financial Statements
Independent Auditors' Report

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this item in regards to the identification of Directors is hereby incorporated by reference to the information contained under the caption "Election of Directors" in the Company's Proxy Statement for its Annual Meeting of Shareholders to be held on May 22, 1997.

The information required by this item in regards to the identification of Executive Officers appears under the caption "Executive Officers" appearing in Item 1 of Part I of this report, pages 21 through 23.

The information required by Section 16(a) is hereby incorporated by reference to the information contained under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Company's Proxy Statement for its Annual Meeting of Shareholders to be held on May 22, 1997.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is hereby incorporated by reference to the information contained under the caption "Executive Compensation and Related Information" in the Company's Proxy Statement for its Annual Meeting of Shareholders to be held on May 22, 1997.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this item is hereby incorporated by reference to the information contained under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement for its Annual Meeting of Shareholders to be held on May 22, 1997.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item is hereby incorporated by reference to the information contained under the caption "Certain Relationships and Related Transactions" in the Company's Proxy Statement for its Annual Meeting of Shareholders to be held on May 22, 1997.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

a. 1) Consolidated Financial Statements:

	Page
Consolidated Balance Sheets--December 31, 1996 and 1995	*
Consolidated Statements of Operations--Years ended December 31, 1996, 1995 and 1994	*
Consolidated Statements of Shareholders' Equity--Years ended December 31, 1996, 1995 and 1994	*
Consolidated Statements of Cash Flows--Years ended December 31, 1996, 1995 and 1994	*

* These items are contained under the caption "Financials" in the Company's Annual Report to Shareholders for the year ended December 31, 1996, which information is included as Exhibit 13.3 to this Form 10-K.

2) Financial Statement Schedules:

SCHEDULE NUMBER	DESCRIPTION
II	Valuation and qualifying accounts

All other financial statements schedules are omitted because they are not required or are not applicable, or because the required information is included in the financial statements or notes thereto.

3) Exhibits:

The following exhibits are referenced or included in this report.

EXHIBIT NUMBER	DESCRIPTION
3.1(12)	Second Amended and Restated Articles of Incorporation.
3.2(1)	Bylaws, as amended May 15, 1992.
4.1(7)	Certificate of Determination of Preferences of Preferred Shares filed with the California Secretary of State on March 28, 1995. Reference is also made to Exhibit 3.1.
4.2	Reference is made to Exhibit 3.2.
4.6(1)	1992 Amended and Restated Registration Rights Agreement.
4.7(1)	Specimen Common Stock Certificate.
4.8	Reference is made to Exhibit 10.46.
4.9(7)	1995 Registration Rights Agreements.
10.1(13)	1988 Stock Option Plan, as Amended and Restated through January 24, 1996.
10.2(13)	Form of Notice of Grant.
10.3(13)	Form of Option Agreement.
10.4(12)	Letter Agreement between the Company and Genentech, Inc., dated May 21, 1996
10.21(1)	401(k) Plan.
10.22(1)	Form of Indemnification Agreement for Officers and Directors.
10.23(1)	Form of acceleration of vesting letter agreement between the Company and certain officers.
10.24(1)y	License Agreement with Coulter Immunology, dated May 16, 1991.
10.26(3)	Lease Agreement between the Company and Torrey Sorrento, Inc., dated July 9, 1992.
10.27(3)y	Collaborative Research and License Agreement between the Company and SmithKline Beecham p.l.c., dated October 12, 1992.
10.28(3)	Investment Agreement between the Company and S.R. One, Limited, dated October 16, 1992.
10.30(8)	1995 Employee Stock Purchase Plan.
10.31(4)y	Collaborative Development Agreement between the Company and Mitsubishi Chemical Corporation, dated November 11, 1993.
10.32(4)	Employment Agreement between the Company and Dr. Antonio Grillo-Lopez dated September 25, 1992.
10.33(5)y	1993 Non-Employee Directors Stock Option Plan.
10.34(6)y	Collaborative Development Agreement between the Company and Seikagaku Corporation dated December 27, 1994.
10.35(6)y	License Agreement between the Company and Seikagaku Corporation dated December 27, 1994.
10.36(6)y	Loan Agreement between the Company and Silicon Valley Bank and Venture Lending & Leasing, Inc., dated December 28, 1994.
10.37(6)y	$2,500,000 Promissory Note, dated December 28, 1994.

29

10.38(6)y	$5,000,000 Promissory Note, dated December 28, 1994.
10.39(6)	Security Agreement, dated December 28, 1994.
10.40(6)y	Patent Collateral Assignment, dated December 28, 1994.
10.41(6)y	Trademark Collateral Assignment, dated December 28, 1994.
10.42(6)	Intercreditor Agreement, dated December 28, 1994.
10.43(6)	Deed of Trust and Fixture Filing, dated December 28, 1994.
10.44(6)	Three-Party Leasehold Agreement, dated September 30, 1994.
10.45(6)	Warrants to Purchase Shares of Common Stock, dated December 30, 1994.
10.46(6)	1994 Registration Rights Agreement.
10.47(6)	Investment Agreement between the Company, SmithKline Beecham p.l.c. and SmithKline Beecham Corporation, dated December 28, 1994.
10.48(7)	Master Definitions Agreement between the Company and Genentech. Inc.
10.49(7)y	Collaboration Agreement between the Company and Genentech. Inc., dated March 16, 1995.
10.50(7)y	Expression Technology Agreement between the Company and Genentech. Inc., dated March 16, 1995.
10.51(7)	Preferred Stock Purchase Agreement between the Company and Genentech. Inc., dated March 16, 1995.
10.52(7)	Option Agreement between the Company and Genentech, Inc., dated March 16, 1995.
10.53(7)	Preferred and Common Stock Purchase Agreement between the Company and ML/MS Associates, L.P., dated March 16, 1995.
10.54(9)*	Amendment Agreement between the Company and SmithKline Beecham p.l.c., dated January 20, 1993.
10.55(9)*	Modification of the Amendment Agreement between the Company and SmithKline Beecham p.l.c., dated June 14, 1993.
10.56(8)	Special Stock Issuance Plan.
10.57)10)	$2,500,000 Promissory Note, dated August 11, 1995.
10.58(10)	Warrants to purchase shares of common stock, dated August 9, 1995.
10.59(15)y	Collaborative Development Agreement between the Company and Eisai Co., Ltd. dated December 11, 1995.
10.60(15)y	License Agreement between the Company and Eisai Co., Ltd. dated December 11, 1995.
10.61(15)y	License Agreement between the Company, Genentech, Inc. and Zenyaku Kogyo Co., Ltd. dated November 30, 1995.
10.62(15)y	Development Agreement between the Company, Genentech, Inc. and Zenyaku Kogyo Co., Ltd. dated November 30, 1995.
10.63(15)y	Supply Agreement between the Company and Zenyaku Kogyo Co., Ltd. dated November 30, 1995.
10.64(15)y	Termination Agreement between the Company and Zenyaku Kogyo Co., Ltd. dated November 30, 1995.
10.65(15)y	Amendment to the Development Agreement between the Company, Genentech, Inc. and Zenyaku Kogyo Co., Ltd. dated November 30, 1995.
10.66(1)	Amendment to Collaboration Agreement between the Company and Genentech, Inc. dated November 30, 1995.
10.67(11)y	License Agreement between the Company and Chugai Pharmaceutical Co., Ltd. dated March 31, 1996.
10.68(14)	Lease Agreement between the Company and All Spectrum Services, Inc., dated August 13, 1996.
13.0	Common Stock Market Information
13.1	Selected Financial Data
13.2	Managements' Discussion and Analysis of Financial Condition and Results of Operations
13.3	Consolidated Financial Statements
22.1(1)	Subsidiary of the Company.
23.0	Independent Auditors' Report on Schedule and Consent
23.1	Financial Statement Schedule

