# Isis Pharmaceuticals Reports Second Quarter 2002 Highlights and Financial Results

July 30, 2002

Company Reports Increased Revenue and Strengthened Balance Sheet

CARLSBAD, Calif., July 30 /PRNewswire-FirstCall/ -- Isis Pharmaceuticals, Inc. (Nasdaq: ISIS), today announced that its total revenue for the second quarter 2002 increased by $12.5 million, or 164% over that reported for the same period in 2001. The increase in revenue contributed to a 25% decrease in loss from operations to $12.3 million for the second quarter 2002 from $16.5 million for the same period in 2001. The increase in revenue was partially offset by increases in operating expenses in the second quarter 2002 compared to the same period in 2001. The company's net loss applicable to common stock for the second quarter was $21.2 million, or $0.39 per share, compared with a net loss applicable to common stock of $23.4 million, or $0.58 per share, for the same period last year, a decrease of $0.19. The decrease in the net loss was primarily a result of the decrease in loss from operations. The decrease was partially offset by the $2.3 million loss reported for the prepayment of the company's 14% senior subordinated notes which consisted of unamortized warrants, unamortized issuance costs and prepaid interest.

Revenue reported for the second quarter 2002 totaled $20.1 million, up from $7.6 million for the same period in 2001. The significant increase in revenue was primarily due to the company's success in attracting a variety of new partners and technology licensees. In particular, the licensing of Isis' Phase 3 non-small cell lung cancer compound, Affinitac™ (formerly known as LY900003, ISIS 3521), to Eli Lilly and Company in August 2001 contributed significantly to the increase in revenue in the second quarter 2002.

Operating expenses for the quarters ended June 30, 2002 and 2001 were $32.4 million and $24.1 million, respectively. The increase in expenses for 2002 was primarily due to the company's continued investment in its 13 products in development, including costs for the on-going Phase 3 trials of Affinitac and ISIS 2302 for Crohn's disease. Also contributing to the increase in operating expenses were costs related to the company's $100 million, multi-year research collaboration with Lilly, costs associated with increased gene functionalization and target validation activities in support of the company's numerous GeneTrove collaborations, and costs associated with the company's continued database development efforts.

Partially offsetting the increase in operating expenses was the effect of capitalizing approximately $2.0 million in costs related to the manufacturing of our drugs, which began in 2002. The company expenses these manufacturing costs when it ships drug to a collaborator or when the drug is used in Isis' clinical trials. This may result in period to period differences in operating expenses related to the volume of drug production and the timing of drug shipments. The company expects to ship a significant portion of this drug in the third quarter 2002.

Total operating expenses for the quarter ended June 30, 2002 included a reversal of $1.6 million in previously recorded compensation expense related to stock options accounted for as variable stock options. The company reported compensation expense of $1.4 million for the same period in 2001. Variable stock options can result in significant non-cash increases and decreases in compensation expense as a result of the variability in the company's stock price. The majority of these options expire at the end of 2002.

The company's loss from operations for the first six months of 2002 was $22.1 million, compared to $33.7 million for the same period in 2001. Isis' net loss applicable to common stock for the year to date was $39.5 million, or $0.73 per share, on revenues of $38.0 million, compared with a loss of $46.5 million, or $1.15 per share, on revenues of $12.2 million for the same period of 2001.

Isis strengthened its balance sheet by ending the quarter with $325.1 million in cash and short-term investments and working capital of $301.2 million. At December 31, 2001, Isis had cash and short-term investments of $312.0 million and working capital of $280.6 million. The increase in cash and short-term investments and in working capital was primarily due to the company's issuance of $125 million of 5.5% Convertible Subordinated Notes in the second quarter, which are due May 1, 2009. In May 2002 approximately $74 million of the net proceeds from the debt issuance were used to prepay the company's 14% Senior Subordinated Notes. Additionally, on July 3, 2002 the company prepaid $19.7 million of 12% convertible debt held by Elan Corporation, plc. with $14.7 million in cash. This prepayment resulted in a gain of approximately $5 million and will be recorded in the third quarter of 2002.

"In the past several months, we have significantly improved our financial position by retiring a total of $94 million in high-interest debt using a portion of the proceeds of our convertible debt offering. By prepaying these debts, we have eliminated nearly $40 million in total future interest expense, and have realized a savings in 2002 of approximately $5 million," said B. Lynne Parshall, Isis' Executive Vice President and CFO.

