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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the
Securities and Exchange Act of 1934

FOR FISCAL YEAR ENDED SEPTEMBER 30, 1995

0-14732
(Commission file number)

ADVANCED MAGNETICS, INC.
(Exact name of registrant as specified in its charter)

Delaware	4-2742593
(State of Incorporation)	(IRS employer identification number)
725 Concord Avenue Cambridge, Massachusetts (Address of principal executive offices)	02138 (ZIP Code)

(617) 354-3929
(Registrant's telephone number)

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share

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 X No _____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of Common Stock held by non-affiliates of the registrant at December 8, 1995 was approximately $135,190,000, based upon the last reported sale price of the Common Stock on The American Stock Exchange. The number of shares of the registrant's Common Stock outstanding at December 8, 1995 was 6,754,328.

Documents incorporated by reference:

Portions of the Annual Report to Stockholders for the fiscal year ended September 30, 1995 are incorporated by reference into Parts II and IV hereof.

Portions of the Company's Proxy Statement relating to the Company's Annual Meeting of Stockholders to be held

on February 6, 1996 are incorporated by reference into Part III hereof.

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(TM) = TRADEMARK
(R) = Registered Mark

PART I

ITEM 1. BUSINESS:

COMPANY OVERVIEW

Advanced Magnetics, Inc., a Delaware corporation ("Advanced Magnetics" or the "Company"), develops, manufactures and markets innovative biopharmaceutical products based principally on its proprietary colloidal superparamagnetic particle technology. The Company is targeting two primary product areas: (i) magnetic resonance imaging ("MRI") contrast agents for diagnosis of cancer and other diseases and (ii) a drug delivery system for the delivery of therapeutic agents to the liver. The Company is currently conducting preclinical studies of the delivery of an antiviral agent for the treatment of hepatitis B.

The MRI contrast agents being developed by the Company are colloidal superparamagnetic formulations designed to enhance images of the abdomen, the liver and the lymphatic system, as well as other systems. In many cases, MRI images made using contrast agents are clearer and permit the identification of smaller abnormalities than images produced by computerized tomography ("CT scanning"), MRI without contrast agents and other imaging techniques. The Company expects to market its contrast agents both directly and through marketing partners.

The Company has entered into marketing, manufacturing and distribution agreements for its contrast agents with Berlex Laboratories, Inc. ("Berlex") in the United States and Canada, Mallinckrodt Medical, Inc. ("Mallinckrodt"), a division of The Mallinckrodt Group, Inc., in the United States, Guerbet, S.A. ("Guerbet") in Western Europe and Brazil, and Eiken Chemical Co., Ltd. ("Eiken") in Japan.

The Company's products are at various stages of clinical development in the United States and abroad:

- - The Company submitted a New Drug Application ("NDA") to the U.S. Food and Drug Administration ("FDA") for Feridex I.V.(TM), the Company's first generation liver contrast agent, in February 1994 which was accepted for filing in April 1994. The Company expects to receive an "approvable" letter from the FDA for the product in the first calendar quarter of 1996. The "approvable" letter is the last official action by the FDA prior to granting a final approval for marketing of a pharmaceutical.

- - In fiscal 1993, Guerbet filed a dossier in Europe for Feridex I.V. (sold under the tradename Endorem(TM) in Europe) which was unanimously approved by the European Union's ("EU") Committee for Proprietary Medicinal Products ("CPMP") in September 1994. The product has since been approved for marketing in all EU countries except Italy, Austria and Turkey.

- - In March 1994, Eiken filed a new drug application for approval of Feridex I.V. in Japan with the Japanese Ministry of Health (Koseisho). It is presently anticipated by Eiken that approval to market in Japan will be received in 1996.

- - In November 1993, the Company submitted an NDA to the FDA for its oral contrast agent GastroMARK[REGISTERED TM] (AMI-121), a product used for marking of the bowel in MRI procedures. This NDA was accepted for filing in January 1994 and is currently being reviewed by the FDA. The Company expects

to receive an initial FDA action letter in the first calendar quarter of 1996.

- - In fiscal 1993, Guerbet received marketing approval in several European countries, including France, for GastroMARK (sold under the tradename Lumirem[TRADEMARK] in Europe).

- - Phase II human clinical trials for Combidex[TRADEMARK] (AMI-227) were completed in the United States in fiscal 1994. In 1995, the Company initiated Phase III U.S. trials for Combidex in imaging of lesions of the liver and spleen, which trials are expected to be completed by the end of 1995. Additional Phase III trials for imaging of lymph nodes and for the use of Combidex as a vascular brightening contrast agent in magnetic resonance angiography (MRA) were planned and discussed with the FDA in 1995. These Phase III trials are expected to begin in 1996.

- - Phase II clinical trials for Combidex were initiated in Europe in fiscal 1994, and Phase III human trials were initiated in Europe in 1995. Phase I trials are expected to begin in Japan in fiscal 1996.

- - The Company is currently conducting preclinical studies of an antiviral agent for the treatment of hepatitis B. A human Phase I clinical trial for this product is planned for mid-1996.

The Company was incorporated in Delaware in 1981. The Company's principal executive offices are located at 725 Concord Avenue, Cambridge, Massachusetts 02138, and its telephone number is (617) 354-3929.

MRI INDUSTRY BACKGROUND

Diagnostic imaging is an established part of high technology medicine and is routinely used when diagnosis and treatment plans depend on visualizing internal abnormalities and changes in structure. A number of methods exist for viewing the internal structure of the body in order to diagnose disease and injury. These techniques include x-rays, CT scanning, nuclear imaging, ultrasound and MRI. MRI is based on the magnetic properties that certain nuclei in body tissue exhibit when placed in a strong magnetic field. In MRI, the patient is placed inside a tube-shaped magnet and a short radio frequency pulse is applied. After the pulse is turned off, the nuclei of the patient's cells emit a weak signal in the radio frequency range, which is recorded and analyzed by computer as the nuclei return to equilibrium. The computer then generates a detailed image of the tissue or organ, which may be analyzed by a radiologist in making a diagnosis.

Contrast agents increase the utility of many diagnostic imaging techniques by making possible clearer distinctions among different organs and types of tissues. The availability of more effective, safer contrast agents has resulted in increased use of diagnostic imaging. The market for contrast agents used in diagnostic imaging has been undergoing sustained and rapid growth, especially in the last five to ten years. MRI, as the newest and most rapidly growing imaging modality, represents a significant growth opportunity as it has the least developed contrast agent market.

MRI is considered superior to x-ray and CT scanning for the imaging of the brain and spinal column. The Company believes that MRI will be increasingly used for a wider range of applications as additional contrast agents become available to

enhance image quality, reduce image analysis time and permit the identification of tumors and other structures that are less readily identifiable using other diagnostic imaging techniques.

TECHNOLOGY

Advanced Magnetics' core technology is based on its ability to design and manufacture extremely small superparamagnetic iron oxide particles of controlled sizes and with specific bioactive coatings. These coated particles range in size from approximately one-thousandth to approximately one-twentieth the size of a normal red blood cell. When placed in a magnetic field, superparamagnetic iron oxides become strongly magnetic, but do not maintain their magnetism once the field is removed. The Company's proprietary technology and expertise enable it to synthesize, sterilize and stabilize superparamagnetic particles in a manner necessary for their use in pharmaceutical products. The Company's rights to technology are derived from and protected by license agreements, issued patents, patent applications and trade secrets. See "Business - Patents and Trade Secrets."

CONTRAST AGENTS

The Company is developing intravenous MRI contrast agents for imaging of the liver and the lymphatic system, and the gastrointestinal tract. The Company has chosen to develop liver and lymphatic agents because many common cancers first metastasize to the liver and lymph nodes. Therefore, these products may become important diagnostic elements for the staging of metastatic disease. No MRI contrast agents specifically for the liver and the lymphatic system are currently being marketed anywhere in the world except for Feridex I.V. in Europe.

The gastrointestinal agent being developed by the Company is intended to improve imaging of abdominal organs by distinguishing between the loops of the bowel and other abdominal organs and structures. GastroMARK is administered orally, and the iron it contains is excreted through the bowel. The Company's other contrast agents are injected into the vascular system. The iron in each injected dose of contrast agent constitutes less than 2% of the average normal body stores of iron for adult women (less than 1% for men) and is ultimately added to normal body stores of iron.

The following table summarizes potential applications, marketing partners and current United States and foreign status for each of the Company's MRI contrast agents.