30

27.1	Financial Data Schedule

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*	Confidential Treatment requested as to certain portions of this agreement.
y	Confidential Treatment has been granted with respect to portions of this agreement.
(1)	Incorporated by reference to exhibits of the same number filed with the Registrant's Registration Statement on Form S-1, File No. 33-40756.
(2)	Incorporated by reference to exhibit of the same number filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.
(3)	Incorporated by reference to exhibits of the same number filed with the Registrant's Annual Report

	on Form 10-K for the year ended December 31, 1992.
(4)	Incorporated by reference to exhibits of the Registrant's Registration Statement on Form S-1, File No. 33-76080.
(5)	Incorporated by reference to the Registrant's Registration Statement on Form S-8, File No. 33-93794.
(6)	Incorporated by reference to exhibit of the same number filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994.
(7)	Incorporated by reference to exhibit of the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.
(8)	Incorporated by reference to the Registrant's Registration Statement on Form S-8, File No. 33-90738.
(9)	Incorporated by reference to exhibit of the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995.
(10)	Incorporated by reference to exhibit of the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.
(11)	Incorporated by reference to exhibit of the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
(12)	Incorporated by reference to the Registrant's Registration Statement on Form 8-K ile No. 000-19311.
(13)	Incorporated by reference to the Registrant's Registration Statement on Form S-8, File No. 333-06543.
(14)	Incorporated by reference to exhibit with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.
(15)	Incorporated by reference to exhibits of the same number filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

b. No reports on Form 8-K were filed during the fourth quarter of 1996.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 27, 1997 By: /s/ William H. Rastetter

William H. Rastetter, Ph.D., Chairman, President and Chief Executive Officer

Pursuant to the requirements the securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

NAME	CAPACITY	DATE
/s/ William H. Rastetter William H. Rastetter, Ph.D.	Chairman, President and Chief Executive Officer (Principal Executive Officer)	March 27, 1997
/s/ Phillip M. Schneider Phillip M. Schneider	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 27, 1997
/s/ Charles C. Edwards Charles C. Edwards, M.D.	Director	March 27, 1997
/s/ Alan B. Glassberg Alan B. Glassberg, M.D.	Director	March 27, 1997
/s/ John Groom John Groom	Director	March 27, 1997
/s/ Kazuhiro Hashimoto Kazuhiro Hashimoto	Director	March 27, 1997
/s/ Peter Barton Hutt Peter Barton Hutt	Director	March 27, 1997
/s/ Franklin P. Johnson Franklin P. Johnson, Jr.	Director	March 27, 1997
/s/ John P. McLaughlin John P. McLaughlin	Director	March 27, 1997
/s/ Lynn Schenk The Honorable Lynn Schenk	Director	March 27, 1997

Exhibit 13.0

IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARY

COMMON STOCK MARKET INFORMATION

The Company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol IDPH. The closing price on Friday, December 31, 1996 was $23.75 per share. No cash dividends have been paid by the Company on its common stock, and the Company does not anticipate the payment of dividends in the foreseeable future. As of December 31, 1996, there were approximately 429 shareholders of record. The following table sets forth the high and low sales price for the Company's common stock as reported by the Nasdaq National Market for the years 1996 and 1995.

	PRICE	
	HIGH	LOW
YEAR ENDED DECEMBER 31, 1996		
First Quarter	$23.13	$15.88
Second Quarter	32.63	21.00
Third Quarter	27.38	13.88
Fourth Quarter	26.38	18.13
YEAR ENDED DECEMBER 31, 1995		
First Quarter	$ 4.63	$ 2.13
Second Quarter	5.63	3.50
Third Quarter	8.75	5.25
Fourth Quarter	23.63	7.13

Exhibit 13.1

IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARY

SELECTED FINANCIAL DATA

The following tables set forth certain financial data with respect to IDEC Pharmaceuticals Corporation. The selected financial data should be read in conjunction with the consolidated financial statements and notes thereto.

	YEARS ENDED DECEMBER 31,				
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	1996	1995	1994	1993	1992
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Revenues:					
Sales	$ 1,505	$ --	$ --	$ --	$ --
Contract research revenues	14,254	12,136	5,143	4,329	3,212
License fees	14,250	11,500	2,300	8,385	2,000
	30,009	23,636	7,443	12,714	5,212
Operating expenses:					
Cost of sales	1,384	--	--	--	--
Research and development	26,763	22,488	21,191	18,723	14,519
General and administrative	7,298	6,112	4,768	4,262	3,196
Acquired technology rights	--	11,437	--	--	--
Unification costs	--	--	--	--	3,000
	35,445	40,037	25,959	22,985	20,715
Loss from operations	(5,436)	(16,401)	(18,516)	(10,271)	(15,503)
Interest income (expense), net	481	(891)	485	1,174	2,340
Other income	--	--	--	215	459
Net loss	(4,955)	(17,292)	(18,031)	(8,882)	(12,704)
Convertible preferred stock dividends	(696)	--	--	--	--
Net loss applicable to common stock	$ (5,651)	$(17,292)	$(18,031)	$ (8,882)	$(12,704)
Net loss per common share	$ (0.34)	$ (1.18)	$ (1.65)	$ (0.96)	$ (1.39)
Shares used in computing net loss per common share	16,573	14,650	10,931	9,265	9,168

	DECEMBER 31,				
(IN THOUSANDS)	1996	1995	1994	1993	1992
CONSOLIDATED BALANCE SHEETS DATA:					
Cash, cash equivalents and securities available-for-sale ($750 and $1,500 restricted at December 31, 1995 and 1994, respectively)	$ 78,727	$ 24,760	$ 22,101	$ 26,503	$ 43,624
Total assets	113,829	47,626	45,494	50,728	52,649
Notes payable, less current portion	5,015	6,598	7,386	3,572	156
Accumulated deficit	(83,815)	(78,860)	(61,568)	(43,537)	(34,655)
Total shareholders' equity	$ 92,614	$ 31,169	$ 27,896	$ 35,674	$ 43,787

Exhibit 13.2

IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARY

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

The following discussion should be read in conjunction with the consolidated financial statements and related notes of IDEC Pharmaceuticals Corporation ("IDEC Pharmaceuticals" or the "Company").

