



HIGHLIGHTS

- **Phase 3 pivotal trial of Allovectin-7[®] immunotherapeutic in metastatic melanoma**
 - Actively enrolling patients at 40 of 60 total planned sites in the Americas and Europe
 - Targeting completion of enrollment in mid-2009
- **Phase 2 trial of DNA vaccine for cytomegalovirus in hematopoietic cell transplant patients**
 - Proof of concept may support development of vaccine to prevent congenital disease
 - Interim efficacy data expected in second half of 2008
- **Phase 1 trial of DNA vaccine for H5N1 pandemic influenza**
 - First time in man with novel Vaxfectin[®] adjuvant
 - Safety and immunogenicity data expected in third quarter of 2008
- **Phase 3 angiogenesis programs**
 - AnGes met Phase 3 trial endpoints at interim analysis; preparing filing for Japanese approval
 - Sanofi-aventis started multinational Phase 3 trial expected to be completed by 2010
- **Two commercial animal health products through licensees**
 - Canine melanoma vaccine conditionally approved in U.S. in 2007 (Merial)
 - Salmon vaccine approved in Canada in 2005 (Novartis Animal Health)
- **Compelling animal data with Vaxfectin[®] adjuvant**
 - Dose sparing of protein-based seasonal influenza vaccine
 - Dose sparing of protein-based H5N1 vaccine
 - 100% protection against measles in juvenile and infant nonhuman primates

CONDENSED FINANCIAL INFORMATION (Unaudited)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<i>(in thousands, except per share data)</i>		
Statement of Operations Data (for full year)			
Revenues	\$ 5,512	\$ 14,740	\$ 12,003
Operating expenses	45,774	41,157	37,654
Loss from operations	(40,262)	(26,417)	(25,651)
Net investment income	4,368	3,269	1,294
Net loss	(35,894)	(23,148)	(24,357)
Net loss per common share (basic and diluted)	\$ (0.92)	\$ (0.74)	\$ (0.99)
Weighted average shares used in per share calculation	39,190	31,434	24,581
Balance Sheet Data (at end of period)			
Cash, cash equivalents and marketable securities, including restricted	\$ 71,489	\$ 100,393	\$ 66,486
Working capital	64,642	97,289	63,484
Total assets	90,585	125,249	94,530
Long-term obligations, less current portion	2,565	2,973	5,444
Stockholders' equity	79,912	114,123	80,306

Dear Shareholders,

*2007 was a year of successful execution for Vical,
representing solid progress across our key programs,
both independent and partnered.*

We started the year with aggressive goals and ended the year with a long list of accomplishments.

Allovectin-7[®]

In early 2007, we started a pivotal Phase 3 trial to evaluate Allovectin-7[®], our lead oncology product candidate, as first-line therapy for patients with advanced metastatic melanoma, an aggressive form of skin cancer. By year-end, we had opened more than 40 clinical sites across the United States and had begun expanding into Canada and Europe. The trial is being funded by our partner, AnGes MG, through a combination of cash payments and equity investments.

The primary efficacy endpoint in the Allovectin-7[®] Immunotherapy for Metastatic Melanoma (AIMM) trial is durable response rate (DRR), an alternative to the typical survival endpoint. This DRR endpoint was negotiated with the U.S. Food and Drug Administration (FDA) through the Special Protocol Assessment (SPA) process, and is a key element of our plan to advance this treatment to commercialization as quickly as possible. The FDA separately has granted orphan drug designation to Allovectin-7[®] for metastatic melanoma, which could provide post-approval U.S. market exclusivity as well as tax benefits for qualifying expenses. If we succeed in our clinical efforts, we believe Allovectin-7[®] could become a well-accepted first-line treatment for metastatic melanoma. We anticipate completion of enrollment in mid-2009.

CMV Vaccine

Our lead infectious disease vaccine candidate is a DNA vaccine against cytomegalovirus (CMV), a common herpesvirus that infects more than half of all adults in the United States by age 40. A healthy immune system typically protects an infected person against CMV disease, but rarely eliminates the infection, and those whose immune systems are compromised are at high risk of CMV reactivation, potentially leading to severe illness or death.

Those at greatest risk include transplant patients who take immunosuppressive drugs, and infants born to mothers who initially become infected during pregnancy, particularly during the first trimester. Infants born with CMV infection can be affected by blindness, deafness, and mental retardation, which are frequently undiagnosed until the child reaches several years of age. Congenital CMV is the leading infectious disease cause of birth defects in the United States, similar to rubella in the '40s and '50s. Widespread vaccination has the potential to significantly reduce or even eliminate congenital CMV over time.

Vical is among the few companies actively developing a CMV vaccine, and our initial focus is on patients undergoing hematopoietic stem cell transplants (HCTs). Our Phase 2 CMV vaccine trial began in 2006, and we reached the 20-recipient milestone in mid-2007, triggering a successful interim safety data analysis. We intend to evaluate the potential of our CMV vaccine program for both HCT and congenital applications following the interim analysis of our Phase 2 data in the second half of 2008.

Pandemic Influenza Vaccine

We believe our vaccine offers unique advantages that could be critical in avoiding a pandemic-driven disaster. Our DNA vaccine targets not only the hemagglutinin (HA) surface protein of the influenza virus, which changes readily from strain to strain, but also two conserved proteins – nucleoprotein (NP) and the ion channel protein (M2). We have demonstrated in mice the ability of a DNA vaccine encoding NP and M2 alone to provide high-level protection against seasonal and potential pandemic strains of influenza. A single dose of a DNA vaccine encoding all three proteins provided complete protection in ferrets against a deadly Vietnam strain of H5N1 influenza.