MRI CONTRAST AGENTS

IMAGING PRODUCT	APPLICATIONS	MARKETING PARTNERS	UNITED STATES STATUS	FOREIGN STATUS
Feridex I.V., Endorem	Diagnosis of liver lesions	Berlex (United States and Canada), Eiken (Japan), and Guerbet (Western Europe and Brazil)	NDA filed in February 1994. Accepted for filing by FDA in April 1994. "Approvable" letter expected in the first calendar quarter of 1996.	Unanimously approved by EU's Committee for Proprietary Medicinal Products. Approved in all EU countries in Europe except

				Italy, Austria and Turkey. Marketing has begun in Europe. Japanese NDA

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MRI CONTRAST AGENTS

IMAGING PRODUCT	APPLICATIONS	MARKETING PARTNERS	UNITED STATES STATUS	FOREIGN STATUS
				filed in March 1994. Japanese approvals expected in 1996.
GastroMARK, Lumirem (AMI-121)	Marking of the bowel in abdominal imaging	Guerbet (Western Europe and Brazil) and Mallinckrod (United States, Canada and Mexico)	NDA submitted in November 1993. Accepted for filing by FDA in January 1994. Initial FDA action letter expected in the first calendar quarter of 1996.	Approved in most countries in Europe. Marketing has begun in Europe.
Combidex, Sinerem(TM) (AMI-227)	Diagnosis of status of lymph nodes, liver lesions and blood vessels (in MRA)	Guerbet (Western Europe and Brazil) and Eiken (Japan)	IND submitted in February 1992. Phase II trials completed in 1994. Initial Phase III trials expected to be completed in 1995. Additional Phase III trials expected to begin in 1996.	Phase II trials in Europe in 1994. European Phase III testing began in 1995. Phase I/II testing to begin in Japan in 1996.

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"Phase I clinical trials" refers to the first phase of human pharmaceutical clinical trials in which testing for the safety and tolerance of the product is conducted on a small group of normal subjects. "Phase II clinical trials" and "Phase III clinical trials" refer to the second and third phases of human clinical trials, where preliminary dosing and efficacy studies are conducted and where additional testing for efficacy and safety is conducted on an expanded patient group. For a further description of the substantial regulatory requirements subsequent to the completion of preclinical testing, see "Business - Government Regulation."

FERIDEX I.V. LIVER AGENT. Feridex I.V., the Company's first generation liver contrast agent, is injected intravenously and taken up by the Kupffer cells (which are present throughout normal liver tissue) but not by tumors, dramatically enhancing the contrast between them. The liver is a principal site for metastasis of primary cancer originating in other parts of the body, particularly cancer of the colon, the most common cancer in the United States. Diagnosis of metastasis at an early stage can be difficult because small tumors are frequently not accompanied by detectable physical symptoms. Identification of metastatic

tumors in the liver has a significant impact on physicians' treatment plans for cancer. The Company believes that Feridex I.V. will allow magnetic resonance images of liver tumors that are smaller than those generally identified with CT scanning, the most widely used technique for liver imaging. The Company believes that if an effective MRI contrast agent were available for imaging the liver, a substantial number of the liver scans now done using CT scanning and other imaging techniques would instead, or also, use MRI.

The Company submitted an NDA for Feridex I.V. in February 1994 which was accepted for filing in April 1994 and expects to receive an "approvable" letter for the product in the first calendar quarter of 1996. The "approvable" letter is the last official action by the FDA prior to granting a final approval letter for marketing of a pharmaceutical. The product was approved in September 1994 by the EU's Committee for Proprietary Medicinal Products. All the member states of the EU have issued local approvals to market this product except Italy, Austria and Turkey. Marketing of the product has begun in Europe under the tradename Endorem. Eiken filed an application for Japanese regulatory approval early in March 1994. Eiken expects approval in Japan in fiscal 1996. The Company has licensed Feridex I.V. on an exclusive basis to Berlex in the United States and Canada, to Eiken in Japan and to Guerbet in Western Europe and Brazil. See "Business - Licensing and Marketing Arrangements."

GASTROMARK ORAL CONTRAST AGENT. MRI imaging of organs and tissues in the abdomen without contrast agents is difficult because these organs and tissues cannot be easily distinguished from the loops of the bowel. The Company's GastroMARK oral contrast agent, when ingested, flows through and darkens the image of the loops of the bowel. By more clearly identifying the intestinal loops, GastroMARK improves visualization of adjacent abdominal tissues, including the pancreas, liver, kidneys and pelvis.

The Company submitted an NDA for GastroMARK with the FDA in November 1993, which application is currently under review by the agency. The Company expects an initial FDA action letter in the first calendar quarter of 1996.

The Company has granted Mallinckrodt the exclusive right to co-market GastroMARK in the United States, Canada and Mexico. The Company has also licensed the manufacturing and marketing rights to GastroMARK on an exclusive basis to Guerbet in Western Europe and Brazil. Guerbet began receiving governmental approvals in Europe in March 1993. Marketing of the product in Europe has begun under the trade name Lumirem.

COMBIDEX LYMPHATIC AND BLOOD PERFUSION AGENT. The Company believes that Combidex will be useful in diagnostic imaging of the lymphatic system. The relatively long blood circulation half-life of this product affords it time to be cleared from the blood stream and accumulate in the lymph nodes. Lymph nodes are frequently sites for metastases of different types of cancer, particularly breast cancer, and efficient imaging

of lymph nodes would play a significant part in determining courses of treatment. There are currently no available non-invasive methods for effectively detecting tumors in lymph nodes. The long circulating half-life of Combidex also permits its use in analyzing the perfusion, or blood content, of tissues such as the

heart and brain. Heart attacks and strokes decrease blood flow in damaged tissue, and the Company believes that Combidex may be useful in delineating the affected area or visualizing areas of vascular constriction.

Advanced Magnetics has granted exclusive rights to manufacture, market and sell Combidex in Japan to Eiken and an exclusive right to market and sell Combidex in Western Europe and Brazil to Guerbet. Phase II clinical testing was completed in the United States and was initiated in Europe in 1994. Phase III human trials were initiated in the United States and Europe in 1995. Additional Phase III trials for imaging of lymph nodes and for the use of Combidex as a vascular brightening contrast agent in MRA are expected to begin in 1996. Phase I trials will begin in Japan in 1996. See "Business - Licensing and Marketing Arrangements."

AMI-HS LIVER AGENT. AMI-HS is a second generation MRI liver imaging agent. This agent is directed specifically to hepatocyte cells, which constitute more than 90% of the cells in the liver. The contrast agent consists of a superparamagnetic particle coated with the polysaccharide arabinogalactan, which is taken up by the Asialoglycoprotein ("ASG") receptor found exclusively on healthy hepatocyte cells. Other normal cells in the body, as well as cancer cells and diseased hepatocytes, lack this receptor and therefore cannot localize the agent. This differential uptake enhances contrast between healthy and diseased tissue and could improve the ability of MRI to detect small tumors or lesions in the liver. In December 1994, the Company submitted an IND application to the FDA in order to begin Phase I human clinical testing, which was completed in 1995. At the present time, the Company intends to allocate its resources to developing and marketing other contrast agents.

OTHER CONTRAST AGENTS UNDER DEVELOPMENT. The Company is developing additional contrast agents. The Company believes that a variety of peptides, antibodies, proteins and polysaccharides may be used to coat its superparamagnetic iron oxide particles and to target them to specific receptors, and is currently researching the use of these substances in new contrast agents. In 1995, the Company entered into an agreement with Massachusetts General Hospital for the development of receptor-directed superparamagnetic contrast agents, with the pancreas being the principal target organ of this initial effort.

HEPATIC DELIVERY SYSTEMS

The Company's experience in developing receptor-specific MRI contrast agents has led it to pursue opportunities in the delivery and development of receptor-specific therapeutic agents. The Company believes that arabinogalactan, which binds to the ASG receptor found on healthy hepatocytes with high specificity, will prove useful for delivering therapeutic substances to the liver because of its high specificity, low cost and lack of toxicity in the bloodstream. The Company believes that the attachment of therapeutic agents to arabinogalactan can increase the concentration of the agent in the liver and reduce toxic effects of the agent on other organs, including the nervous system, kidneys and bone marrow. AraA, for example, a potent inhibitor of hepatitis B virus replication, is not currently used for the treatment of this disease principally due to its neurotoxicity. The potency and safety of AraA as a therapeutic agent for hepatitis B as tested in animals and in vitro, however, are substantially enhanced when attached to arabinogalactan. The conjugate made by the attachment of AraA to arabinogalactan has shown excellent safety and efficacy in preclinical studies and the Company expects to test it in human beings in 1996.

The Company believes that the delivery and use enhancements seen when AraA is attached to arabinogalactan may be obtained with other therapeutic agents. The attachment of a variety of therapeutic agents to arabinogalactan is an active area of research and may lead to a series of arabinogalactan-based

pharmaceuticals for the treatment of liver disease generally (Hepatitis B, Hepatitis C, and liver cancer). The Company believes it has a strong intellectual property position regarding arabinogalactan. It has received two U.S. patents pertaining to the use of arabinogalactan for the delivery of therapeutic agents and has additional domestic and foreign patent applications pending.

IN VITRO DIAGNOSTIC AND RESEARCH PRODUCTS

In fiscal 1994, the Company sold substantially all of the assets and business of the Company's non-therapeutic IN VITRO diagnostic reagent, separation and research product lines as well as associated licensing and services (the "In Vitro Product Line") to PerSeptive Biosystems, Inc. ("PerSeptive"). In connection with the sale, PerSeptive assumed certain specified liabilities associated with the In Vitro Product Line and issued 151,759 shares of its Common Stock (the "Acquisition Shares") to the Company at $27.39 per share for a total of $4,156,674. In addition, for fiscal 1995, PerSeptive was required to pay the Company an earn-out payment of $3,404,527, based on a percentage of the revenues derived from the In Vitro Product Line during 1993 and royalties received during PerSeptive's 1995 fiscal year. PerSeptive has elected to pay this earn-out in PerSeptive common stock and the Company expects to receive this payment during fiscal 1996.