OVERVIEW

IDEC Pharmaceuticals Corporation is primarily engaged in the research and development of targeted therapies 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 anticipates that such operating losses will continue for at least the next one to two years. As of December 31, 1996, the Company had an accumulated deficit of $83.8 million.

RESULTS OF OPERATIONS

Contract Research Revenues: Contract research revenues increased to $14.3 million in 1996, from $12.1 million in 1995 and $5.1 million in 1994. The increase in contract research revenues in 1996 is due primarily to revenue from a new collaboration entered into with Eisai Co., Ltd. ("Eisai") in December 1995 and ongoing efforts under existing collaborative agreements with Genentech, Inc. ("Genentech") and Seikagaku Corporation ("Seikagaku"), offset by decreased revenues from SmithKline Beecham, p.l.c. ("SmithKline Beecham") as a result of the planned transfer of late stage clinical development of IDEC-CE9.1 to SmithKline Beecham in late 1995. The increase in contract research revenues in 1995 from 1994 was primarily a result of the new collaborations entered into with Genentech and Eisai and ongoing efforts under a collaborative agreement entered into with Seikagaku in December 1994.

License Fees: License fees totaled $14.3 million in 1996, compared to $11.5 million in 1995 and $2.3 million in 1994. License fees in 1996 include $4.5 million received for the license to Chugai Pharmaceutical Co., Ltd. of the Company's proprietary gene expression technology for the manufacture of recombinant proteins, $4.0 million received from SmithKline Beecham for the initiation of a Phase III trial by SmithKline Beecham of IDEC-CE9.1 for the treatment of rheumatoid arthritis, $4.0 million from Genentech for the expansion of its collaboration with the Company to include two radioconjugates, IDEC-Y2B8 and IDEC-In2B8 and for the achievement of a development milestone event for IDEC-C2B8 and license fee revenues received from Seikagaku and Eisai also for the achievement of product development milestone events. License fees increased in 1995 from 1994 due to one-time licensing fees earned from the new corporate partnerships with Genentech, Eisai and Seikagaku in addition to the licensing fees recognized from Zenyaku Kogyo Co., Ltd. for the development and marketing rights for IDEC-C2B8 in Japan. License fee revenues can vary significantly from year to year based upon the consummation of new corporate alliances and the achievement of milestone events. 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 and Cost of Sales: Sales and costs of sales in 1996 were a result of the Company completing a contract manufacturing arrangement during the second quarter of 1996.

Research and Development: Research and development costs increased to $26.8 million in 1996, from $22.5 million in 1995 and $21.2 million in 1994. The increase in research and development expenses in 1996 is primarily due to a $1.3 million expense for access to certain patent rights related to IDEC-C2B8, increased personnel costs related to the completion of the Phase III trial, preparation of the Biologics License Application and the preparation for building of commercial inventory of the Company's lead product candidate, IDEC-C2B8. The increase in research and development costs in 1995 from 1994 was due primarily to higher personnel and related costs and license fee payments to acquire certain know-how, technology and patent rights to develop, produce and market products. The Company expects to continue incurring substantial additional research and development costs in the future, due to expansion of research and development programs; patent- and regulatory-related costs; preclinical and clinical testing of the Company's various products under development; production scale-up and manufacturing of products used in clinical trials; and pre-commercialization-related manufacturing costs.

General and Administrative: General and administrative costs increased to $7.3 million in 1996, from $6.1 million in 1995 and $4.8 million in 1994. General and administrative expenses increased in 1996 due to higher personnel costs to support expanded manufacturing operations, completion of the Phase III trial and preparation of the Biologics License Applications for IDEC-C2B8. The increase in general and administrative costs in 1995 from 1994 is due primarily to costs associated with structuring the Genentech collaboration, increased patent filing fees and higher personnel and related costs. 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.

Acquired Technology Rights: In March 1995, the Company issued 1.0 million shares of its common stock and 69,375 shares of its 10 percent Series B Nonvoting Cumulative Convertible Preferred Stock for the repurchase of all Merrill Lynch/Morgan Stanley, L.P. rights in the Company's lymphoma products. In the first quarter of 1995, the Company recorded a non-cash charge of $11.4 million, representing the purchase of the acquired technology rights.

Interest Income and Expense: Net interest income for the year ended December 31, 1996 was $0.5 million compared to net interest expense of $0.9 million in 1995 and net interest income of $0.5 million in 1994. The increase in net interest income in 1996 from net interest expense in 1995 is due to higher balances in cash, cash equivalents and securities available-for-sale, offset by an increase in interest expense resulting from increases in notes payable used to finance certain capital purchases and an increase in non-cash interest charges for certain common stock warrants issued in connection with certain debt financings. Net interest expense in 1995 was the result of higher balances in notes payable, non-cash interest charges for certain common stock warrants, partially offset by increased interest earnings on cash, cash equivalents and securities available-for-sale.

Income Taxes: IDEC Pharmaceuticals has incurred losses on an annualized basis since inception; therefore, no provision for income taxes has been recorded. The Company's net operating loss carryforwards available to offset future taxable income are approximately $66.3 million for federal income tax purposes and expire between 1999 and 2011. The future utilization of net operating loss carryforwards may be limited under the Internal Revenue Code ("IRC") due to an IRC defined ownership change that occurred during 1991. However, the Company believes that such limitations will not have a material impact upon the utilization of the net operating loss carryforwards.

New Accounting Standards: Effective January 1, 1996, the Company adopted Financial Accounting Standards Board Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the disclosure requirements of Financial Accounting Standards Board

Statement No. 123, "Accounting for Stock-Based Compensation", neither of which had a material effect on the Company's consolidated financial statements for the year ended December 31, 1996.

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, 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 December 31, 1996, the Company had $78.7 million in cash, cash equivalents, and securities available-for-sale compared to cash, cash equivalents, and securities available-for-sale of $24.8 million at December 31, 1995, of which $0.8 million was restricted at December 31, 1995. Sources of cash, cash equivalents and securities available-for-sale during the year ended December 31, 1996 include $12.5 million from the issuance of convertible preferred stock, $52.6 million from the issuance of common stock (including approximately $4.8 million from the exercise of common stock warrants and $1.3 million from the exercise of stock options and from common stock issued under an employee stock purchase plan) and $2.5 million from funding under a lease line. Uses of cash, cash equivalents and securities available-for-sale during the year ended December 31, 1996, include $3.8 million used in operations, $6.3 million used for leasehold improvements for clinical manufacturing, additional office and warehouse facilities and to purchase capital equipment and $3.4 million used to pay notes payable.

In June 1996, the Company completed a public offering of 2.1 million shares of its common stock resulting in net proceeds of approximately $46.3 million. In May 1996, the Company issued 100,000 shares of its Series A-6 Convertible Preferred Stock and in March 1996, the Company issued 23,000 shares of its Series A-3 Convertible Preferred Stock pursuant to terms of a preferred stock purchase agreement with Genentech resulting in proceeds of $12.5 million.

In August 1995, the Company completed 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 annual 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 required by the Securities and Exchange Act of 1934.

