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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1997

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-21088

VICAL INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	93-0948554
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9373 Towne Centre Dr., Suite 100, San Diego, California	92121
(Address of principal executive offices)	(Zip code)

(619) 453-9900

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days -- Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT SEPTEMBER 30, 1997
Common Stock, $.01 par value	15,460,802

VICAL INCORPORATED

FORM 10-Q

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* No information provided due to inapplicability of item.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

VICAL INCORPORATED
BALANCE SHEETS

<TABLE>
<CAPTION>

	September 30, 1997 (Unaudited)	December 31, 1996
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ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,704,160	$ 12,609,277
Marketable securities - available-for-sale	35,587,654	34,237,314
Receivables and other	1,350,639	1,925,995
Total current assets	43,642,453	48,772,586
Property and Equipment:		
Equipment	5,059,109	4,635,432
Leasehold improvements	1,621,461	1,235,199
	6,680,570	5,870,631
Less-Accumulated depreciation and amortization	(4,251,022)	(3,607,724)
	2,429,548	2,262,907
Patent Costs	1,204,867	1,091,687
Deposits and Other Assets	115,090	312,900
	$ 47,391,958	$ 52,440,080
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 813,781	$ 810,384
Current portion of capital lease obligations	495,277	455,681
Current portion of notes payable	213,773	--
Deferred revenue	356,522	1,191,304

Total current liabilities	1,879,353	2,457,369
Long-Term Obligations:		
Notes payable	937,904	641,320
Long-term obligations under capital leases	320,660	976,164
Total long-term obligations	1,258,564	1,617,484
Stockholders' Equity:		
Common stock, $.01 par value--40,000,000 shares authorized--15,460,802 and 15,396,582 shares issued and outstanding at September 30, 1997, and December 31, 1996, respectively	154,608	153,966
Additional paid-in capital	73,214,651	72,904,472
Unrealized gain (loss) on marketable securities	22,868	(48,785)
Accumulated deficit	(29,138,086)	(24,644,426)
Total stockholders' equity	44,254,041	48,365,227
Total Liabilities and Stockholders' Equity	$ 47,391,958	$ 52,440,080

See accompanying notes.

VICAL INCORPORATED
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
Revenues:				
Contract revenue	$ 130,999	$ 254,673	$ 1,325,925	$ 764,101
License/royalty revenue	3,349,434	285,853	4,147,564	3,852,440
	3,480,433	540,526	5,473,489	4,616,541
Expenses:				
Research and development	3,319,102	2,628,286	8,910,514	8,142,125
General and administrative	927,968	750,171	2,705,180	2,219,192
	4,247,070	3,378,457	11,615,694	10,361,317
Loss from operations	(766,637)	(2,837,931)	(6,142,205)	(5,744,776)
Interest income	590,731	683,654	1,798,100	2,062,706
Interest expense	48,598	36,199	149,555	63,229
Net loss	$ (224,504)	$(2,190,476)	$(4,493,660)	$(3,745,299)
Net loss per share (Note 2)	$ (.01)	$ (.14)	$ (.29)	$ (.24)
Shares used in computing net loss per share (Note 2)	15,458,404	15,385,428	15,443,212	15,379,940

See accompanying notes.

VICAL INCORPORATED
STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30,

	1997	1996
<S>	<C>	<C>
OPERATING ACTIVITIES:		
Net loss	$ (4,493,660)	$ (3,745,299)
Adjustments to reconcile net loss to net cash provided from (used in) operating activities:		
Depreciation and amortization	690,440	423,271
Compensation expense related to stock purchases	-	143,280
Write-off of abandoned patent application costs	54,388	3,247
Change in operating assets and liabilities:		
Receivables and other	575,356	(558,994)
Accounts payable and accrued expenses	3,397	91,081
Deferred revenue	(834,782)	807,065
Net cash provided from (used in) operating activities	(4,004,861)	(2,836,349)
INVESTING ACTIVITIES:		
Marketable securities	(1,278,687)	668,313
Capital expenditures	(449,184)	(923,799)
Deposits and other assets	197,810	(158,074)
Patent expenditures	(196,091)	(220,116)
Net cash provided from (used in) investment activities	(1,726,152)	(633,676)
FINANCING ACTIVITIES:		
Principal payments under capital lease obligations	(378,038)	(300,723)
Proceeds from note payable	-	641,320
Principal payments on note payable	(106,887)	-
Issuance of common stock, net	310,821	133,307
Net cash provided from (used in) financing activities	(174,104)	473,904
Net decrease in cash and cash equivalents	(5,905,117)	(2,996,121)
Cash and cash equivalents at beginning of period	12,609,277	7,174,128
Cash and cash equivalents at end of period	$ 6,704,160	$ 4,178,007
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Equipment acquired under capital leases	$ 379,374	$ 848,433

</TABLE>

See accompanying notes.