Under a related license agreement, the Company granted to PerSeptive a perpetual, royalty-free license to use certain patents and other intellectual property retained by the Company on an exclusive basis within the non-therapeutic, in vitro diagnostic reagent, separation and research products and services fields, subject to specified, pre-existing licenses.

LICENSING AND MARKETING ARRANGEMENTS

CONTRAST AGENTS. Advanced Magnetics has entered into various licensing agreements with respect to its MRI contrast agents. These agreements generally provide for the payment of license fees upon execution and, in some cases, when the Company or the licensee achieves specified regulatory milestones. The agreements also provide for royalties based on the licensee's sales. In certain cases, the Company sells active ingredients or finished contrast agents to its licensees for payments based on a percentage of sales. In general, the agreements have terms of more than 10 years, and are generally terminable upon specified events such as non-performance, insolvency or assignment without consent.

In February 1995, the Company entered into a license and marketing agreement and supply agreement with Berlex Laboratories, Inc. (a subsidiary of Schering A.G., Germany), granting Berlex exclusive marketing rights to Feridex I.V. in the United States and Canada. Under the terms of the agreements, Berlex paid a $5,000,000 license fee on execution of the agreements and agreed to pay an additional $5,000,000 license fee upon receipt by the Company of a New Drug Approval from the FDA.

In addition, the Company will receive payments for manufacturing the agent and royalties on future sales of the agent. See "Contrast Agents - Feridex I.V."

In 1987, the Company entered into a supply and distribution agreement with Guerbet. Under this agreement, Guerbet has been appointed the exclusive distributor of the Company's Feridex I.V. liver contrast agent in Western Europe and Brazil. Guerbet is responsible for conducting clinical trials and securing the necessary regulatory approvals in the countries in its territory. Guerbet paid the Company license fees of $500,000 and is required to pay royalties based on sales. The Company is entitled to receive an additional percentage of Guerbet's sales in return for selling to Guerbet its requirements for the active ingredient used in the liver contrast agent. In 1994, Guerbet informed the Company that it had received approval from the EU's CPMP for Feridex I.V. All of the EU countries except Italy, Austria and Turkey have approved the product for marketing. Sales began in Germany in January 1995.

In 1990, the Company entered into a manufacturing and distribution agreement for GastroMARK with Mallinckrodt. Under this agreement, Mallinckrodt received the exclusive right to manufacture and co-market GastroMARK in the United States, Canada and Mexico. The Company may also sell the product through its own direct sales personnel. Mallinckrodt has paid $1,350,000 under the contract and has agreed to pay $500,000 on FDA approval of the NDA. Additionally, the Company will receive royalties based on Mallinckrodt's sales. The Company is required to sell to Mallinckrodt its requirements of the active ingredient of GastroMARK. The Company submitted an NDA for GastroMARK in November 1993 which was accepted for filing by the FDA in January 1994. The NDA is currently under active review by the FDA. See "Contrast Agents - GastroMARK Oral Contrast Agent."

In 1989, the Company entered into a second supply and distribution agreement with Guerbet granting Guerbet an exclusive right in Western Europe and Brazil to manufacture and sell GastroMARK and any future Advanced Magnetics MRI contrast agents that Guerbet decides to market. Under the terms of this second distribution agreement, Guerbet paid the Company a license fee of $700,000. In addition, Guerbet will pay the Company royalties, plus a percentage of net sales, as the purchase price for the active ingredient. The Company is required to sell to Guerbet its requirements for the active ingredient used in the contrast agents. Guerbet surrendered its rights to market AMI-HS in 1995. In fiscal 1993, Guerbet informed the Company that it had received marketing approval in several European countries, including France, for Lumirem, Guerbet's tradename for GastroMARK. Most European countries have now approved this product for marketing, and sales commenced in 1994.

In 1990, the Company entered into a manufacturing and distribution agreement with Eiken, granting Eiken the exclusive right in Japan to manufacture and distribute GastroMARK and any future Advanced Magnetics MRI contrast agents that Eiken decides to market. Upon execution of this agreement, Eiken paid the Company a license fee of $1,000,000. Additionally, Eiken agreed to pay the Company royalties on sales of all products manufactured by Eiken under the agreement. In 1995, Eiken surrendered its right to develop AMI-HS.

In 1991, the Company entered into two agreements with Squibb

Diagnostics, a division of Bristol Myers Squibb Co. ("Squibb Diagnostics"), covering certain technology and the manufacturing and marketing of AMI-HS and Combidex. The Company and Squibb Diagnostics have terminated these agreements. Under certain circumstances, the Company is obligated to pay Squibb Diagnostics royalties in connection with product sales of AMI-HS and Combidex up to a maximum of $2,000,000 and $2,750,000, respectively.

MANUFACTURING AND SUPPLY ARRANGEMENTS

The Company's Cambridge, Massachusetts facility is registered with the FDA and is subject to current "Good Manufacturing Practices" as prescribed by the FDA. The Company currently manufactures bulk Feridex I.V. product for sale to Guerbet and has developed the necessary capabilities to manufacture Feridex I.V., finished product for sale to Berlex and GastroMARK bulk product for sale to Guerbet and Mallinckrodt. The Company also manufactures Combidex for preclinical and clinical testing by Guerbet as well and the Company also expects to utilize contract manufacturers from time to time if appropriate.

COMPETITION AND REIMBURSEMENT

A number of companies are actively developing MRI contrast agents and several companies are currently marketing FDA-approved MRI contrast agents in the United States. Advanced Magnetics expects to compete in the marketing of MRI contrast agents with companies which manufacture or sell CT contrast media and early stage companies that do not presently market contrast agents. Many competitors, including

major pharmaceutical companies, have substantially greater financial, marketing and human resources than the Company. The Company believes that success in the MRI contrast agent market as well as the antiviral therapeutics market will depend in large part on successful development of efficacious products, timely receipt of regulatory approvals and product manufacturing at commercially acceptable costs. There can be no assurance that the Company will be able to compete successfully with its existing competitors or its new competitors.

The Company's success will also depend on private or governmental insurance reimbursement to patients for use of the products, which cannot be assured.

There can be no assurance that the Company's proposed products will be successful or that they will not become obsolete as a result of technological advances, including new methods of imaging or new diagnostic tests that do not require imaging for diagnosis of a disease. In addition, new therapeutic agents may be introduced which reduce the incidence of disease and therefore the need for diagnosis. In the area of antiviral therapeutics, competitors may develop more effective or more convenient therapies than the Company's, making the Company's products obsolete or otherwise limited in market potential.

RESEARCH AND DEVELOPMENT

Advanced Magnetics' future success will depend in part on its ability to commercialize its products currently under development and to develop new products. In May 1995, the

Company entered into a sponsored research and license agreement with the General Hospital corporation, a not-for-profit Massachusetts Corporation doing business as Massachusetts General Hospital ("MGH"). The agreement covers organ-specific, receptor-directed, ultrasmall superparamagnetic iron oxides for use as MRI contrast agents. The target organ for the initial collaboration is the pancreas. The Company agreed to pay MGH a minimum of $300,000, but payments could exceed this amount depending on milestone achievements and product sales.

During the fiscal years ended September 30, 1993, 1994 and 1995, the Company spent $6,863,229, $6,621,929 and $8,601,791, respectively, on research and development on Company products.

PATENTS AND TRADE SECRETS

The Company's policy is to aggressively protect its competitive technology position by a variety of means, including applying for patents in the United States and in appropriate foreign countries. Advanced Magnetics has been granted twenty-two United States patents and has pending several United States patent applications covering various aspects of the production of magnetic colloids and particles, the composition of particles, the formulation of colloids and certain applications of these colloids and particles. The Company has filed counterpart patent applications in several foreign countries. Although the Company believes that further patents will be issued on pending applications, no assurance to this effect can be given. One of the Company's patents is the subject of an interference proceeding in the U.S. Patent Office. The Company does not believe that the resolution of this interference proceeding will be material to its business. Moreover, in May 1993, the Company entered into a patent cross licensing agreement covering MRI patents with Nycomed Imaging A.S. of Oslo, Norway and in February 1995, the Company entered into a patent cross licensing agreement covering MRI patents with Schering AG, Germany. With these cross licensing agreements in place, the Company knows of no intellectual property impediments to the Company or its licensees manufacturing and marketing MRI contrast agents. There can be no assurance, however, that others will not develop or assert rights to technology that would negatively impact the Company's and its licensees' ability to manufacture and market MRI contrast agents or that any other licenses necessary to the Company would be available on favorable terms or at all.

The Company has received a U.S. patent covering the use of arabinogalactan as a delivery system for therapy agents and has received a notice of allowance for two other therapeutic agent patents. Additional therapeutic applications are pending but there is no assurance that any additional patents will issue to the Company.

