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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2002

OR

o **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: 0-19311

IDEC PHARMACEUTICALS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**33-0112644**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3030 Callan Road, San Diego, CA 92121
(Address of principal executive offices) (Zip code)

(858) 431-8500
(Registrant's telephone number, including area code)

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.
Yes ☒ No o

As of October 31, 2002 the Registrant had 153,032,752 shares of its common stock, $.0005 par value, issued and outstanding.

IDEC PHARMACEUTICALS CORPORATION

FORM 10-Q—QUARTERLY REPORT
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

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IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Revenues:				
Product sales	$ 4,958	$ —	$ 8,258	$ —
Revenues from unconsolidated joint business	98,613	68,525	269,250	175,155
Corporate partner revenues	127	1,090	3,062	15,847
Total revenues	103,698	69,615	280,570	191,002
Operating costs and expenses:				
Cost of sales	232	—	1,121	—
Research and development	25,367	20,751	67,596	63,912
Selling, general and administrative	23,798	12,991	65,865	36,125
Total operating costs and expenses	49,397	33,742	134,582	100,037
Income from operations	54,301	35,783	145,988	90,965
Interest income, net	4,838	6,977	13,237	24,957
Income before income tax provision	59,139	42,850	159,225	115,922
Income tax provision	20,699	15,893	55,729	43,005
Net income	$ 38,440	$ 26,957	$ 103,496	$ 72,917
Earnings per share:				
Basic	$ 0.25	$ 0.18	$ 0.68	$ 0.49
Diluted	$ 0.22	$ 0.16	$ 0.60	$ 0.42
Shares used in calculation of earnings per share:				
Basic	152,679	152,061	152,977	150,142
Diluted	178,362	167,394	180,096	181,278

See accompanying notes to the condensed consolidated financial statements.

IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

	September 30, 2002	December 31, 2001
	(unaudited)	

ASSETS		
Current assets:		
Cash and cash equivalents	$ 402,765	$ 425,999
Securities available-for-sale	544,609	197,824
Accounts receivable	16,555	6,198
Due from related parties, net	84,688	67,651
Inventories	23,708	524
Prepaid expenses and other current assets	4,655	1,847
Total current assets	1,076,980	700,043
Long-term securities available-for-sale	507,289	242,784
Property and equipment, net	202,817	108,588
Deferred tax assets, net	60,522	67,044
Restricted cash	22,500	5,002
Other assets	39,324	9,267
	$ 1,909,432	$ 1,132,728
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,059	$ 3,866
Accrued expenses	41,743	27,616
Deferred revenue	1,600	3,807
Total current liabilities	47,402	35,289
Notes payable	861,185	135,977
Deferred rent	3,162	2,853
Other long-term liabilities	4,747	2,130
Total liabilities	916,496	176,249
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, $.001 par value	—	—
Common stock, $.0005 par value	77	76
Additional paid-in capital	905,886	840,232
Accumulated other comprehensive income	3,391	1,085
Retained earnings	218,582	115,086
	1,127,936	956,479
Less treasury stock, at cost	135,000	—
Total stockholders' equity	992,936	956,479
	$ 1,909,432	$ 1,132,728

See accompanying notes to the condensed consolidated financial statements.

IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine months ended September 30,	
	2002	**2001**
Cash flows from operating activities:		
Net income	$ 103,496	$ 72,917
Depreciation and amortization	7,286	4,437
Non-cash interest expense	17,749	3,735
Deferred rent	309	100

Deferred revenue	(2,207)	(4,144)
Deferred income taxes	54,807	44,017
Gain on sales of securities available-for-sale	(1,969)	(813)
Change in assets and liabilities:		
Accounts receivable	(10,357)	1,927
Due from related parties, net	(17,037)	(20,711)
Inventories	(23,184)	(230)
Prepaid expenses and other assets	(14,844)	(1,658)
Restricted cash	(17,498)	—
Accounts payable and accrued expenses	15,878	3,160
Other long-term liabilities	791	522
Net cash provided by operating activities	113,220	103,259
Cash flows from investing activities:		
Purchases of property and equipment	(101,515)	(49,903)
Purchases of securities available-for-sale	(1,164,667)	(470,536)
Sales and maturities of securities available-for-sale	552,321	433,688
Net cash used in investing activities	(713,861)	(86,751)
Cash flows from financing activities:		
Payments on notes payable	—	(743)
Proceeds from notes payable, net of issuance costs	696,004	—
Proceeds from issuance of common stock	16,403	24,110
Purchase of common stock for treasury	(135,000)	—
Net cash provided by financing activities	577,407	23,367
Net (decrease) increase in cash and cash equivalents	(23,234)	39,875
Cash and cash equivalents, beginning of period	425,999	401,052
Cash and cash equivalents, end of period	$ 402,765	$ 440,927

See accompanying notes to the condensed consolidated financial statements.

IDEC PHARMACEUTICALS CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data, percentages and unless as otherwise noted)

(Unaudited)

Note 1. Summary of Significant Accounting Policies

General: The condensed consolidated financial statements as of September 30, 2002, and for the three and nine months ended September 30, 2002 and 2001 are unaudited. We have condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States of America. We believe the disclosures made are adequate to make the information presented not misleading. However, you should read these condensed consolidated financial statements in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2001.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Ultimate results could differ from those estimates. Interim results are not necessarily indicative of results for a full year or for any subsequent interim period.

In the opinion of management, these condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results for the interim periods presented. Certain amounts in 2001 have been reclassified to conform to the 2002 presentation.

Product Sales: Product sales consist solely of sales of ZEVALIN®, our radioimmunotherapy product which was approved by the FDA for the treatment of certain B-cell non-Hodgkin's lymphomas, or NHLs, in February 2002. We have retained all United States marketing and distribution rights to ZEVALIN and have granted marketing and distribution rights outside the United States to Schering Aktiengesellschaft, or Schering AG. We recognize revenue from ZEVALIN product sales upon shipment. We record allowances for estimated uncollectible accounts receivable, product returns and Medicaid rebates at the time of sale.

Note 2. Revenues from Unconsolidated Joint Business

In March 1995, we entered into a collaborative agreement for the clinical development and commercialization of our anti-CD20 monoclonal antibody, Rituxan, for the treatment of certain B-cell NHLs with Genentech, Inc., or Genentech. Concurrent with the collaborative agreement we also entered into an expression technology license agreement with Genentech for a proprietary gene expression technology developed by us, and a preferred stock purchase agreement providing for certain equity investments in us by Genentech. Under the terms of these agreements, we will be reimbursed by Genentech for certain other development and regulatory approval expenses. Genentech may terminate this agreement for any reason, which would result in a loss of Genentech's Rituxan product rights.

In addition, we are copromoting Rituxan in the United States with Genentech under a joint business arrangement whereby we receive a share of the pretax copromotion profits. In September 1999, we transferred all worldwide manufacturing responsibilities for bulk Rituxan to Genentech.

Under the terms of separate agreements with Genentech, commercialization of Rituxan outside the United States is the responsibility of F. Hoffman-La Roche Ltd., or Roche, except in Japan where Roche continues development and copromotes Rituxan in collaboration with Zenyaku Kogyo Co. Ltd. We receive royalties on Rituxan sales outside the United States.

Revenues from unconsolidated joint business for the three and nine months ended September 30, 2002 and 2001 consist of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Copromotion profits	$ 82,924	$ 62,836	$ 226,060	$ 159,034
Reimbursement of selling and development expenses	3,863	1,953	11,247	6,453
Royalty income on sales of Rituxan outside the United States	11,826	3,736	31,943	9,668
Total revenues from unconsolidated joint business	$ 98,613	$ 68,525	$ 269,250	$ 175,155

Amounts due from related parties, net at September 30, 2002 and December 31, 2001 primarily consist of amounts due from Genentech under our joint business arrangement.

Note 3. Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market. Inventories consist of the following:

	September 30, 2002	December 31, 2001
Raw materials	$ 242	$ 524
Work in process	23,294	—
Finished goods	172	—
	$ 23,708	$ 524

Pre-launch production of ZEVALIN antibodies manufactured prior to FDA approval in February 2002 were recognized as research and development expenses.

Note 4. Earnings Per Share

Earnings per share is calculated in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share." Basic earnings per share utilizes net income and excludes the dilutive effects of stock options and other convertible securities. Diluted earnings per share utilizes net income adjusted for the after-tax amount of interest associated with convertible debt, and includes the potential dilutive effects of stock options and other convertible securities that could share in our earnings.

Calculations of basic and diluted earnings per share use the weighted-average number of shares outstanding during the period.

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Numerator:				
Net income	$ 38,440	$ 26,957	$ 103,496	$ 72,917

Adjustments for interest, net of income tax effect	1,255	—	3,732	3,434
Net income, adjusted	$ 39,695	$ 26,957	$ 107,228	$ 76,351
Denominator:				
Weighted-average common shares outstanding	152,679	152,061	152,977	150,142
Effect of dilutive securities:				
Stock options	8,867	12,452	10,301	13,670
Convertible preferred stock	2,881	2,881	2,881	3,527
Convertible promissory notes due 2019	13,935	—	13,937	13,939
Dilutive potential common shares	25,683	15,333	27,119	31,136
Weighted-average common shares and dilutive potential common shares	178,362	167,394	180,096	181,278
Basic earnings per share	$ 0.25	$ 0.18	$ 0.68	$ 0.49
Diluted earnings per share	$ 0.22	$ 0.16	$ 0.60	$ 0.42

Excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2002 were 8.7 million shares and 5.0 million shares, respectively, of common stock from the assumed conversion of our 30-year senior convertible promissory notes due 2032, and options to acquire 8.6 million shares and 5.3 million shares, respectively, of common stock because their effect would be antidilutive.

Excluded from the calculation of diluted earnings per share for the three months ended September 30, 2001 were 13.9 million shares of common stock from the assumed conversion of our subordinated convertible promissory notes due 2019, and options to acquire 2.9 million shares of common stock because their effect would be antidilutive. Excluded from the calculation of diluted earnings per share for the nine months ended September 30, 2001 were options to acquire 2.4 million shares of common stock because their effect would be antidilutive.

Note 5. Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes certain changes in stockholders' equity that are excluded from net income, specifically, unrealized holding gains and losses on securities available-for-sale, net of tax. Total comprehensive income for the three months ended September 30, 2002 and 2001 was $40.2 million and $28.0 million, respectively. Total comprehensive income for the nine months ended September 30, 2002 and 2001 was $105.8 million and $74.3 million, respectively.

Note 6. Segment Information

We operate in one segment, which is the research, development, manufacture and commercialization of targeted therapies for the treatment of cancer and autoimmune and inflammatory diseases. The chief operating decision-makers review our operating results on an aggregate basis and manage our operations as a single operating segment.

Note 7. Notes Payable

In April and May 2002, we issued 30-year senior convertible promissory notes, or senior notes, for gross proceeds of approximately $714.4 million, or $696.0 million net of underwriting commissions and expenses of $18.4 million. Simultaneously with the issuance of the senior notes, we used a portion of the proceeds to fund the repurchase of $135.0 million of our outstanding common stock. The senior notes are zero coupon and were priced with a yield to maturity of 1.75% annually. We will pay contingent cash interest to the holders of these senior notes during any six-month period commencing on or after April 30, 2007 if the average market price of the senior notes for a five-trading-day measurement period preceding such six-month period equals 120% or more of the sum of the issue price and accrued original issue discount for such senior note. The contingent interest payable per senior note in respect of any quarterly period within such six-month period where contingent interest is determined to be payable will equal the greater of (1) the amount of regular cash dividends paid by us per share on our common stock during that quarterly period multiplied by the then applicable conversion rate or (2) 0.0625% of the average market price of a senior note for the five-trading-day measurement period preceding such six-month period, provided that if we do not pay regular cash dividends during a semiannual period, we will pay contingent interest semiannually at a rate of 0.125% of the average market price of a senior note for the five-trading-day measurement period immediately preceding such six-month period.

Upon maturity, the senior notes will have an aggregate principal face value of $1.2 billion. Each $1,000 aggregate principal face value senior note is convertible at the holder's option at any time through maturity into 7.1881 shares of our common stock at an initial conversion price of $82.49. In addition, holders of the senior notes may require us to purchase all or a portion of the senior notes on April 29, 2005, 2007, 2012 and 2017 at a price equal to the issue price plus the accrued original issue discount to the date of purchase, payable at our option in cash, our common stock or a combination thereof. In addition, if a change in control in our company occurs on or before April 29, 2007, holders may require us to purchase all or a portion of their senior notes for cash. We have the right to redeem all or a portion of the senior notes for cash at any time on or after April 29, 2007 at set prices.

Note 8. Contingencies

On September 10, 2001, we filed a complaint against GlaxoSmithKline, plc, or Glaxo, and another complaint against Corixa Corporation, or Corixa, Coulter Pharmaceutical, Inc., or Coulter, and the Regents of the University of Michigan, in federal court for the Southern District of California. We are seeking declaratory judgment that ZEVALIN does not infringe patents held by the defendants and/or that the patents are invalid. On September 12, 2001, Corixa, Coulter and Glaxo filed a lawsuit against us in federal court in the district of Delaware alleging that ZEVALIN infringes their patents. This action has been transferred to the federal court for the Southern District of California and has been

consolidated with our lawsuit. Corixa's lawsuit against us seeks damages and to permanently enjoin us from selling ZEVALIN.

In addition, we are involved in certain other legal proceedings generally incidental to our normal business activities, which we believe will not have a material adverse effect on our business or financial condition.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

We are primarily engaged in the research, development, manufacture and commercialization of targeted therapies for the treatment of cancer and autoimmune and inflammatory diseases.

In February 2002, ZEVALIN became the first radioimmunotherapy approved by the Food and Drug Administration, or FDA, for the treatment of certain B-cell NHLs. We have retained all United States marketing and distribution rights to ZEVALIN and have granted marketing and distribution rights outside the United States to Schering AG. In July 2002, we announced that marketing approval in Europe and European launch of ZEVALIN would be delayed. In October 2002, the Centers for Medicare and Medicaid Services, or CMS, informed us that the previously assigned C-codes and billing rate for the ZEVALIN therapeutic regimen became effective on October 1, 2002. In November 2002, CMS assigned a fixed reimbursement rate under which they will reimburse hospitals for the ZEVALIN therapeutic regimen for 2003.

Our other product, Rituxan, is being copromoted in the United States under a joint business arrangement with Genentech, where we receive a share of the pretax copromotion profits. Under the copromotion arrangement we share responsibility with Genentech for selling and continued development of Rituxan in the United States. Continued development of Rituxan includes conducting supportive research on Rituxan, post-approval clinical studies and obtaining approval of Rituxan for potential additional indications. Genentech provides the support functions for the commercialization of Rituxan in the United States including marketing, customer service, order entry, distribution, shipping and billing. Since September 1999, Genentech has been responsible for all worldwide manufacturing. Under the terms of separate agreements with Genentech, commercialization of Rituxan outside the United States is the responsibility of Roche, except in Japan where Roche continues development and copromotes Rituxan in collaboration with Zenyaku. We receive royalties on Rituxan sales outside the United States.