VICAL INCORPORATED
NOTES TO FINANCIAL STATEMENTS

September 30, 1997
(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

ORGANIZATION

Vical was incorporated in April 1987 and has devoted substantially all of its resources since that time to its research and development programs. The Company is focusing its resources on the development of its direct gene transfer and related technologies.

BASIS OF PRESENTATION

The information contained herein has been prepared in accordance with instructions for Form 10-Q. The information at September 30, 1997, and for the three-month and nine-month periods ended September 30, 1997 and 1996, is unaudited. In the opinion of management, the information reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of results for a full year. The preparation of

financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For a presentation including all disclosures required by generally accepted accounting principles, these financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 1996, included in the Vical Incorporated Form 10-K filed with the Securities and Exchange Commission.

2. NET LOSS PER SHARE

Net loss per share for the three-month and nine-month periods ended September 30, 1997 and 1996, is computed using the weighted average number of common shares outstanding during the respective periods. Common equivalent shares are excluded as their effect would be antidilutive.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share." The Company will be required to adopt these new rules effective December 15, 1997. Management does not anticipate any significant impact resulting from the adoption of this new standard upon current or previously reported earnings (loss) per share.

3. NOTES PAYABLE

In June 1996, the Company entered into a loan and security agreement with a bank for the borrowing of up to $2,500,000. Borrowings under the line of credit were secured by substantially all assets of the Company, and the Company was required to comply with certain financial covenants. In March 1997, the outstanding borrowings converted to a term loan bearing interest at the bank's prime rate (8.5% at September 30, 1997) plus .5%, or the Company may alternatively choose to have its outstanding balance bear interest at the LIBOR rate plus 3.25%. The term loan has a three-year amortization period. At September 30, 1997, the loan balance was $534,000, including approximately $214,000 reflected in current liabilities.

4. SUBSEQUENT EVENTS

In October 1997, the Company entered into an agreement granting Rhone-Poulenc Rorer Pharmaceuticals Inc. ("RPR") an exclusive worldwide license to use the Company's patented naked DNA gene delivery technology to develop certain gene therapy products for potential treatment of neurodegenerative diseases which involve the loss of nerve cell function. The agreement resulted in an initial payment to the Company of $1,000,000 which will be recorded as revenue in the fourth quarter of 1997.

On November 3, 1997, the Company entered into an agreement granting Merck & Co., Inc. ("Merck") certain rights to develop and market therapeutic vaccines against the human immunodeficiency virus (HIV) and hepatitis B virus (HBV) using the Company's patented naked DNA technology. Under the agreement, Merck will be making an investment of $5,000,000 for approximately 262,000 shares of Vical common stock. The price per share reflects a twenty-five percent premium over the average per share closing stock price for the twenty trading days prior to the date of the agreement.

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

OVERVIEW

Vical was incorporated in April 1987 and has devoted substantially all of its resources since that time to its research and development programs. The Company is focusing its resources on the development of its direct gene transfer and related technologies. Currently, the Company is developing its cancer product candidates internally, while developing vaccine product candidates for infectious diseases primarily in collaboration with corporate partners Merck & Co., Inc. ("Merck") and Pasteur Merieux Connaught ("PMC") and developing gene-based therapeutic protein product candidates for

metabolic disorders primarily in collaboration with corporate partners Merck and Rhone-Poulenc Rorer Pharmaceuticals Inc. ("RPR"). To date, the Company has not received revenues from the sale of products. The Company expects to incur substantial operating losses for at least the next several years, due primarily to expansion of its research and development programs and the cost of preclinical studies and clinical trials. As of September 30, 1997, the Company's accumulated deficit was approximately $29.1 million.

In September 1995, the Company commenced Phase II clinical trials of ALLOVECTIN-7 at 11 teaching oncology centers in five tumor types: melanoma, colorectal carcinoma, renal cell carcinoma, breast carcinoma and non-Hodgkin's lymphoma. Treatment of more than 100 patients was completed in early 1997. Initial results, presented in May 1997, indicated potential efficacy in certain patients with advanced melanoma. In October 1996, Vical commenced additional multi-center Phase II clinical testing of ALLOVECTIN-7 in approximately 50 advanced melanoma patients. If appropriate rates and durations of clinical response are observed in these Phase II clinical trials, the data could potentially lead to further clinical trials to support product license approval submissions. Initial results from another Phase I/II trial, also presented in May 1997, indicated potential efficacy in certain patients with inoperable head and neck cancer. A multi-center Phase II trial with ALLOVECTIN-7 in approximately 20 patients with inoperable head and neck cancer began in September 1997.