The Company also intends to rely on its trade secrets to maintain and develop its commercial position. Although the Company seeks to protect its proprietary information, there can be no assurance that others will not either independently develop the same or similar information, obtain unauthorized access to the Company's proprietary information or misuse information to which the Company has granted access.

GOVERNMENT REGULATION

Manufacturers of clinical diagnostic products intended for

human IN VIVO use and therapeutic pharmaceuticals are subject to regulation by the FDA and similar agencies of foreign countries. The MRI contrast agents under development are classified as pharmaceutical agents and are regulated by the Division of Medical Imaging of the FDA. The approval process for both contrast agents and any therapeutic agent developed, such as the Company's receptor-specific drug delivery system for the targeting of antiviral drugs to the liver for the treatment of hepatitis B, involves extensive preclinical work with animals, submission of an IND exemption, clinical trials in three phases with FDA review at each stage, submission of an NDA, extensive FDA review, and final approval for marketing. The process takes several years and there can be no assurance of receiving final approval. To date, no MRI contrast agent based on magnetic particles has been approved by the FDA.

Both before and after approval is obtained, a product, its manufacturer, and the holder of the NDA for the product are subject to comprehensive regulatory oversight. Violations of regulatory requirements at any stage, including the preclinical and clinical testing process, the approval process, or thereafter (including after approval) may result in various adverse consequences, including the FDA's delay in approving or refusal to approve a product, withdrawal of an approved product from the market, and/or the imposition of criminal penalties against the manufacturer and/or NDA holder. In addition, later discovery of previously unknown problems may result in restrictions on such product, manufacturer, or NDA holder, including withdrawal of the product from the market. Also, new government requirements may be established that could delay or prevent regulatory approval of the Company's products under development.

Even after initial FDA approval has been obtained, further studies, including post-marketing studies, may be required to provide additional data on safety and will be required to gain approval for the use of a product as a treatment for clinical indications other than those for which the product was initially tested. Also, the FDA will require post-marketing reporting to monitor the side effects of the drug. Results of post-marketing programs may limit or expand further marketing of the products. Further, if there are any modifications to the drug, including changes in indication, manufacturing process, labeling or manufacturing facilities, an NDA supplement may be required to be submitted to the FDA.

The Company's operations are subject to regulation by a variety of other governmental agencies. The Company possesses a By-product Materials License from the Nuclear Regulatory Commission ("NRC") for receipt, possession, manufacturing, and distribution of radioactive materials. The Company holds Registration Certificates from the United States Drug Enforcement Administration and the Commonwealth of Massachusetts Department of Public Health for handling controlled substances. The Company is registered with the United States Environmental Protection Agency ("EPA") as a generator of hazardous waste. All hazardous waste disposal must be made in accordance with EPA and NRC requirements. The Company is subject to the regulations of the Occupational Safety and Health Act and has in effect a safety program to

assure compliance with these regulations. To date, the Company has not experienced any significant problems in complying with these regulations.

MAJOR CUSTOMERS

For the fiscal year ended September 30, 1995, approximately 75% of total revenues were derived from two major customers: Berlex (52%) and Guerbet (23%). Revenues in fiscal 1995, 1994 and 1993, from customers and licensees outside of the United States, principally in Europe and Japan, amounted to 23%, 3% and 16%, respectively, of the Company's total revenues.

HUMAN RESOURCES

As of December 8, 1995, the Company had 62 full-time employees, 53 of whom were engaged in research and development. The Company's future success depends in part on its ability to recruit and retain talented and trained scientific personnel. The Company has been successful to date in obtaining such personnel, but there can be no assurance that such success will continue.

None of the Company's employees is represented by a labor union, and the Company considers its relations with its employees to be excellent.

ITEM 2. PROPERTIES:

PROPERTIES

The Company's principal pharmaceutical manufacturing and research and development operations are located in a modern Company-owned building of approximately 25,000 square feet in Cambridge, Massachusetts, which includes a recently completed 3,800 square-feet expansion. The Company has leased two additional premises in Cambridge of approximately 18,000 total square feet to be used for manufacturing, warehousing and executive office space. In addition, the Company has leased premises of approximately 5,200 square feet in Princeton, New Jersey used by the Company's Clinical Development Group as a general business, sales and administrative office. The Company believes these facilities are adequate for its current and anticipated short-term needs.

ITEM 3. LEGAL PROCEEDINGS:

The Company and certain of its officers were sued in an action entitled DAVID D. STARK, M.D. V. ADVANCED MAGNETICS, INC., JEROME GOLDSTEIN, ERNEST V. GROMAN, AND LEE JOSEPHSON, Civil Action No. 92-12157-WGY, in the United States District Court for the District of Massachusetts on September 3, 1992. The plaintiff, a former consultant to the Company, claims that he was incorrectly omitted as an inventor or joint inventor on certain of the Company's patents and on pending applications, and seeks injunctive relief and unspecified damages. In addition, the complaint also alleges state law claims for breach of contract, breach of good faith and fair dealing, breach of implied contract, misappropriation of trade secrets, conversion, negligent misrepresentation, misrepresentation, unjust enrichment, and unfair trade practices. The case has been administratively closed, subject to being reopened upon motion of either party. While the outcome of the action cannot be determined, the Company believes the action is without merit, and intends to defend the action vigorously if it is reopened.

The Company and certain of its officers were sued in DAVID D. STARK V. ADVANCED MAGNETICS, INC., JEROME GOLDSTEIN, ERNEST V. GROMAN AND LEE JOSEPHSON, Civil Action No. 93-02846-C, in the Superior Court Department of the Massachusetts Trial Court for Middlesex County. This case involves the claims of breach

of contract, breach of good faith and fair dealing, breach of implied contract, unjust enrichment, and unfair trade practices that were originally dismissed by, but later remanded to, the Federal Court in the above-mentioned action, as well as a new count alleging tortious interference with contractual or advantageous relations. On August 29, 1994, the Superior Court granted partial summary judgment in the Company's favor and dismissed the unfair trade practices and tort counts. On March 7, 1995, the Superior Court granted the parties' joint motion for partial stay and essentially stayed the action pending resolution of the parallel federal action described above. While the outcome of the action cannot be determined, the Company believes the action is without merit, and intends to defend the action vigorously.

Except as described above, the Company knows of no material litigation or proceeding, pending or threatened, to which the Company may become a party.

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

No matters were submitted to a vote of the Company's security holders during the quarter ended September 30, 1995.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS:

The information set forth under the caption "Price Range of Common Stock" on page 13 of the Company's 1995 Annual Report to Stockholders, which appears as Exhibit 13.1, is incorporated herein by reference.

On December 8, 1995 there were approximately 302 shareholders of record. The Company believes that the number of beneficial holders of Common Stock exceeds 2,300. The last reported sale price of the Common Stock on December 8, 1995 was $25.125 per share. The Company has never declared or paid a cash dividend on its capital stock.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA:

The information set forth under the caption "Selected Consolidated Financial Data" on page 14 of the Company's 1995 Annual Report to Stockholders, which appears as Exhibit 13.1, is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS:

The information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 15 through 18 of the Company's 1995 Annual Report to Stockholders, which appears as Exhibit 13.1, is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA:

The Independent Auditors' Report and the consolidated financial statements for the Company set forth on pages 19 through 31 of the Company's 1995 Annual Report to Stockholders, which appears as Exhibit 13.1, are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE:

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT:

The information required by this item, with respect to the directors of the registrant, is incorporated by reference from the Company's definitive proxy statement in connection with its Annual Meeting of Stockholders to be held on February 6, 1996, to be filed with the Commission not later than 120 days after the close of the fiscal year ended September 30, 1995, in the table under the caption "Election of Directors."

The executive officers of the Registrant are as follows:

Jerome Goldstein, 56, is a founder of the Company and has been Chairman of the Board of Directors, President and Treasurer since the Company's organization in November 1981. Mr. Goldstein is also a director of Matritech, Inc. Mr. Goldstein was a co-founder of Clinical Assays, Inc., serving from 1972 to 1980 as Vice President and then as President. Mr. Goldstein is the brother of Leslie Goldstein, a director of the Company, and husband of Marlene Kaplan Goldstein.

Lee Josephson, 50, is a founder of the Company and has been employed as Senior Vice President-Research since November 1990. From December 1985 until November 1990, Dr. Josephson was Vice President-Research of the Company and from December 1981 until December 1985, he was a Senior Scientist of the Company.

Jerome M. Lewis, 46, joined the Company in April 1986 as a Senior Scientist and has been Vice President - Scientific Operations since February 1991. Prior to April 1986, Dr. Lewis was employed as a senior scientist by Petroferm Ltd., a biotechnology company.

Anthony P. Annese, 66, joined the Company in December 1987 as Vice President - Finance. Prior to December 1987, Mr. Annese was Controller of the Clinical Assays Division of Baxter International, Inc.

Paula M. Jacobs, 51, joined the Company in January 1986 as Vice President - Development. From 1981 to 1986, Dr. Jacobs was employed at Seragen, Inc., first as Production Manager and later as General Manager of the Research Products Division.

Leonard M. Baum, 42, joined the Company in October 1994 as Senior Vice President. From 1986 to 1994, Mr. Baum was employed as Senior Director, Worldwide Regulatory Affairs/Drug Safety by Squibb Diagnostics.