Our revenues include revenues from product sales of ZEVALIN, unconsolidated joint business revenues and corporate partner revenues. Until the commercialization of Rituxan, a substantial portion of our revenues had been derived from corporate partner revenues. However, since the commercialization of Rituxan in November 1997, our revenues have depended primarily upon the sale of Rituxan.

We have incurred increasing annual operating expenses and with the commercialization of Rituxan and ZEVALIN, we expect these trends to continue. From our inception in 1985, through 1997, we incurred annual operating losses. Our ongoing profitability will be dependent upon the continued commercial success of Rituxan, the commercial success of ZEVALIN, product development and

revenues from the achievement of product development objectives and licensing transactions. As of September 30, 2002, we had retained earnings of $218.6 million.

CRITICAL ACCOUNTING PRINCIPLES AND ESTIMATES

The preparation of our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On a periodic basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, inventory allowances, accounting for income taxes including the related valuation allowance, accruals for compensation and related benefits, and contingencies and litigation. These estimates are based on the information that is currently available and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

We have identified the following critical accounting policies that affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements.

Revenue recognition: Revenues from unconsolidated joint business include our share of the pretax copromotion profits generated from our copromotion arrangement with Genentech, reimbursement from Genentech of our Rituxan-related sales force and development expenses and royalty revenue from Roche and Zenyaku on sales of Rituxan outside the United States. We record our royalty revenue from Roche and Zenyaku with a one-quarter lag. Under the copromotion arrangement, all U.S. sales of Rituxan and associated costs and expenses are recognized by Genentech and we record our share of the pretax copromotion profits on a quarterly basis, as defined in our collaborative agreement with Genentech. Pretax copromotion profits under the copromotion arrangement are derived by taking United States net sales of Rituxan to third-party customers less cost of sales, third-party royalty expenses, distribution, selling and marketing expenses and joint development expenses incurred by Genentech and us. Our profit-sharing formula with Genentech has two tiers; we earn a higher percentage of the pretax copromotion profits at the upper tier once a fixed pretax copromotion profit level is met. The profit-sharing formula resets annually at the beginning of each year to the lower tier. We began recording our profit share at the higher percentage during the first quarter of 2002 and 2001.

Corporate partner revenues consist of contract revenues and license fees. Contract revenues include nonrefundable research and development funding under collaborative agreements with our corporate partners and other funding under contractual arrangements with other parties. Contract research and development funding generally compensates us for discovery, preclinical and clinical expenses related to our collaborative development programs for our products and is recognized as research and development activities are performed under the terms of the collaborative agreements.

License fees includes nonrefundable fees from the sale of product rights and nonrefundable fees from product development milestone payments under collaborative development and license agreements with our corporate partners. Nonrefundable up-front fees from the sale of product rights are recorded as deferred revenue upon receipt and recognized as revenue over future periods as required by Securities and Exchange Commission's Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," or SAB No. 101. Nonrefundable product development milestone

payments are recognized upon the achievement of product development milestone objectives as stipulated in agreements with our corporate partners. Product development milestone objectives vary in each of our agreements. The achievement of product development milestone objectives that may lead to the recognition of license fee revenues include:

- the achievement of preclinical research and development objectives;
- the initiation of various phases of clinical trials;
- the filing of an Investigational New Drug application, or IND, Biological License Application, or BLA, or New Drug Application, or NDA;
- the filing of drug license applications in foreign territories; and
- obtaining United States or foreign regulatory product approvals.

We recognize revenue from ZEVALIN product sales upon shipment. We record allowances for estimated uncollectible accounts receivable, product returns and Medicaid rebates at the time of sale.

Accounting for income taxes: As part of the process of preparing our condensed consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our condensed consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we may include an expense within the income tax provision in the statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have recorded a valuation allowance of $66.5 million and $70.7 million, respectively, as of September 30, 2002 and December 31, 2002 due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating loss carryforwards, before they expire. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. Our estimates of taxable income are derived from, among other items, our estimates of deductions related to stock options. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to adjust our valuation allowance which could materially impact our financial position and results of operations. Our net deferred tax asset as of September 30, 2002 and December 31, 2001 was $60.5 million and $67.0 million, respectively, net of the valuation allowance.

RECENT DEVELOPMENTS

On September 5, 2002, we announced the completion of a preliminary review of the clinical results of our two Phase II clinical trials of IDEC-114 for patients with moderate-to-severe psoriasis, and that the data did not support further development in this indication. We continue to develop IDEC-114 in non-Hodgkin's lymphoma.

On September 30, 2002, we announced the retirement of Phillip M. Schneider, Senior Vice Presdient and Chief Financial Officer, to pursue personal and community interests.

RESULTS OF OPERATIONS

Revenues from unconsolidated joint business for the three and nine months ended September 30, 2002 and 2001, consist of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Copromotion profits	$ 82,924	$ 62,836	$ 226,060	$ 159,034
Reimbursement of selling and development expenses	3,863	1,953	11,247	6,453
Royalty income on sales of Rituxan outside the United States	11,826	3,736	31,943	9,668
Total revenues from unconsolidated joint business	$ 98,613	$ 68,525	$ 269,250	$ 175,155

Under our agreement with Genentech, our pretax copromotion profit-sharing formula has two tiers. We earn a higher percentage of the pretax copromotion profits at the upper tier once a fixed pretax copromotion profit level is met. The profit-sharing formula resets annually at the beginning of each year to the lower

tier. We began recording our profit share at the higher percentage during the first quarter of 2002 and 2001.

Rituxan net sales to third-party customers in the United States recorded by Genentech for the three and nine months ended September 30, 2002 amounted to $269.6 million and $762.0 million, respectively, compared to $205.0 million and $553.0 million for the comparable periods in 2001. This increase was primarily due to increased market penetration in treatments of B-cell non-Hodgkin's lymphoma and an increase in the wholesale price of Rituxan effective on March 1, 2002.

Our royalty revenue on sales of Rituxan outside the United States is based on Roche and Zenyaku's end-user sales and is recorded with a one-quarter lag. For the three and nine months ended September 30, 2002, we recognized $11.8 million and $31.9 million, respectively, in royalties from Roche and Zenyaku's end-users sales compared to $3.7 million and $9.7 million for the comparable periods in 2001. The increase in royalty revenue for the three months and nine months ended September 30, 2002 is primarily due to higher sales of Rituxan outside the United States resulting from increased penetration of foreign markets, including initial sales of Rituxan in Canada and Japan.

Corporate partner revenues for the three months ended September 30, 2002 totaled $0.1 million compared to $1.1 million for the comparable period in 2001. The decrease in corporate partner revenues for the three months ended September 30, 2002 is primarily the result of decreased funding under our collaborative agreements with Eisai Co., Ltd. and Schering AG and termination of our collaborative agreement with Taisho Pharmaceuticals Co. Ltd. of Tokyo. Corporate partner revenues for the nine months ended September 30, 2002 totaled $3.1 million compared to $15.8 million for the comparable period in 2001. The decrease in corporate partner revenues for the nine months ended September 30, 2002 is primarily the result of decreased funding under our collaborative agreements

with Taisho, Eisai and Schering AG, and, during the nine months ended September 30, 2001, the recognition of a $5.0 million milestone payment from Schering AG when the European Medicines Evaluation Agency accepted for filing the submission of a Marketing Authorization, or MAA, for the approval of ZEVALIN in Europe, and $1.6 million in upfront license fees received from Schering AG in 1999 resulting from our adoption of SAB No. 101.

Corporate partner revenues may vary from period to period and are, in part, dependent upon achievement of certain research and development objectives or the consummation of new corporate alliances. The magnitude and timing of corporate partner revenues may influence our level of profitability. For example, the delay in ZEVALIN approval in Europe will result in a delay in the payment and recognition of a $10.0 million product approval milestone from Schering AG.

Product sales were $5.0 million and $8.3 million, respectively, for the three and nine months ended September 30, 2002 and consist solely of net sales of ZEVALIN in the United States. We have retained all United States marketing and distribution rights for ZEVALIN. Cost of sales as a percentage of product sales was 5% and 14%, respectively, for the three and nine months ended September 30, 2002 and primarily consists of contractual royalties owed on ZEVALIN sales and manufacturing variances. Pre-launch production of ZEVALIN antibodies manufactured prior to FDA approval in February 2002 were recognized as research and development expenses. ZEVALIN sales to date have solely consisted of ZEVALIN antibodies produced prior to FDA approval in February 2002. Had pre-launch production of ZEVALIN antibodies been capitalized as inventory, cost of sales as a percentage of product sales for the three and nine months ended September 30, 2002 would have been approximately 8% and 17%, respectively.

Research and development expenses totaled $25.4 million and $67.6 million for the three and nine months ended September 30, 2002, respectively, compared to $20.8 million and $63.9 million for the comparable periods in 2001. The increase in research and development expenses for the three and nine months ended September 30, 2002 is primarily due to upfront fees totaling $4.5 million incurred under new collaborations, increased personnel expenses and expansion of our facilities to support our ongoing basic research and clinical development programs, offset by capitalization of manufacturing costs for the production of commercial inventory of ZEVALIN antibodies and decreased clinical testing and development costs for ZEVALIN as a result of the FDA's approval of ZEVALIN. In the future we expect to continue incurring substantial additional research and development expenses due to:

- preclinical and clinical testing of our various products under development;
- the expansion or addition of research and development programs;
- technology in-licensing;
- regulatory-related expenses;
- the expansion of clinical manufacturing capabilities; and
- facilities expansion.

Selling, general and administrative expenses totaled $23.8 million and $65.9 million for the three and nine months ended September 30, 2002, respectively, compared to $13.0 million and $36.1 million for the comparable periods in 2001. This increase is primarily due to increased marketing and administrative expenses related to the commercialization of ZEVALIN, sales expenses to support the

commercialization of Rituxan, legal settlement costs and outside legal counsel fees to protect our intellectual property rights for ZEVALIN and general increases in general and administrative expenses to support overall organizational growth. Selling, general and administrative expenses are expected to increase in the foreseeable future to support the following:

- marketing and administration related to the commercialization of ZEVALIN;
- manufacturing capacity expansion;

- clinical trials;
- research and development; and
- protection and enforcement of our intellectual property rights for ZEVALIN and our product candidates.

Interest income totaled $9.9 million and $24.3 million for the three and nine months ended September 30, 2002, respectively, compared to $8.8 million and $30.5 million for the comparable periods in 2001. The increase in interest income for the three months ended September 30, 2002 is primarily due to higher cash balances from the issuance of our senior notes in April 2002. The decrease in interest income for the nine months ended September 30, 2002 is primarily due to lower interest rates realized on our cash, cash equivalents and securities available-for-sale partially offset by higher cash balances from the issuance of our senior notes in April 2002.

Interest expense totaled $5.1 million and $11.1 million for the three and nine months ended September 30, 2002, respectively, compared to $1.8 million and $5.5 million for the comparable periods in 2001. This increase is primarily due to additional non-cash interest expense from our senior notes issued in April 2002.

Our effective tax rate for the three and nine months ended September 30, 2002 was approximately thirty-five percent compared to approximately thirty-seven percent for the comparable periods in 2001. This decrease in our effective tax rate in 2002 is primarily due to an increase in our research and experimentation credits and orphan drug credit. Our net operating loss carryforwards available to offset future taxable income at December 31, 2001 were approximately $174.0 million for federal income tax purposes and begin to expire in 2009. The utilization of our net operating loss carryforwards and tax credits may be subject to an annual limitation under the Internal Revenue Code due to a cumulative change of ownership of more than 50% in prior years. However, we anticipate this annual limitation to result only in a slight deferral in the utilization of our net operating loss carryforwards and tax credits. We expect that our effective tax rate in the future will continue to approximate the maximum statutory tax rate.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operating and capital expenditures since inception principally through the sales of equity securities, profits from our copromotion arrangement with Genentech related to the sale of Rituxan, corporate partner revenues, lease financing transactions, debt financing transactions and interest income. We expect to finance our current and planned operating requirements principally through cash on hand, which includes proceeds from the April 2002 issuance of our senior notes, anticipated funds from our copromotion arrangement with Genentech, commercial sales of ZEVALIN

and with funds from existing collaborative agreements and contracts. We believe that these funds will be sufficient to meet our operating requirements for the foreseeable future. Existing collaborative research agreements and contracts, however, could be canceled by the contracting parties. In addition, we may from time to time seek additional funding through a combination of new collaborative agreements, strategic alliances and additional equity and debt financings or from other sources. Additional funds may not be obtainable through these sources on acceptable terms, if at all. If adequate funds are not obtainable from the copromotion arrangement, operations or additional sources of financing, our business could be harmed. Our working capital and capital requirements will depend upon numerous factors, including:

- the continued commercial success of Rituxan;
- the commercial success of ZEVALIN;
- timing and expense of obtaining regulatory approvals;
- funding and timing of payments related to several material capital projects;
- financing alternatives available for the construction of our large-scale manufacturing facilities and corporate headquarters and research and development campus;
- the progress of our preclinical and clinical testing;
- fluctuating or increasing manufacturing requirements and research and development programs;
- levels of resources that we devote to the development of manufacturing, sales and marketing capabilities, including resources devoted to the marketing of ZEVALIN;
- technological advances;
- status of competitors;
- our ability to establish collaborative arrangements with other organizations; and
- working capital required to satisfy the put options related to our senior notes.

Until required for operations, we invest our cash reserves in bank deposits, certificates of deposit, commercial paper, corporate notes, foreign and United States government instruments and other readily marketable debt instruments in accordance with our investment policy.

At September 30, 2002, we had $1.5 billion in cash, cash equivalents and securities available-for-sale compared to $866.6 million at December 31, 2001. Sources of cash during the nine months ended September 30, 2002, included $696.0 million from the issuance of our senior notes, $113.2 million from operations and $16.4 million from the issuance of common stock under employee stock option and purchase plans. Uses of cash during the nine months ended September 30,

2002 included the net increase in our securities available-for-sale portfolio of $612.3 million, $135.0 million for the repurchase of our common stock for treasury and $101.5 million to fund construction projects and purchase capital equipment.

In April and May 2002, we raised through the issuance of our senior notes, approximately $696.0 million, net of underwriting commissions and expenses of $18.4 million. Simultaneously with the issuance of the senior notes, we used a portion of the proceeds to fund the repurchase of

$135.0 million of our outstanding common stock. The senior notes are zero coupon and were priced with a yield to maturity of 1.75% annually. We will pay contingent cash interest to the holders of these senior notes during any nine-month period commencing on or after April 30, 2007 if the average market price of the senior notes for a five-trading-day measurement period preceding such nine-month period equals 120% or more of the sum of the issue price and accrued original issue discount for such senior note. The contingent interest payable per senior note in respect of any quarterly period within such nine-month period where contingent interest is determined to be payable will equal the greater of (1) the amount of regular cash dividends paid by us per share on our common stock during that quarterly period multiplied by the then applicable conversion rate or (2) 0.0625% of the average market price of a senior note for the five-trading-day measurement period preceding such nine-month period, provided that if we do not pay regular cash dividends during a semiannual period, we will pay contingent interest semiannually at a rate of 0.125% of the average market price of a senior note for the five-trading-day measurement period immediately preceding such nine-month period.

