SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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

For the transition period from to
Commission file number 0-19125

ISIS PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

33-0336973
(I.R.S Employer Identification No.)

2292 Faraday Avenue, Carlsbad, CA 92008
(Address of principal executive offices, including zip code)

760-931-9200
(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 of 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.

(1) YES X (2) YES X

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 October 17, 1997)
Common stock $.001 par value	26,632,766 shares

EXHIBIT INDEX: NO. 27 : FINANCIAL DATA SCHEDULE

ISIS PHARMACEUTICALS, INC.
FORM 10-Q
INDEX

		PAGE
PART I	FINANCIAL INFORMATION	
ITEM 1:	Financial Statements	
	Condensed Balance Sheets as of September 30, 1997 and December 31, 1996	3
	Condensed Statements of Operations for three months and nine months ended September 30, 1997 and 1996	4
	Condensed Statements of Cash Flows for the nine months ended September 30, 1997 and 1996	5
	Notes to Financial Statements	6
ITEM 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations	
	Results of Operations	7
	Liquidity and Capital Resources	8
PART II	OTHER INFORMATION	
ITEM 1:	Legal Proceedings	9
ITEM 2:	Changes in Securities	9
ITEM 3:	Default upon Senior Securities	9
ITEM 4:	Submission of Matters to a Vote of Security Holders	9
ITEM 5:	Other Information	9
ITEM 6:	Exhibits and Reports on Form 8-K	9
SIGNATURES		10

ISIS PHARMACEUTICALS, INC.
CONDENSED BALANCE SHEETS
(in thousands, except share data)

ASSETS

	September 30, 1997 (Unaudited)	December 31, 1996 (Note)
Current assets:		
Cash and cash equivalents	$ 28,860	$ 37,082
Short-term investments	39,657	40,542
Prepaid expenses and other current assets	1,692	1,732
Total current assets	70,209	79,356
Property, plant and equipment, net	18,493	15,334
Patent costs, net	7,063	6,157
Deposits and other assets	1,503	458
	$ 97,268	$ 101,305

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 1,104	$ 2,362
Accrued payroll and related expenses	1,569	1,489
Accrued liabilities	4,147	2,763
Deferred contract revenues	13,480	10,204
Current portion of long-term debt and capital lease obligations	1,539	6,238
Total current liabilities	21,839	23,056
Long-term debt and capital lease obligations, less current portion	34,056	19,864
Stockholders' equity:		
Common stock, $.001 par value; 50,000,000 shares authorized, 26,608,000 shares and 26,201,000 shares issued and outstanding at September 30, 1997 and December 31, 1996, respectively	27	26
Additional paid-in capital	184,400	181,248
Unrealized gain on investments	183	178
Accumulated deficit	(143,237)	(123,067)
Total stockholders' equity	41,373	58,385
	$ 97,268	$ 101,305

Note: The balance sheet at December 31, 1996 has been derived from the audited

financial statements at that date.

See accompanying notes.

4

ISIS PHARMACEUTICALS, INC.
CONDENSED STATEMENTS OF OPERATIONS
(in thousands, except for per share amounts)
(Unaudited)

	Three months ended September 30, <F2> 1997	1996
Revenue:		
Contract revenue	$ 12,641	$ 5,142
Interest Income	1,133	944
	13,774	6,086
Expenses:		
Research and development	13,368	10,219
General and administrative	1,805	1,572
Interest expense	791	280
	15,964	12,071
Net loss	$ (2,190)	$ (5,985)
Net loss per share	$ (.08)	$ (.23)
Weighted average common shares	26,519	25,671

	Nine Months Ended September 30, <F2> 1997	1996
Revenue:		
Contract revenue	$ 23,060	$ 15,220
Interest income	2,846	3,005
	25,906	18,225
Expenses:		
Research and development	38,528	31,247
General and administrative	5,566	4,571
Interest expense	1,982	766
	46,076	36,584
Net loss	$(20,170)	$(18,359)
Net loss per share	$ (.76)	$ (.72)
Weighted average common shares	26,393	25,494

<FN>
<F2> See accompanying notes
</FN>

5

CONDENSED STATEMENT OF CASH FLOWS
(in thousands)
(Unaudited)