"We continue to make steady progress in the clinical development of our 13 products, as well as in drug discovery," said Ms. Parshall. "In oncology, for example, we presented encouraging Phase 2 data on two antisense anticancer drugs in combination with chemotherapy, ISIS 2503 in pancreatic cancer and Affinitac in non-small cell lung cancer at oncology meetings during the quarter. The development of Affinitac was advanced with Lilly's initiation of its planned Phase 3 trial in combination with Gemzar™ and cisplatin. Additionally, we expanded our antisense drug discovery collaboration with Lilly to include discovery of anticancer drugs, broadening our earlier alliance focused on metabolic disease and inflammatory disease. We are pleased with the industry's interest in antisense therapeutics. As evidenced by our broad pipeline and numerous partnerships, we are exploiting our antisense technology platform to create a wide range of novel drugs for patients."

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Isis' Second Quarter 2002 and Recent Highlights
Clinical Development
-- Lilly and Isis announced encouraging data from the ongoing Phase 2
   trials of Affinitac in patients with non-small cell lung cancer, as
   presented at the annual meeting of the American Society of Clinical
   Oncology (ASCO).  These preliminary data demonstrate activity of
   Affinitac when combined with chemotherapy in both chemotherapy naive
   and extensively pretreated patients.
-- Lilly initiated a second, planned Phase 3 trial of Affinitac, in
   combination with Gemzar and cisplatin.  This second Phase 3 trial
   was a strategically important component in Isis' decision to license
   the drug to Lilly, as the trial has the potential to support the
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filing of a new drug application with the FDA if an additional study is required.
-- Isis initiated a second, planned Phase 3 trial of ISIS 2302 in patients with Crohn's disease. This European-based trial complements the ongoing North American Phase 3 trial.
-- Isis reported encouraging data from a planned interim analysis of a Phase 2 trial of ISIS 2503 in combination with Gemzar. Clinical investigators observed six months or longer survival in patients with pancreatic cancer, surpassing the primary endpoint of the study's defined criteria for success.
-- Isis achieved a development milestone in its HepaSense™ Ltd. joint venture with Elan, which triggered Elan's purchase of $3.75 million of Isis common stock at $29.74 per share. The milestone is related to HepaSense's successful completion of a nine-month toxicology study and the demonstration of acceptable safety and reduction of HCV viral titer, or levels of virus in blood, in an initial Phase 1/Phase 2 clinical trial.

Antisense Research and Drug Discovery
-- Lilly and Isis announced the expansion of their antisense drug discovery collaboration beyond the original areas of inflammatory and metabolic diseases to include the discovery of antisense drugs to inhibit specific gene targets associated with cancer. The expanded collaboration will focus initially on several antisense preclinical compounds, including ISIS 23722, directed at cellular regulators of cancer cell death, or apoptosis.
-- Isis scientists presented data on the first antisense drug candidate from Isis' new cardiovascular drug discovery program, demonstrating the expanding therapeutic potential of antisense technology into heart disease.
-- Isis announced that it has gained control over the usage of the antisense chemistry called Peptide Nucleic Acid, or PNA, for drug discovery and development, as the exclusive licensee of therapeutic rights to this patent. The patent was issued to its Denmark inventors. PNAs represent a new, third-generation chemical class of antisense drugs.
-- Isis extended its Hepatitis C research collaboration with Merck & Co. for the second time. Isis has received a research milestone payment and will receive research support from Merck for an additional year, as well as clinical development milestone payments for compounds that arise from the collaboration and royalties from product sales.

Ibis Therapeutics Developments
-- Ibis Therapeutics has successfully transitioned its government-sponsored research program to discover novel antibacterial drugs for biological warfare defense to the U.S. Army Medical Research Institute of Infectious Diseases (USAMRIID). Through this transition, Ibis has been awarded a new three-year contract valued at up to $2.4 million from USAMRIID to advance the division's work in developing therapeutic countermeasures to biological warfare.

Strengthening Isis' Financial Position
-- Isis completed a private placement of $125 million of 5.5% Convertible Subordinated Notes. The notes are convertible into shares of Isis Common Stock at a conversion price of $16.625 per share and are due May 1, 2009.
-- Isis retired its highest-interest debt, the 14% Senior Subordinated Notes, formerly held by Reliance. The total amount of this debt, including principal plus interest, was approximately $74 million.

-- Isis prepaid $19.7 million in 12% convertible debt held by Elan Corporation with $14.7 million in cash. The transaction saved the company approximately $12.3 million in interest and allowed Isis to avoid 2.2 million shares of potential dilution over the remaining life of the debt.

Isis' clinical goals for the remainder of 2002 include:

-- Initiation of Phase 2 trials of ISIS 2302 in ulcerative colitis and of ISIS 104838 in psoriasis
-- Report ISIS 2503 Phase 2 final results in pancreatic cancer
-- Report ISIS 14803 Phase 2 results in hepatitis C
-- Report ISIS 104838 Phase 2 results in rheumatoid arthritis
-- Complete regulatory filing (IND or equivalent) for at least one new product
-- Advance development of an oral formulation for antisense drugs

Isis will conduct a live webcast conference call to discuss this earnings release on Tuesday, July 30 at 11:00 am Eastern time. To participate over the Internet go to our website at www.isispharm.com or to http://www.firstcallevents.com/service/ajwz362684978gf12.html . A replay of the webcast will be available at this address for up to 30 days.

