

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q/A  
(Amendment No. 1)

(MARK ONE)

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

For the quarterly period ended June 30, 2000

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 33-0336973  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

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

(760) 931-9200  
(Registrant's telephone number, including area code)

(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 for 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  No  (2) Yes  No

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

COMMON STOCK \$.001 PAR VALUE  
-----  
(Class)

38,448,777 SHARES  
-----  
(Outstanding at July 31, 2000)

ISIS PHARMACEUTICALS, INC.  
FORM 10-Q  
INDEX

	Page	
	----	
PART I	FINANCIAL INFORMATION	
ITEM 1:	Financial Statements	
	Condensed Balance Sheets as of June 30, 2000 and December 31, 1999	3
	Condensed Statements of Operations for the three and six months ended June 30, 2000 and 1999	4
	Condensed Statements of Cash Flows for the six months ended June 30, 2000 and 1999	5
	Notes to Financial Statements	6
ITEM 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations	*
	Results of Operations	*
	Liquidity and Capital Resources	*
	Quantitative and Qualitative Disclosures About Market Risk	*
PART II	OTHER INFORMATION	
ITEM 1:	Legal Proceedings	*
ITEM 2:	Changes in Securities	*
ITEM 3:	Default upon Senior Securities	*
ITEM 4:	Submission of Matters to a Vote of Security Holders	*
ITEM 5:	Other Information	*
ITEM 6:	Exhibits and Reports on Form 8-K	14

SIGNATURES

\* N/A

Explanatory Note: This amendment to form 10-Q is filed solely to amend Part I, Item 1, Note 3 to Financial Statements, and Part II Item 6(a), Exhibits.

ISIS PHARMACEUTICALS, INC.  
CONDENSED BALANCE SHEETS  
(In Thousands)

ASSETS

	June 30, 2000	December 31, 1999
	----- (Unaudited)	----- (Note)
Current assets:		
Cash and cash equivalents	62,043	35,296
Short-term investments	58,291	17,543
Contract revenue receivable	4,644	5,429
Prepaid expenses and other current assets	1,210	929
	-----	-----
Total current assets	126,188	59,197
Property, plant and equipment, net	22,596	23,945
Patent costs, net	11,886	11,250
Deposits and other assets	1,587	1,724
Investment in joint ventures	14,767	6,991
	-----	-----
Total assets	177,024	103,107
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	1,134	3,148
Accrued payroll and related expenses	2,344	1,215
Accrued liabilities	3,210	2,563
Deferred contract revenues	2,351	4,166
Current portion of long term debt and capital lease obligations	3,723	3,892
	-----	-----
Total current liabilities	12,762	14,984
Long-term debt and capital lease obligations, less current portion	94,504	87,254
Stockholders' equity:		
Series A Convertible Exchangeable 5% Preferred stock, \$.001 par value; 15,000,000 shares authorized, 120,150 shares issued and outstanding at June 30, 2000 and December 31, 1999, respectively	12,623	12,315
Accretion of Series A Preferred stock dividends	122	120
Series B Convertible Exchangeable 5% Preferred stock, \$.001 par value; 16,620 shares authorized, 12,015 shares and no shares issued and outstanding at June 30, 2000 and December 31, 1999, respectively	12,015	--
Accretion of Series B Preferred stock dividends	277	--
Common stock, \$.001 par value; 50,000,000 shares authorized, 38,375,438 shares and 31,613,000 shares issued and outstanding at June 30, 2000 and December 31, 1999, respectively	38	32
Additional paid-in capital	334,687	245,192
Unrealized gain (loss) on investments	(26)	(29)
Accumulated deficit	(289,978)	(256,761)
	-----	-----
Total stockholders' equity	69,758	869
	-----	-----
Total liabilities and stockholders' equity	177,024	103,107
	=====	=====

Note: The balance sheet at December 31, 1999 has been derived from the audited financial statements at that date.