In April 1995, the Company initiated Phase I/II clinical testing of its second gene therapy product candidate, LEUVECTIN, at two clinical centers. LEUVECTIN is a gene-based product candidate intended for direct injection into tumor lesions of cancer patients. Upon completion of the trials in February 1996, the Company concluded that the gene transfer was effective in the majority of patients, the treatment appeared to be safe and well-tolerated, and measurable tumor shrinkage was observed in 5 of 23 patients with various types of advanced malignancies. In October 1996, the Company initiated additional multi-center Phase I/II clinical testing of higher doses of LEUVECTIN in approximately 45 patients with advanced melanoma, renal cell carcinoma, or sarcoma. In June 1997, the Company initiated a Phase I/II clinical trial with LEUVECTIN in approximately 18 prostate cancer patients. Accrual and treatment of patients in the additional trials were ongoing at September 30, 1997.

In September 1996, Vical entered into a collaboration with Dr. Ronald Levy of Stanford University Medical Center to develop a naked DNA anti-idiotype vaccine, VAXID, against low-grade non-Hodgkin's B-cell lymphoma. The Company believes that immunization of post-chemotherapy patients with VAXID could result in the elimination of residual disease and the prevention of the relapse of disease. In October 1997, a Phase I/II clinical trial began with VAXID.

In July 1997, the Company and PMC began a Phase I clinical trial of an experimental naked DNA vaccine against the parasite that causes malaria. The Company and PMC are sponsoring the trial under their Research, Collaboration and License Agreement. The trial is being conducted by the U.S. Naval Medical Research Institute and the U.S. Army Medical Research Institute of Infectious Diseases. Pursuant to the agreement with PMC, Vical received a payment of $1,000,000 in July 1997.

In September 1997, the Company entered into an agreement granting Merck the rights to use the Company's naked DNA technology to deliver certain growth factors as potential treatments for a range of applications including revascularization. The agreement resulted in an initial payment to the Company of $2,000,000. The agreement marked the first license of the Company's naked DNA technology for potential delivery of a therapeutic protein, and was the first such agreement since the issuance of Vical's broad patents covering the naked DNA technology. The Company had previously licensed the technology to Merck and PMC for use in vaccines against a total of 13 infectious diseases.

In October 1997, the Company entered into an agreement granting Rhone-Poulenc Rorer Pharmaceuticals, Inc. ("RPR") an exclusive worldwide license to use the Company's patented naked DNA gene delivery technology to develop certain gene therapy products for potential treatment of neurodegenerative diseases which involve the loss of nerve cell function. The agreement resulted in an initial payment to the Company of $1,000,000 which will be recorded as revenue in the fourth quarter of 1997.

On November 3, 1997, the Company entered into an agreement granting Merck certain rights to develop and market therapeutic vaccines against the human immunodeficiency virus (HIV) and hepatitis B virus (HBV) using the Company's patented naked DNA technology. Under the agreement, Merck will be making an investment of $5,000,000 for approximately 262,000 shares of Vical common stock. The price per share reflects a twenty-five percent premium over the average per share closing stock price for the twenty trading days prior to the

date of the agreement.

There can be no assurance that the Company's product candidates will prove to be safe and effective in clinical trials or that any commercially successful products will ultimately be developed by the Company.

This Form 10-Q contains, in addition to historical information, forward-looking statements. When used in this discussion, the words "expects," "anticipated" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, including whether the Company's product candidates will be shown to be safe or efficacious in clinical trials, whether the Company's corporate collaborations will be successful, and whether the Company's product candidates will ultimately be successfully developed or receive necessary regulatory approvals and other matters discussed in Item 1 under the caption "Risk Factors" in the Company's Form 10-K for the year ended December 31, 1996, filed with the Securities and Exchange Commission, which could cause actual results to differ materially from those projected. These forward-looking statements speak only as of the date hereof. The Company undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

Revenues were $3,480,000 for the quarter ended September 30, 1997. License revenue of $3,178,000 was derived primarily from an initial payment of $2,000,000 from Merck under a license and option agreement signed in September for use of the Company's naked DNA technology to deliver certain growth factors as potential treatments for a range of applications including revascularization and a milestone payment of $1,000,000 from PMC for the July start of a Phase I clinical trial of an experimental naked DNA vaccine against the parasite that causes malaria. License revenue also included the ongoing amortization of deferred license revenues under earlier PMC and Rhone Merieux agreements. In addition, the Company recognized contract revenues of $131,000 primarily from PMC and royalty revenues of $171,000. For the quarter ended September 30, 1996, the Company had revenues of $541,000, including ongoing amortization of license and contract revenues and royalties.