	Nine months ended September 30, <F2> 1997	1996
Cash used in operations:	$ (14,366)	$ (15,110)
Investing activities:		
Short-term investments	885	(4,805)
Property and equipment	(3,713)	(853)
Other assets	(2,088)	(691)
Net cash used in investing activities	(4,916)	(6,349)
Financing activities:		
Net proceeds from issuance of common stock	3,153	2,528
Proceeds from long-term borrowings	11,386	0
Principal payments on debt and capital lease obligations	(3,479)	(1,748)
Net cash provided from financing activities	11,060	780
Net decrease in cash and cash equivalents	(8,222)	(20,679)
Cash and cash equivalents at beginning of period	37,082	46,463
Cash and cash equivalents at end of period	$ 28,860	$ 25,784
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 1,408	$ 760
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Additions to capital lease obligations for acquisitions of property, plant and equipment	$ 1,585	$ 2,038

<FN>
<F2> See accompanying notes
</FN>

ISIS PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS

1. Basis of presentation

The unaudited interim financial statements for the three and nine month periods ended September 30, 1997 and 1996 have been prepared on the same

basis as the Company's audited financial statements for the year ended December 31, 1996. The financial statements include all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for a fair presentation of the financial position at such dates and the operating results and cash flows for those periods. Results for the interim periods are not necessarily indicative of the results for the entire year. For more complete financial information, these financial statements, and notes thereto, should be read in conjunction with the audited financial statements for the year ended December 31, 1996 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

2. Accounting standard on earnings per share

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share", which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact of Statement 128 on the calculation of earnings per share is not expected to be material.

3. Subsequent event

In October 1997, the Company obtained $25 million in private debt financing. The terms of the financing provide for a ten year maturity on the debt, interest of 14% per annum, and deferred interest payments for the first five years of the loan. In conjunction with the debt financing, Isis will issue warrants to the lender to purchase 500,000 shares, exercisable at $25 per share.

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

In addition to historical information contained in this Report, this Report contains forward-looking statements regarding the Company's business and products and their projected prospects and qualities, and the Company's relationship with its corporate partners. Such statements are subject to certain risks and uncertainties, particularly those inherent in both the process of discovering, developing and commercializing safe and effective drugs, and the endeavor of building a business around such potential products. Actual results could differ materially from those projected in this Form 10-Q. As a result, the reader is cautioned not to place undue reliance on these forward-looking statements. Factors that could cause or contribute to such

differences include, but are not limited to, those discussed in Isis' Annual Report on Form 10-K for the year ended December 31, 1996 which is on file with the U.S. Securities and Exchange Commission, a copy of which is available from the Company.

Since its inception in January 1989, the Company has devoted substantially all of its resources to its research, drug discovery and development programs. The Company has been unprofitable since its inception and expects to incur additional operating losses for the next several years. The Company has entered into collaborative research, development and distribution agreements with pharmaceutical companies that generate revenue to augment the level of research and development activity and to offset portions of its research and development costs. To date, the Company has not received any significant revenue from the sale of products.

RESULTS OF OPERATIONS

The Company had contract revenue of $12.6 million for the third quarter and $23.1 million for the nine month period ended September 30, 1997, compared with $5.1 million and $15.2 million, respectively, for the same periods in 1996. The revenue increase was primarily due the receipt of a $5 million pre-commercial fee from CIBA Vision under the terms of a distribution agreement for fomivirsen (ISIS 2922). A $2 million milestone payment from Novartis contributed to the increase. The Company also had interest income totaling $1.1 million for the quarter and $2.8 million for the nine month period compared with $0.9 million and $3.0 million for the same periods in 1996. This variation in interest income was due to fluctuations in the level of cash, cash equivalents and short-term investments during the three and nine month periods.

Research and development expenses increased to $13.4 million for the three months and $38.5 million for the nine months ended September 30, 1997 from $10.2 million and $31.2 million for the same periods in 1996. This increase was attributable to an increase in preclinical and clinical development activities including compounds advancing into more expensive stages of clinical development. The Company expects that its development expenses will continue to increase as its current preclinical and clinical compounds advance and preclinical and clinical studies on additional compounds are undertaken.

General and administrative expenses increased to $1.8 million for the quarter and $5.6 million for the nine months ended September 30, 1997, from $1.6 million and $4.6 million for the same periods in 1996, reflecting increased staffing costs in the business development and investor relations functions as well as increased occupancy expenditures. The Company expects that its general and administrative expenses will continue to increase in the future in support of its growing research and development operations.

During the quarter ended September 30, 1997, the Company recorded a net loss of $2.2 million, or $0.08 per share, compared with $6.0 million, or $0.23 per share, for the same period in 1996. During the nine month period ended September 30, 1997, the Company's net loss amounted to $20.2 million, or $0.76 per share, compared to $18.4 million, or $0.72 per share for the same period in 1996. The Company expects that its operating losses will increase for the remainder of the fiscal year and beyond as its activities grow, and may fluctuate from quarter to quarter as a result of differences in the timing and composition of revenue earned and expenses incurred.

