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, 1996

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.

<TABLE>
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Class	Outstanding at September 30, 1996
<S>	<C>
Common Stock, $.01 par value	15,386,003

</TABLE>

VICAL INCORPORATED

FORM 10-Q

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<TABLE>
<CAPTION>

* No information provided due to inapplicability of item.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VICAL INCORPORATED
BALANCE SHEETS

ASSETS	September 30, 1996 (Unaudited)	December 31, 1995
Current Assets:		
Cash and cash equivalents	$ 4,178,007	$ 7,174,128
Marketable securities - available-for-sale	44,495,955	45,353,638
Receivables and other	1,087,083	528,089
Total current assets	49,761,045	53,055,855
Property and Equipment:		
Equipment	4,244,132	3,218,315
Leasehold improvements	1,228,695	517,846
	5,472,827	3,736,161
Less-Accumulated depreciation and amortization	(3,424,811)	(3,044,110)
	2,048,016	692,051
Patent Costs	1,045,274	835,410
Deposits and Other Assets	692,262	534,188
	$ 53,546,597	$ 55,117,504
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 619,378	$ 528,297
Current portion of capital lease obligations	399,345	307,485
Deferred revenue	1,486,232	679,167
Total current liabilities	2,504,955	1,514,949
Long-Term Obligations:		
Notes payable	641,320	--
Long-term obligations under capital leases	794,364	338,514
Total long-term obligations	1,435,684	338,514
Stockholders' Equity:		

Common stock, $.01 par value--40,000,000 shares authorized--15,386,003 and 15,364,265 shares issued and outstanding at September 30, 1996, and December 31, 1995, respectively	153,860	153,643
Additional paid-in capital	72,860,658	72,728,484
Deferred compensation	(14,232)	(158,427)
Unrealized gain (loss) on marketable securities	(85,194)	104,176
Accumulated deficit	(23,309,134)	(19,563,835)
Total stockholders' equity	49,605,958	53,264,041
Total Liabilities and Stockholders' Equity	$ 53,546,597	$ 55,117,504

</TABLE>

See accompanying notes.

VICAL INCORPORATED
STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>
<CAPTION>

	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Revenues:				
Contract revenue	$ 254,673	$ 246,567	$ 764,101	$ 699,546
License/royalty revenue	285,853	914,440	3,852,440	4,925,831
	540,526	1,161,007	4,616,541	5,625,377
Expenses:				
Research and development	2,628,286	2,016,483	8,142,125	6,923,013
General and administrative	750,171	509,024	2,219,192	2,222,019
	3,378,457	2,525,507	10,361,317	9,145,032
Loss from operations	(2,837,931)	(1,364,500)	(5,744,776)	(3,519,655)
Interest income	683,654	325,341	2,062,706	956,659
Interest expense	36,199	17,904	63,229	57,283
Net loss	$ (2,190,476)	$ (1,057,063)	$ (3,745,299)	$ (2,620,279)
Net loss per share (Note 2)	$ (.14)	$ (.08)	$ (.24)	$ (.20)
Shares used in computing net loss per share (Note 2)	15,385,428	12,955,170	15,379,940	12,882,533

</TABLE>

See accompanying notes.

VICAL INCORPORATED
STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>

<CAPTION>

	Nine months ended September 30,	
	1996	1995
<S>	<C>	<C>
OPERATING ACTIVITIES:		
Net loss	$ (3,745,299)	$ (2,620,279)
Adjustments to reconcile net loss to net cash provided from (used in) operating activities:		
Depreciation and amortization	423,271	401,171
Compensation expense related to stock purchases	143,280	186,175
Write-off of abandoned patent application costs	3,247	219,242
Other	--	1,873
Change in operating assets and liabilities:		
Receivables and other	(558,994)	(1,137,311)
Accounts payable and accrued expenses	91,081	(37,904)
Deferred revenue	807,065	(412,500)
Net cash provided from (used in) operating activities	(2,836,349)	(3,399,533)
INVESTING ACTIVITIES:		
Marketable securities	668,313	8,428,479
Capital expenditures	(923,799)	(37,153)
Deposits and other assets	(158,074)	374,486
Patent expenditures	(220,116)	(236,917)
Net cash provided from (used in) investment activities	(633,676)	8,528,895
FINANCING ACTIVITIES:		
Principal payments under capital lease obligations	(300,723)	(289,811)
Proceeds from note payable	641,320	--
Issuance of common stock, net	133,307	28,592,564
Net cash provided from (used in) financing activities	473,904	28,302,753
Net increase (decrease) in cash and cash equivalents	(2,996,121)	33,432,115
Cash and cash equivalents at beginning of period	7,174,128	2,264,130
Cash and cash equivalents at end of period	$ 4,178,007	$ 35,696,245
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Equipment acquired under capital leases	$ 848,433	$ 123,486