Isis Pharmaceuticals, Inc. is exploiting its expertise in RNA to discover and develop novel human therapeutic drugs. The company has commercialized its first product, Vitravene® (fomivirsen), to treat CMV-induced retinitis in AIDS patients. In addition, Isis has 13 products in its development pipeline, with two in late-stage development and six in Phase 2 human clinical trials. Affinitac™ (formerly called LY900003 and ISIS 3521), an inhibitor of PKC-alpha, is in Phase 3 trials for non-small cell lung cancer, and alicaforsen (ISIS 2302), an ICAM-1 inhibitor, is in Phase 3 human clinical trials for Crohn's disease. Isis has a broad patent estate, as the owner or exclusive licensee of more than 900 issued patents worldwide. Isis' GeneTrove™ division uses antisense to assist pharmaceutical industry partners in validating and prioritizing potential gene targets through customized services. Ibis Therapeutics™ is a division focused on the discovery of small molecule drugs that bind to RNA. Additional information about Isis is available at www.isispharm.com .

This press release contains forward-looking statements concerning the financial position and clinical goals of Isis Pharmaceuticals, Inc., the planned development activities and therapeutic potential for our products in our pipeline, and the potential value of the company's functional genomics and drug discovery technology platform. Any statement describing a goal, expectation, intention or belief of the company is a forward-looking statement and should be considered an at-risk statement. Such statements are subject to certain risks and uncertainties, particularly those inherent in the process of discovering, developing and commercializing drugs that are safe and effective for use as human therapeutics and financing such activities. Actual results could differ materially from those projected in this release. As a result, you are cautioned not to rely on these forward-looking statements. These and other risks concerning Isis' research and development programs are described in additional detail in the company's Annual Report on Form 10-K, for the year ended December 31, 2001, which is on file with the U.S. Securities and Exchange Commission, copies of which are available from the company.



ISIS PHARMACEUTICALS, INC.
SELECTED FINANCIAL INFORMATION
(In Thousands, Except Per Share Data)
Condensed Statements of Operations

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Revenue: | | | | |
| Research and development revenue under collaborative agreements | $17,889 | $5,114 | $32,603 | $7,903 |
| Research and development revenue from affiliates | 2,087 | 2,432 | 5,121 | 4,148 |
| Licensing and royalty revenue | 85 | 46 | 296 | 174 |
| Total revenue | 20,061 | 7,592 | 38,020 | 12,225 |
| Expenses: | | | | |
| Research and development | 31,530 | 19,924 | 58,513 | 39,059 |
| General and administrative | 2,444 | 2,778 | 4,671 | 5,593 |
| Compensation related to stock options | (1,574) | 1,354 | (3,106) | 1,271 |
| Total operating expenses | 32,400 | 24,056 | 60,078 | 45,923 |
| Loss from operations | (12,339) | (16,464) | (22,058) | (33,698) |
| Equity in loss of affiliates | (3,960) | (4,194) | (9,726) | (8,158) |
| Interest income | 1,892 | 1,106 | 4,036 | 3,083 |
| Interest expense | (4,164) | (3,491) | (8,795) | (7,117) |
| Loss on prepayment of debt | (2,294) | -- | (2,294) | -- |
| Net loss | (20,865) | (23,043) | (38,837) | (45,890) |
| Accretion of dividends on preferred stock | (335) | (323) | (670) | (642) |
| Net loss applicable to common stock | $(21,200) | $(23,366) | $(39,507) | $(46,532) |
| Basic and diluted net loss per share | $(0.39) | $(0.58) | $(0.73) | $(1.15) |
| Shares used in computing basic and diluted net loss per share | 54,117 | 40,492 | 54,022 | 40,322 |

Condensed Balance Sheets
(In Thousands)

| | June 30, 2002 (Unaudited) | December 31, 2001 |
|---|---|---|
| Assets: | | |
| Current assets | $348,456 | $328,816 |
| Property, plant and equipment, net | 37,946 | 28,245 |
| Other assets | 56,824 | 60,000 |
| Total assets | $443,226 | $417,061 |
| Liabilities and stockholders' equity: | | |
| Current liabilities | $47,294 | $48,247 |
| Long-term obligations, net of current portion | 191,661 | 125,710 |
| Long-term deferred revenue, net of current portion | 17,900 | 20,005 |
| Stockholders' equity | 186,371 | 223,099 |
| Total liabilities and stockholders' equity | $443,226 | $417,061 |



SOURCE Isis Pharmaceuticals, Inc.
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