Upon maturity, the senior notes will have an aggregate principal face value of $1.2 billion. Each $1,000 aggregate principal face value senior note is convertible at the holder's option at any time through maturity into 7.1881 shares of our common stock at an initial conversion price of $82.49. In addition, holders of the senior notes may require us to purchase all or a portion of the senior notes on April 29, 2005, 2007, 2012 and 2017 at a price equal to the issue price plus the accrued original issue discount to the date of purchase, payable at our option in cash, our common stock or a combination thereof. In addition, if a change in control in our company occurs on or before April 29, 2007, holders may require us to purchase all or a portion of their senior notes for cash. We have the right to redeem all or a portion of the senior notes for cash at any time on or after April 29, 2007 at set prices.

Under the terms of our agreement with MDS Canada, Inc., we are obligated to make periodic payments into an escrow account. These funds secure certain obligations we have under our agreement regarding minimum annual purchases and MDS Canada, Inc.'s establishment of a new facility to supply us with Yttrium-90. In general, our required escrow deposits will decrease over time if certain Yttrium-90 minimum annual purchase commitments are met. As of September 30, 2002, we have paid $22.5 million into this escrow fund.

In September 2001, we purchased approximately 42.6 acres in San Diego for approximately $31.7 million in cash for a proposed corporate headquarters and research and development campus. The first phase of construction is expected to be completed in mid 2004 at an estimated total cost of $177 million to be funded from our working capital. As of September 30, 2002, we have invested approximately $4.6 million towards the construction of this campus.

In April 2001, we purchased a 43,000 square foot facility in Oceanside to house our future clinical manufacturing area. Construction is expected to be completed in the fourth quarter of 2002 at an estimated total cost of $57 million to be funded from our working capital. As of September 30, 2002, we have invested approximately $34.0 million towards construction of this clinical manufacturing facility.

In September 2000, we purchased a 60-acre site in Oceanside for approximately $18.9 million in cash. We plan to build a large-scale manufacturing facility at the location, which we anticipate using to commercialize our products currently in clinical trials if they are approved by the FDA. This expansion will allow us to better control the manufacture of our products, reducing our reliance on contract

manufacturers, as well as to reduce commercial risk. We expect the first phase of the new facility to be mechanically completed in 2004, followed by commissioning and validation in 2005 and 2006. Estimated total costs of this facility upon completion are $400 million to be funded from our working capital. As of September 30, 2002, we have invested approximately $58.7 million towards the construction of this large-scale manufacturing facility.

In February 1999, we raised through the sale of convertible promissory notes approximately $112.7 million, net of underwriting commissions and expenses of $3.9 million. The convertible promissory notes are zero coupons and were priced with a yield to maturity of 5.5 percent annually. Upon maturity, the convertible promissory notes will have an aggregate principal face value of $345.0 million. Each $1,000 aggregate principal face value convertible promissory note is convertible at the holders' option at any time through maturity into 40.404 shares of our common stock at an initial conversion price of $8.36. We are required under the terms of the convertible promissory notes, as of 35 business days after a change in control occurring on or before February 16, 2004, to purchase any convertible promissory note at the option of its holder at a price equal to the issue price plus accrued original issue discount to the date of purchase. Additionally, the holders of the convertible promissory notes may require us to purchase the convertible promissory notes on February 16, 2004, 2009 or 2014 at a price equal to the issue price plus accrued original issue discount to the date of purchase payable at our option in cash, our common stock or a combination thereof. We have the right to redeem the convertible promissory notes on or after February 16, 2004.

In connection with our research and development efforts, we have entered into various collaborative arrangements under which we may be obligated to pay royalties or milestone payments if product development is successful. It is not anticipated that the aggregate of any royalty or milestone obligations under these arrangements will be material to our operations.

FORWARD-LOOKING INFORMATION AND RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

This Form 10-Q contains forward-looking statements based on our current expectations. These statements include, without limitation, statements about market opportunity, our growth and sale strategies and our expectations, plans and objectives. In some cases, you can identify these statements by terminology

such as anticipate, believe, estimate, expect, intend, may, plan, should or will or similar phrases or expressions. You should be aware that these statements are projections or estimates as to future events, and actual results may differ materially.

In addition to the other information contained in this Form 10-Q, you should consider the following risk factors which could affect our actual future results and could harm our business, financial condition and results of operations. The risks and uncertainties described below are not the only risks facing us and additional risks and uncertainties may also harm our business.

Our Revenues Rely Significantly on Rituxan Sales.

Our revenues currently depend substantially upon continued sales of Rituxan. For the year ended December 31, 2001, approximately 92 percent of our revenues were derived from our Rituxan copromotion arrangement with Genentech. For the nine-months ended September 30, 2002, 96 percent of our revenues were derived from our Rituxan copromotion arrangement with Genentech. We cannot assure you that Rituxan will continue to be accepted in the United States or in any foreign markets or that Rituxan sales will continue to increase. A number of factors may affect the rate and level of market acceptance of Rituxan, including:

- the perception by physicians and other members of the healthcare community of its safety and efficacy or that of competing products, if any;
- the effectiveness of our and Genentech's sales and marketing efforts in the United States and the effectiveness of Roche's sales and marketing efforts outside the United States and Japan;
- unfavorable publicity concerning Rituxan or similar drugs;
- its price relative to other drugs or competing treatments;
- the availability and level of third-party reimbursement; and
- regulatory developments related to the manufacture or continued use of Rituxan.

Given our current reliance on Rituxan as the principal source of our revenue, any material adverse developments with respect to the commercialization of Rituxan may cause our revenue to decrease and may cause us to incur losses in the future.

If We Fail to Commercialize ZEVALIN Successfully in the United States, to Obtain Marketing Approval for ZEVALIN in Europe or to Commercialize ZEVALIN Successfully in Europe, Our Business Will Be Harmed.

Our radioimmunotherapy product ZEVALIN was approved by the FDA for marketing and sale in the United States in February 2002 and we began selling the product in April 2002. We cannot assure you that ZEVALIN will be accepted or widely used by physicians and other members of the healthcare

community in the United States. Further, marketing approval for ZEVALIN in Europe has been delayed due to compliance issues at our fill/finish provider and we cannot be certain that, even if marketing approval is obtained, our exclusive worldwide marketing partner, Schering AG, will be able to successfully commercialize ZEVALIN in Europe. Factors that might impact the successful commercialization of ZEVALIN include:

- the perception by physicians and other members of the healthcare community of its safety and efficacy or that of competing products, if any;
- unfavorable publicity concerning ZEVALIN or similar drugs;
- its price relative to other drugs or competing treatments;
- the availability and level of third-party reimbursement; and
- regulatory developments related to the manufacture or continued use of ZEVALIN.

In addition, we have no marketing support service experience and, therefore, we are dependent on outside contractors to meet those needs for ZEVALIN. For example, we rely upon a third-party logistics distributor to provide customer service, order entry, shipping and billing. Customer reimbursement assistance is provided by a separate outside contractor. We cannot assure that the integration of these marketing support services can be successfully coordinated. Further, given our limited marketing and sales experience, we cannot assure you that we will be successful in selling ZEVALIN in the United States.

We rely on MDS Canada, Inc. to provide the market with the Yttrium-90 radioisotope required for therapeutic use of ZEVALIN, and we rely on third parties for various manufacturing steps of ZEVALIN. In addition, there are currently only two sources approved by the FDA to supply the Indium-111 isotope required for the imaging use of ZEVALIN. If we were to lose the services of any of these parties, we would be forced to find other providers, which could delay our ability to sell ZEVALIN. In addition, each of these third-party providers is subject to continuing inspection by the FDA or comparable agencies in other jurisdictions. A delay or an interruption in the manufacture of ZEVALIN or the production of the Yttrium-90 radioisotope for any reason, including as a result of a failure to pass any regulatory agency inspection, or an impairment of the commercial availability of Indium-111, could significantly impair our ability to sell ZEVALIN.

We May Be Unable to Develop and Commercialize New Products.

Our future results of operations depend to a large extent upon our ability to successfully develop and commercialize new products in a timely and competitive manner. As a result, we must continue to develop, test and manufacture new products and then must meet regulatory standards and obtain regulatory approvals for any new products. Our products currently in development may not receive the regulatory approvals from the FDA or comparable agencies in other jurisdictions necessary for marketing in a timely manner, if at all. Failure to receive such approval would preclude us from marketing any such drugs in the United States or such other jurisdictions. Additionally, the development and commercialization process is time-consuming and costly, and we cannot assure you that any

of our products, if and when developed and approved, will be successfully commercialized or competitive in the marketplace. Delays or unanticipated costs in any part of the process or our inability to obtain regulatory approval for our products, to effectively commercialize our products, or to

maintain manufacturing facilities in compliance with all applicable regulatory requirements could harm our business.

We Have Limited Manufacturing Experience and Rely Heavily on Contract Manufacturers.

We rely heavily upon third-party manufacturers to manufacture significant portions of Rituxan, ZEVALIN and our product candidates. Our current manufacturing capacity is limited. Our manufacturing experience to date has been limited to the production of preclinical and clinical quantities of product candidates, approximately three years of commercial production of bulk Rituxan and portions of our commercial requirements of the bulk antibody for ZEVALIN. We have no fill/finish experience or capacity, and we do not have experience manufacturing in the field of chelates or radioisotopes, which are required for our production of ZEVALIN. Therefore, we rely entirely upon third parties for fill/finish services as well as the manufacture of most of our product components. Consequently, we cannot assure you that either our manufacturing facilities or our ability to sustain ongoing production of our products will be able to meet our expectations. If our current third-party manufacturers or service providers fail to meet our expectations, we may not be able to enter into satisfactory agreements with other third party manufacturers or service providers. Poor performance or coordination on our part or that of our third-party manufacturers or service providers could harm our business.

ZEVALIN has multiple components that require successful coordination among ourselves and several third-party contract manufacturers and suppliers. We may not be able to integrate and coordinate successfully our contract manufacturers and suppliers. In addition, our contract manufacturers and suppliers are required to maintain compliance with current Good Manufacturing Practices, or cGMP, and are subject to inspections by the FDA or comparable agencies in other jurisdictions to confirm this compliance. Any changes of suppliers or modifications of methods of manufacturing require amending our application to the FDA and ultimate amendment acceptance by the FDA prior to release of product to the market place. Their inability to demonstrate ongoing cGMP compliance and produce ZEVALIN components could interrupt commercial supply of ZEVALIN. For example, our current third-party manufacturer for ZEVALIN remains subject to a warning letter from the FDA with respect to cGMP matters not specifically related to ZEVALIN. A manufacturer subject to a warning letter that fails to correct cGMP deficiencies to the satisfaction of the FDA could be subject to interruption of production pending resolution of the cGMP issues. Further, we are working with our current third-party manufacturer to address issues related to the manufacture of commercial quantities of ZEVALIN. If ZEVALIN production was interrupted or our third-party manufacturer was unable to manufacture adequate commercial quantities of ZEVALIN in a timely manner, it could adversely affect our results of operations.

We rely on Genentech for all Rituxan manufacturing to meet worldwide requirements. We cannot ensure that Genentech will manufacture and fill/finish Rituxan in sufficient quantities and on a timely and cost-effective basis or that Genentech will obtain and maintain all required manufacturing approvals. Genentech's failure to manufacture and fill/finish Rituxan or obtain and maintain required manufacturing approvals could harm our business.

In addition, we converted our current manufacturing facility to a multi-product facility. From this facility, we have manufactured and will continue to manufacture our own commercial requirements of the bulk antibody and other kit components for ZEVALIN. We cannot assure you that our

manufacturing performance will meet our expectations. Our inability to maintain regulatory approval of our manufacturing facility for ZEVALIN would harm our ability to timely produce commercial supplies of the ZEVALIN antibody. To the extent we cannot produce our own biologics, we will need to rely on third-party manufacturers, of which there are only a limited number capable of manufacturing biologics products as contract suppliers. We cannot be certain that we could reach agreement on reasonable terms, if at all, with those manufacturers.

We Rely Heavily on a Limited Number of Suppliers.

Some materials used in Rituxan, ZEVALIN and our product candidates are currently available only from a single supplier or a limited number of suppliers. Some of these suppliers are subject to ongoing FDA approvals or other governmental regulations. Any interruption or delay in our supply of materials required to sell our products could harm our business if we were unable to obtain an alternative supplier for these materials in a cost-effective and timely manner. Additional factors that could cause interruptions or delays in our source of materials include limitations on the availability of raw materials or manufacturing performance experienced by our suppliers and a breakdown in our commercial relations with one or more suppliers. These factors may be completely out of our control.

For example, we have entered into an agreement with MDS Canada, Inc., the commercial supplier of the Yttrium-90 radioisotope for ZEVALIN, and will rely upon them to supply our clinical and commercial requirements. If MDS Canada, Inc. does not maintain FDA approvals or approvals of comparable agencies in other jurisdictions to produce the radioisotope Yttrium-90 for ZEVALIN, or if we are unable to receive an adequate supply of this radioisotope for any other reason, including those described above, we would be unable to sell ZEVALIN for therapeutic use unless we were to obtain a new supplier. We are aware of other entities that may be able to provide the radioisotope that we need for the therapeutic use of ZEVALIN but we believe that these suppliers would be required to apply for additional governmental approvals to do so. The process of establishing a relationship with another supplier and the process of obtaining the required governmental approvals would be time consuming and uncertain. We cannot assure you that we could reach an agreement with another supplier in a timely manner or on commercially reasonable terms, if at all. As a result of these concerns, if we were to lose our supply or were unable to receive sufficient quantities of the radioisotope from our sole supplier, our ability to sell ZEVALIN could be harmed which, in turn, could significantly harm our business.

We Have Limited Sales and Marketing Experience.

We have limited experience with commercial sales and marketing, based entirely upon our launch and subsequent sales of Rituxan. ZEVALIN is our first product to be marketed exclusively by us in the United States. Outside the United States, our strategy for future products is to pursue and to rely solely upon collaborations with established pharmaceutical companies for marketing, distribution and sale of our products. We currently have no plans to directly market either of our products outside the United States. Given that we rely on Genentech to copromote Rituxan with us in the United States and rely exclusively on third parties to market Rituxan and ZEVALIN outside the United States, we cannot be certain that our products will be marketed and distributed in accordance with our

expectations or that our market research or sales forecasts will be accurate. We have no marketing support service experience and, therefore, we will be dependent on outside contractors to meet those

needs. We rely upon a third-party logistics distributor to provide customer service, order entry, shipping and billing. Customer reimbursement assistance is provided by a separate outside contractor. We cannot assure you that the integration of these marketing support services can be successfully coordinated. Neither can we assure you that we will ever be able to develop our own marketing and sales capabilities to an extent that we would not need to rely on third-party efforts, or that we will be able to maintain satisfactory arrangements with the third parties on whom we rely.

Our Operating Results Are Subject to Significant Fluctuations.