Exhibit 13.3

IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

IDEC Pharmaceuticals Corporation and Subsidiary
Consolidated Balance Sheets
(In thousands)

	DECEMBER 31, 1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,337	$ 18,828
Securities available-for-sale	53,390	5,182
Current portion of note receivable	804	640
Contract research revenue receivables	3,635	1,455
Due from related party	1,532	--
Inventories	4,384	--
Prepaid expenses and other current assets	2,533	1,333
Total current assets	91,615	27,438
Restricted marketable security	--	750
Property and equipment, net	21,453	17,955
Note receivable, less current portion	445	1,249
Deposits and other assets	316	234
	$113,829	$ 47,626
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable	$ 3,830	$ 3,248
Trade payable - clinical materials	--	238
Accounts payable	3,106	970
Accrued expenses	6,751	4,280
Total current liabilities	13,687	8,736
Notes payable, less current portion	5,015	6,598
Deferred rent	1,513	1,123
Due to related party	1,000	--
Commitments		
Shareholders' equity:		
Convertible preferred stock, no par value, 8,000 shares authorized; 330 shares and 207 shares issued and outstanding at December 31, 1996 and 1995, respectively, at liquidation value	26,586	14,086
Common stock, no par value, 50,000 shares authorized; 18,059 shares and 15,061 shares issued and outstanding at December 31, 1996 and 1995, respectively	148,597	93,554
Additional paid-in capital	1,283	2,379
Unrealized gains (losses) on securities available-for-sale	(37)	10
Accumulated deficit	(83,815)	(78,860)
Total shareholders' equity	92,614	31,169
	$113,829	$ 47,626

See accompanying notes to consolidated financial statements.

IDEC Pharmaceuticals Corporation and Subsidiary
Consolidated Statements of Operations
(In thousands, except per share data)

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
Revenues:			
Sales	$ 1,505	$ --	$ --
Contract research revenues	14,254	12,136	5,143
License fees	14,250	11,500	2,300
Total revenues (including related party revenues of $5,500 and $8,583 in 1996 and 1995, respectively)	30,009	23,636	7,443
Operating expenses:			
Cost of sales	1,384	--	--
Research and development	26,763	22,488	21,191
General and administrative	7,298	6,112	4,768
Acquired technology rights	--	11,437	--
Total operating expenses	35,445	40,037	25,959
Loss from operations	(5,436)	(16,401)	(18,516)
Interest income (expense):			
Interest income	3,178	1,387	956
Interest expense	(2,697)	(2,278)	(471)
Net interest income (expense)	481	(891)	485
Net loss	(4,955)	(17,292)	(18,031)
Convertible preferred stock dividends	(696)	--	--
Net loss applicable to common stock	$(5,651)	$(17,292)	$(18,031)
Net loss per common share	$ (0.34)	$ (1.18)	$ (1.65)
Shares used in computing net loss per common share	16,573	14,650	10,931

See accompanying notes to consolidated financial statements.

IDEC Pharmaceuticals Corporation and Subsidiary
Consolidated Statements of Shareholders' Equity
(In thousands)

	Convertible preferred stock		Common stock		Additional paid-in	Unrealized gains (losses) on securities	Accumulated	Total shareholders'
	Shares	Amount	Shares	Amount	capital	available-for-sale	deficit	equity

Balance at December 31, 1993	--	$ --	9,425	$ 77,512	$1,699	$--	$(43,537)	$ 35,674
Issuance of common stock under stock option plan	--	--	24	26	--	--	--	26
Issuance of common stock under employee stock purchase plan	--	--	38	85	--	--	--	85
Issuance of common stock in stock offerings	--	--	4,241	10,156	--	--	--	10,156
Change in unrealized gains (losses) on securities available-for-sale	--	--	--	--	--	(14)	--	(14)
Net loss	--	--	--	--	--	--	(18,031)	(18,031)
Balance at December 31, 1994	--	--	13,728	87,779	1,699	(14)	(61,568)	27,896
Issuance of common stock under stock option plans	--	--	167	697	--	--	--	697
Issuance of common stock under employee stock purchase plan	--	--	63	256	--	--	--	256
Issuance of series A-1 and A-2 convertible preferred stock pursuant to terms of a collaborative agreement	138	7,149	--	--	--	--	--	7,149
Issuance of common stock and series B convertible preferred stock to acquire technology rights	69	6,937	1,000	4,500	--	--	--	11,437
Issuance of common stock for services	--	--	103	322	--	--	--	322
Amortization of fair value change in common stock warrants	--	--	--	--	680	--	--	680
Change in unrealized gains (losses) on securities available-for-sale	--	--	--	--	--	24	--	24
Net loss	--	--	--	--	--	--	(17,292)	(17,292)
Balance at December 31, 1995	201	14,086	15,061	93,554	2,379	10	(78,860)	31,169
Issuance of common stock under stock option plans	--	--	182	459	--	--	--	459
Issuance of common stock under employee stock purchase plan	--	--	160	845	--	--	--	845
Issuance of common stock in public offering	--	--	2,070	46,277	--	--	--	46,277
Issuance of common stock for services	--	--	17	359	--	--	--	359
Issuance of common stock from exercise of stock warrants	--	--	569	7,103	(2,348)	--	--	4,755
Issuance of series A-3 and series A-6 convertible preferred stock pursuant to terms of a collaborative agreement	123	12,500	--	--	--	--	--	12,500
Amortization of fair value change in common stock warrants	--	--	--	--	1,252	--	--	1,252
Change in unrealized gains (losses) on securities available-for-sale	--	--	--	--	--	(47)	--	(47)
Net loss	--	--	--	--	--	--	(4,955)	(4,955)
Balance at December 31, 1996	330	$26,586	18,059	$148,597	$1,283	(37)	$(83,815)	$92,614

See accompanying notes to consolidated financial statements.

IDEC Pharmaceuticals Corporation and Subsidiary
Consolidated Statements of Cash Flows
(In thousands)

	Years ended December 31,		
	1996	1995	1994
Cash flows from operating activities:			
Net loss	$ (4,955)	$(17,292)	$(18,031)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,643	2,401	2,422
Deferred rent	390	450	425
Other non-cash expenses	(104)	--	--
Gains (losses) on sales of securities available-for-sale	--	5	(1)
Acquired technology rights	--	11,437	--
Issuance of common stock for services	359	322	--

Amortization of fair value change in common stock warrants	1,252	680	--
Change in assets and liabilities:			
Inventories	(4,384)	--	--
Prepaid expenses, deposits and other assets	(4,994)	(713)	(268)
Note receivable	640	495	562
Accounts payable, accrued expenses and other liabilities	5,608	2,193	(740)
Trade payable - clinical materials	(238)	(543)	(3,506)
Deferred contract research revenue	--	(2,024)	--
Net cash used in operating activities	(3,783)	(2,589)	(19,137)
Cash flows from investing activities:			
Purchase of property and equipment	(6,301)	(1,315)	(1,619)
Purchase of marketable securities and securities available-for-sale	(72,771)	(8,218)	(6,551)
Sales and maturities of marketable securities and securities available-for-sale	25,265	10,715	14,962
Net cash provided by (used in) investing activities	(53,807)	1,182	6,792
Cash flows from financing activities:			
Proceeds from notes payable	2,475	2,500	7,500
Payments on notes payable	(3,440)	(4,058)	(1,400)
Proceeds from issuance of common stock, net	52,564	953	10,267
Proceeds from issuance of convertible preferred stock, net	12,500	7,149	--
Net cash provided by financing activities	64,099	6,544	16,367
Net increase in cash and cash equivalents	6,509	5,137	4,022
Cash and cash equivalents, beginning of year	18,828	13,691	9,669
Cash and cash equivalents, end of year	$ 25,337	$ 18,828	$ 13,691
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$ 1,469	$ 1,518	$ 466

See accompanying notes to consolidated financial statements.