Mark C. Roessel, 45, joined the Company in January 1982 as Director of Regulatory Affairs and has been Vice President - Regulatory Affairs since January 1995. Prior to January 1982, Mr. Roessel was Compliance Manager of the Clinical Assay Division of Baxter International, Inc.

Marlene Kaplan Goldstein is a founder of the Company and has been Secretary of the Company since the Company's organization in November 1981.

ITEM 11. EXECUTIVE COMPENSATION:

The information required by this item is incorporated by reference from the Company's definitive proxy statement in connection with its Annual Meeting of Stockholders to be held on February 6, 1996, to be filed with the Commission not later than 120 days after the close of the fiscal year ended September 30, 1995, under the captions "Compensation of Directors" and "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT:

The information required by this item is incorporated by reference from the Company's definitive proxy statement in connection with its Annual Meeting of Stockholders to be held on February 6, 1996, to be filed with the Commission not later than 120 days after the close of the fiscal year ended September 30, 1995, in the tables under the captions "Principal Stockholders" and "Election of Directors."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS:

Not applicable.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K:

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. CONSOLIDATED FINANCIAL STATEMENTS. The following consolidated financial statements of the Company and Independent Auditors' Report are incorporated in Item 8 of this report by reference to the Company's 1995 Annual Report to Stockholders.

Report of Independent Accountants
Consolidated Balance Sheets at September 30, 1995 and 1994
Consolidated Statements of Operations for the Years Ended September 30, 1995, 1994 and 1993
Consolidated Statements of Stockholders' Equity for

the Years Ended September 30, 1995, 1994 and 1993
Consolidated Statements of Cash Flows for the Years Ended September 30, 1995, 1994 and 1993
Notes to Consolidated Financial Statements

2. CONSOLIDATED FINANCIAL STATEMENT SCHEDULES. Consolidated financial statement schedules have been omitted because the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

3 (a). The exhibits listed in the Exhibit Index immediately preceding the Exhibits are filed as a part of this Annual Report on Form 10-K.

3 (b). Reports on Form 8-K: No reports on Form 8-K were filed by the Company during the fiscal quarter ended September 30, 1995.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ADVANCED MAGNETICS, INC.

By: /s/ Jerome Goldstein
Jerome Goldstein, Chairman of the Board of Directors, President and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Jerome Goldstein Jerome Goldstein	Chairman of the Board of Directors, President and Treasurer (principal executive and financial officer)	December 22, 1995
/s/ Anthony P. Annese Anthony P. Annese	Vice President-Finance (principal accounting officer)	December 22, 1995
/s/ Thomas Coor Thomas Coor	Director	December 22, 1995
/s/ Leslie Goldstein Leslie Goldstein	Director	December 22, 1995
/s/ Richard L. McIntire	Director	December 22, 1995

Richard L. McIntire

/s/ Edward B. Roberts Edward B. Roberts	Director	December 22, 1995
/s/Roger E. Travis Roger E. Travis	Director	December 22, 1995
/s/ George M. Whitesides George M. Whitesides	Director	December 22, 1995

EXHIBIT INDEX

Exhibit Number	Description	Page
3.1(1)	Certificate of Incorporation of the Company, as amended.	
3.2(2)	By-Laws of the Company, as amended.	
10.1(6)	1983 Stock Option Plan of the Company, as amended on November 13, 1990.	
10.2(7)	1987 Employee Stock Purchase Plan.	
10.3(7)	1992 Employee Stock Purchase Plan.	
10.4(7)	1992 Non-Employee Director Stock Option Plan.	
10.5(9)	1993 Stock Plan.	
10.6(9)	1993 Non-Employee Director Stock Option Plan.	
10.7(3)	Technology Agreement dated January 21, 1983 between the Company and Corning Glass Works (now Ciba Corning Diagnostics Corp.) (confidential treatment previously granted).	
10.8(2)	Agreements between the Company and ML Technology Ventures, L.P. dated as of March 23, 1987 (confidential treatment previously granted).	
10.9(2)	Clinical Testing, Supply and Marketing Agreement between the Company and Guerbet, S.A. dated May 22, 1987 (confidential treatment previously granted).	
10.10(4)	Clinical Testing, Supply and Marketing Agreement between the Company and Eiken Chemical Co., Ltd., dated August 30, 1988 (confidential treatment previously granted).	
10.11(5)	Contrast Agent Agreement dated between the Company and Guerbet, S.A. dated September 29, 1989 (confidential treatment previously granted).	
10.12(6)	Contrast Agent Agreement between the Company and Eiken Chemical Co., Ltd. dated March 27, 1990 (confidential treatment previously granted).	

10.13(6) Amendment to Clinical Testing, Supply and Marketing Agreement between the Company and Eiken Chemical Co., Ltd., dated September 29, 1990 (confidential treatment previously granted).

10.14(6) License, Supply and Marketing Agreement between the Company and Mallinckrodt Medical, Inc., dated June 28, 1990 (confidential treatment previously granted).

10.15(6) Agreement of Amendment between the Company and ML Technology Ventures, L.P. dated as of June 28, 1990.

10.16(7) Technology License Agreement between the Company and Squibb Diagnostics, dated February 5, 1991 (confidential treatment previously granted).

10.17(7) AMI-227 License Agreement between the Company and Squibb Diagnostics, dated February 5, 1991 (confidential treatment previously granted).

10.18(7) AMI-HS License Agreement between the Company and Squibb Diagnostics, dated February 5, 1991 (confidential treatment previously granted).

10.19(7) Warrant Purchase Agreement between the Company and Squibb Diagnostics, dated February 11, 1991.

10.20(7) Purchase Agreement between the Company and ML Technology Ventures, L.P., dated July 23, 1991.

10.21(7) Agreement of Amendment to Clinical Testing, Supply and Marketing Agreement between the Company and Guerbet, S.A., dated August 13, 1990.

10.22(8) Asset Purchase Agreement dated as of October 15, 1993 by and between the Company and PerSeptive Biosystems, Inc.

10.23(10) License, Supply and Marketing Agreement dated September 27, 1993 between the Company and Sterling (confidential treatment previously granted).

10.24(10) Termination Agreement dated November 8, 1993 between the Company and Squibb Diagnostics (confidential treatment previously granted).

10.25(10) Amendment to License Agreement dated November 8, 1993 between the Company and Squibb Diagnostics (confidential treatment previously granted).

10.26(11) Termination Agreement dated August 30, 1994 between the Company and Bristol-Myers Squibb Co.

10.27(12) License and marketing agreement between the Company and Berlex Laboratories, Inc. dated as of February 1, 1995.

10.28 (12)	Supply Agreement between the Company and Berlex Laboratories, Inc. dated as of February 1, 1995.
11.1	Computation of earnings per share.
13.1	1994 Annual Report
23.1	Consent of Coopers & Lybrand L.L.P., independent accountants.

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(1) Incorporated herein by reference to the exhibits to the Company's Registration Statement on Form S-8 (File No. 33-13953).

(2) Incorporated herein by reference to the exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1987.

(3) Incorporated herein by reference to the exhibits to the Company's Registration Statement on Form S-1 (File No. 33-5312).

(4) Incorporated herein by reference to the exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1988.

(5) Incorporated herein by reference to the exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1989.

(6) Incorporated herein by reference to the exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1990.

(7) Incorporated herein by reference to the exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1991.

(8) Incorporated herein by reference to the exhibits to the Company's Current Report on Form 8-K dated October 15, 1993.

(9) Incorporated herein by reference to the exhibits to the Company's definitive proxy statement for the fiscal year ended September 30, 1992.

(10) Incorporated herein by reference to the exhibits to the Company's Annual Report on Form 10-K, as amended, for the fiscal year ended September 30, 1993.

(11) Incorporated herein by reference to the exhibits to the Company's Annual Report on Form 10-K, for the fiscal year ended September 30, 1994.

(12) Incorporated herein by reference to the exhibits to the Company's Quarterly Report on Form 10-Q, for the fiscal quarter ended December 31, 1994.

Exhibit 11.1

ADVANCED MAGNETICS, INC.
STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS
Years Ended September 30, 1995, 1994 and 1993

	1995	1994	1993
Weighted average number of shares issued and outstanding	6,730,315	6,690,500	6,651,061
Assumed exercise of options reduced by the number of shares which could have been purchased with the proceeds of those options	140,524	104,191	--
Assumed exercise of warrants reduced by the number of shares which could have been purchased with the proceeds of those warrants	--	11,834	--
Weighted average number of common and common equivalent shares	6,870,839	6,806,525	*6,651,061

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*Due to net loss for fiscal 1993, computation of per share earnings include only weighted average number of shares issued and outstanding.

Exhibit 13.1

FINANCIAL REVIEW

CONTENTS

PRICE RANGE OF COMMON STOCK

The Company's common stock is listed on the American Stock Exchange under the symbol AVM. The Company has paid no cash dividends. On December 8, 1995 there were approximately 302 shareholders of record.

The table below sets forth the high and low sales price of the Company's common stock on the American Stock Exchange for the fiscal quarters of 1995 and 1994.