Our quarterly revenues, expenses and operating results have fluctuated in the past and are likely to fluctuate significantly in the future. Fluctuation may result from a variety of factors, including:

- our achievement of product development objectives and milestones;
- demand and pricing for Rituxan and ZEVALIN;
- timing and nature of contract manufacturing and contract research and development payments and receipts;
- hospital and pharmacy buying decisions;
- clinical trial enrollment and expenses;
- research and development and manufacturing expenses;
- percent of time that our manufacturing facilities are utilized for commercial or clinical support;
- expenses related to protecting our intellectual property;
- physician acceptance of our products;
- government or private healthcare reimbursement policies;
- our manufacturing performance and capacity and that of our partners;
- amount and timing of sales orders for Rituxan by Genentech for customers in the United States and by Roche for customers outside the United States and Japan;
- amount and timing of our sales orders for ZEVALIN for customers in the United States and, if approved in Europe, by Schering AG for customers outside the United States;
- rate and success of product approvals;
- timing of regulatory approval, if any, of competitive products and the rate of market penetration of competing products;
- collaboration obligations and copromotion payments we make or receive;
- interest rate fluctuations;
- foreign currency exchange rates; and
- overall economic conditions.

Our operating results during any one quarter do not necessarily suggest the anticipated results of future quarters. These results fluctuate periodically because our revenues are driven by the occurrence of events, for example, the achievement of product development milestones and the applicable profit sharing allocations between us and our marketing partners Genentech and Schering AG.

We Are Subject to Uncertainties Regarding Healthcare Reimbursement and Reform.

Our ability to commercialize products depends in part on the extent to which patients are reimbursed by governmental agencies, private health insurers and other organizations, such as health maintenance organizations, for the cost of such products and related treatments. Our business could be harmed if healthcare payers and providers implement cost-containment measures and governmental agencies implement healthcare reform. In addition, we cannot assure you that current or any future level of Medicare reimbursement for our products will be viewed favorably by health care providers and that they will prescribe our products as a result. If health care providers are unable to receive reimbursement at a level that they deem to be sufficient, our results of operations could be adversely affected.

We Face Uncertain Results of Clinical Trials of Our Potential Products.

Our future success depends in large part upon the results of clinical trials designed to assess the safety and efficacy of our potential products. The completion rate of clinical trials depends significantly upon the rate of patient enrollment. Our inability to enroll patients on a timely basis could result in increased expenses and product development delays, which could harm our business. We cannot assure you that patients enrolled in our clinical trials will respond to our product candidates, that any product candidate will be safe and effective or that data derived from the trials will be suitable for submission to the FDA or satisfactorily support a BLA, sBLA or NDA. Factors that affect patient enrollment include:

- size of patient population for the targeted disease;
- eligibility criteria;
- proximity of eligible patients to clinical sites;
- clinical trial protocols; and
- the existence of competing protocols, including competitive financial incentives for patients and clinicians, and existing approved drugs, including Rituxan.

Even if a trial is fully enrolled, significant uncertainties remain as to whether it will prove successful. For example, in September 2002 we announced that we will not pursue further development of IDEC-114 for patients with moderate-to-severe psoriasis. In addition, we announced during the second quarter of 2002 that we had placed a voluntary hold on all ongoing clinical trials for our anti-CD40 ligand monoclonal antibody, IDEC-131. We cannot predict when, if ever, we will resume clinical trials on IDEC-131.

In addition, the length of time necessary to complete clinical trials and submit an application for marketing and manufacturing approvals varies significantly and may be difficult to predict. Failure to comply with extensive FDA regulations may result in delay, suspension or cancellation of a trial or the

FDA's refusal to accept test results. The FDA may also suspend our clinical trials at any time if it concludes that the participants are being exposed to unacceptable risks. Consequently, we cannot ensure that Phase I, Phase II, Phase III or Phase IV post-marketing testing will be completed timely or successfully, if at all, for any of our potential or existing products. Furthermore, success in preclinical and early clinical trials does not ensure that later phase or large-scale trials will be successful.

Our Industry Is Intensely Competitive.

The biotechnology industry is intensely competitive and we may not be able to produce or acquire rights to new products with commercial potential. We compete with biotechnology and pharmaceutical companies that have been established longer than we have, have a greater number of products on the market, have greater financial and other resources and have other technological or competitive advantages. We also compete in the development of technologies and processes and in acquiring personnel and technology from academic institutions, government agencies, and other private and public research organizations. We cannot be certain that one or more of our competitors will not receive patent protection that dominates, blocks or adversely affects our product development or business; will benefit from significantly greater sales and marketing capabilities; or will not develop products that are accepted more widely than ours.

One of our competitors, Corixa Corporation, formerly Coulter Pharmaceuticals, or Corixa, is pursuing FDA approval for BEXXAR® (tositumomab, iodine I-131 tositumomab), an investigational radioimmunotherapy for the treatment of low-grade or transformed low-grade NHL. We are aware that Corixa received a Complete Review Letter from the FDA indicating that Corixa has not demonstrated that BEXXAR provides sufficient evidence of safety and net clinical benefit of BEXXAR for it to be approved. Corixa was granted an appeal of the FDA's position. As a result, Corixa has been granted an opportunity to present data on BEXXAR at the December 17, 2002 Oncologic Drugs Advisory Committee, or ODAC, meeting. If Corixa is successful at the ODAC meeting and is able to provide sufficient evidence to the FDA to support FDA approval for BEXXAR, our business could be adversely affected.

We are also aware of other potentially competitive biologic therapies for non-Hodgkin's lymphoma in development.

We May Be Unable to Adequately Protect or Enforce Our Intellectual Property Rights or Secure Rights to Third-Party Patents and We Are Involved in Patent Litigation.

Our ability and the abilities of our partners to obtain and maintain patent and other protection for our products will affect our ability to compete. We are assigned, have rights to, or have exclusive licenses to a number of U.S. and foreign patents and patent applications. However, the pending patent applications may not issue as patents and, even if approved, our patent rights may not be upheld by a court or may be narrowed if challenged. The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions. Our patent rights may not provide competitive advantages for our products and may be challenged, infringed upon or circumvented by our competitors.

In addition to patents, we rely on trade secrets and proprietary know-how that we seek to protect, in part, through confidentiality agreements with our partners, employees and consultants. These parties

may breach our agreements and courts may not enforce the agreements, leaving us without adequate remedies. Further, our trade secrets may become known or be developed independently or patented by our competitors.

If it were ultimately determined that our claimed intellectual property rights are unenforceable, or that our use of our products infringes the rights of others, we may be required or may desire to obtain licenses to patents and other intellectual property held by third parties to develop, manufacture and market our products. We may not be able to obtain these licenses on commercially reasonable terms, if at all, and any licensed patents or intellectual property that we may

obtain may not be valid or enforceable. In addition, the scope of intellectual property protection is subject to scrutiny and challenge by courts and other governmental bodies. Litigation and other proceedings concerning patents and proprietary technologies can be protracted, expensive and distracting to management and companies may sue competitors as a way of delaying the introduction of competitors' products. Any litigation, including any interference proceedings to determine priority of inventions, oppositions to patents in foreign countries or litigation against our partners, may be costly and time consuming and could harm our business.

Because of the large number of patent filings in the biopharmaceutical field, our competitors may have filed applications or been issued patents and may obtain additional patents and proprietary rights relating to products or processes competitive with or similar to ours. We cannot be certain that U.S. or foreign patents do not exist or will not issue that would harm our ability to commercialize our products and product candidates.

Patent Litigation Related to Rituxan

On May 28, 1999 and September 14, 2000, Glaxo filed two patent infringement lawsuits against Genentech. These suits assert that the manufacture, use, and sale of Rituxan infringes U.S. patents owned by Glaxo. The trial for the first of these suits concluded on May 4, 2001 with the jury unanimously finding that Rituxan does not infringe patents held by Glaxo. The jury also unanimously found that all of the patent claims that Glaxo asserted against Genentech were invalid. Glaxo has appealed this ruling with respect to a subset of the asserted patents. The judge has rescheduled the trial for the second suit to begin in late 2002. To date we have not been named in either of these suits. If Glaxo were to prevail in the second suit or on appeal of the first suit, it could be awarded a variety of remedies, including damages for past sales, requiring Genentech to obtain a license from Glaxo or obtaining an injunction against the sale of Rituxan. Because we rely on sales of Rituxan for substantially all of our revenue, an injunction would significantly harm our business. Further, if Genentech were required to obtain a license from Glaxo, our operating results in a particular quarter could be harmed as a result of any payment required for past royalties. Additionally, our long-term profitability could be harmed by reduced profit sharing under our collaboration agreement with Genentech as a result of future royalties and other payments to Glaxo.

Glaxo has also sued Roche in Germany asserting that Rituxan infringes Glaxo's patents. On October 26, 2000, a German court handling the infringement phase of the suit issued a decision holding that the manufacture, use and sale of Rituxan infringes patents held by Glaxo. Roche has appealed the decision and the appeal is pending before the Court of Appeals. At the end of 2001, a German court handling the validity phase of the trial held that the three patents were invalid. Additionally, Roche has filed oppositions in the European Patent Office, or EPO, to several of the

Glaxo patents. Although we were not named in the suit, if Glaxo obtains an injunction precluding further sale of Rituxan in Europe, our business could be harmed.

Patent Litigation Related to ZEVALIN

On September 10, 2001, we filed a complaint against GlaxoSmithKline, plc, or Glaxo, and another complaint against Corixa Corporation, or Corixa, Coulter Pharmaceutical, Inc., or Coulter, and the Regents of the University of Michigan, in federal court for the Southern District of California. We are seeking declaratory judgment that ZEVALIN does not infringe patents held by the defendants and/or that the patents are invalid. On September 12, 2001, Corixa, Coulter and Glaxo filed a lawsuit against us in federal court in the district of Delaware alleging that ZEVALIN infringes their patents. This action has been transferred to the federal court for the Southern District of California and has been consolidated with our lawsuit. Corixa's lawsuit against us seeks damages and to permanently enjoin us from selling ZEVALIN. We cannot predict or determine the outcome of this litigation. An unfavorable outcome could limit our ability to sell ZEVALIN, could require us to pay damages for past sales of ZEVALIN and could require that we obtain a license from third parties to sell ZEVALIN. Any such unfavorable outcome could harm our business and our results of operations.

Proceedings Related to Anti-CD40L Antibodies

In September 1999, an interference to determine priority of inventorship was declared in the United States Patent and Trademark Office, or USPTO, between Dartmouth University's patent application, which has been exclusively licensed to us, and Columbia University's patent, which we believe has been exclusively licensed to Biogen, Inc., relating to anti-CD40L antibodies. In October 2001, the USPTO issued a decision concluding that there was no interference between the Dartmouth application and the Columbia patent. We appealed the decision to the Court of Appeals, Federal Circuit in December 2001. If the decision of the USPTO is upheld, the Columbia patent will remain in force and could be asserted against us.

We, along with other companies, have filed oppositions to a Japanese patent assigned to Immunex Corporation relating to anti-CD40L antibodies. We are also aware that oppositions have been filed in the EPO to granted European applications that have been licensed to us. Each of these applications contain claims relating to the use of anti-CD40L antibodies as a therapeutic. Also, we are aware of an opposition that has been filed to a granted European patent application which names us as the applicant and which relates to PROVAX™ and therapeutic use thereof. This opposition has been heard by the Oppositions Division of the EPO. The claims of the European patent covering PROVAX were narrowed, yet are still of sufficient scope to cover the PROVAX product. If the outcome of any of the oppositions is adverse, in whole or in part, it could result in the scope of some or all of the granted claims being limited, some or all of the granted claims being lost, the granted patent application not proceeding to a patent or our competitors having patent claims that may be asserted against us.

Potential Conflicts with Third-Party Patent Rights

We are aware of several third-party patents and patent applications, to the extent they issue as patents, that if successfully asserted against us may adversely affect our ability to make, use, offer to sell, sell and import our products. These third-party patents and patent applications may include a

number of U.S. and foreign patents that relate to various aspects of our products and product candidates.

The owners, or licensees of the owners of these patents, or any foreign patents, and patent applications, to the extent they issue as patents, may assert that one or more of our products infringe one or more claims of these patents. If legal action is commenced against us or our partners to enforce any of these patents

and patent applications, to the extent they issue as patents, and the plaintiff in such action prevails, we could be prevented from practicing the subject matter claimed in such patents.

Failure to Obtain Product Approvals or Comply with Government Regulations Could Harm Our Business.

As pharmaceutical companies, we and our partners, contract manufacturers and suppliers are subject to rigorous and extensive regulation by governmental authorities in the United States and other countries. In the United States, our products cannot be marketed until they are approved by the FDA. Obtaining FDA approval involves the submission, among other information, of the results of preclinical and clinical studies on the product and requires substantial time, effort and financial resources. The FDA will also conduct prelicensing inspections of the facility or facilities at which the product is manufactured to determine compliance with cGMP. Rituxan and ZEVALIN are our only products that have received FDA approval, and we cannot assure you that our product candidates will be approved either in the United States or in other countries in a timely fashion, if at all. Failure to comply with FDA requirements, both before and after product approval, may subject us and/or our partners, contract manufacturers and suppliers to administrative or judicial sanctions, including FDA refusal to approve pending applications, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, fines, injunctions and/or criminal prosecution.

We May Be Unable to Maintain Third-Party Research and Development Relationships.

Funding of research and development efforts depends largely upon various arrangements with corporate partners and others who provide us with funding and who perform research and development with respect to our products. These corporate partners may generally terminate their arrangements with us at any time. These parties may develop products that compete with ours, and we cannot be certain that they will perform their contractual obligations or that any revenues will be derived from such arrangements. If one or more of our corporate partners fail to achieve product development objectives, this failure could harm our ability to fund related programs and develop products.

Our Business Exposes Us to Product Liability Claims.

Our design, testing, development, manufacture and marketing of products involve an inherent risk of exposure to product liability claims and related adverse publicity. Insurance coverage is expensive and difficult to obtain, and we may be unable to obtain coverage in the future on acceptable terms, if at all. Although we currently maintain product liability insurance for our products in the amounts we believe to be commercially reasonable, we cannot be certain that the coverage limits of our insurance policies or those of our strategic partners will be adequate. If we are unable to obtain sufficient insurance at an acceptable cost or if a successful product liability claim is made against us, whether fully covered by insurance or not, our business could be harmed.

We May Not Be Able to Successfully Develop and Commence Operations of Our New Manufacturing and Clinical Facilities.

We purchased a 60-acre parcel of land and a 43,000 square foot building on adjacent property in Oceanside, California on which we intend to develop manufacturing and clinical facilities. We have limited experience in developing these types of facilities and may not be able to successfully develop or commence operations at these facilities. If we fail to successfully develop or commence operations at these new facilities, we may be unable to commercialize or meet demands for future products, if any. We may encounter difficulties in designing, constructing and initiating our manufacturing facilities, including:

- governmental regulation of our manufacturing facility, specifically, FDA or comparable agency approvals required for the commercial manufacture of our product candidates currently in clinical trials;
- public opinion regarding the impact of the facility on nearby communities;
- construction delays, including obtaining necessary governmental approvals and permits;
- cost overruns;
- delays in design, shipment and installation of equipment for our facility;
- natural disasters;
- other unforeseeable factors inherent in the construction process; and
- obtaining financing we may need to complete the facility.

Even if we are able to successfully develop this manufacturing facility, we may not be able to do so in a cost-effective manner or in a time frame that is consistent with our expected future manufacturing needs or our future manufacturing needs may not be sufficient to allow the facility to be fully operational, which could harm our business.