IDEC Pharmaceuticals Corporation and Subsidiary
Notes to Consolidated Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business: IDEC Pharmaceuticals Corporation (the "Company") was incorporated on July 19, 1985, under the laws of the State of California to engage in the research and development of targeted therapies for the treatment of cancer and autoimmune and inflammatory diseases.

Principles of Consolidation: The consolidated financial statements include the financial statements of IDEC Pharmaceuticals Corporation and its wholly owned subsidiary IDEC Seiyaku. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents: For the purposes of financial statement presentation, the Company considers all highly liquid investments in debt securities with original maturities of three months or less to be cash equivalents.

Securities Available-for-Sale: Securities available-for-sale are carried at fair value, with unrealized gains and losses, net of tax, reported as a separate component of shareholders' equity. The cost of securities sold is based on the specific identification method.

Inventories: Inventories, which consist primarily of finished goods, are stated at the lower of cost or market. Cost is determined in a manner which approximates the first-in, first-out (FIFO) method.

Property and Equipment: Property and equipment are stated at cost.

Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, generally ranging from three to seven years. Amortization of leasehold improvements is calculated using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets.

Fair Value of Financial Instruments: The carrying amount of cash, cash equivalents and securities available-for-sale, note receivable, contract research revenue receivables, due from related party, accounts payable, accrued expenses, trade payable - clinical materials and notes payable are considered to be representative of their respective fair values because of the short-term nature of those investments. A reasonable estimate of fair value is not practicable for the liability, due to related party, at December 31, 1996, due to the inherent difficulty of evaluating the timing of the payments.

Research and Development Costs: All research and development costs are expensed in the period incurred. Clinical grant costs are fully accrued upon patient enrollment.

Contract Research Revenues and License Fees: Contract research revenues are recognized at the time research and development activities are performed under the terms of the research contracts. Contract research revenue earned in excess of contract payments received is classified as contract research revenue receivables. License fees include milestone payments and non-refundable fees from the sale of product rights under agreements with third parties. Revenues from milestone payments are recognized when the results or events stipulated in the agreement have been achieved.

Stock Based Compensation: Effective January 1, 1996, the Company adopted Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" ("Statement No. 123"). Statement No. 123 allows companies to expand the use of fair value accounting for stock compensation plans or requires companies that elect to retain the current approach for recognizing stock-based compensation expense under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25"), to make annual pro forma disclosures of the Company's operating results as if they had adopted the fair value method. Management of the Company has retained the approach under APB Opinion No. 25 for recognizing stock-based compensation.

Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of: Effective January 1, 1996, the Company adopted Financial Accounting Standards Board Statement No. 121, "Accounting for the Impairment of

Long-Lived Assets and for Long Lived Assets to be Disposed Of" ("Statement No. 121"). Statement No. 121 requires losses from impairment to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets before interest are less than the assets' carrying amount. The adoption of Statement No. 121 did not have a material effect on the Company's consolidated financial statements for the year ended December 31, 1996.

Income Taxes: Income taxes are accounted for under the asset and liability method where deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Net Loss Per Common Share: Computations of net loss per common share use the weighted average number of common shares outstanding. Common equivalent shares from common stock options, warrants and convertible preferred stock are

excluded from the computations as their effect is anti-dilutive. Net loss is reduced by convertible preferred stock dividend requirements in calculating net loss applicable to common stock.

Use of Estimates: Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods to prepare these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

Reclassifications: Certain balances in 1995 and 1994 have been reclassified to conform with the presentation in 1996.

NOTE 2: SECURITIES AVAILABLE-FOR-SALE

Securities available-for-sale at December 31, 1996 and 1995 consist of the following (tables in thousands):

	1996			
	Amortized costs	Gross unrealized gains	Gross unrealized losses	Market value
Corporate securities	$ 40,227	$ 3	$ (38)	$40,192
Commercial paper	9,979	--	--	9,979
Certificate of deposits	1,499	--	--	1,499
U.S. government agencies	1,722	--	(2)	1,720
	$ 53,427	$ 3	$ (40)	$53,390

	1995			
	Amortized costs	Gross unrealized gains	Gross unrealized losses	Market value
Corporate securities	$ 2,828	$ 1	$ --	$ 2,829
U.S. government agencies	2,344	9	--	2,353
	$ 5,172	$ 10	$ --	$ 5,182

The net unrealized holding gain (loss) on securities available-for-sale included as a separate component of shareholders' equity at December 31, 1996 and 1995 totaled $(37,000) and $10,000, respectively. The gross realized gains on sales of securities available-for-sale for the year ended December 31, 1995 totaled $4,000 and the gross realized losses for the year ended December 31, 1995 totaled $9,000.

The amortized cost and estimated fair value of securities available-for-sale at December 31, 1996, by contractual maturity are shown below (table in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 47,704	$ 47,667
Due after one year through two years	5,723	5,723
	$ 53,427	$ 53,390

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment at December 31, 1996 and 1995 consists of the following (table in thousands):

	1996	1995
Furniture and fixtures	$ 1,158	$ 608
Machinery and equipment	11,061	8,153
Leasehold improvements	16,359	15,639
Construction in progress	1,480	--
	30,058	24,400
Accumulated depreciation and amortization	(8,605)	(6,445)
	$21,453	$17,955

NOTE 4: NOTE RECEIVABLE

In November 1992, the Company loaned $3,200,000 to the landlord of its headquarters in San Diego, California, to assist in financing construction of leasehold improvements. The promissory note bears interest at 8.75 percent and matures in January 2000. Interest and principal payments are due monthly and are paid from the landlord's rents received from the Company (Note 10).

NOTE 5: NOTES PAYABLE

Notes payable at December 31, 1996 and 1995, consist of the following (table in thousands):

	1996	1995
17.53% note, due in monthly installments with a final payment of $375 due at maturity in 1999, secured by equipment, lease deed of trust, and a patent and trademark collateral assignment	$ 1,745	$ 2,245
17.74% note, due in monthly installments with a final payment of $375 due at maturity in 1998, secured by equipment, lease deed of trust, and a patent and trademark collateral assignment	1,355	1,919
Prime plus 1% note, due in monthly installments with a final payment of $750 due at maturity in 1998, secured by equipment, lease deed of trust, and a patent and trademark collateral assignment	2,710	3,839
10.18% note, due in monthly installments, maturing 1997, secured by equipment	710	1,413
9.32% to 10.62% capital lease obligations, due in monthly installments, maturing 2000	2,263	--
Other notes, due in monthly installments, maturing thru 1997, secured by equipment	62	430
	8,845	9,846
Current portion	(3,830)	(3,248)
	$ 5,015	$ 6,598

Machinery and equipment recorded under capital leases was $2,151,000, net of accumulated depreciation of $547,000 at December 31, 1996.