	FISCAL QUARTER			
	FIRST	SECOND	THIRD	FOURTH
1995 High	$16 3/4	$19 1/4	$23 3/8	$29
Low	$13 1/4	$14 1/4	$17 1/2	$21
1994 High	$14 1/8	$15 7/8	$15	$17 1/2
Low	$10 3/8	$12	$11 1/2	$12 1/4

Other financial and general information, including copies of our annual report on Form 10-K, is available without cost. Please write to:

Investor Relations
Advanced Magnetics, Inc.
61 Mooney Street
Cambridge, MA 02138

SELECTED FINANCIAL DATA

	For the Years Ended September 30,				
	1995	1994	1993	1992	1991
Statement of Operations Data:					
Revenues:					
License fees	$5,000,000	$5,505,000	$ 1,010,000	$ 1,550,000	$ 4,000,000
Royalties	189,493	15,924	906,138	1,313,532	1,005,441
Product sales	2,120,457	280,975	3,836,300	4,062,299	3,835,692
Contract research and development	--	--	402,911	810,881	2,050,541
Earnings on investments	2,287,311	1,845,005	2,823,102	2,513,000	1,296,008

Total revenues	9,597,261	7,646,904	8,978,451	10,249,712	12,187,682
Costs and Expenses:					
Cost of product sales.....	425,187	54,983	1,525,564	1,736,949	1,704,522
Contract research and development expenses	--	--	193,391	607,163	707,596
Company-sponsored research and development expenses	8,601,791	6,621,929	6,863,229	5,431,911	4,935,405
Charge (credit) for purchase of in-process research and development*	(380,000)	760,000	--	--	6,250,375
S, G and A expenses.....	1,759,348	1,963,480	2,777,840	2,201,633	2,592,792
Total cost and expenses	10,406,326	9,400,392	11,360,024	9,977,656	16,190,690
Other Income:					
Gain on sale of in vitro product line**	3,404,527	2,649,580	--	--	--
Income (loss) before provision for income taxes and cumulative effect of accounting change	2,595,462	896,092	(2,381,573)	272,056	(4,003,008)
Income tax provision (benefit)	400,000	8,000	--	--	(413,300)
Income (loss) before cumulative effect of accounting change	2,195,462	888,092	(2,381,573)	272,056	(3,589,708)
Cumulative effect of accounting change	117,540	--	--	--	--
Net income (loss)	$ 2,313,002	$ 888,092	$(2,381,573)	$ 272,056	$(3,589,708)
Net income (loss) per share before cumulative effect of accounting change	$ .32	$ .13	$ (.36)	$ .04	$ (.70)
Cumulative effect of accounting change	.02	--	--	--	--
Income (loss) per share	$ .34	$ .13	$ (.36)	$ .04	$ (.70)
Weighted avg. number of common and common equivalent shares	6,870,839	6,806,525	6,651,061	6,759,882	5,140,670

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<FN>

* In August 1994, the Company reacquired the development and marketing rights to the MRI contrast agent Combidex previously licensed to Squibb Diagnostics, a Division of Bristol-Myers Squibb Company, Inc., and recorded a related $760,000 charge for the purchase of in-process research and development. In the first fiscal quarter of 1995, a credit for $380,000 was recorded to the purchase of in-process research and development. In July 1991, the Company purchased the interest of ML Technology Ventures, L.P. in Advanced Magnetics Joint Venture for a purchase price of $1,650,000 in cash and 241,875 shares of common stock and recorded a related charge for the purchase of in-process research and development.

** On October 15, 1993, the Company sold its in vitro product line to PerSeptive Biosystems, Inc.

	For the Years Ended September 30,				
	1995	1994	1993	1992	1991
Balance Sheet Data:					
Working capital	$41,985,100	$38,891,406	$37,547,326	$40,911,752	$19,242,185
Total assets	$50,843,222	$46,672,700	$45,877,548	$48,127,736	$25,762,664
Stockholders' equity	$49,071,072	$45,451,475	$44,654,428	$47,085,724	$24,460,025

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Since its inception in November 1981, Advanced Magnetics, Inc. (the "Company") has focused its efforts on developing its core magnetic particle technology to develop magnetic resonance imaging (MRI) contrast agents and its core polysaccharide technology for delivery of antiviral therapeutics. The Company has funded its operations with cash from license fees from corporate partners, royalties, sales of its products, fees from contract research performed for third parties, the proceeds of financings and income earned on invested cash. The Company's success in the market for diagnostic and therapeutic products will depend, in part, on the Company's ability to: successfully develop, test, produce and market its products; obtain necessary governmental approvals in a timely manner; attract and maintain key employees; and successfully respond to technological changes in its marketplace.

The Company's operating results may continue to vary significantly from quarter to quarter or from year to year depending on a number of factors, including: the timing of payments from corporate partners and research grants; the introduction of new products by the Company; the timing and size of orders from the Company's customers; and the acceptance of the Company's products. The Company's current planned expense levels are based in part upon expectations as to future revenue. Consequently, profits may vary significantly from quarter to quarter or year to year based on the timing of revenue. Revenue or profits in any period will not necessarily be indicative of results in subsequent periods and there can be no assurance that the Company will maintain profitability or that revenue growth can be sustained in the future.

A substantial portion of the Company's expenses consists of research and development expenses. The Company expects its research and development expenses to increase as it funds additional clinical trials and associated toxicology and pharmacology studies and as it devotes resources to developing additional contrast agents and new therapeutic drugs.

On October 15, 1993, the Company sold its in vitro product line to PerSeptive Biosystems, Inc. ("PerSeptive") for $4,156,674 in PerSeptive common stock, plus an earn-out based on PerSeptive's 1995 in vitro product line revenues. The Company recognized a pre-tax gain of $2,649,580 in the first fiscal quarter of 1994. The earn-out is based on a percentage of PerSeptive's revenue derived from in vitro product line for the fiscal year ended September 30, 1995. The Company was advised by PerSeptive that the earn-out value is $3,404,527 and, accordingly, the Company recognized a related pre-tax gain of $3,404,527 in the fourth fiscal quarter of 1995. PerSeptive has elected to satisfy the payment of the earn-out with shares of PerSeptive common stock of equivalent value. The number of shares to be issued will be determined when PerSeptive files a registration statement for these shares with the Securities and Exchange Commission, which is expected to occur during fiscal 1996.

RESULTS OF OPERATIONS
FISCAL 1995 COMPARED TO FISCAL 1994

REVENUES

Total revenues for the fiscal year ended September 30, 1995 increased 26% to $9,597,261 from $7,646,904 for the fiscal year ended September 30, 1994.

License fee revenues for the fiscal year ended September 30, 1995 were $5,000,000 compared to $5,505,000 for fiscal year ended September 30, 1994. The Company received a non-refundable $5,000,000 license fee on February 1, 1995 from Berlex Laboratories, Inc. ("Berlex") under an agreement granting Berlex a

product license and exclusive marketing rights to the Company's Feridex I.V.(TM) MRI contrast agent in the United States and Canada. License fee revenues for the fiscal year ended September 30, 1994 included a non-refundable license fee of $3,000,000 paid by Squibb Diagnostics, a division of Bristol-Myers Squibb Co. ("Squibb Diagnostics") and a non-refundable milestone license fee of $2,500,000 paid by Sterling Winthrop, Inc., a subsidiary of Eastman Kodak Company ("Sterling"). On October 6, 1994, the Company terminated its marketing and distribution agreement with Sterling for Feridex I.V. as a direct result of the sale by Sterling of its prescription pharmaceuticals business. The agreement with Sterling was not assignable without the Company's consent which was not granted.

Product sales for the fiscal year ended September 30, 1995 were $2,120,457 compared to $280,975 for the fiscal year ended September 30, 1994. Product sales increased as a result of $2,013,869 of Feridex I.V. contrast agent sales to Guerbet, S.A., the Company's European licensee (sold in Europe under the trade name Endorem(TM)). Product sales of $280,975 for the fiscal year ended September 30, 1994 were primarily attributable to the sale of GastroMARK(R) by Guerbet, S.A. (sold in Europe under the trade name Lumirem(TM)).

Royalties for the fiscal year ended September 30, 1995 were $189,493 compared to $15,924 for the fiscal year ended September 30, 1994. The royalties were earned on Guerbet, S.A.'s European product sales of Feridex I.V. and GastroMARK contrast agents.

Interest, dividends and gains and losses on sales of securities resulted in revenues of $2,287,311 in the fiscal year ended September 30, 1995 compared to revenues of $1,845,005 in the fiscal year ended September 30, 1994. These amounts include interest and dividends of $2,232,345 for the fiscal year ended September 30, 1995 compared to $1,801,436 for the fiscal year ended September 30, 1994. The increase was primarily a result of an increase in interest revenue from the purchase of United States Treasury Notes. Net gains from the sale of marketable securities were $54,966 for the fiscal year ended September 30, 1995 compared to a net gain of $161,109 in the fiscal year ended September 30, 1994. There were net unrealized losses of $117,540 resulting from an adjustment to the carrying value of marketable securities from cost to market during fiscal 1994. In the first fiscal quarter ended December 31, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and recorded a cumulative effect of the

accounting change of $117,540, including the reversal of the reverse for the carrying value of marketable securities.