</TABLE>

See accompanying notes.

VICAL INCORPORATED

NOTES TO FINANCIAL STATEMENTS

September 30, 1996
(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 September 30, 1996, and for the three month and nine month periods ended September 30, 1996 and 1995, 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, 1995, included in the Vical Incorporated Form 10-K filed with the Securities and Exchange Commission.

In January 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." The Company has elected to adopt the alternative disclosure provisions of SFAS 123 and therefore will not be recording stock based compensation using fair value accounting as defined under SFAS 123.

Patent Costs

The Company capitalizes certain costs related to patent applications. Accumulated costs are amortized over the estimated economic lives of the patents using the straight-line method, commencing at the time the patents are issued. Costs related to patent applications are written off to expense at the time such costs are deemed to have no continuing value. The Company continually evaluates its patent costs, and expenses accumulated costs if, and when, the basis of the patent exceeds the amount expected to be realized by future applicable product revenue.

2. Net Loss Per Share

Net loss per share for the three and nine month periods ended September 30, 1996 and 1995 is computed using the weighted average number of common shares 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 share equivalents are not considered in the calculation of net loss per share, as their effect would be anti-dilutive.

3. Notes Payable

In June 1996, the Company obtained a loan and security agreement with a bank for the borrowing of up to $2,500,000. Borrowings currently bear interest at the bank's prime rate (8.25% at September 30, 1996) plus .5%, or the Company may alternatively choose to have its borrowings bear interest at the LIBOR rate plus 3.25%. Borrowings under the line of credit are secured by substantially all assets of the Company, and the Company is required to comply with certain financial covenants. In April 1997, any outstanding borrowings convert to a term loan with amortization over a three year period. The term loan will bear interest at the same rate options. At September 30, 1996, borrowings under the line of credit totaled $641,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS 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. 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, 1996, the Company's accumulated deficit was approximately $23.3 million.

In September 1995, the Company commenced Phase II clinical trials of Allovectin-7, a gene-based product candidate intended for direct injection into tumor lesions of cancer patients, at ten teaching oncology centers in five tumor types: melanoma, colorectal carcinoma, renal cell carcinoma, breast carcinoma and non-Hodgkin's lymphoma. 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 pivotal Phase II/III clinical trials to support product license approval submissions for certain indications. Allovectin-7 is being evaluated in combination with low-dose IL-2 in a Phase I/II clinical trial in renal cell carcinoma patients. Also, several investigator initiated trials are ongoing using Allovectin-7 supplied by the Company.

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. Twenty-four patients with advanced solid malignancies or lymphoma were enrolled in a Phase I/II clinical trial which evaluated the safety and biological activity of the experimental gene therapy. This trial concluded in the second quarter of 1996, and results were presented in May 1996. Since no toxicity or other adverse events were observed, a follow-on trial was designed

to evaluate safety and biological activity at higher dose levels. This follow-on trial began in October 1996.

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. 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 are successful, and whether the Company's product candidates will ultimately be successfully developed or receive necessary regulatory approvals, 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

Vical expects to incur substantial operating losses over the next several years due to anticipated significant increases in research and development expenses. The increases are expected to result from expanding preclinical and clinical trials for the Company's proposed products, increased patent and regulatory costs and associated increases in personnel. Losses may fluctuate from quarter to quarter as a result of differences in the timing of expenses incurred and the revenues received from collaborative agreements. Such fluctuations may be significant.