Our Business Involves Environmental Risks.

Our business and the business of several of our strategic partners, including Genentech, involve the controlled use of hazardous materials, chemicals, biologics and radioactive compounds. Biologics manufacturing is extremely susceptible to product loss due to microbial or viral contamination, material equipment failure, or vendor or operator error. Although we believe that our safety procedures for handling and disposing of such materials complies with state and federal standards, there will always be the risk of accidental contamination or injury. In addition, microbial or viral contamination may cause the closure of a manufacturing facility for an extended period of time. By law, radioactive materials may only be disposed of at state-approved facilities. We currently store our radioactive materials on-site because the approval of a disposal site in California for all California-based companies has been delayed indefinitely. If and when a disposal site is approved, we may incur substantial costs related to the disposal of these materials. If we were to become liable for an accident, or if we were to suffer an extended facility shutdown, we could incur significant costs, damages and penalties that could harm our business.

We Rely Upon Key Personnel.

Our success will depend, to a great extent, upon the experience, abilities and continued services of our executive officers and key scientific personnel. If we lose the services of any of these officers or key scientific personnel, our business could be harmed. Our success also will depend upon our ability to attract and retain other highly qualified scientific, managerial, sales and manufacturing personnel and our ability to develop and maintain relationships with qualified clinical researchers. Competition for these personnel and relationships is intense and we compete with numerous pharmaceutical and biotechnology companies as well as with universities and non-profit research organizations. We may not be able to continue to attract and retain qualified personnel or develop and maintain relationships with clinical researchers.

Future Transactions May Harm Our Business or the Market Price of Our Securities.

We regularly review potential transactions related to technologies, products or product rights and businesses complementary to our business. These transactions could include:

- mergers;
- acquisitions;
- strategic alliances;
- off-balance sheet financings;
- licensing agreements; and
- copromotion agreements.

We may choose to enter into one or more of these transactions at any time, which may cause substantial fluctuations to the market price of securities that we have issued. Moreover, depending upon the nature of any transaction, we may experience a charge to earnings, which could also harm the market price of securities that we have issued.

Volatility of Our Stock Price.

The market prices for our common stock and for securities of other companies engaged primarily in biotechnology and pharmaceutical development, manufacture and distribution are highly volatile. For example, the market price of our common stock fluctuated between $20.76 per share and $71.40 per share during the nine months ended September 30, 2002. The market price of our common stock likely will continue to fluctuate due to a variety of factors, including:

- material public announcements;
- the announcement and timing of new product introductions by us or others;
- technical innovations or product development by us or our competitors;
- regulatory approvals or regulatory issues;
- availability and level of third-party reimbursement;
- developments relating to patents, proprietary rights and orphan drug status;

- actual or potential clinical results with respect to our products under development or those of our competitors;
- political developments or proposed legislation in the pharmaceutical or healthcare industry;
- economic and other external factors, disaster or crisis;
- hedge and/or arbitrage activities by holders of our convertible promissory notes;
- period-to-period fluctuations in our financial results or results which do not meet or exceed analyst expectations; and
- market trends relating to or affecting stock prices throughout our industry, whether or not related to results or news regarding us or our competitors.

We May Be Unable to Raise Additional Capital.

We expend and will likely continue to expend substantial funds to complete the research, development, manufacturing and marketing of our potential future products. Consequently, we may seek to raise capital through collaborative arrangements, strategic alliances or equity and debt financings or from other sources. We may need to raise additional funds or borrow funds to complete the construction of our planned facilities. We may be unable to raise additional capital on commercially acceptable terms, if at all, and if we raise capital through equity financing, existing stockholders may have their ownership interests diluted. Our failure to be able to generate adequate funds from operations or from additional sources would harm our business.

Our Outstanding LYONs Leverage Us Considerably.

As a result of issuing our LYONs due 2019 in February 1999 and issuing our LYONs due 2032 in April and May 2002, we incurred indebtedness of approximately $345.0 million at maturity in 2019 and approximately $1.2 billion at maturity in 2032. As a result of this indebtedness, our principal and interest obligations increased substantially. The degree to which we are leveraged could harm our ability to obtain future financing and could make us more vulnerable to industry downturns and competitive pressures. Our ability to meet our debt obligations will be dependent upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control.

We Have Adopted Several Anti-takeover Measures.

We have taken a number of actions that could discourage a takeover attempt that might be beneficial to stockholders who wish to receive a premium for their shares from a potential bidder. For example:

- we reincorporated into Delaware, which subjects us to Section 203 of the Delaware General Corporation Law, providing that we may not enter into a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in the manner prescribed in the code section;

- we have adopted a stockholder rights plan that was amended and restated as of July 26, 2001 that would cause substantial dilution to a person who attempts to acquire us on terms not approved by our board of directors;

- our board of directors has the authority to issue, without vote or action of stockholders, up to 8,000,000 shares of preferred stock and to fix the price, rights, preferences and privileges of those shares. Any series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of common stock. Although we currently have 48,014 shares of non-voting convertible preferred stock outstanding, which were convertible into 2,880,840 shares of common stock as of December 31, 2001, the board of directors has no present intention of issuing any additional shares of preferred stock. However, the board of directors may issue additional series of preferred stock in the future;

- our copromotion arrangement with Genentech provides Genentech with the option to buy the rights to Rituxan in the event that we undergo a change of control or we introduce a competing product, which may limit our attractiveness to potential acquirors;

- under the terms of the LYONs any acquiror would be required to repurchase the LYONs for cash in connection with its acquisition of us before 2007; and

- our directors are elected to staggered terms, which prevents the entire board from being replaced in any single year.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to a variety of risks, including changes in interest rates affecting the return on our investments and the cost of our debt.

At September 30, 2002, we maintained a portion of our cash and cash equivalents in financial instruments with original maturities of three months or less. We also maintained an investment portfolio containing financial instruments in which the majority have original maturities of greater than three months but less than twenty-four months. These financial instruments, principally consisting of corporate obligations and to a lesser extent foreign and U.S. government obligations, are subject to interest rate risk and will decline in value if interest rates increase. A hypothetical ten percent change in interest rates during the nine months ended September 30, 2002, would have resulted in an approximately $2.3 million change in pretax income. We have not used derivative financial instruments in our investment portfolio.

Our long-term debt totaled $861.2 million at September 30, 2002 and consisted principally of our promissory notes issued in February 1999 and our senior notes issued in April 2002. These long-term debt obligations bear interest at a weighed average interest rate of 2.4%. Due to the fixed rate nature of our promissory and senior notes, an immediate ten percent change in interest rates would not have a material effect on our financial condition or results of operations.

Underlying market risk exists related to an increase in our stock price or an increase in interest rates may make conversion of the convertible promissory notes to common stock beneficial to the convertible promissory notes holder. Conversion of the convertible promissory notes would have a dilutive effect on our earnings per share and book value per common share.

Item 4. Controls and Procedures.

We performed an evaluation under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures within the 90-day period prior to filing of this report. Based on that evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures are effective and provide for timely collection and evaluation of information that may need to be disclosed to investors. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of our evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II—OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits referenced

Exhibit Number	Description
10.10	Amended and Restated 1988 Stock Option Plan, as amended and restated through October 22, 2002.
10.30	Form of Stock Option Agreement.

(b) Reports on Form 8-K. On September 5, 2002, we filed a current report of Form 8-K reporting that we announced results of Phase II clinical trials of our IDEC-114 anti-CD80 monoclonal antibody for patients with moderate-to-severe psoriasis.

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.

IDEC PHARMACEUTICALS CORPORATION

Date: November 14, 2002 By: /s/ WILLIAM H. RASTETTER

William H. Rastetter
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2002 By: /s/ EDWARD M. RODRIGUEZ

Edward M. Rodriguez
Vice President and Controller
(Principal Financial and Accounting Officer)

Certifications

I, William H. Rastetter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IDEC PHARMACEUTICALS CORPORATION;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ WILLIAM H. RASTETTER

William H. Rastetter
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

I, Edward M. Rodriguez, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IDEC PHARMACEUTICALS CORPORATION;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ EDWARD M. RODRIGUEZ

Edward M. Rodriguez
Vice President and Controller
(Principal Financial and Accounting Officer)

QuickLinks

Exhibit 10.10

IDEC PHARMACEUTICALS CORPORATION
1988 STOCK OPTION PLAN

(Amended and Restated Through October 21, 2002)

I. *PURPOSES OF THE PLAN*

(a) This Stock Option Plan (the "Plan") is intended to promote the interests of IDEC Pharmaceuticals Corporation, a Delaware corporation (the "Corporation"), by providing a method whereby key employees (including officers) of the Corporation (or its parent or subsidiary corporations) responsible for the management, growth and financial success of the Corporation (or its parent or subsidiary corporations) may be offered incentives and rewards which will encourage them to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation and continue to render services to the Corporation (or its parent or subsidiary corporations).

(b) The following provisions shall be applicable in determining the parent and subsidiary corporations of the Corporation:

(i) Any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation shall be considered to be a **parent** corporation of the Corporation, provided each such corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(ii) Each corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation shall be considered to be a **subsidiary** of the Corporation, provided each such corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

II. *ADMINISTRATION OF THE PLAN*

(a) The Corporation's Board of Directors (the "Board") shall appoint a committee ("Committee") of two (2) or more non-employee Board members to assume full responsibility for the administration of the Plan. Members of the Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time.

(b) The Committee as Plan Administrator shall have full power and authority (subject to the express provisions of the Plan) to establish such rules and regulations as it may deem appropriate for the proper administration of the Plan and to make such determinations under, and issue such interpretations of, the Plan and any outstanding option grants or stock issuances as it may deem necessary or advisable. Decisions of the Plan Administrator shall be final and binding on all parties who have an interest in the Plan or any outstanding option or stock issuance thereunder.

III. *ELIGIBILITY FOR OPTION GRANTS*

(a) The persons eligible to receive option grants under the Plan shall be limited tokey employees (including officers) of the Corporation (or its parent or subsidiary corporations) who render services which contribute to the success and growth of the Corporation (or its parent or subsidiary corporations) or which may reasonably be anticipated to contribute to the future success and growth of the Corporation (or its parent or subsidiary corporations).

(b) The Plan Administrator shall have full authority to determine which eligible individuals are to receive option grants under the Plan, the number of shares to be covered by each such grant, whether the granted option is to be an incentive stock option ("Incentive Option") which satisfies the requirements of Section 422 of the Internal Revenue Code or a non-statutory option

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not intended to meet such requirements, the time or times at which each such option is to become exercisable, and the maximum term for which the option is to be outstanding.

IV. *STOCK SUBJECT TO THE PLAN*

(a) The stock issuable under the Plan shall be shares of the Corporation's authorized but unissued or reacquired Common Stock. The maximum number of shares which may be issued under the Plan shall not exceed 58,580,000 shares.* The total number of shares issuable under the Plan shall be subject to adjustment from time to time in accordance with Section IV.(d) of the Plan.

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* Adjusted to reflect (i) the 1 for 2.5 reverse Common Stock split effected by the Company on August 18, 1991, a 2 for 1 stock split effected by the Corporation on December 21, 1999 and a 3 for 1 stock split effected in the form of a stock dividend on January 17, 2001, (ii) the 4,020,000 share increase authorized by the Board on March 18, 1992 and approved by the stockholders at the 1992 Annual Meeting, (iii) the 4,200,000 share increase authorized by the Board on January 13, 1993 and approved by the stockholders at the 1993 Annual Meeting, (iv) the 3,900,000 share increase authorized by the Board on February 28, 1994 and approved by the stockholders at the 1994 Annual Meeting, (v) the 3,000,000 share increase authorized by the Board on January 25, 1995, and approved by the stockholders at the 1995 Annual Meeting, (vi) the 7,200,000 share increase authorized by the Board on January 24, 1996, and approved by the stockholders at the 1996 Annual Meeting, (vii) the 4,800,000 share increase authorized by the Board on February 24, 1997, and approved by the stockholders at the 1997 Annual Meeting, (viii) the 5,130,000 share increase authorized by the Board on February 20, 1998, approved by the stockholders at the 1998 Annual Meeting, (ix) the 4,800,000 share increase authorized by the Board on January 13, 1999, approved by

the stockholders at the 1999 Annual Meeting, (x) the 5,130,000 share increase authorized by the Board on January 12, 2000, approval at the 2000 Annual Meeting, (xi) the 5,640,000 share increase authorized by the Board on January 16, 2001, approved by the stockholders at the 2001 Annual Meeting, and (xii) the 5,000,000 share increase authorized by the Board on January 23, 2002, subject to stockholder approval at the 2002 Annual Meeting. In no event, however, shall more than 30,707,067 shares of Common Stock be issued under the Plan after February 28, 2002, inclusive of the 5,000,000 share increase for which stockholder approval is sought at the 2002 Annual Meeting, subject to adjustment under Section IV(d) in the event of changes in the Corporation's capital structure.

(b) In no event may the aggregate number of shares of Common Stock for which any one individual participating in the Plan may be granted stock options and separately exercisable stock appreciation rights exceed 7,500,000 shares in the aggregate over the remaining term of the Plan, subject to adjustment from time to time in accordance with Section IV.(d) of the Plan. For purposes of such limitation, no stock options or stock appreciation rights granted prior to January 1, 1994 shall be taken into account.

(c) Should an option expire or terminate for any reason prior to exercise in full, the shares subject to the portion of the option not so exercised shall be available for subsequent option grants under the Plan. Unvested shares issued under the Plan and subsequently repurchased by the Corporation, at the option exercise price paid per share, pursuant to the Corporation's repurchase rights under the Plan, shall be added back to the number of shares of Common Stock reserved for issuance under the Plan and shall accordingly be available for reissuance through one or more subsequent option grants under the Plan. Shares subject to any option cancelled in accordance with Section VIII of the Plan shall reduce on a share-for-share basis the number of shares of Common Stock available for subsequent option grants under this Plan. In addition, should the exercise price of an outstanding option under the Plan be paid with shares of Common Stock, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross

number of shares for which the option is exercised, and not by the net number of shares of Common Stock actually issued to the option holder.

(d) In the event any change is made to the Common Stock issuable under the Plan by reason of any stock split, stock dividend, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, then appropriate adjustments shall be made to (I) the maximum number and/or class of securities issuable under the Plan, (II) the maximum number and/or class of securities for which stock options and separately exercisable stock appreciation rights may be granted to any one participant in the aggregate after December 31, 1993 and (III) the number and/or class of securities and exercise price per share in effect under each outstanding option in order to prevent the dilution or enlargement of benefits thereunder. The adjustments determined by the Plan Administrator shall be final, binding and conclusive.

V. ***TERMS AND CONDITIONS OF OPTIONS*** Options granted pursuant to the Plan shall be authorized by action of the Plan Administrator and may, at the Plan Administrator's discretion, be either Incentive Options or non-statutory options. Each granted option shall be evidenced by one or more instruments in the form approved by the Plan Administrator; *provided*, however, that each such instrument shall comply with the terms and conditions specified below. Each instrument evidencing an Incentive Option shall, in addition, be subject to the applicable provisions of Section VI.

