

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

FORM 10-Q

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

For the quarterly period ended June 30, 1997

or

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

Commission File Number: 0-21088

VICAL INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware 93-0948554

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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 June 30, 1997
-----	-----
Common Stock, \$.01 par value	15,451,161

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

	June 30, 1997 (Unaudited)	December 31, 1996
	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,959,523	\$ 12,609,277
Marketable securities - available-for-sale	36,402,938	34,237,314
Receivables and other	1,564,293	1,925,995
	-----	-----
Total current assets	43,926,754	48,772,586
	-----	-----
Property and Equipment:		
Equipment	4,903,658	4,635,432
Leasehold improvements	1,521,307	1,235,199
	-----	-----
	6,424,965	5,870,631
Less-Accumulated depreciation and amortization	(4,025,196)	(3,607,724)
	-----	-----
	2,399,769	2,262,907
	-----	-----
Patent Costs	1,205,649	1,091,687
Deposits and Other Assets	108,924	312,900
	-----	-----
	\$ 47,641,096	\$ 52,440,080
	-----	-----
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 666,584	\$ 810,384
Current portion of capital lease obligations	467,174	455,681
Current portion of notes payable	213,773	-
Deferred revenue	634,782	1,191,304
	-----	-----
Total current liabilities	1,982,313	2,457,369
	-----	-----
Long-Term Obligations:		
Notes payable	374,104	641,320
Long-term obligations under capital leases	960,431	976,164
	-----	-----
Total long-term obligations	1,334,535	1,617,484
	-----	-----

Stockholders' Equity:

Common stock, \$.01 par value--40,000,000 shares authorized--15,451,161 and 15,396,582 shares issued and outstanding at June 30, 1997, and December 31, 1996, respectively	154,512	153,966
Additional paid-in capital	73,122,113	72,904,472
Unrealized loss on marketable securities	(38,795)	(48,785)
Accumulated deficit	(28,913,582)	(24,644,426)
	-----	-----
Total stockholders' equity	44,324,248	48,365,227
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 47,641,096	\$ 52,440,080
	-----	-----

See accompanying notes.

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VICAL INCORPORATED
STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>
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	Three months ended June 30,		Six months ended June 30,	
	1997	1996	1997	1996
	-----	-----	-----	-----
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Revenues:				
Contract revenue	\$ 393,351	\$ 226,228	\$ 1,194,926	\$ 509,428
License/royalty revenue	473,250	3,329,300	798,130	3,566,587
	-----	-----	-----	-----
	866,601	3,555,528	1,993,056	4,076,015
Expenses:				
Research and development	2,796,978	3,133,421	5,591,412	5,513,839
General and administrative	880,622	738,719	1,777,212	1,469,021
	-----	-----	-----	-----
	3,677,600	3,872,140	7,368,624	6,982,860
Loss from operations	(2,810,999)	(316,612)	(5,375,568)	(2,906,845)
Interest income	597,292	680,036	1,207,369	1,379,052
Interest expense	53,241	13,011	100,957	27,030
	-----	-----	-----	-----
Net income (loss)	\$ (2,266,948)	\$ 350,413	\$ (4,269,156)	\$ (1,554,823)
	-----	-----	-----	-----
Net earnings (loss) per share (Note 2)	\$ (.15)	\$.02	\$ (.28)	\$ (.10)
	-----	-----	-----	-----
Shares used in computing net earnings (loss) per share (Note 2)	15,447,949	15,791,282	15,435,491	15,377,166
	-----	-----	-----	-----

</TABLE>

See accompanying notes.