The aggregate maturities of notes payable for each of the four years subsequent to December 31, 1996, are as

follows: 1997, $3,830,000; 1998, $3,242,000; 1999, $980,000; and 2000, $793,000.

NOTE 6: 401(K) EMPLOYEE SAVINGS PLAN

The Company has a qualified 401(k) Employee Savings Plan ("401(k) Plan"), available to substantially all employees over the age of 21. The Company may make discretionary contributions to the 401(k) Plan, which vest immediately. There were no discretionary contributions for the years ended December 31, 1996, 1995 and 1994.

NOTE 7: RESEARCH AND DEVELOPMENT

In December 1995, the Company and Eisai Co. Ltd. ("Eisai") entered into a collaborative development agreement and a license agreement aimed at the development and commercialization of humanized and PRIMATIZED anti-gp39 antibodies. Under the terms of these agreements, Eisai may provide up to $37,500,000 in milestone payments and support for research and development. Eisai will receive exclusive rights in Asia and Europe to develop and market resulting products emerging from the collaboration, with the Company receiving royalties on eventual product sales by Eisai. Eisai may terminate these agreements based on a reasonable determination that the products do not justify continued development or marketing. Included in contract research revenues for 1996 and 1995 is $5,500,000 and $2,500,000, respectively, to fund product development, which approximates the research and development costs incurred under the program. In 1996 and 1995, the Company recognized $750,000 and $2,000,000, respectively, in license fees under these agreements.

In December 1994, the Company and Seikagaku Corporation ("Seikagaku") entered into a collaborative development agreement and a license agreement aimed at the development and commercialization of a PRIMATIZED anti-CD23 antibody. Under the terms of these agreements, Seikagaku may provide up to $26,000,000 in milestone payments and support for research and development. The Company and Seikagaku will share co- exclusive, worldwide rights to all products emerging from the collaboration, with the Company receiving royalties on eventual product sales by Seikagaku. Seikagaku may terminate these agreements based on a reasonable determination that the products do not justify continued development or marketing. Included in contract research revenues for 1996 and 1995 is $3,500,000 and $2,500,000, respectively, to fund product development, which approximates the research and development costs incurred under the program. In 1996 and 1995, the Company recognized $1,000,000 in license fees under these agreements for each of the respective years.

In November 1993, the Company entered into a collaborative development agreement and a license agreement with Mitsubishi Chemical Corporation ("Mitsubishi Chemical"), for the development of a PRIMATIZED anti-B7 antibody. Under the terms of the collaboration, Mitsubishi may provide up to $12,000,000 in milestone payments and support for research and development. The Company will be reimbursed for its research efforts, receive milestone payments, retain certain marketing rights and receive royalties on sales of any products commercialized by Mitsubishi Chemical. Mitsubishi Chemical may terminate this agreement if certain development objectives are not attained. The development agreement with Mitsubishi expired on December 31, 1996. Included in contract research revenues for 1996, 1995 and 1994 is $2,000,000, $2,047,000 and $1,500,000, respectively, to fund product development, which approximates the research and development costs incurred under the program. Included in license fees are milestone and licensing payments of $1,000,000 and $300,000 for 1995 and 1994, respectively, earned under these agreements.

In October 1992, the Company and SmithKline Beecham p.l.c. ("SmithKline Beecham") entered into a collaborative research and license agreement aimed at the development and commercialization of therapeutic products based on the Company's PRIMATIZED anti-CD4 antibodies. Under the terms of the agreement, the Company will receive aggregate payments that have the potential of reaching in excess of $60,000,000, subject to the attainment of certain milestones. The Company will receive funding for anti-CD4 related research and development programs, royalties and a share of co-promotion profits (in North America) on sales of products which may be commercialized as a result of the agreement. SmithKline Beecham may terminate this agreement based on a reasonable determination that the products do not justify continued development or marketing. Included in contract research revenues for 1995 and 1994 is $3,488,000 and $3,201,000, respectively, to fund product development, which

approximates the research and development costs incurred under the program. Included in license fees are milestone and licensing payments of $4,000,000 and $2,000,000 for 1996 and 1994, respectively, earned under these agreements.

The Company performed research under certain other contracts and, accordingly, realized revenues and recognized expenses in the accompanying consolidated statements of operations.

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, 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 (Note 8). Under the terms of these agreements, the Company may receive payments totaling $57,000,000, subject to the attainment of certain milestone events. In addition, the Company and Genentech will co-promote IDEC-C2B8 and IDEC-Y2B8 in the United States and the Company and Genentech's sublicensee will co-promote IDEC-C2B8 in Canada, with the Company receiving a share of profits. Under the terms of separate agreements with Genentech, commercialization of IDEC-C2B8 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 Genentech products manufactured using the Company's proprietary gene expression system. Genentech may terminate this agreement for any reason beginning on the date of availability of data from the first Phase III clinical trial of IDEC-C2B8. Included in inventory at December 31, 1996, is $4,018,000 in finished goods inventory that will be sold to Genentech. Included in contract research revenues for 1996 and 1995 is $1,500,000 and $1,083,000, respectively, to fund specific product development, which approximates the research and development costs incurred under the program. In 1996 and 1995, the Company recognized $4,000,000 and $5,500,000, respectively, in license fees under these agreements.

In June 1991, the Company and Zenyaku entered into a product rights agreement and a stock purchase agreement under which the Company granted Zenyaku a license to manufacture, use and sell certain products for cancer and autoimmune therapeutic applications. In November 1995, the Company and Zenyaku terminated the product rights agreement and concurrently the Company, Zenyaku and Genentech entered into a joint development, supply and license agreement where Zenyaku received exclusive rights to develop, market and sell IDEC-C2B8 in Japan which resulted in the Company recognizing $2,000,000 in license fees from Zenyaku.

NOTE 8: SHAREHOLDERS' EQUITY

Convertible Preferred Stock: In March 1995, the Company issued 1,000,000 shares of its common stock and 69,375 shares of its 10 percent Series B Nonvoting Cumulative Convertible Preferred Stock ("Series B Preferred Stock") for the repurchase of all Merrill Lynch/Morgan Stanley, L.P. ("ML/MS") rights in the Company's lymphoma products. The stock issuances resulted in a non-cash charge to operating expenses in 1995 of $11,437,000, representing the purchase of the acquired technology rights. The Series B Preferred Stock has a liquidation preference of $100 per share. Dividends shall accrue until March 15, 1997, thereafter, accrued dividends shall be payable quarterly. No dividends or other distribution shall be paid or declared, other than common stock dividends on the Company's common stock, or on its Series A-7 Convertible Preferred Stock which is not yet issued, unless and until accrued dividends on the Series B Preferred Stock have been paid. On March 16, 1997, the Series B

Preferred Stock and accrued dividends will automatically be converted into common stock. Cumulative dividends in arrears at December 31, 1996 totaled approximately $1,248,000 or $17.96 per share. Each share of Series B Preferred Stock is convertible into the number of shares of common stock as equals 100 divided by the higher of $3.75 or the average closing price of the Company's common stock as reported by the Nasdaq National Market for the 19 trading days ending on March 1, 1997.