See accompanying notes.

ISIS PHARMACEUTICALS, INC.  
CONDENSED STATEMENTS OF OPERATIONS  
(In Thousands, Except Per Share Data)

	Three months ended, June 30,		Six months ended, June 30,	
	2000	1999	2000	1999
Revenue:				
Research and development revenues under collaborative agreements	\$4,224	\$5,815	\$7,110	\$12,391
Research and development revenues from joint ventures	2,761	1,393	3,929	1,393
Total Revenue	6,985	7,208	11,039	13,784
Expenses:				
Research and development	12,746	16,443	25,985	30,759
General and administrative	2,414	2,762	4,238	5,577
Restructuring activities	-	-	1,608	-
Total Operating Expenses	15,160	19,205	31,831	36,336
(Loss) from operations	(8,175)	(11,997)	(20,792)	(22,552)
Equity in loss of joint ventures	(4,594)	(2,277)	(8,089)	(2,277)
Interest income	1,596	551	2,488	1,207
Interest expense	(3,129)	(2,800)	(6,236)	(5,505)
Net loss	(14,302)	(16,523)	(32,629)	(29,127)
Accretion of dividends on preferred stock	(306)	(117)	(587)	(117)
Net loss applicable to common stock	(14,608)	(16,640)	(33,216)	(29,244)
Basic and diluted net loss per share	(\$0.40)	(\$0.59)	(\$0.95)	(\$1.06)
Shares used in computing basic and diluted net loss per share	36,979	28,047	35,021	27,615

See accompanying notes.

ISIS PHARMACEUTICALS, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
(In Thousands)  
(Unaudited)

	Six Months Ended June 30,	
	2000	1999
Cash used in operations	(19,385)	(28,351)
Investing activities:		
Short-term investments	(40,745)	22,632
Property and equipment	(924)	(894)
Other assets	(876)	(1,423)
Investment in joint venture	(15,865)	(12,015)
Net cash used for investing activities	(58,410)	8,300
Financing activities:		
Net proceeds from issuance of equity securities	102,103	28,144
Proceeds from long-term borrowings	3,850	-
Principal payments on debt and capital lease obligations	(1,411)	(1,338)
Net cash provided from financing activities	104,542	26,806
Net increase (decrease) in cash and cash equivalents	26,747	6,755
Cash and cash equivalents at beginning of period	35,296	27,618
Cash and cash equivalents at end of period	62,043	34,373
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	530	1,654
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Additions to long-term debt obligations for acquisitions of property, plant and equipment	-	2,071
Conversion of preferred stock dividends into preferred stock	308	-

See accompanying notes.

ISIS PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited interim financial statements for the six month periods ended June 30, 2000 and 1999 have been prepared on the same basis as the Company's audited financial statements for the year ended December 31, 1999. 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, 1999 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

2. STRATEGIC ALLIANCES

ORASENSE

On April 20, 1999, Isis Pharmaceuticals, Inc., a Delaware corporation ("Isis" or the "Company") and Elan Corporation, plc ("Elan") formed a joint venture to develop technology for the formulation of oral oligonucleotide drugs. The joint venture, Orasense Ltd. ("Orasense"), a Bermuda limited company, is initially owned 80.1% by the Company and 19.9% by Elan. Isis and Elan each contributed rights to certain oral drug delivery technology to the joint venture. In addition, Isis contributed rights to ISIS 104838, an antisense oligonucleotide to inhibit TNF-(alpha), which will be the first candidate for oral formulation by Orasense. Isis and Elan will provide development and manufacturing services to Orasense and will be entitled to a portion of milestone payments and royalties received by Orasense for development of orally formulated oligonucleotide drugs. If Isis enters into an agreement with Orasense for oral formulation of any Isis oligonucleotide drug, Isis will pay Orasense royalties and a portion of certain third party milestone payments with respect to the drug.