1. *Option Price.*

A. The option price per share shall be fixed by the Plan Administrator, but in no event shall the option price per share be less than one hundred percent (100%) of the fair market value of a share of Common Stock on the date of the option grant.

B. The option price shall become immediately due upon exercise of the option and shall, subject to the provisions of Section IX and the instrument evidencing the grant, be payable in one of the alternative forms specified below:

(i) full payment in cash or check payable to the Corporation; or

(ii) full payment in shares of Common Stock held by the optionee for the requisite period necessary to avoid a charge to the Corporation's reported earnings and valued at fair market value on the Exercise Date (as such term is defined below); or

(iii) full payment through a combination of shares of Common Stock held by the optionee for the requisite period necessary to avoid a charge to the Corporation's reported earnings and valued at fair market value on the Exercise Date and cash or check payable to the Corporation; or

(iv) full payment effected through a broker-dealer sale and remittance procedure pursuant to which the optionee shall provide irrevocable instructions (I) to a Corporation-designated brokerage firm to (A) effect the immediate sale of a sufficient number of the purchased shares to enable such firm to remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate option price payable for the purchased shares plus all applicable Federal and State income and employment taxes required to be withheld by the Corporation in connection with such purchase and (B) remit those funds to the Corporation on the settlement date, and (II) to the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm.

For purposes of this subparagraph B, the Exercise Date shall be the date on which written or electronic notice of the option exercise is received by the Corporation. Except to the extent the sale and remittance procedure is utilized in connection with the exercise of the option, payment of the option price for the purchased shares must accompany such notice.

C. The fair market value per share of Common Stock on any relevant date under subparagraph A or B (and for all other valuation purposes under the Plan) shall be determined in accordance with the following provisions:

(i) If the Common Stock is not at the time listed or admitted to trading on any national stock exchange but is traded on The Nasdaq Stock Market, the fair market value shall be the closing selling price per share of Common Stock on the date in question, as reported by the National Association of Securities Dealers on The Nasdaq Stock Market and published in *The Wall Street Journal*. If there is no reported closing selling

price for the Common Stock on the date in question, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of fair market value.

(ii) If the Common Stock is at the time listed or admitted to trading on any national stock exchange, then the fair market value shall be the closing selling price per share of Common Stock on the date in question on the stock exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange and published in *The Wall Street Journal*. If there is no reported sale of Common Stock on such exchange on the date in question, then the fair market value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists.

2. *Term and Exercise of Options.* Each option granted under the Plan shall be exercisable at such time or times, during such period, and for such number of shares as shall be determined by the Plan Administrator and set forth in the instrument evidencing such option; *provided*, however, that no such option shall have a term in excess of ten (10) years from the grant date.

3. *Limited Transferability of Options.* During the lifetime of the optionee, Incentive Options shall be exercisable only by the optionee and shall not be assignable or transferable other than by will or by the laws of descent and distribution following the optionee's death. However, non-statutory options may, in connection with the optionee's estate plan, be assigned in whole or in part during the optionee's lifetime to one or more members of the optionee's immediate family or to a trust established exclusively for one or more such family members. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

4. *Effect of Termination of Service.*

A. Should an optionee cease to remain in Service (as defined in subparagraph D below) for any reason (including death or permanent disability as defined in Section 22(e)(3) of the Internal Revenue Code) while the holder of one or more outstanding options granted to such optionee under the Plan, then such option or options shall not (except to the extent otherwise provided pursuant to Section X below) remain exercisable for more than a thirty-six (36)-month period (or such shorter period determined by the Plan Administrator and specified in the instrument evidencing the grant) following the date of such cessation of Service. Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term. Each such option shall, during such thirty-six (36)-month or shorter period, be exercisable only to the extent of the number of shares (if any) for which the option is exercisable on the date of the optionee's cessation of Service. Upon the expiration of such thirty-six (36)-month or shorter period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be exercisable. However, the option shall, immediately upon the optionee's cessation of Service for any reason, terminate and cease to be outstanding for any option shares for which the option is not otherwise at that time exercisable.

B. Any outstanding option held by the optionee and exercisable in whole or in part on the date of his or her death may be subsequently exercised, but only to the extent of the number of shares (if any) for which the option is exercisable on the date of the optionee's cessation of Service (less any option shares subsequently purchased by the optionee prior to death), by the personal representative of the optionee's estate or by the person or persons to whom the option is transferred pursuant to the optionee's will or in accordance with the laws of descent and distribution. The right to exercise the option for those shares shall terminate upon the *earlier* of (i) the third anniversary of the date of the optionee's cessation of Service or (ii) the specified expiration date of the option term.

C. Notwithstanding subparagraphs A and B above, the Plan Administrator shall have complete discretion, exercisable either at the time the option is granted or at any time while the option remains outstanding, to permit one or more options held by the optionee under the Plan to be exercised, during the limited period of exercisability provided under Section V.4.A above, not only with respect to the number of shares for which each such option is exercisable at the time of the optionee's cessation of Service but also with respect to one or more subsequent installments for which the option would otherwise have become exercisable had such cessation of Service not occurred.

D. For purposes of the foregoing provisions of this Section V.4 (and all other provisions of the Plan), the optionee shall be deemed to remain in the Service of the Corporation for so long as such individual renders services on a periodic basis to the Corporation or any parent or subsidiary corporation in the capacity of an Employee, a non-employee member of the board of directors or an independent consultant or advisor, unless the option agreement evidencing the option grant and/or the purchase agreement evidencing the purchased option shares specifically provides otherwise. The optionee shall be considered to be an Employee for so long as such individual remains in the employ of the Corporation or one or more of its parent or subsidiary corporations, subject to the control and direction of the employer entity as to the work to be performed and as to the manner and method of performance.

5. *Stockholder Rights.* An optionee shall have none of the rights of a stockholder with respect to any shares covered by the option until such individual shall have exercised the option and paid the option price for the purchased shares.

6. *Repurchase Rights.* Unvested shares of Common Stock may be issued under the Plan which are subject to repurchase by the Corporation in accordance with the following provisions:

(a) Upon the optionee's cessation of Service while holding unvested shares under the Plan, the Corporation shall have the right to repurchase any or all of those unvested shares at the option price paid per share. The terms and conditions upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the instrument evidencing such repurchase right.

(b) All of the Corporation's outstanding repurchase rights shall automatically terminate, and all shares subject to such terminated rights shall immediately vest in full, upon the occurrence of any Corporate Transaction under Section VII of this Plan, except to the extent: (i) any such repurchase right is to be assigned to the successor corporation (or parent thereof) in connection with the Corporate Transaction or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued.

(c) The Plan Administrator shall have the discretionary authority, exercisable either before or after the optionee's cessation of Service, to cancel the Corporation's outstanding repurchase rights

with respect to any or all unvested shares purchased or purchasable by the optionee under the Plan and thereby accelerate the vesting of those shares in whole or in part at any time.

VI. ***INCENTIVE OPTIONS.***

The terms and conditions specified below shall be applicable to all Incentive Options granted under the Plan. Incentive Options may only be granted to individuals who are Employees. Options which are specifically designated as "non-statutory" options when issued under the Plan shall *not* be subject to such terms and conditions.

(a) *Dollar Limitation.* The aggregate fair market value (determined as of the respective date or dates of grant) of the Common Stock for which one or more options granted to any Employee under this Plan (or any other option plan of the Corporation or its parent or subsidiary corporations) may for the first time become exercisable as incentive stock options under the Federal tax laws during any one calendar year shall not exceed the sum of One Hundred Thousand Dollars ($100,000). To the extent the Employee holds two or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as incentive stock options under the Federal tax laws shall be applied on the basis of the order in which such options are granted. Should the number of shares of Common Stock for which an Incentive Option first becomes exercisable in any calendar year exceed the applicable One Hundred Thousand Dollar ($100,000) limitation, the option may nevertheless be exercised for those excess shares in such calendar year as a non-statutory option.

(b) *10% Stockholder.* If any individual to whom the Incentive Option is granted is the owner of stock (as determined under Section 424(d) of the Internal Revenue Code) possessing ten percent (10%) or more of the total combined voting power of all classes of stock of the Corporation or any one of its parent or subsidiary corporations, then the option price per share shall not be less than one hundred and ten percent (110%) of the fair market value per share of Common Stock on the grant date, and the option term shall not exceed five (5) years, measured from such grant date.

Except as modified by the preceding provisions of this Section VI, all the provisions of the Plan shall be applicable to the Incentive Options granted hereunder.

VII. ***CORPORATE TRANSACTION/CHANGE IN CONTROL***

(a) In the event of any of the following transactions (a "Corporate Transaction"):

(i) a merger or consolidation in which the Corporation is not the surviving entity, except for a transaction the principal purpose of which is to change the State of the Corporation's incorporation,

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Corporation in liquidation or dissolution of the Corporation, or

(iii) any reverse merger in which the Corporation is the surviving entity but in which fifty percent (50%) or more of the Corporation's outstanding voting stock is transferred to persons different from those who held the stock immediately prior to such merger,

each outstanding option under the Plan shall automatically accelerate so that each such option shall, immediately prior to the specified effective date for the Corporate Transaction, become exercisable for the total number of shares of Common Stock at the time subject to such option and may be exercised for all or any portion of those shares as fully-vested shares of Common Stock. However, an outstanding option under the Plan shall not so accelerate if and to the extent: (i) such option is, in connection with the Corporate Transaction, either to be assumed by the successor corporation or parent thereof or be replaced with a comparable option to purchase shares of the capital stock of the successor corporation or parent thereof or (ii) the acceleration of

such option is subject to other applicable limitations imposed by the Plan Administrator at the time of grant. The determination of comparability under clause (i) above shall be made by the Plan Administrator and its determination shall be final, binding and conclusive.

(b) Each outstanding option under the Plan which is assumed in connection with the Corporate Transaction or is otherwise to continue in effect shall be appropriately adjusted, immediately after such Corporate Transaction, to apply and pertain to the number and class of securities which would have been issued, in consummation of such Corporate Transaction, to an actual holder of the same number of shares of Common Stock as are subject to such option immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to the option price payable per share, provided the aggregate option price payable for such securities shall remain the same. In addition, the class and number of securities available for issuance under the Plan on both an aggregate and per participant basis shall be appropriately adjusted to reflect the effect of the Corporate Transaction upon the Corporation's capital structure.

(c) In connection with any Change in Control (as defined below), the Plan Administrator shall have full power and authority, exercisable either at the time the option is granted or at any time while the option remains outstanding, to provide for the automatic acceleration of each outstanding option under the Plan so that each such option shall, immediately prior to the effective date of the Change in Control, become exercisable for the total number of shares at the time subject to such option and may be exercised for all or any portion of those shares as fully-vested shares of Common Stock. The Plan Administrator shall also have full power and authority to condition such option acceleration, and the termination of any of the Corporation's repurchase rights with respect to any unvested shares purchased or purchasable under the Plan, upon the subsequent termination of the optionee's Service within a designated period following the Change in Control.

A **Change in Control** shall be deemed to occur in the event:

(i) twenty-five percent (25%) or more of the Corporation's outstanding voting stock is acquired pursuant to a tender or exchange offer (A) which is made directly to the Corporation's stockholders by any person or related group of persons (other than the Corporation or a person that

directly or indirectly controls, is controlled by or is under common control with, the Corporation) and (B) which the Board does not recommend the stockholders to accept; or

(ii) there is a change in the composition of the Board over a period of twenty-four (24) consecutive months or less such that a majority of the Board members ceases, by reason of one or more proxy contests for the election of Board members, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time such election or nomination was approved by the Board.

(d) Immediately following the consummation of a Corporate Transaction, all outstanding options under the Plan shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation or its parent company. Upon a Change in Control, each outstanding option accelerated pursuant to subsection VII.(c) above shall remain fully exercisable until the expiration or sooner termination of the option term specified in the agreement evidencing such grant.

(e) The exercisability as incentive stock options under the Federal tax laws of any options accelerated in connection with a Corporate Transaction or Change in Control shall remain subject to the dollar limitation of Section VI.(a) of the Plan. To the extent such dollar limitation is

exceeded, the accelerated option shall be exercisable as a non-statutory option under the Federal tax laws.

(f) The grant of options under this Plan shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

VIII. *STOCK APPRECIATION RIGHTS*

(a) Provided and only if the Plan Administrator determines in its discretion to implement the stock appreciation right provisions of this Section VIII, one or more optionees may be granted the right, exercisable upon such terms and conditions as the Plan Administrator may establish, to surrender all or part of an unexercised option under the Plan in exchange for a distribution from the Corporation in an amount equal to the excess of (i) the fair market value (on the option surrender date) of the number of shares in which the optionee is at the time vested under the surrendered option (or surrendered portion thereof) over (ii) the aggregate option price payable for such vested shares.

(b) No surrender of an option shall be effective hereunder unless it is approved by the Plan Administrator. If the surrender is so approved, then the distribution to which the optionee shall accordingly become entitled under this Section VIII may be made in shares of Common Stock valued at fair market value on the option surrender date, in cash, or partly in shares and partly in cash, as the Plan Administrator shall in its sole discretion deem appropriate.

(c) If the surrender of an option is rejected by the Plan Administrator, then the optionee shall retain whatever rights the optionee had under the surrendered option (or surrendered portion thereof) on the option surrender date and may exercise such rights at any time prior to the *later* of (i) five (5) business days after the receipt of the rejection notice or (ii) the last day on which the option is otherwise exercisable in accordance with the terms of the instrument evidencing such option, but in no event may such rights be exercised more than ten (10) years after the date of the option grant.

(d) One or more officers of the Corporation subject to the short-swing profit restrictions of the Federal securities laws may, in the Plan Administrator's sole discretion, be granted limited stock appreciation rights in tandem with their outstanding options under the Plan. Upon the occurrence of a Hostile Take-Over, each outstanding option with such a limited stock appreciation right shall automatically be cancelled, to the extent such option is at the time exercisable for fully-vested shares of Common Stock (including any shares which may vest in connection with such Hostile Take-Over). The optionee shall in return be entitled to a cash distribution from the Corporation in an amount equal to the excess of (i) the Take-Over Price of the vested shares of Common Stock at the time subject to the cancelled option (or cancelled portion of such option) over (ii) the aggregate exercise price payable for such shares. The cash distribution payable upon such cancellation shall be made within five (5) days following the consummation of the Hostile Take-Over. The Plan Administrator shall pre-approve, at the time the limited stock appreciation right is granted, the subsequent exercise of that right in accordance with the terms of the grant and the provisions of this Section VIII.(d). No additional approval of the Plan Administrator or the Board shall be required at the time of the actual option cancellation and cash distribution. The balance of the option (if any) shall continue to remain outstanding and exercisable in accordance with the terms and conditions of the instrument evidencing such grant.

(e) For purposes of Section VIII.(d), the following definitions shall be in effect:

A **Hostile Take-Over** shall be deemed to occur in the event any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation) directly or indirectly acquires beneficial

ownership (within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934) of securities possessing more than twenty-five percent (25%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders which the Board does not recommend such stockholders to accept.