Additionally, the Company issued 22,993 shares of its Series A-3 Nonvoting Convertible Preferred Stock ("Series A-3 Preferred Stock") in March 1996, 100,000 shares of its Series A-6 Nonvoting Convertible Preferred Stock ("Series A-6 Preferred Stock") in May 1996, 100,000 shares of its Series A-1 Nonvoting Convertible Preferred Stock ("Series A-1 Preferred Stock") in April 1995, and 37,521 shares of its Series A-2 Nonvoting Convertible Preferred Stock ("Series A-2 Preferred Stock") in August 1995, to Genentech pursuant to the terms of a preferred

stock purchase agreement. The preferred stock purchase agreement was entered into concurrently with a collaboration agreement as described in Note 7. The Series A-1 Preferred Stock, Series A-2 Preferred Stock, Series A-3 Preferred Stock and Series A-6 Preferred Stock have a liquidation preference per share of $50, $67, $217 and $75, respectively, net of issuance costs. Each share of Series A-1 Preferred Stock, Series A-2 Preferred Stock and Series A-3 Preferred Stock is convertible at any time into ten shares of common stock. Each share of Series A-6 Preferred Stock is convertible into the number of shares of common stock as equals 75 divided by the average closing price of the Company's common stock as reported by the Nasdaq National Market for the 20 trading days following the earlier of (i) FDA approval of IDEC-C2B8 or (ii) September 16, 2000.

Common Stock: In May 1996, the shareholders approved an increase in the number of authorized common shares to 50,000,000 shares. In June 1996, the Company completed a public offering of 2,070,000 shares of its common stock resulting in net proceeds of $46,277,000. In March 1995, the Company issued 1,000,000 shares of its common stock for the repurchase of all ML/MS rights in the Company's lymphoma products, see convertible preferred stock above. In June 1994, the Company completed a public offering of 2,800,000 shares of its common stock resulting in net proceeds of $6,821,000. In December 1994, the Company issued 1,441,000 shares of its common stock pursuant to the terms of a collaborative research and license agreement with SmithKline Beecham resulting in net proceeds of $3,335,000.

Stock Option Plans: The Company has two active stock option plans.

The 1988 Employee Stock Option Plan (the "Option Plan") was approved by the shareholders in 1988 and was subsequently amended. Under the Option Plan, options for the purchase of the Company's common stock may be granted to key employees (including officers), directors and outside consultants. Options may be designated as incentive stock options or as nonqualified stock options and generally vest over four years, except under a provision of the plan which allows them to accelerate their vesting under certain conditions. Options under the Option Plan, which have a term of up to ten years, are exercisable at a price per share not less than the fair market value (85 percent of fair market value for nonqualified options) on the date of grant. The aggregate number of shares authorized for issuance under the Option Plan is 4,680,000.

In September 1993, the Company adopted the 1993 Non-Employee Directors Stock Option Plan (the "Directors Plan"), which was approved by the shareholders in May 1994 and was subsequently amended. A total of 250,000 shares of common stock are reserved for issuance to individuals who serve as non-employee members of the Board of Directors. Options under the Directors Plan, which have a term of up to ten years, are exercisable at a price per share not less than the fair market value on the date or grant and vest over four years.

A summary of the status of the Company's two active stock option plans as of December 31, 1996, 1995 and 1994 and changes during the years ended on those

dates is presented below (table in thousands, except per share amounts):

	Directors Plan		Option Plan	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at December 31, 1993	--	$ --	1,731	$ 5.65
Granted	35	5.63	2,052	3.18
Exercised	--	--	(24)	0.95
Cancelled	--	--	(1,413)	6.61
Outstanding at December 31, 1994	35	5.63	2,346	2.96
Granted	70	3.38	311	3.90
Exercised	(10)	5.63	(157)	4.07
Cancelled	(10)	2.38	(33)	5.58
Outstanding at December 31, 1995	85	4.15	2,467	2.97
Granted	35	19.13	1,443	20.79
Exercised	(10)	4.00	(172)	2.43
Cancelled	(5)	19.13	(196)	10.10
Outstanding at December 31, 1996	105	$ 8.45	3,542	$ 9.86

The following table summarizes information about the Directors Plan and the Option Plan options outstanding as of December 31, 1996 (table in thousands, except year and per share amounts):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Directors Plan:					
$ 2.38 -- $ 5.63	75	7.92	$ 4.18	75	$ 4.18
19.13 -- 19.13	30	9.00	19.13	30	19.13
Option Plan:					
$ 0.88 -- $ 2.56	885	6.47	2.34	543	2.21
3.00 -- 3.00	944	7.70	3.00	685	3.00
3.25 -- 16.00	474	8.09	7.62	78	6.22
20.13 -- 20.13	928	9.06	20.13	4	20.13
20.25 -- 26.13	311	9.62	24.93	--	--

Employee Stock Purchase Plan: In May 1993, the shareholders adopted the Company's Employee Stock Purchase Plan (the "Purchase Plan"), which was subsequently amended. A total of 345,000 shares of common stock are reserved for issuance. Under the terms of the Purchase Plan, employees can choose to have up to 10 percent of their annual compensation withheld to purchase shares of common stock. The purchase price of the common stock is at 85 percent of the lower of the fair market value of the common stock at the enrollment or purchase date. During 1996, 1995 and 1994, 160,000, 63,000 and 38,000 shares, respectively, were issued under the Purchase Plan.

Pro Forma Information: The Company has retained the approach under APB Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its Option Plan, Directors Plan and Purchase Plan. Had compensation cost for the Company's stock-based compensation plans been determined consistent with Statement No. 123, the Company's net loss per share applicable to common stock would have been increased to the pro forma amounts indicated below (table in thousands, except per share amounts):

		1996	1995
Net loss applicable to common stock	As reported	$ (5,651)	$(17,292)
	Pro forma	(10,152)	(17,608)
Net loss per common share	As reported	$ (0.34)	$ (1.18)
	Pro forma	(0.61)	(1.20)

Pro forma net loss applicable to common stock reflects only options and purchase rights granted in 1996 and 1995. Therefore, the full impact of calculating compensation cost for stock options and stock purchase rights under Statement No. 123 is not reflected in the pro forma net loss amounts presented above since compensation cost is reflected over the stock option vesting and stock purchase subscription periods and compensation cost for stock options and stock purchase rights granted prior to January 1, 1995 are not considered. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1996 and 1995: dividend yield of zero percent; expected volatility of 66.8 percent; risk-free interest rate of 6.2 percent; and an expected option life of 5.5 years. The per share weighted-average fair value of stock options granted during 1996 and 1995 at an exercise price equal to the fair market value on the date of grant was $13.25 and $2.42, respectively, on the date of grant using the Black-Scholes option-pricing model. The fair value of each purchase right is estimated on the date of enrollment using the Black-Scholes option-pricing model with the following assumptions used in 1996 and 1995: dividend yield of zero percent; expected volatility of 66.8 percent; risk-free interest rates between 5.6 percent and 5.9 percent; and an expected life between 0.3 year and 2.0 years. The per share weighted-average fair value of stock purchase rights granted during 1996 and 1995 was $9.05 and $2.65, respectively, on the subscription date using the Black-Scholes option-pricing model.