While Isis owns 80.1% of the outstanding common stock of Orasense, Elan and its subsidiaries have retained significant minority investor rights that are considered "participating rights" as defined in EITF 96-16. Therefore, Isis does not consolidate the financial statements of Orasense, but instead accounts for its investment in Orasense under the equity method of accounting. During the six month period ended June 30, 2000, Isis recognized \$2,490,566 in contract revenues for research and development activities performed for Orasense Ltd. This amount is included as research and development revenues from joint ventures for the related periods.

The results of operations of Orasense Ltd. for the six month period ended June 30, 2000 is as follows (in thousands):

	SIX MONTHS ENDED JUNE 30, 2000 -----
Revenue	\$ --
Research and Development expense	\$ 6,151
Net Loss	\$ 6,151

HEPASENSE

On January 14, 2000, Isis and Elan Corporation formed a new joint venture to develop an antisense drug, ISIS 14803, to treat patients chronically infected with the Hepatitis C virus (HCV). The new joint venture is called HepaSense and plans to develop and commercialize this novel therapeutic for HCV while investigating delivery of the therapeutic with Elan's proprietary MEDIPAD-Registered Trademark- Drug Delivery System, a disposable subcutaneous infusion device. ISIS 14803 began Phase I clinical trials in early 2000. Isis and Elan have each licensed technology to HepaSense.

In conjunction with the formation of HepaSense, Elan International Services, Ltd. ("EIS") purchased 12,015 shares of Isis' Series B Preferred stock for \$12,015,000. In April 2000, EIS purchased an additional 298,000 shares of Isis' common stock for \$7,500,000. EIS will purchase an additional \$7.5 million of common stock at a premium to Isis' market price upon completion of a mutually agreed milestone.

After June 30, 2002, the preferred stock (including accrued dividends) will

be convertible at EIS' option, into shares of Isis' common stock at 125% of the 60-trading day average closing price of Isis' common stock ending two business days prior to June 30,

2002 (as adjusted for stock splits, stock dividends and the like). In the event of a liquidation of Isis or certain transactions involving a change of control of Isis, the agreement provides for automatic conversion of the preferred stock on terms similar to those set forth above.

Isis is not obligated to issue shares representing more than 19.99% of its then outstanding Common Stock upon conversion of the Preferred Stock if it would result in a violation of the rules of any securities market or exchange upon which the Common Stock is traded.

At any time until June 30, 2002, the holders of preferred stock may exchange their preferred stock with Isis for preferred shares of HepaSense, Ltd. held by Isis that represent 60.2% of the total outstanding preferred stock of HepaSense. The exchange right will terminate if the Isis Series B Convertible Preferred stock is converted into Isis' common stock, unless such conversion occurs as a result of a liquidation or certain transactions involving a change of control of Isis.

Isis contributed \$12,015,000 to HepaSense as the purchase price for 6,001 shares of common stock of HepaSense and 3,612 shares of HepaSense preferred stock. Until July 14, 2002, EIS will, at Isis' request, purchase convertible debt of Isis in an amount equal to Isis' share of budgeted funding for HepaSense. The convertible debt will have a term of six years, bear interest at the rate of 12% and be convertible into Isis' common stock at a premium. Isis may prepay the convertible debt in cash or Isis' common stock. Isis will use the proceeds of the sale of the convertible debt to provide additional development funding to HepaSense.

While Isis owns 80.1% of the outstanding common stock of HepaSense, Elan and its subsidiaries have retained significant minority investor rights that are considered "participating rights" as defined in EITF 96-16. Therefore, Isis does not consolidate the financial statements of HepaSense, but instead accounts for its investment in HepaSense under the equity method of accounting. During the six month period ended June 30, 2000, Isis recognized \$1,439,126 in contract revenues for research and development activities performed for HepaSense Ltd. This amount is included as research and development revenues from joint ventures for the related periods.