COSTS AND EXPENSES

The cost of product sales for the fiscal year ended September 30, 1995 was $425,187 compared to $54,983 for the fiscal year ended September 30, 1994. The cost of product sales was 20% of sales for both fiscal years. Cost of product sales increased in line with the increase in product sales. Research and development expenses for the fiscal year ended September 30, 1995 were $8,601,791, an increase of 30% compared to $6,621,929 for the fiscal year ended September 30, 1994. The increase in research and development expenses was primarily due to expenditures for the human clinical trials of Combidex(TM) and pre-clinical development of the Company's antiviral therapeutics. In the first fiscal quarter ended December 31, 1994, the Company and Bristol-Myers Squibb Co. agreed that 1,200 vials of Combidex (formerly known as AMI-227) delivered were not acceptable. In addition, they modified their prior agreement whereby Bristol-Myers Squibb Co. was relieved of its obligation to deliver Combidex to the Company for clinical trials and the Company was relieved of its obligation to pay $500,000 to Bristol-Myers Squibb Co. Accordingly, the Company recorded a credit for $380,000 to the purchase of in-process research and development as

well as a $120,000 adjustment to the value of the warrants to purchase 600,000 shares of the Company's common stock which had been previously granted to Bristol-Myers Squibb Co. General and administrative expenses for the fiscal year ended September 30, 1995 were $1,759,348, a decrease of 10% from $1,963,480 for the fiscal year ended September 30, 1994. The decrease was primarily due to a decrease in legal and consulting fees.

GAIN ON SALE OF IN VITRO PRODUCT LINE

On October 15, 1993, the Company sold its in vitro product line to PerSeptive for $4,156,674 in PerSeptive common stock, plus an earn-out based on PerSeptive's 1995 in vitro product line revenues. The Company recognized a pre-tax gain of $2,649,580 for the fiscal year ended September 30, 1994. The Company was advised by PerSeptive that the earn-out value is $3,404,527. Accordingly, the Company recognized a pre-tax gain of $3,404,527 and recorded an account receivable in the fourth fiscal quarter of 1995.

INCOME TAXES

The income tax provision for the fiscal year ended September 30, 1995 was $400,000. The tax rate was lower than 34% statutory rate as a result of a tax benefit of temporary differences and dividend income exclusions. For the fiscal year ended September 30, 1994, the income tax provision was $8,000.

EARNINGS

In the fiscal year ended September 30, 1995, the Company recorded a net profit of $2,195,462 or $.32 per share before the cumulative effect of an accounting change. Including the

cumulative effect of an accounting change of $117,540 or $.02 per share, net income was $2,313,002 or $.34 per share for the fiscal year ended September 30, 1995 compared to net income of $888,092 and $.13 per share for the fiscal year ended September 30, 1994.

RESULTS OF OPERATIONS
FISCAL 1994 COMPARED TO FISCAL 1993

REVENUES

Total revenues of the Company were $7,646,904 in the fiscal year ended September 30, 1994 compared to $8,978,451 in the fiscal year ended September 30, 1993. Fiscal year 1993 included $5,017,000 of revenues from the Company's in vitro product line that was sold to PerSeptive on October 15, 1993.

License fee revenues for the fiscal year ended September 30, 1994 was $5,505,000 compared to $1,010,000 for the fiscal year ended September 30, 1993. License fee revenue for fiscal 1994 included a non-refundable license fee of $2,500,000 paid by Sterling. The fee was a milestone payment for the Company's filing of an NDA with the FDA for the magnetic resonance liver imaging agent, Feridex I.V. Also included in fiscal 1994 license fee revenue was a non-refundable license fee of $3,000,000 paid by Squibb Diagnostics. In November 1993, the Company and Squibb Diagnostics amended their agreement regarding Combidex. Under the amendment, Squibb Diagnostics was provided the first right to negotiate a license agreement with the Company regarding Combidex in Japan, in the event the license agreement regarding Combidex between the Company and Eiken Chemical Co., Ltd. ("Eiken") was terminated for any reason. On August 30, 1994, the Company signed an agreement with Bristol-Myers Squibb Co. to reacquire the development and marketing rights to Combidex. As part of the transaction, Bristol-Myers Squibb Co. returned to the Company a warrant which was valued at $240,000 to purchase 600,000 shares of the Company's common stock. The Company agreed to pay Bristol-Myers Squibb Co. $1,000,000 in cash, of which $500,000 was paid upon execution of the agreement and $500,000 was to be paid upon acceptance by the Company of 1,200 vials of Combidex product suitable for worldwide preclinical and clinical

testing. Furthermore, the Company is required to pay up to $2,750,000 for royalties on future sales by the Company of Combidex. License fee revenue for fiscal 1993 included a non-refundable $1,000,000 license fee paid by Sterling in September 1993 upon the signing of a license agreement for a product license and exclusive marketing rights to the Company's Feridex I.V. MRI contrast agent in the United States, Canada, Mexico and Australia.

Royalties for the fiscal year ended September 30, 1994 were $15,924 compared to $906,138 for the fiscal year ended September 30, 1993. The royalty revenues for fiscal 1993 were attributable to the in vitro license agreements which were included as a part of the October 1993 sale of the in vitro product line.

Product sales of $280,975 for the fiscal year ended September 30, 1994 were primarily attributable to the European launch of the GastroMARK oral contrast agent. Product sales for

the fiscal year ended September 30, 1993 were $3,836,300 for the in vitro products which were included as part of the sale to PerSeptive.

There were no fees from contract research and development for the fiscal year ended September 30, 1994 compared to $402,911 for the fiscal year ended September 30, 1993. Included in the contract research and development revenues for the fiscal year ended September 30, 1993 was $205,581 of fees for several research projects with one party for the development of specific in vitro diagnostics products that were completed in fiscal 1993.

Interest, dividends and gains and losses on sales of securities resulted in revenues of $1,845,005 in the fiscal year ended September 30, 1994 compared to revenues of $2,823,102 in the fiscal year ended September 30, 1993. These amounts include interest and dividends of $1,801,436 for the fiscal year ended September 30, 1994 compared to $1,791,676 for the fiscal year ended September 30, 1993. Net gain from sales of marketable securities was $161,109 in the fiscal year ended September 30, 1994 compared to a net gain of $1,031,426 for the fiscal year ended September 30, 1993. There were net unrealized losses of $117,540 resulting from an adjustment to the carrying value of marketable securities from cost to market during fiscal 1994. No similar adjustment was required at the end of fiscal 1993.

COSTS AND EXPENSES

The cost of product sales for the fiscal year ended September 30, 1994 related to the sale of contrast agents. Due to the sale of the in vitro product line to PerSeptive, there were no in vitro production costs for the fiscal year ended September 30, 1994. There were no contract research and development expenses in the fiscal year ended September 30, 1994 due to the absence of such contracts. For the fiscal year ended September 30, 1993, contract research and development expenses were $193,391. Company-sponsored research and development expenses for the fiscal year ended September 30, 1994 were $6,621,929, a decrease of 4% compared to $6,863,229 for the fiscal year ended September 30, 1993. The decrease in research and development expenses for the fiscal year ended September 30, 1994 was primarily due to the absence of research and development activity for the in vitro product line offset by increases in the in vivo research and development expenses. In the fiscal year ended September 30, 1994, the Company recorded a $760,000 charge for the purchase of in-process research and development related to the transaction with Bristol-Myers Squibb Co. noted above. Selling, general and administrative expenses decreased from $2,777,840 in the fiscal year ended September 30, 1993 to $1,963,480 in the fiscal year ended September 30, 1994. The decrease was primarily due to the absence of selling, general and administrative expenses associated with the in vitro product line which was sold to PerSeptive.

GAIN ON SALE OF IN VITRO PRODUCT LINE

On October 15, 1993, the Company sold its in vitro product to PerSeptive for $4,156,674 in PerSeptive common stock plus an earn-out based on PerSeptive's 1995 in vitro product line revenues. The Company recognized a pre-tax gain of $2,649,580 for the fiscal year ended

September 30, 1994. Revenue and pre-tax income from the in vitro product line for the fiscal year ended September 30, 1994 reflected 15 days of revenue and income which were immaterial.

INCOME TAXES

The income tax provision for the fiscal year ended September 30, 1994 was $8,000. In fiscal 1994, the tax rate was significantly lower than the 34% statutory rate as a result of the tax benefits of temporary differences and dividend income exclusions. For the fiscal year ended September 30, 1993, there was no income tax provision due to an operating loss. The Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" in fiscal 1994. The adoption did not have a material impact on the Company's results of operations or financial position.