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VICAL INCORPORATED
STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>
<CAPTION>

	Six months ended June 30,	
	1997	1996
	-----	-----
<S>	<C>	<C>
OPERATING ACTIVITIES:		
Net loss	\$ (4,269,156)	\$ (1,554,823)
Adjustments to reconcile net loss to net cash provided from (used in) operating activities:		
Depreciation and amortization	449,207	241,830
Compensation expense related to stock purchases	-	103,800
Write-off of abandoned patent application costs	-	3,247

Change in operating assets and liabilities:		
Receivables and other	361,702	(492,014)
Accounts payable and accrued expenses	(143,800)	122,112
Deferred revenue	(556,521)	60,326
	-----	-----
Net cash provided from (used in) operating activities	(4,158,568)	(1,515,522)
	-----	-----
INVESTING ACTIVITIES:		
Marketable securities	(2,155,634)	1,094,811
Capital expenditures	(327,835)	(682,071)
Deposits and other assets	203,976	(517,894)
Patent expenditures	(132,589)	(151,935)
	-----	-----
Net cash provided from (used in) investment activities	(2,412,082)	(257,089)
	-----	-----
FINANCING ACTIVITIES:		
Principal payments under capital lease obligations	(243,848)	(181,649)
Proceeds from note payable	-	641,320
Principal payments on note payable	(53,443)	-
Issuance of common stock, net	218,187	132,593
	-----	-----
Net cash provided from (used in) financing activities	(79,104)	592,264
	-----	-----
Net decrease in cash and cash equivalents	(6,649,754)	(1,180,347)
Cash and cash equivalents at beginning of period	12,609,277	7,174,128
	-----	-----
Cash and cash equivalents at end of period	\$ 5,959,523	\$ 5,993,781
	-----	-----
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Equipment acquired under capital leases	\$ 239,608	\$ 144,673
	-----	-----
	-----	-----

</TABLE>

See accompanying notes.

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VICAL INCORPORATED
NOTES TO FINANCIAL STATEMENTS

June 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 currently 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 June 30, 1997, and for the three-month and six-month periods ended June 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 EARNINGS (LOSS) PER SHARE

Net earnings (loss) per share for the three-month and six-month periods ended June 30, 1997 and 1996, is computed using the weighted average number of common shares and dilutive common equivalent shares, as applicable, outstanding during the period. Common share equivalents represent shares issuable upon assumed exercise of stock options, using the treasury stock method, which would have a dilutive effect in periods where there are earnings. Common equivalent shares are excluded from the calculation of net loss per share as their effect would be antidilutive. Earnings (loss) per share on a fully diluted basis are the same as primary earnings (loss) per share for all periods presented.

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.

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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 June 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 June 30, 1997, the loan balance was \$588,000, including approximately \$214,000 reflected in current liabilities.

4. SUBSEQUENT EVENT

In July 1997, the Company and Pasteur Merieux Connaught ("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. Pursuant to the agreement with PMC, a payment of \$1,000,000 was received by Vical in July 1997 which will be recorded as revenue in the third quarter of 1997.

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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 ALLOVECTIN-7 and LEUVECTIN 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"). 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 June 30, 1997, the Company's accumulated deficit was approximately \$28.9 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 40 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 the design and initiation of Phase II/III clinical trials to support product license approval submissions. In addition, ALLOVECTIN-7 is being evaluated, either alone or in combination with approved cancer therapeutic agents, in several other Phase I/II clinical trials. Initial results from one of these Phase I/II trials, 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 is expected to begin in the second half of 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 June 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-idiotypic 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. VAXID is currently under preclinical development and may enter clinical trials in the second half of 1997.

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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 which will be recorded as revenue in the third quarter of 1997.

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 of \$867,000 were recorded for the quarter ended June 30, 1997, consisting of license revenue of \$329,000 primarily derived from the PMC and Rhone Merieux agreements, contract revenue of \$393,000 from PMC and royalties amounting to \$145,000. The Company had revenues of \$3,555,000 for the quarter ended June 30, 1996. Revenue in the second quarter of 1996 included a milestone payment of \$1,000,000 as the result of Merck's initiation of a Phase I clinical trial of an experimental DNA vaccine against influenza under Merck's research, collaboration and license agreement with Vical covering potential DNA vaccines. Also included in the second quarter of 1996 was revenue from 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 by PMC under its agreement with the Company. Vical received \$2.6 million in return for these transactions with PMC, of which \$2,052,000 was recognized as revenue in the second quarter of 1996. Revenue in the second quarter of 1996 also included \$328,000 of other license, contract, and royalty revenue.