During 2007, we completed preclinical testing in our pandemic influenza vaccine program, successfully filed an Investigational New Drug (IND) application and started our 100-subject, double-blind, placebo-controlled Phase 1 trials. We completed enrollment on schedule during the first quarter of 2008. We are eager to share the Phase 1 safety and immunogenicity data from our pandemic influenza study as soon as possible, and are on track to release initial results by August 2008.

Vaxfectin®

Vaxfectin® is a novel cationic lipid formulation originally designed to increase the immune response to DNA vaccines. Nonclinical testing has demonstrated the safety and adjuvant activity of Vaxfectin® with DNA vaccines in multiple animal models from mice to nonhuman primates.

In 2007, we demonstrated significant dose-sparing advantages using Vaxfectin® with protein-based vaccines for both seasonal and pandemic influenza, which could be critical in stretching limited vaccine supplies. We also reported on a measles DNA vaccine formulated with Vaxfectin® which elicited sustained protective levels of neutralizing antibodies in infant (6 - 10 week old) nonhuman primates confirmed by complete protection following challenge one year after vaccination, with no clinical signs of disease and no culturable virus after challenge. We found similar results in juvenile (1 - 2 year old) nonhuman primates. Also reported in 2007 were data from a study using a Vaxfectin®-formulated tetravalent DNA vaccine for dengue which elicited neutralizing antibodies against all four encoded antigens and provided protection against challenge in nonhuman primates.

Vaxfectin® is being tested in humans for the first time in our pandemic influenza vaccine trial. Interest in this adjuvant continues to grow, and we are pursuing broader applications with potential partners.

Angiogenesis

Angiogenesis – promoting the growth of new blood vessels in an area of reduced blood flow – is potentially one of the largest markets for our technology, and certainly offers the nearest-term commercialization opportunity for its application in humans. From their initial focus on advanced peripheral arterial disease (PAD), our two angiogenesis partners, AnGes and sanofi-aventis, could expand the application of these treatments to earlier-stage disease. We expect to receive milestone payments from both programs as they advance through development, and we could receive substantial royalties if they advance to marketing approval.

AnGes, our partner in Japan, achieved the primary efficacy endpoints at the interim analysis after enrolling only one-third of the patients (41 of a planned 120) in its pivotal, double-blind, placebo-controlled Phase 3 angiogenesis trial. Those endpoints, improvements in pain at rest and reduction in ischemic ulcers 12 weeks after dosing, demonstrated statistically significant improvement in the treatment group compared with the placebo group. On the strength of the interim data analysis and the recommendation of an Independent Data Monitoring Committee, AnGes began preparing for Japanese marketing approval and is expected to file for licensure in the second quarter of 2008.

Sanofi-aventis, our French partner, initiated its pivotal, double-blind, placebo-controlled Phase 3 trial in about 500 patients, which is designed to support approval in major global markets. The primary efficacy endpoint of this trial is reduction of the need for amputations in patients receiving treatment compared to those receiving placebo. This endpoint was a direct result of observed reduction in amputation rates in a previously completed Phase 2 trial. Assuming successful completion of the trial, sanofi-aventis expects to file for marketing approval in 2010.

Animal Health - Merial

In the animal health arena, Merial received conditional approval in 2007 of its canine melanoma vaccine. This is the first therapeutic vaccine approved in humans or animals anywhere in the world, and is therefore an important accomplishment both for the platform and the field of vaccines in general. This vaccine has gained some early acceptance in the market and is advancing toward full approval, which could occur later in 2008.

Outlook

We are pleased with the advances that we made in 2007 and look forward to achieving our projected key milestones in 2008. We ended 2007 with approximately \$71 million in cash and investments, which we anticipate will be sufficient to sustain our progress through at least 2009.

That progress includes the expected completion of our Phase 1 pandemic influenza trial and release of initial data by August 2008. We expect to complete an interim safety and efficacy analysis in our Phase 2 CMV vaccine trial in the second half of 2008. We continue to focus on patient enrollment and expect to complete the major geographical expansion of clinical sites in our Phase 3 trial of Allovectin-7[®] by mid-2008.

Among partnered programs, we expect our licensee, AnGes, to file for marketing approval in Japan for its angiogenesis product, potentially in the first half of 2008. We expect an enrollment update later in the year by our licensee, sanofi-aventis, on the ongoing Phase 3 trial for its angiogenesis product. And we expect Merial to pursue full approval of its canine melanoma vaccine.

We thank our collaborative partners, our employees, our customers and suppliers, and our long-term investors for their continuing support as we progress toward realizing the potential of DNA vaccines.

Sincerely,

A handwritten signature in black ink, appearing to read "V.B. Samant". The signature is fluid and cursive, with a long horizontal stroke at the end.

Vijay B. Samant
President and Chief Executive Officer

April 4, 2008

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Vical Incorporated

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Annual Meeting

Country Inn & Suites

5975 Lusk Boulevard

San Diego, CA 92121

Thursday, May 22, 2008

9:00 a.m.

Corporate Information

Vical common stock is traded on the Nasdaq Global Market under the symbol VICL.

Vical's Annual Report on Form 10-K contains additional information about our business, including our full financial statements and related notes, and is therefore an integral part of this report. In addition, this report contains statements that discuss our future expectations, contain projections of our results of operations and financial condition and include other forward-looking information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Our actual results may differ significantly and materially from those expressed in these forward-looking statements as a result of risks and uncertainties, including those detailed in our Annual Report on Form 10-K. We disclaim any intent or obligation to update these forward-looking statements, and you should not unduly rely on them.

SEC Form 10-K

A copy of the exhibits to Vical's Annual Report on Form 10-K filed with the Securities and Exchange Commission is available, upon payment of our reasonable expenses in furnishing such exhibits, upon written request to:

Investor Relations

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