Stock Warrants: Under an investment agreement and in part subject to the Company's accomplishments of certain research and development objectives, SR One Limited, SmithKline Beecham's venture capital subsidiary, purchased 200,000 common stock warrants in each 1993 and 1992. In October 1996, these warrants were exercised for 400,000 shares of common stock resulting in net proceeds of $4,755,000.

In December 1994 and August 1995, concurrent with the completion of a debt financing, the Company issued warrants for the purchase of 294,000 and 46,000 shares, respectively, of common stock. Such warrants have a six-year term and are immediately exercisable at prices ranging between $2.29 and $6.22 per share. The holders of the warrants have the option to exchange their warrants, without the payment of cash or consideration, for a number of common shares equal to the difference between the number of shares resulting by dividing the aggregate exercise price of the warrants by the fair market value of the common stock on the date of exercise and the number of shares that would have been otherwise issued under the exercise. In September 1996, 196,000 warrants were exchanged for 169,000 shares of the Company's common stock.

At December 31, 1996, 144,000 warrants to purchase common stock were outstanding.

NOTE 9: INCOME TAXES

The following table summarizes the tax effects of temporary differences that give rise to significant portions of the deferred tax assets at December 31, 1996 and 1995 (table in thousands):

	1996	1995
Deferred tax assets:		
Accrued expenses	$ 531	$ 253
Property and equipment, principally due to difference in depreciation	448	16

Deferred rent expense	607	451
Amortization of fair value change in common stock warrants	776	273
Capitalized state research and experimentation costs	2,090	1,883
Acquired technology rights	4,336	4,591
Research and experimentation credit	5,078	3,907
Net operating loss carryforwards	24,247	22,938
Other	333	252
Total gross deferred tax assets	38,446	34,564
Valuation allowance	(38,446)	(34,564)
Net deferred taxes	$ --	$ --

In 1996, 1995 and 1994, the Company recognized an increase in the valuation allowance of $3,882,000, $7,652,000 and $8,614,000, respectively.

As of December 31, 1996, the Company had net operating loss and research and experimentation tax credit

carryforwards for Federal income tax purposes of approximately $66,345,000 and $3,476,000, respectively, which expire beginning in 1999. Net operating loss carryforwards and research and experimentation tax credit carryforwards as of December 31, 1996 for state income tax purposes are approximately $18,166,000 and $1,602,000, respectively, which expire beginning in 1997 and 1999, respectively.

The utilization of net operating losses and tax credits incurred prior to the Company's initial public offering in 1991, may be subject to an annual limitation under the Internal Revenue Code, due to a cumulative change in ownership of more than 50 percent. However, the Company believes that such limitations will not have a material impact upon the utilization of such net operating loss carryforwards.

NOTE 10: COMMITMENTS

Lease Commitments: In July 1992, the Company entered into a 15-year operating lease for its headquarters, which commenced in 1993. The Company has the option to extend the term of the lease for two additional periods of five years each. In connection with the lease agreement, the Company loaned $3,200,000 to the landlord (Note 4). In August 1996, the Company entered into a 7-year lease for additional office and warehouse facilities. The Company has the option to extend the term of this lease for two additional years. In addition to the monthly lease payments, both lease agreements provide for the Company to pay all operating costs associated with the facilities. The lease agreements provide for scheduled rental increases; accordingly lease expense is recognized on a straight-line basis over the term of the leases.

Future minimum lease payments under all operating leases as of December 31, 1996, are as follows (table in thousands):

1997	$ 2,906
1998	3,158
1999	3,422
2000	3,559
2001	3,702
2002 and thereafter	22,295
Total minimum lease payments	$39,042

Lease expense under all operating leases totaled $3,011,000, $3,097,000 and $3,076,000 for the years ended December 31, 1996, 1995 and 1994, respectively.

License Agreements: In connection with its research and development efforts, the Company has entered into various license agreements which provide the Company with rights to develop, produce and market products using certain know-how, technology and patent rights maintained by the parties. Terms of the

various license agreements require the Company to pay royalties from future sales, if any, on specified products using the resulting technology. As of December 31, 1996, such royalties have not commenced on the aforementioned license agreements.

IDEC Pharmaceuticals Corporation and Subsidiary
Independent Auditors' Report

The Board of Directors and Shareholders
IDEC Pharmaceuticals Corporation:

We have audited the accompanying consolidated balance sheets of IDEC Pharmaceuticals Corporation and subsidiary as of December 31, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IDEC Pharmaceuticals Corporation and subsidiary as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

San Diego, California
February 7, 1997

Exhibit 23.0

IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARY

INDEPENDENT AUDITORS' REPORT ON SCHEDULE AND CONSENT

The Board of Directors
IDEC Pharmaceuticals Corporation:

The audits referred to in our report dated February 7, 1997, included the related financial statement schedule as of December 31, 1996, and for each of the years in the three-year period ended December 31, 1996, included in the 1996 Annual Report on Form 10-K. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We consent to incorporation by reference in registration statements Nos. 33-90738, 33-93794 and 333-06543 on Forms S-8 of IDEC Pharmaceuticals Corporation of our report dated February 7, 1997, relating to the consolidated balance sheets of IDEC Pharmaceuticals Corporation and subsidiary as of December 31, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996, which report appears in the 1996 Annual Report on Form 10-K of IDEC Pharmaceuticals Corporation. We also consent to the use of our report on the related schedule included herein.

KPMG PEAT MARWICK LLP

San Diego, California
March 28, 1997

Exhibit 23.1

SCHEDULE II

IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARY

VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Years Ended December 31, 1996, 1995 and 1994

Name of Debtor	Balance beginning of year	Additions: Charged to costs and expenses	Additions: Charged to other accounts	Deductions	Balance at End of Year
Year ended December 31, 1996					
Allowance for contract research revenue receivables	$ 658	$ --	$ 1,423	$ (400)	$1,681
	$ 658	$ --	$ 1,423	$ (400)	$1,681
Year ended December 31, 1995					
Allowance for contract research revenue receivables	$ --	$ --	$ 658	$ --	$ 658
	$ --	$ --	$ 658	$ --	$ 658
Year ended December 31, 1994					
Allowance for contract research revenue receivables	$ --	$ --	$ --	$ --	$ --
	$ --	$ --	$ --	$ --	$ --

<ARTICLE> 5
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS CONTAINED IN EXHIBIT 13.3 OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIALS STATEMENTS AND THE NOTES THERETO.
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<FISCAL-YEAR-END>	DEC-31-1996
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