The **Take-Over Price** per share shall be deemed to be equal to the *greater* of (a) the fair market value per share on the date of cancellation, as determined pursuant to the valuation provisions of Section II.1.C, or (b) the highest reported price per share paid by the acquiring entity in effecting such Hostile Take-Over. However, to the extent the cancelled option is an Incentive Option, the Take-Over Price shall not exceed the clause (a) price per share.

(f) The shares of Common Stock subject to any option surrendered or cancelled for an appreciation distribution pursuant to this Section VIII shall **not** be available for subsequent option grant under the Plan.

IX. ***LOANS OR INSTALLMENT PAYMENTS***

The Plan Administrator may, in its discretion, assist any optionee (other than any executive officer of the Corporation or member of the Board) in the exercise of one or more options granted to such individual under the Plan, including the satisfaction of any Federal and State income and employment tax obligations arising therefrom, by (i) authorizing the extension of a loan from the Corporation to such optionee or (ii) permitting the optionee to pay the option price for the purchased Common Stock in installments over a period of years. The terms of any such loan or installment method of payment (including the interest rate and terms of repayment) will be upon such terms as the Plan Administrator specifies in the applicable option agreement or otherwise deems appropriate under the circumstances. Loans or installment payments may be granted with or without security or collateral (other than to individuals who are independent consultants or advisors, in which event the loan must be adequately secured by collateral other than the purchased shares). However, the maximum credit available to the optionee may not exceed the option price of the acquired shares (less the par value of those shares) plus any Federal and State income and employment withholding taxes to which theoptionee may become subjectin connection with the exercise of the option.

X. ***EXTENSION OF EXERCISE PERIOD***

The Plan Administrator shall have full power and authority, to extend the period of time for which the option is to remain exercisable following the optionee's cessation of Service from the thirty-six (36) month or shorter period set forth in the option agreement to such greater period of time as the Plan Administrator shall deem appropriate. In no event, however, shall such option be exercisable after the specified expiration date of the option term.

XI. ***AMENDMENT OF THE PLAN***

The Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects whatsoever; *provided*, however, that no such amendment or modification shall, without the consent of the stockholders, adversely affect rights and obligations with respect to options at the time outstanding under the Plan. In addition, any amendment which increases the number of shares of Common Stock authorized for issuance under the Plan or which materially increases the benefits accruing to individuals participating in the Plan shall require stockholder approval.

XII. ***EFFECTIVE DATE AND TERM OF PLAN***

(a) The Plan was initially adopted by the Board on July 19, 1988 and approved by the Corporation's stockholders on March 29, 1989. The Plan was subsequently amended by the Board on July 18, 1990, and such amendment was approved by the Corporation's stockholders in October, 1990. In January 1991, the Plan was again amended to increase by 2,880,000 shares the number of shares of Common Stock issuable under the Plan, and such share increase was

approved by the Corporation's stockholders on March 20, 1991. The Board further amended the Plan on May 22, 1991, with such amendments to become effective as of the date the Corporation's Common Stock first became traded on The Nasdaq Stock Market, in order to revise certain provisions previously required when the Plan was subject to the permit requirements of the California Corporations Department. On March 18, 1992, the Plan was amended and restated in its entirety, including an increase of 4,020,000 shares to the number of shares of Common Stock issuable thereunder. The 1992 restatement, including the 4,020,000 share increase, was approved by the stockholders at the 1992 Annual Meeting. On January 13, 1993, the Board amended the Plan to increase by an additional 4,200,000 shares the number of shares of Common Stock issuable under the Plan, and such share increase was approved by the stockholders at the 1993 Annual Meeting. On February 28, 1994, the Board amended the Plan to increase by an additional 3,900,000 shares the number of shares of Common Stock issuable under the Plan, and such increase was approved by the stockholders at the 1994 Annual Meeting. On January 25, 1995, the Board amended the Plan to increase by an additional 3,000,000 shares the number of shares of Common Stock issuable under the Plan, and such increase was approved by the stockholders at the 1995 Annual Meeting. On January 24, 1996, the Board adopted an amendment which increased the number of shares of Common Stock issuable under the Plan by an additional 7,200,000 shares, and such increase was approved by the stockholders at the 1996 Annual Meeting.

On February 24, 1997, the Board adopted a series of amendments to the Plan (the "1997 Amendments") which (i) increased the number of shares of Common Stock reserved for issuance over the term of the Plan by an additional 4,800,000 shares, (ii) rendered non-employee Board members serving as Plan Administrator eligible to receive option grants under the Plan, (iii) allowed unvested shares issued under the Plan and subsequently repurchased by the Corporation at the option exercise price paid per share to be reissued under the Plan, (iv) removed certain restrictions on the eligibility of non-employee Board members to serve as Plan Administrator, (v) extended the term of the Option Plan from July 19, 1998 to December 31, 2002 and (vi) effected a series of additional changes to the provisions of the Plan (including the stockholder approval requirements, the transferability of non-statutory stock options and the elimination of the six (6)-month holding period requirement as a condition to the exercise of stock appreciation rights) in order to take advantage of the recent amendments to Rule 16b-3 of the 1934 Act which exempts certain officer and director transactions under the Plan from the short-swing liability provisions of the Federal securities laws. The 1997 Amendments were approved by the Corporation's stockholders at the 1997 Annual Meeting.

On February 20, 1998, the Board authorized an increase of 5,130,000 shares of Common Stock to the share reserve under the Plan, and the stockholders approved such increase at the 1998 Annual Meeting.

On January 13, 1999, the Board authorized an increase of 4,800,000 shares of Common Stock to the share reserve under the Plan, and the stockholders approved such increase at the 1999 Annual Meeting.

On January 12, 2000, the Board adopted a series of amendments to the Plan (the "2000 Amendments") which (i) increased the number of shares of Common Stock reserved for issuance over the term of the Plan by an additional 5,130,000 shares; (ii) extend the term of the Option Plan from December 31, 2002 to December 31, 2005; (iii) required the option price per share of Common Stock subject to each option granted under the Option Plan to be not less than 100% of the fair market value per share of Common Stock on the date of grant; (iv) removed the non-employee Board members and all independent consultants from the class of persons eligible to receive option grants under the Option Plan; and (v) required the Plan Administrator to be a committee comprised only of non-employee Board members. The 2000 Amendments were approved by the Corporation's stockholders at the 2000 Annual Meeting.

On May 17, 2000, the Board further amended the Plan to eliminate the Plan Administrator's authority to effect the cancellation and regrant of options under the Plan.

On January 16, 2001, the Board authorized an increase of 5,640,000 shares of Common Stock to the share reserve under the Plan, and the stockholders approved such increase at the 2001 Annual Meeting.

On January 23, 2002, the Board authorized an increase of 5,000,000 shares of Common Stock to the share reserve under the Plan. No options granted on the basis of the 5,000,000 share increase shall vest or become exercisable unless and until such share increase is approved by the stockholders at the 2002 Annual Meeting.

On October 21, 2002, the Board amended the Plan to (i) require stockholder approval of any amendments which increase the number of shares of Common Stock authorized for issuance under the Plan or which materially increase the benefits accruing to individuals participating in the Plan and (ii) eliminate the authority of the Plan Administrator to make loans under the Plan to executive officers of the Corporation or Board members.

(b) The provisions of the 1992 restatement and of each subsequent amendment to the Plan shall apply only to stock options and stock appreciation rights granted under the Plan from and after the applicable effective date of such restatement or amendment. All stock options and stock appreciation rights issued and outstanding under the Plan immediately prior to each such effective date shall continue to be governed by the terms and conditions of the Plan (and the respective agreements evidencing each such option or stock appreciation right) as in effect on the date each such option or stock appreciation right was previously granted, and nothing in the 1992 restatement or in any subsequent amendment shall be deemed to affect or otherwise modify the rights or obligations of the holders of such prior options or stock appreciation rights with respect to their acquisition of shares of Common Stock under such options or their exercise of such stock appreciation rights. However, the Plan Administrator may, in its discretion, modify stock option or stock appreciation right issued and outstanding immediately prior to the effective date of the 1992 restatement or any subsequent amendment to include one or more provisions to the Plan added by such restatement or amendment.

(c) Unless sooner terminated in accordance with Section VII, the Plan shall terminate upon the *earlier* of (i) December 31, 2005 or (ii) the date on which all shares available for issuance under the Plan shall have been issued or cancelled pursuant to the exercise, surrender of cash-out of the stock options and stock appreciation rights granted hereunder. If the date of termination is determined under clause (i) above, then each stock option or stock appreciation right outstanding on such date shall thereafter continue to have force and effect in accordance with the provisions of the instruments evidencing such grant.

(d) Options may be granted under this Plan to purchase shares of Common Stock in excess of the number of shares then available for issuance under the Plan, provided any excess shares actually issued under the Plan are held in escrow until stockholder approval is obtained for a sufficient increase in the number of shares available for issuance under the Plan. If such stockholder approval is not obtained within twelve (12) months after the date the first such excess option grants are made, then (I) any unexercised excess options shall terminate and cease to be exercisable and (II) the Corporation shall promptly refund the purchase price paid for any excess shares actually issued under the Plan and held in escrow, together with interest (at the applicable Short Term Federal Rate) for the period the shares were held in escrow.

XIII. *USE OF PROCEEDS*

Any cash proceeds received by the Corporation from the sale of shares pursuant to options granted under the Plan shall be used for general corporate purposes.

XIV. *REGULATORY APPROVALS*

The implementation of the Plan, the granting of any stock option or stock appreciation right hereunder, and the issuance of stock upon the exercise of any such option or stock appreciation right shall be subject to the procurement by the Corporation of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the options and stock appreciation rights granted under it and the stock issued pursuant to it.

Exhibit 10.30

EXHIBIT A

IDEC PHARMACEUTICALS CORPORATION

STOCK OPTION AGREEMENT

RECITALS

A. The Board of Directors of the Company has adopted the Company's 1988 Stock Option Plan, as amended (the "Plan"), for the purpose of attracting and retaining the services of selected key employees (including officers and directors) who contribute to the financial success of the Company or its parent or subsidiary corporations.

B. Optionee is an individual who is to render valuable services to the Company or its parent or subsidiary corporations, and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the Company's grant of a stock option to Optionee.

NOW, THEREFORE, it is hereby agreed as follows:

1. ***Grant of Option.*** Subject to and upon the terms and conditions set forth in this Agreement, the Company hereby grants to Optionee, as of the grant date (the "Grant Date") specified in the accompanying Notice of Grant of Stock Option (the "Grant Notice"), a stock option to purchase up to that number of shares of the Company's Common Stock (the "Optioned Shares") as is specified in the Grant Notice. The Optioned Shares shall be purchasable from time to time during the option term at the option price per share (the "Option Price") specified in the Grant Notice.

2. ***Option Term.*** This option shall have a maximum term of ten (10) years measured from the Grant Date and shall accordingly expire at the close of business on the expiration date (the "Expiration Date") specified in the Grant Notice, unless sooner terminated in accordance with Paragraph 5 or 6.

3. ***Limited Transferability.*** This option (together with the limited stock appreciation right pertaining to this option) shall be neither transferable nor assignable by Optionee other than a transfer of the option effected by will or the laws of inheritance distribution following the Optionee's death and may be exercised, during Optionee's lifetime, only by Optionee. However, if this option is designated as a Non-statutory Option in the Grant Notice, then this option may, in connection with the Optionee's estate plan, be assigned in whole or in part during the Optionee's lifetime to one or more members of the Optionee's immediate family or to a trust established exclusively for one or more such family members. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the stock option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the stock option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

4. ***Dates of Exercise.*** This option shall become exercisable for the Optioned Shares in one or more installments in accordance with the exercise schedule set forth in the Grant Notice. As the option becomes exercisable for one or more installments, those installments shall accumulate, and the option shall remain exercisable for such installments until the Expiration Date or sooner termination of the option term under Paragraph 5 or Paragraph 6 of this Agreement.

5. ***Cessation of Service.*** The option term specified in Paragraph 2 shall terminate (and this option shall cease to be exercisable) prior to the Expiration Date should one of the following provisions become applicable:

(i) Except as otherwise provided in subparagraphs (ii) or (iii) below, should Optionee cease to remain in Service at any time during the option term, then the period for exercising this option shall be reduced to a three (3)-month period commencing with the date of such cessation of Service, but in no event shall this option be exercisable at any time after the Expiration Date.

Upon the expiration of such three (3)-month period or (if earlier) upon the Expiration Date, this option shall terminate and cease to be outstanding.

(ii) Should Optionee die while in Service or during the three (3)-month period following Optionee's cessation of Service, then the personal representative of the Optionee's estate or the person or persons to whom the option is transferred by will or the laws of inheritance following Optionee's death or to whom the option is transferred during Optionee's lifetime pursuant to a permitted transfer under Paragraph 3 shall have the right to exercise this option. Such right shall lapse, and this option shall cease to remain exercisable, upon the *earlier* of (A) the expiration of the thirty-six (36)-month period measured from the date of Optionee's death or (B) the Expiration Date. Upon the expiration of such thirty-six (36)-month period or (if earlier) upon the Expiration Date, this option shall terminate and cease to be outstanding.

(iii) Should Optionee become permanently disabled and cease by reason thereof to remain in Service at any time during the option term, then the period for exercising this option shall be reduced to a thirty-six (36)-month period commencing with the date of such cessation of Service. In no event, however, shall this option be exercisable at any time after the Expiration Date. Optionee shall be deemed to be **permanently disabled** if Optionee is unable to engage in any substantial gainful activity by reason of any medically-determinable physicalor mental impairment expected to result in death or otherwise to continue for a period of not less than twelve (12) months. Upon the expiration of such limited period of exercisability or (if earlier) upon the Expiration Date, this option shall terminate and cease to be outstanding.

(iv) During the limited period of post-Service exercisability applicable under subparagraph (i), (ii) or (iii) above, this option may not be exercised in the aggregate for more than the number of Optioned Shares for which this option is, at the time of Optionee's cessation of Service, exercisable in accordance with the normal exercise provisions specified in the Grant Notice or the special acceleration provision of Paragraph 6 of this Agreement. However, upon the Optionee's cessation of Service, this option shall immediately terminate and cease to be outstanding with respect to any Optioned Shares for which such option is not otherwise at that time exercisable.

(v) For purposes of this Agreement, the Optionee shall be deemed to remain in **Service** for as long as the Optionee continues to render periodic services to the Company or any Parent or Subsidiary corporation, whether as an Employee, a non-employee member of the Board of Directors, or an independent contractor or consultant. In applying the provisions of this Agreement, the Optionee shall be deemed to be an **Employee** and to continue in the Company's employ for so long as the Optionee remains in the employ of the Company or one or more of its Parent or Subsidiary corporations, subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

(vi) In applying the provisions of this Agreement, a corporation shall be considered to be a **Subsidiary** if it is a member of an unbroken chain of corporations beginning with the Company, provided each such corporation in the chain (other than the last corporation) owns, at the time of determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation shall be considered to be a **Parent** if it is a member of an unbroken chain ending with the Company, provided each such corporation in the chain (other than the Company) owns, at the time of determination, stock possessing fifty percent (50%) or more the total combined voting power of all classes of stock in one of the other corporations in such chain.