The results of operations of HepaSense Ltd. for the six month period ended June 30, 2000 is as follows (in thousands):

	SIX MONTHS ENDED
	JUNE 30, 2000
	-----
Revenue	\$ --
Research and Development expense	\$ 3,939
	-----
Net Loss	\$ 3,939
	=====

#### AGOURON

In June 2000, Ibis Therapeutics ("Ibis"), a division of Isis Pharmaceuticals, Inc. and Agouron Pharmaceuticals, Inc., a Pfizer Company, entered into a collaboration for the discovery and development of small molecule drugs against certain RNA targets in an undisclosed therapeutic area. Using Ibis' proprietary technology and Agouron's expertise in small molecule drug discovery, the collaboration will focus on discovering drugs that bind to RNA. Agouron will fund collaborative research, pay an upfront technology access fee and make milestone payments totaling \$37 million for the first product. In addition, Agouron will develop and commercialize drugs discovered by the collaboration and will pay Isis royalties on the sales of drugs.

### 3. FINANCING

Over the six months ended June 30, 2000, Isis sold 2,939,460 shares of its common stock to institutional investors at negotiated prices of \$10.45 per share to \$27.25 per share. In addition, over the six months ended June 30, 2000 the company sold 1,997,879 shares of its common stock to Ridgeway Investment Limited at prices ranging from an average of \$7.57 per share to \$14.45 per share under the terms of the Common Stock Purchase Agreement filed as an exhibit to the prospectus dated December 6, 1999. The per share average purchase prices reflect the average trading prices of the common stock over a period of time less a discount from 4.5% to 5.875%.



ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

- 3.1 Amended and Restated Certificate of Incorporation.(1)
- 3.2 Bylaws.(1)
- 3.3 Certificate of Designation of the Series A Convertible Preferred Stock.(2)
- 3.4 Certificate of Designation of the Series B Convertible Preferred Stock.(3)
- 4.1 Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4.
- 4.2 Specimen Common Stock Certificate.(1)
- 4.3 Specimen Series A Preferred Stock Certificate.
- 4.4 Specimen Series B Preferred Stock Certificate.
- 4.5 Purchase Agreement for 14% Senior Subordinated Discount Notes due November 1, 2001 and Warrants for Common Stock dated October 24, 1997 (with certain confidential information deleted).(4)
- 4.6 First Supplement to Purchase Agreement for 14% Senior Subordinated Discount Notes due November 1, 2001 and Warrants for Common Stock dated May 1, 1998 (with certain confidential information deleted).(5)
- 4.7 Registration Rights Agreement dated April 20, 1999 among Registrant, Elan International Services, Ltd., and Orasense, Ltd.(6)
- 4.8 Registration Rights Agreement dated January 14, 2000 among Registrant, Elan International Services, Ltd., and Hapasense, Ltd.(7)
- 4.9 Voting Rights Agreement among the Registrant, Novartis and Dr. Cooke, dated November 9, 1990.(1)
- 10.33 Agreement between Registrant and Agouron Pharmaceuticals dated June 9, 2000 (with certain confidential information deleted).\*
- 27.1 Financial Data Schedules\*

-----  
(1) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (No. 33-39640) or amendments thereto and incorporated herein by reference.

(2) Filed as an exhibit to the Registrant's Registration Statement on Form S-3 (No. 333-71911) or amendments thereto and incorporated herein by reference.

(3) Filed as an exhibit to the Registrant's 8-K dated as of January 8, 2000 and incorporated herein by reference.

(4) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997, and incorporated herein by reference.

(5) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference.

(6) Filed as an exhibit to the Registrant's report on Form 8-K dated April 20, 1999 and incorporated herein by reference.

(7) Filed as an exhibit to the Registrant's report on Form 8-K dated January 28, 2000 and incorporated herein by reference.