For the quarter ended September 30, 1996, the Company had revenues of $541,000 including ongoing amortization of license, contract, and royalty revenue. The Company had revenues of $1,161,000 for the quarter ended September 30, 1995, including $750,000 of license revenue from Pasteur Merieux Serums & Vaccins ("Pasteur Merieux"). Other license, contract, and royalty revenues totaled $411,000. Revenues in the first nine months of 1996 totaled $4,617,000 and consisted of $1,000,000 from Merck & Co., Inc. ("Merck"), $2,568,000 from Pasteur Merieux, and other license, royalty, and contract revenue totaling $1,049,000. For the first nine months of 1995 revenues totaled $5,625,000, and consisted of contract revenue in the amount of $700,000, license revenue in the amount of $4,687,000 and royalty revenue of $238,000. Included in license revenue was $3,312,000 from Merck due to an exercise of options to license Vical technology. Future payments from Merck, if any, will be milestone and royalty payments, due upon Merck's development and commercialization of products under the agreement. There can be no assurance that such development and commercialization will occur.

The Company's total operating expenses for the quarter ended September 30, 1996, were $3,378,000 compared to $2,526,000 for the third quarter of 1995. Operating expenses for the nine months ended September 30, 1996, were $10,361,000 as compared to $9,145,000 for the same period in 1995.

Research and development expenses were $2,628,000 for the three months ended September 30, 1996, as compared to $2,016,000 for the same period in 1995. For the nine months ended September 30, 1996, research and development expenses increased to $8,142,000 from $6,923,000 for the same period in 1995. These increases in research and development expenses resulted primarily from option fees paid in the second quarter of 1996 and ongoing clinical trials and related internal staffing increases. Additionally, costs of staffing and funding of research being conducted at universities working in collaboration with Vical contributed to the increase in research and development expenses.

General and administrative expenses increased to $750,000 for the three months ended September 30, 1996, from $509,000 for the same period in 1995 primarily due to increased support for research and development efforts. Costs decreased to $2,219,000 for the nine months ended September 30, 1996, from $2,222,000 in 1995.

Interest income increased to approximately $684,000 for the third quarter of 1996 from approximately $325,000 for the quarter ended September 30, 1995, and to $2,063,000 for the nine months ended September 30, 1996 from $957,000 for the nine months ended September 30, 1995. These changes were primarily the result of higher cash and investment balances and average rates of return.

Net loss per share for the three months ended September 30, 1996, was $.14 per share as compared to a net loss per share of $.08 for the third quarter of 1995. Net loss for the nine months ended September 30, 1996, was $.24 per share as compared to a net loss per share of $.20 for the same period in 1995.

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, 1996, the Company had working capital of approximately $47.3 million compared to $51.5 million at December 31, 1995. Cash and marketable securities totaled approximately $48.7 million at September 30, 1996, compared to $52.5 million at December 31, 1995.

In June 1996, the Company obtained a loan and security agreement with a bank for the borrowing of up to $2,500,000. Borrowings currently bear interest at the bank's prime rate (8.25% at September 30, 1996) plus .5%, and the Company may alternatively choose to have its borrowings bear interest at the LIBOR rate plus 3.25%. Borrowings under the line of credit are secured by substantially all assets of the Company. In April 1997, any outstanding borrowings convert to a term loan amortized over three years. The term loan bears interest at the same rate options. In addition, the Company is required to comply with certain restrictive covenants. At September 30, 1996, borrowings under the line of credit totaled $641,000.

In October 1996, the Company received $1,000,000 from Genzyme Corporation ("Genzyme") for the exercise of an option granting Genzyme exclusive worldwide rights to use Company technology for the treatment of cystic fibrosis.

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.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

1. Exhibits

Exhibit 27 Financial Data Schedule

2. Reports on Form 8-K

None

VICAL INCORPORATED

SIGNATURE

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 13, 1996

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 LIST

Exhibit 27 Financial Data Schedule

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