Revenues for the nine months ended September 30, 1997, were $5,473,000 and included license and contract revenue from Merck, PMC and Rhone Merieux, royalty revenue, and a grant of $209,000 from the Department of Defense. For the nine months ended September 30, 1996, revenues were $4,617,000 and principally consisted of $1,000,000 from Merck for a milestone payment as the result of Merck's initiation of a Phase I clinical trial of an experimental DNA vaccine against influenza under an agreement with the Company covering potential DNA vaccines, $2,568,000 from PMC for the exercise of three of five original license options, the extension of the option on one of these five vaccine targets, and the addition of an option to a sixth target under PMC's agreement with the Company. Revenues for the nine months ended September 30, 1996 also included $314,000 from the Department of Defense and other license, royalty and contract revenue totaling $735,000.

The Company's total operating expenses for the quarter ended September 30, 1997, were $4,247,000 compared with $3,378,000 for the third quarter of 1996. Total operating expenses for the nine months ended September 30, 1997, were $11,616,000 compared with $10,361,000 for the same period in 1996.

Research and development expenses increased to $3,319,000 for the three months ended September 30, 1997, from $2,628,000 for the same period in 1996. For the nine months ended September 30, 1997, research and development expenses were $8,911,000 compared with $8,142,000 for the same period of 1996. This increase in research and development expenses in 1997 was due to increased spending for staff, facilities, laboratory supplies, outside laboratory services and increased clinical trial activity.

General and administrative expenses increased to $928,000 for the three months ended September 30, 1997, from $750,000 for the same period in 1996. General and administrative expenses for the nine months ended September 30, 1997, increased to $2,705,000 from $2,219,000 for the same period in 1996. The increase was due primarily to additional staffing and related expenses.

Investment income for the three-month and nine-month periods ended September 30, 1997, was $591,000 and $1,798,000, respectively. Investment income for the three-month and nine-month periods ended September 30, 1996, was $684,000 and $2,063,000, respectively. The decline was primarily a result of lower cash and investment balances.

The net loss was $.01 per share for the three months ended September 30, 1997, compared with a net loss per share of $.14 for the same period of 1996. For the nine months ended September 30, 1997, the net loss was $.29 per

share compared with a net loss of $.24 per share for the same period in the prior year. The Company expects to incur losses throughout the remainder of 1997 and to report a net loss per share for the year ended December 31, 1997.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, Vical has financed its operations primarily through private placements of preferred stock, three public offerings of common stock, and revenues from collaborative agreements. As of September 30, 1997, the Company had working capital of approximately $41.8 million compared with $46.3 million at December 31, 1996. Cash and marketable securities totaled approximately $42.3 million at September 30, 1997, compared with $46.8 million at December 31, 1996.

The Company expects to incur substantial additional research and development expense including continued increases in personnel costs and costs related to preclinical testing and clinical trials. The Company's future capital requirements will depend on many factors, including continued scientific progress in its research and development programs, the scope and results of preclinical testing and clinical trials, the time and costs involved in obtaining regulatory approvals, the costs involved in filing, prosecuting and enforcing patent claims, competing technological and market developments, the cost of manufacturing and scale-up, and commercialization activities and arrangements. The Company intends to seek additional funding through research and development relationships with suitable potential corporate collaborators or through public or private financing. There can be no assurance that additional funding will be available on favorable terms, if at all.

If additional funding is not available, Vical anticipates that its available cash and existing sources of funding will be adequate to satisfy its operating needs through 1999.

PART II. OTHER INFORMATION
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

1. Exhibits

Exhibit 10.18 #* Agreement between Merck & Co. Inc. and the Company dated September 12, 1997.

Confidential treatment has been requested with respect to certain portions of this agreement.
* To be filed by amendment.

Exhibit 27 Financial Data Schedule
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2. Reports on Form 8-K

None

VICAL INCORPORATED

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed in its behalf by the undersigned thereunto duly authorized.

Vical Incorporated

Date: November 7, 1997 By: /s/MARTHA J. DEMSKI

Martha J. Demski
Vice President and
Chief Financial Officer
(on behalf of the registrant and as the registrant's Principal Financial and Accounting Officer)

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
1. Exhibit 27	Financial Data Schedule

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
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QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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