Revenues for the six months ended June 30, 1997, were \$1,993,000 and, in addition to contract and license revenue from PMC and Rhone Merieux, and royalty revenue, included a grant from the Department of Defense of \$209,000. For the six months ended June 30, 1996, revenues were \$4,076,000 and consisted of \$1,000,000 from Merck, \$2,390,000 from PMC, and other license, royalty and contract revenue totaling \$686,000.

The Company's total operating expenses for the quarter ended June 30, 1997, were \$3,678,000 compared with \$3,872,000 for the second quarter of 1996. Total operating expenses for the six months ended June 30, 1997, were \$7,369,000 compared with \$6,983,000 for the same period in 1996.

Research and development expenses decreased to \$2,797,000 for the three months ended June 30, 1997, from \$3,133,000 for the same period in 1996. This decrease in research and development expenses was due to higher spending in 1996 as a result of payments related to license agreements. This decrease in 1997 due to lower expenses for license agreements was partially offset by increased research and development activities in 1997. For the six months ended June 30, 1997, research and development expenses were \$5,591,000 compared with \$5,514,000 in the same period of 1996.

General and administrative expenses increased to \$881,000 for the three months ended June 30, 1997, from \$739,000 for the same period in 1996. General and administrative expenses for the six months ended June 30, 1997, increased to \$1,777,000 from \$1,469,000 for the same period in 1996. The increase was due primarily to additional staffing and related expenses.

Investment income for the three-month and six-month periods ended June 30, 1997, was \$597,000 and \$1,207,000, respectively. Investment income for the three-month and six-month periods ended June 30, 1996, was \$680,000 and \$1,379,000, respectively. The decline was a result of lower cash and investment balances.

The net loss was \$.15 per share for the three months ended June 30, 1997, compared with earnings per share of \$.02 for the same period of 1996. For the six months ended June 30, 1997, the net loss was \$.28 per share compared with a net loss of \$.10 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 June 30, 1997, the Company had working capital of approximately \$41.9 million compared with \$46.3 million at December 31, 1996. Cash and marketable securities totaled approximately \$42.4 million at June 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 1998.

PART II. OTHER INFORMATION

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

On June 10, 1997, the Company held its Annual Meeting of Stockholders. The following actions were taken at the annual meeting.

1. The following Class II directors were elected:
 - a. Robert C. Bellas, Jr. 13,586,244 shares voted in favor of the nominee, 544,721 withheld their vote.
 - b. Dr. M. Blake Ingle. 13,584,216 shares voted in favor of the nominee, 546,749 withheld their vote.
 - c. Fred A. Middleton. 13,583,174 shares voted in favor of the nominee, 547,791 withheld their vote.

The Company's Class I directors, Alain B. Schreiber, M.D., and Philip M. Young, will continue in office until 1999, and the Company's Class III directors, Patrick F. Latterell, Dale A. Smith and Gary Lyons will continue in office until 1998.

2. The amendment and restatement of the Company's 1992 stock option plan was approved. Shares voted for the proposal were 10,056,952, with 4,020,059

shares voted against the proposal and 53,954 shares abstained.

3. The selection of the Company's independent auditors was ratified. Shares voted in favor of the proposal were 14,019,907, with 92,886 shares voted against the proposal and 18,172 shares abstained.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

1. Exhibits

EXHIBIT 27 Financial Data Schedule

2. Reports on Form 8-K

None

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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: August 11, 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)

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

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S FORM 10-Q FOR THE SIX MONTHS ENDED JUNE 30, 1997, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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