6. ***Corporate Transaction.***

A. In the event of one or more of the following transactions (a "Corporate Transaction"):

(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state of the Company's incorporation,

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company in liquidation or distribution of the Company, or

(iii) any reverse merger in which the Company is the surviving entity but in which fifty percent (50%) or more of the Company's outstanding voting stock is transferred to holders different from those who held the stock immediately prior to such merger,

then the exercisability of this option (to the extent outstanding at that time) shall automatically accelerate so that such option shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable for all of the Optioned Shares and may be exercised for all or any portion of such shares. No such acceleration of this option, however, shall occur if and to the extent the option is, in connection with the Corporate Transaction, either to be assumed by the successor corporation or parent thereof or be replaced with a comparable option to purchase shares of the capital stock of the successor corporation or parent thereof. The determination of comparability shall be made by the Plan Administrator, and its determination shall be final, binding and conclusive.

B. This option, to the extent not previously exercised, shall terminate upon the consummation of the Corporate Transaction and cease to be exercisable, unless it is expressly assumed by the successor corporation or parent thereof.

C. The exercisability of this option as an incentive stock option under the Federal tax laws (if designated as such in the Grant Notice) shall, in connection with any such Corporate Transaction, be subject to the applicable dollar limitation of Paragraph 18.

D. This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise make changes in its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

7. ***Adjustment in Optioned Shares.***

A. In the event any change is made to the Common Stock issuable under the Plan by reason of any stock split, stock dividend, combination of shares, exchange of shares, or other change affecting the outstanding Common Stock as a class without receipt of consideration, appropriate adjustments shall be made to (I) the class and/or number of Optioned Shares subject to this option and (II) the Option Price payable per share in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

B. If this option is to be assumed or is otherwise to remain outstanding after a Corporate Transaction, then this option shall be appropriately adjusted to apply and pertain to the number and class of securities which would have been issuable to the Optionee in the consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction, and appropriate adjustments shall also be made to the Option Price payable per share, *provided* the aggregate Option Price payable hereunder shall remain the same.

8. ***Privilege of Stock Ownership.*** The holder of this option shall not have any of the rights of a stockholder with respect to the Optioned Shares until such individual shall have exercised the option and paid the Option Price.

9. ***Manner of Exercising Option.***

A. In order to exercise this option with respect to all or any part of the Optioned Shares for which this option is at the time exercisable, Optionee (or any other person or persons properly exercising this option) must take the following actions:

(i) Execute and deliver to the Manager of Stock Administration a notice of exercise, either in writing or electronic format (the "Exercise Notice"), in substantially the form of Exhibit I attached hereto, in which there is specified the number of Optioned Shares for which the option is exercised.

(ii) Pay the aggregate Option Price for the purchased shares in one or more of the following alternative forms:

1. payment in cash or check payable to the Company; or

2. payment in shares of Common Stock of the Company held by the Optionee for the requisite period necessary to avoid a charge to the Company's reported earnings and valued at Fair Market Value on the Exercise Date (as such terms are defined below); or

3. payment through a special sale and remittance procedure pursuant to which the Optionee is to provide irrevocable instructions (I) to a designated brokerage firm to (A) effect the immediate sale of the purchased shares and (B) remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate Option Price payable for the purchased shares plus all applicable Federal and State income and employment taxes required to be withheld by the Company by reason of such purchase and (II) to the Company to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale transaction.

4. any other form which the Plan Administrator may, in its discretion, approve at the time of exercise in accordance with the provisions of Paragraph 14 of this Agreement.

(iii) Furnish to the Company appropriate documentation that the person or persons exercising the option (if other than Optionee) have the right to exercise this option.

Except to the extent the sale and remittance procedure is utilized in connection with the exercise of the option, payment of the Option Price for the purchased shares of Common Stock must accompany the Exercise Notice delivered to the Company.

B. For purposes of this Agreement, the Exercise Date shall be the date on which the executed Exercise Notice shall have been delivered to the Company, and the Fair Market Value per share of Common Stock on any relevant date shall be determined in accordance with subparagraphs (i) and (ii) below:

(i) If the Common Stock is not at the time listed or admitted to trading on any stock exchange but is traded on the Nasdaq National Market System, the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as such price is reported by the National Association of Securities Dealers ton the Nasdaq National Market and published in *The Wall Street Journal*. If there is no closing selling price for the Common Stock on the date in question, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of Fair Market Value.

(ii) If the Common Stock is on the date in question listed or admitted to trading on any national stock exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on such date on the stock exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange and published in *The Wall Street Journal*. If there is no reported

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sale of Common Stock on such exchange on the date in question, then the Fair Market Value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists.

C. As soon after the Exercise Date as practical, the Company shall mail or deliver to or on behalf of the Optionee (or any other person or persons exercising this option) a certificate or certificates representing the purchased shares, with the appropriate legends affixed thereto.

D. In no event may this option be exercised for any fractional shares.

10. ***Compliance with Laws and Regulations.***

A. The exercise of this option and the issuance of the Optioned Shares upon such exercise shall be subject to compliance by the Company and the Optionee with all applicable requirements of law relating thereto and with all applicable regulations of any stock exchange on which shares of the Company's Common Stock may be listed at the time of such exercise and issuance.

B. In connection with the exercise of this option, Optionee shall execute and deliver to the Company such representations in writing as may be requested by the Company in order for it to comply with the applicable requirements of Federal and state securities laws.

11. ***Successors and Assigns.*** Except to the extent otherwise provided in Paragraph 3 or 6, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of Optionee and the successors and assigns of the Company.

12. ***Liability of Company.***

A. If the Optioned Shares covered by this Agreement exceed, as of the Grant Date, the number of shares of Common Stock which may without stockholder approval be issued under the Plan, then this option shall be void with respect to such excess shares unless stockholder approval of an amendment sufficiently increasing the number of shares of Common Stock issuable under the Plan is obtained in accordance with the provisions of Section XIII of the Plan.

B. The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of any Common Stock pursuant to this option shall relieve the Company of any liability with respect to the non-issuance or sale of the Common Stock as to which such approval shall not have been obtained. The Company, however, shall use its best efforts to obtain all such approvals.

13. ***Notices.*** Any notice required to be given or delivered to the Company under the terms of this Agreement shall be in writing or in electronic format and addressed to the Company in care of the Manager of Stock Administration at the Company's principal corporate offices. Any notice required to be given or delivered to Optionee shall be either in writing and addressed to Optionee at the address indicated below Optionee's signature line on the Grant Notice or in electronic format delivered to Optionee's e-mail address with the Company. All notices shall be deemed to have been given or delivered upon personal or electronic delivery or upon deposit in the U.S. mail, postage prepaid and properly addressed to the party to be notified.

14. ***Promissory Note.*** The Plan Administrator may, in its absolute discretion and without any obligation to do so, allow the Optionee to pay the Option Price for the purchased shares of Common Stock hereunder (less the par value of those shares) by delivering a full-recourse promissory note bearing a market rate of interest and secured by the purchased shares and payable to the Company in one or more installments over a period of years. The remaining terms of any such promissory note shall be established by the Plan Administrator in its sole discretion. However, in no event shall any such promissory note be authorized if prohibited by Section 402 of the Sarbanes-Oxley Act of 2002.

15. ***At Will Employment or Service.*** Nothing in this Agreement or in the Plan shall confer upon the Optionee any right to continue in the Service of the Company (or any Parent or Subsidiary employing or retaining Optionee) for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any such Parent or Subsidiary) or the Optionee, which rights are hereby expressly reserved by each, to terminate the Optionee's Service at any time for any reason whatsoever, with or without cause.

16. ***Construction.*** This Agreement and the option evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the express terms and provisions of the Plan. All decisions of the Plan Administrator with respect to any question or issue arising under the Plan or this Agreement shall be conclusive and binding on all persons having an interest in this option.

17. ***Governing Law.*** The interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the State of California without resort to that State's conflict-of-laws rules.

18. ***Additional Terms Applicable to an Incentive Stock Option.*** In the event this option is designated an incentive stock option in the Grant Notice, the following terms and conditions shall also apply to the grant:

A. This option shall cease to qualify for tax treatment as an incentive stock option under the Federal tax laws if (and to the extent) this option is exercised for one or more Optioned Shares: (i) more than three (3) months after the date the Optionee ceases to be an Employee for any reason other than death or permanent disability (as defined in Paragraph 5) or (ii) more than one (1) year after the date the Optionee ceases to be an Employee by reason of permanent disability.

B. No installment under this option (whether annual or monthly) shall qualify for tax treatment as an incentive stock option under the Federal tax laws if (and to the extent) the aggregate fair market value (determined at the Grant Date) of the Company's Common Stock for which such installment first becomes exercisable hereunder will, when added to the aggregate fair market value (determined as of the respective date or dates of grant) of the Company's Common Stock for which one or more other incentive stock options granted to the Optionee prior to the Grant Date (whether under the Plan or any other option plan of the Company or any Parent or Subsidiary corporation) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. Should the number of shares of Common Stock for which this option first becomes exercisable in any calendar year exceed the applicable One Hundred Thousand Dollar ($100,000) limitation, the option may nevertheless be exercised for those excess shares in such calendar year as a non-statutory option.

C. Should the exercisability of this option be accelerated upon a Corporate Transaction in accordance with Paragraph 6, then this option shall qualify for favorable tax treatment as an incentive stock option under the Federal tax laws only to the extent the aggregate fair market value (determined at the Grant Date) of the Company's Common Stock for which this option first becomes exercisable in the calendar year in which the Corporate Transaction occurs does not, when added to the aggregate fair market value (determined as of the respective date or dates of grant) of the Company's Common Stock for which this option or one or more other incentive stock options granted to the Optionee prior to the Grant Date (whether under the Plan or any other option plan of the Company or any Parent or Subsidiary corporations) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. Should the number of shares of Common Stock for which this option first becomes exercisable in the calendar year of such Corporate Transaction exceed the applicable One Hundred Thousand Dollar ($100,000) limitation, the option may nevertheless be exercised for those excess shares in such calendar year as a non-statutory option.

D. To the extent this option should fail to qualify as an incentive stock option under the Federal tax laws, the Optionee will recognize compensation income in connection with the acquisition of one or more Optioned Shares hereunder, and the Optionee must make appropriate arrangements for the satisfaction of all Federal, State or local income and employment tax withholding requirements applicable to such compensation income.

19. ***Additional Terms Applicable to a Non-Statutory Stock Option.*** In the event this option is designated a non-statutory stock option in the Grant Notice, Optionee hereby agrees to make appropriate arrangements with the Company or parent or subsidiary corporation employing Optionee for the satisfaction of all Federal, State or local income and employment tax withholding requirements applicable to the exercise of this option.

20. ***Authorized Leave of Absence.*** The following provisions shall apply upon the Optionee's commencement of an authorized leave of absence:

A. The Optionee shall, for purposes of the exercise schedule set forth in the Grant Notice, receive Service credit for the first thirty (30) days of such authorized leave or for the entire period of the leave if such leave is less than thirty (30) days.

B. If the authorized leave of absence exceeds thirty (30) days, then no further Service credit shall be given after the first thirty (30) days of such leave, and the exercise schedule in effect under the Grant Notice shall be frozen at the end of that thirty-day (30) period. Accordingly, this option shall not become exercisable for any additional installments of the Option Shares during the remainder of the Optionee's authorized leave.

C. Should Optionee resume active Employee status within one hundred twenty (120) days after the start date of the authorized leave, without any intervening break in Service, then Optionee shall, for purposes of the exercise schedule set forth in the Grant Notice, receive Service credit for the entire period of such leave. However, if Optionee does not resume active Employee status within such one hundred twenty (120)-day period or otherwise terminates Service during that period, then no Service credit shall be given for the period of such leave beyond the initial thirty (30) days of that leave.

D. If this option is designated as an Incentive Option in the Grant Notice, then the following additional provision shall apply:

(i) If the leave of absence continues for more than ninety (90) days, then this option shall automatically convert to a Non-Statutory Option at the end of the three (3)-month period measured from the ***later*** of (x) the ninety-first (91st) day of such leave or, if applicable, (ii) the first date the Optionee's reemployment rights are no longer guaranteed by statute or by written agreement. Following any such conversion of this option, all subsequent exercises of this option, whether effected before or after Optionee's return to active Employee status, shall result in an immediate taxable event, and the Corporation shall be required to collect from Optionee the income and employment withholding taxes applicable to such exercise.

E. In no event shall this option become exercisable for any additional Option Shares or otherwise remain outstanding if Optionee does not resume Employee status prior to the Expiration Date of the option term.

21. ***Limited Stock Appreciation Right.*** Optionee is hereby granted a limited stock appreciation right, exercisable upon the terms and conditions set forth below:

A. The stock appreciation right shall under no circumstances become exercisable until the option has been outstanding for a period of at least six (6) months measured from the Grant Date of this option.

B. Provided (i) the Optionee is at the time an officer or director of the Company subject to the short-swing profit restrictions of the Federal securities laws and (ii) the Company's outstanding Common Stock is at the time registered under Section 12(g) of the Securities Exchange Act of 1934 ("1934 Act"), then this option shall automatically be cancelled upon the effective date of a Hostile Take-Over, to the extent this option is at such time exercisable for fully-vested shares of Common Stock. The Optionee shall in return be entitled to a cash distribution from the Company in an amount equal to the excess of (i) the Take-Over Price of the vested shares of Common Stock for which the option is exercisable at the time of cancellation over (ii) the aggregate Option Price payable for such shares. The Plan Administrator hereby pre-approves the exercise of this limited stock appreciation right in accordance with the terms of this Paragraph 21. Accordingly, the cash distribution shall be made within five (5) days following the effective date of the Hostile Take-Over, and no further approval of the Plan Administrator or the Company's Board of Directors shall be required at the time this limited stock appreciation right is exercised. The balance of the option (if any) shall continue to be governed by the terms and provisions of this Agreement.

C. For purposes of such distribution, the following definitions shall be in effect:

- A Hostile Take-Over shall be deemed to occur in the event (i) any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934) of securities possessing more than twenty-five percent (25%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer which the Board of Directors does not recommend the Company's stockholders to accept.

- The Take-Over Price per share of Common Stock shall be deemed to be equal to the *greater* of (a) the Fair Market Value per share of Common Stock on the date of the Hostile Take-Over or (b) the highest reported price per share paid by the tender offeror in effecting the Hostile Take-Over. However, to the extent the cancelled option is an incentive stock option under the Federal tax laws, the Take-Over Price of the shares subject to the cancelled option shall not exceed the value per share determined under clause (a) above.

EXHIBIT I

NOTICE OF EXERCISE OF STOCK OPTION

I hereby notify IDEC Pharmaceuticals Corporation (the "Company") that I elect to purchase shares of the Company's Common Stock (the "Purchased Shares") pursuant to that certain option (the "Option") granted to me on , 20 to purchase up to shares of such Common Stock at an option price of $ per share (the "Option Price").

Concurrently with the delivery of this Exercise Notice to the Secretary of the Company, I shall pay to the Company the Option Price for the Purchased Shares in accordance with the provisions of my agreement with the Company evidencing the Option and shall deliver whatever additional documents may be required by such agreement as a condition for exercise.

Date

Optionee

Address:

Print name in exact manner it is to appear on the stock certificate:

Address to which certificate is to be sent, if different from address above:

Social Security Number:

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