\* Previously filed.

b. Reports on Form 8-K

Not applicable

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: August 29, 2000

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By: /S/ B. LYNNE PARSHALL

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

FRONT

NUMBER

\*SHARES\*

INCORPORATED UNDER THE LAWS  
OF THE STATE OF DELAWARE  
On March 25, 1991

ISIS PHARMACEUTICALS, INC.  
Series A Convertible Preferred Stock, par value \$.001

THIS CERTIFIES THAT \_\_\_\_\_ is the record holder of  
\_\_\_\_\_ (\_\_\_\_\_) Shares of the Series  
A Convertible Preferred Stock, par value \$.001, of ISIS PHARMACEUTICALS, INC.  
transferable only on the books of the Corporation by the holder hereof, in  
person or by duly authorized attorney, upon surrender of this Certificate  
properly endorsed or assigned.

A statement of the rights, preferences, privileges and restrictions granted  
to or imposed upon the respective classes or series of shares of stock of the  
Corporation and upon holders thereof as established by the Certificate of  
Incorporation or by any Certificate of Designation of Preferences, and the  
number of shares constituting each series and the designations thereof, may  
be obtained by any stockholder upon request and without charge at the  
principal office of the Corporation.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be signed  
by its duly authorized officers this \_\_\_\_\_ day of \_\_\_\_\_,  
\_\_\_\_\_.

\_\_\_\_\_  
SECRETARY

\_\_\_\_\_  
PRESIDENT

BACK

FOR VALUE RECEIVED, \_\_\_\_\_ hereby sell, assign and transfer unto

\_\_\_\_\_ Shares of the Preferred Stock of the within named Corporation, represented by the within Certificate and do hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney to transfer the said shares of said Preferred Stock on the books of the said Corporation, pursuant to the provisions of the By-Laws thereof, with full powers of substitution in the premises.

Dated \_\_\_\_\_ A.D. \_\_\_\_\_

In Presence of:

\_\_\_\_\_

Notice: The signature to this assignment must strictly correspond with the name as written upon the face of the Certificate in every particular and without alteration or enlargement or any change whatever.

FRONT

NUMBER

\*SHARES\*

INCORPORATED UNDER THE LAWS  
OF THE STATE OF DELAWARE  
On March 25, 1991

ISIS PHARMACEUTICALS, INC.  
Series B Convertible Preferred Stock, par value \$.001

THIS CERTIFIES THAT \_\_\_\_\_ is the record holder of  
\_\_\_\_\_ (\_\_\_\_\_) Shares of the Series  
B Convertible Preferred Stock, par value \$.001, of ISIS PHARMACEUTICALS, INC.  
transferable only on the books of the Corporation by the holder hereof, in  
person or by duly authorized attorney, upon surrender of this Certificate  
properly endorsed or assigned.

A statement of the rights, preferences, privileges and restrictions granted  
to or imposed upon the respective classes or series of shares of stock of the  
Corporation and upon holders thereof as established by the Certificate of  
Incorporation or by any Certificate of Designation of Preferences, and the  
number of shares constituting each series and the designations thereof, may  
be obtained by any stockholder upon request and without charge at the  
principal office of the Corporation.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be signed  
by its duly authorized officers this \_\_\_\_\_ day of \_\_\_\_\_,  
\_\_\_\_\_.

\_\_\_\_\_  
SECRETARY

\_\_\_\_\_  
PRESIDENT

BACK

FOR VALUE RECEIVED, \_\_\_\_\_ hereby sell, assign and transfer unto

\_\_\_\_\_ Shares of the Preferred Stock of the within named Corporation, represented by the within Certificate and do hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney to transfer the said shares of said Preferred Stock on the books of the said Corporation, pursuant to the provisions of the By-Laws thereof, with full powers of substitution in the premises.

Dated \_\_\_\_\_ A.D. \_\_\_\_\_

In Presence of:

\_\_\_\_\_

Notice: The signature to this assignment must strictly correspond with the name as written upon the face of the Certificate in every particular and without alteration or enlargement or any change whatever.