The Company believes that inflation and changing prices have not had a material effect on its ongoing operations to date.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has financed its operations primarily through the sale of equity securities, raising net proceeds aggregating approximately $180 million, as of September 30, 1997, from the private and public sale of such securities. The Company has also financed a portion of its operations through contract research and development revenue, portions of which are paid in advance of work being performed, offsetting the Company's cash usage for operations.

As of September 30, 1997, the Company had cash, cash equivalents and short-term investments totaling $68.5 million and working capital of $48.4 million. In comparison, the Company had cash, cash equivalents and short-term investments of $77.6 million and working capital of $56.3 million as of December 31, 1996. The decreases in cash and working capital resulted from the use of cash to fund operating losses, investments in capital equipment and principal payments on debt and capital lease obligations. Subsequent to the end of the quarter, the Company obtained $25 million in private debt financing (see Note 3 to the accompanying financial statements).

The 1995 agreement with Boehringer Ingelheim provided the Company with a $40 million line of credit. This line of credit is available under certain circumstances and is to be used in support of the combined cell adhesion programs. As of September 30, 1997, the outstanding balance under this line of credit was $22.6 million.

As of September 30, 1997, the Company's long-term debt and capital lease obligations totaled $35.6 million, versus $26.1 million at December 31, 1996. This increase was due to additional capital lease financing and a $6.4 million borrowing under the Boehringer Ingelheim line of credit described above. In addition, in the second quarter of this year two new term loans totaling $9.7 million were obtained from a bank to refinance $6.5 million in existing notes secured by real property. The Company expects that its capital lease obligations will increase over time to fund capital equipment acquisitions required for its growing business. Lease lines will continue to be used by the Company to the extent that terms thereof remain commercially attractive.

The Company expects to incur substantial additional research and development costs, including costs related to clinical trials, manufacturing, marketing and distribution and other capital expansion, and expects losses to continue to increase as the Company's preclinical testing and clinical trial efforts expand. It is the Company's intention to seek additional collaborative research and development relationships with suitable potential corporate partners. There can be no assurance that any agreements resulting from these discussions will successfully reduce the Company's funding requirements, and arrangements with collaborative partners or others may require the Company to relinquish rights to certain of its technologies, product candidates or products. Additional equity or debt financings will be required, and there can be no assurance that these funds will be available on favorable terms, if at all. If additional funds are raised by issuing equity securities, further dilution to then existing stockholders may result.

The Company anticipates that its existing available cash, cash equivalents and short-term investments, combined with anticipated interest income, contract revenues and the proceeds of the $25 million debt financing completed after the end of the quarter, will be adequate to satisfy its anticipated capital requirements for approximately three years. The Company's future capital requirements will depend on many factors, including continued scientific progress in its research, drug discovery and development programs; the magnitude of these programs and progress with preclinical and clinical trials; the time and costs involved in obtaining regulatory approvals; the cost involved in filing, prosecuting and enforcing patent claims; competing technological and market developments; changes in the existing collaborative research and development relationships and the ability of the Company to establish additional research and development arrangements; and the cost of manufacturing scale-up and effective commercialization

activities and arrangements. If adequate funds are not available, the Company may be required to significantly curtail one or more of its research, drug discovery or development programs.

Uncertainties associated with the length and expense of preclinical and clinical testing of any of the Company's products could greatly increase the cost of development of such product and affect the timing of anticipated revenue from product sales, and failure by the Company to obtain regulatory approval for any product will preclude its commercialization. In addition, the failure by the Company to obtain patent protection for its products may make certain of its products commercially unattractive.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not party to any legal proceedings.

ITEM 2. CHANGES IN SECURITIES

Not applicable.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

None.

b. Reports on Form 8-K

The Company filed no reports on Form 8-K during the quarter ended September 30, 1997.

ISIS PHARMACEUTICALS, INC.

SIGNATURES

Pursuant to the requirements 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.

ISIS PHARMACEUTICALS, INC.

(Registrant)

Date: October 27, 1997

By: /S/ STANLEY T. CROOKE

Stanley T. Crooke, M.D., Ph.D.
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Date: October 27, 1997

By: /S/ B. LYNNE PARSHALL

B. Lynne Parshall
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description
27	Financial Data Schedule

<ARTICLE> 5
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This schedule contains summary financial information derived from
the Company's Condensed Balance Sheet as of September 30, 1997 (Unaudited)
and Condensed Statements of Operations for the Nine Months Ended
September 30, 1997 (Unaudited) and is qualified in its entirety by the
reference to such financial statements.
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