EARNINGS

In the fiscal year ended September 30, 1994, the Company recorded a net profit of $888,092 and $.13 per share, compared to a net loss of $2,381,573 and $.36 per share in the fiscal year ended September 30, 1993.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1995, the Company's cash and cash equivalents totaled $1,066,419, representing a decrease of $5,395,774 from cash and cash equivalents of $6,462,193 at September 30, 1994. Additionally, the Company had marketable securities of $36,561,263 at September 30, 1995. Net cash used in operating activities was $1,858,766 in the fiscal year ended September 30, 1995 compared to net cash used in operating activities of $212,644 and $581,755 in the fiscal years ending September 30, 1994 and 1993, respectively. The $1,858,766 net use of cash from operating activities in fiscal 1995 was principally due to an increase in research and development expenses of $1,979,862 and an increase in accounts receivable of $2,231,625. In October 1995, $1,905,000 of the $5,884,542 in accounts receivable was received. The earn-out due September 30, 1995 from the sale of the in vitro product line on October 15, 1993 which is included in accounts receivable will be satisfied in its entirety with shares of PerSeptive common stock of equivalent value by no later than the end of fiscal 1996. Net cash used in investing activities was $3,850,553 in the fiscal year ended September 30, 1995 compared to $19,072,027 and $4,334,275 used in investing activities for the fiscal years ended September 30, 1994 and 1993, respectively. Net cash used in investing activities in the fiscal year ended September 30, 1995 included the purchase of United States Treasury Notes at a cost of $4,997,891, of which $3,000,000 matured in the fiscal year ended September 30, 1995. Net cash used in investing activities in the fiscal year ended September 30, 1994 included the purchase of United States Treasury Notes at a cost of $22,294,632 and net marketable securities sales of $4,040,044. Cash provided by financing activities in the fiscal year ended September 30, 1995 was $313,545, which resulted from issuance of common stock under employee stock option and purchase plans. Net cash used by financing activities in the fiscal years ended September 30, 1994 and 1993 was $91,045 and $49,723, respectively.

Capital expenditures for the fiscal year ended September 30, 1995 were $1,484,382 compared to $780,586 for the fiscal year ended September 30, 1994. The increase in capital expenditures for the fiscal year ended September 30, 1995 was primarily attributable to an upgrade in the Company's magnetic resonance imaging equipment and for the capital expenditures associated with the establishment of the Clinical Development Group in the Company's Princeton, New Jersey office. The Company has no current commitment for any additional acquisitions or major equipment expenditures. The Company believes its available cash and cash equivalents are sufficient to meet its currently anticipated needs through fiscal 1997. The Company expects that expenditures for research and development for fiscal year 1996 will increase due to human clinical trials for the Company's development stage contrast agents and antiviral hepatitis therapeutics.

Management believes that the sources of liquidity for future needs can be generated from existing cash balances, cash generated from investing activities and cash generated from operations. In addition, the Company will consider from time to time various financing alternatives and may seek to raise additional capital through equity or debt financing or to enter into corporate partnering arrangements. There can be no assurance, however, that such funding will be available on terms acceptable to the Company, if at all.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Directors and Stockholders of Advanced Magnetics, Inc.:

We have audited the accompanying balance sheets of Advanced Magnetics, Inc. as of September 30, 1995 and 1994 and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Advanced Magnetics, Inc. as of September 30, 1995 and 1994, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1995, in conformity with generally accepted accounting principles.

As discussed in Note A to the financial statements, effective October 1, 1994, Advanced Magnetics, Inc. adopted the Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

/s/ Coopers & Lybrand L.L.P.

Boston, Massachusetts

ADVANCED MAGNETICS, INC.
BALANCE SHEETS

ASSETS

	September 30, 1995	1994
Current Assets:		
Cash and cash equivalents	$ 1,066,419	$ 6,462,193
Marketable securities (Note C)	36,561,263	33,199,085
Accounts receivable	5,884,542	248,390
Recoverable income taxes (Note G)	90,117	90,117
Inventories (Note D)	55,567	--
Prepaid expenses	99,342	112,846
Total current assets	43,757,250	40,112,631
Property, plant and equipment:		
Land	360,000	360,000
Buildings	4,320,766	4,316,706
Laboratory equipment	6,886,813	5,598,456
Furniture and fixtures	516,418	324,453
	12,083,997	10,599,615
Less - accumulated depreciation and amortization	5,143,097	4,136,092
Net property, plant and equipment	6,940,900	6,463,523
Other assets	145,072	96,546
Total assets	$50,843,222	$46,672,700

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	$ 407,998	$ 273,385
Accrued expenses (Note F)	1,214,152	947,840
Income taxes payable (Note G)	150,000	--
Total current liabilities	1,772,150	1,221,225
Commitments and Contingencies (Notes E, N and O)		
Stockholders' equity (Notes C, H, I, K and L):		
Preferred stock, par value $.01 per share, authorized 2,000,000 shares; none issued	--	--
Common stock, par value $.01 per share, authorized 15,000,000 shares; issued and outstanding 6,753,413 shares in 1995 and 6,712,572 shares in 1994	67,534	67,126
Additional paid-in capital	45,093,972	44,660,834
Retained earnings	3,036,517	723,515
Net unrealized gain on marketable securities	873,049	--
Total stockholders' equity	49,071,072	45,451,475
Total liabilities and stockholders' equity	$50,843,222	$46,672,700

The accompanying notes are an integral part of the financial statements.

ADVANCED MAGNETICS, INC.
STATEMENTS OF OPERATIONS

	For The Years Ended September 30,		
	1995	1994	1993
Revenues:			
License fees	$5,000,000	$5,505,000	$1,010,000
Royalties	189,493	15,924	906,138
Product sales	2,120,457	280,975	3,836,300
Contract research and development	--	--	402,911
Interest, dividends and net gains and losses on sales of securities	2,287,311	1,845,005	2,823,102
Total revenues	9,597,261	7,646,904	8,978,451
Costs and Expenses:			
Cost of product sales	425,187	54,983	1,525,564
Contract research and development expenses	--	--	193,391
Company-sponsored research and development expense	8,601,791	6,621,929	6,863,229
Charge (credit) for purchase of in-process research and development (Note O)	(380,000)	760,000	--
Selling, general and administrative expenses	1,759,348	1,963,480	2,777,840
Total costs and expenses	10,406,326	9,400,392	11,360,024
Other income:			
Gain on sale of in vitro product line (Note B)	3,404,527	2,649,580	--
Income (loss) before provision for income taxes and cumulative effect of accounting change	2,595,462	896,092	(2,381,573)
Income tax provision	400,000	8,000	--
Income (loss) before cumulative effect of accounting change	2,195,462	888,092	(2,381,573)
Cumulative effect of accounting change (Note C)	117,540	--	--
Net income (loss)	$2,313,002	$ 888,092	$(2,381,573)
Net income (loss) per share before cumulative effect of accounting change	$ 0.32	$ 0.13	$ (0.36)
Cumulative effect of accounting change	0.02	--	--
Income (loss) per share	$ 0.34	$ 0.13	$ (0.36)
Weighted average number of common and common equivalent shares (Note A)	6,870,839	6,806,525	6,651,061

The accompanying notes are an integral part of the financial statements.

ADVANCED MAGNETICS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 1993, 1994, 1995

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Net Unrealized Gain On Marketable Securities	Total Stockholders' Equity
Balance at September 30, 1992	6,648,599	$ 66,486	$44,802,242	$ 2,216,996	$ --	$47,085,724
Shares issued in connection with the exercise of stock options	20,046	201	73,773	--	--	73,974
Shares surrendered in connection with the exercise of stock options	(3,481)	(35)	(43,708)	--	--	(43,743)
Shares issued in connection with employee stock purchase plan (Note H)	13,298	133	162,369	--	--	162,502
Common shares repurchased (Note K)	(18,000)	(180)	(242,276)	--	--	(242,456)
Net loss	--	--	--	(2,381,573)	--	(2,381,573)

Balance at September 30, 1993	6,660,462	66,605	44,752,400	(164,577)	--	44,654,428
Shares issued in connection with the exercise of stock options	70,648	706	417,406	--	--	418,112
Shares surrendered in connection with the exercise of stock options	(4,193)	(42)	(58,147)	--	--	(58,189)
Shares issued in connection with employee stock purchase plan (Note H)	10,355	104	105,517	--	--	105,621
Common shares repurchased (Note K)	(24,700)	(247)	(316,342)	--	--	(316,589)
Repurchase of warrants (Note K)	--	--	(240,000)	--	--	(240,000)
Net profit	--	--	--	888,092	--	888,092
Balance at September 30, 1994	6,712,572	67,126	44,660,834	723,515	--	45,451,475
Shares issued in connection with the exercise of stock options	29,494	295	207,060	--	--	207,355
Shares surrendered in connection with the exercise of stock options	(1,476)	(15)	(24,588)	--	--	(24,603)
Shares issued in connection with employee stock purchase plan (Note H)	12,823	128	130,666	--	--	130,794
Repurchase of warrants (Note K)	--	--	120,000	--	--	120,000
Net unrealized gain on marketable securities	--	--	--	--	873,049	873,049
Net profit	--	--	--	2,313,022	--	2,313,002
Balance at September 30, 1995	6,753,413	$ 67,534	$45,093,972	$ 3,036,517	$ 873,049	$49,071,072

The accompanying notes are an integral part of the financial statements.

ADVANCED MAGNETICS, INC.
STATEMENTS OF CASH FLOWS

	For The Years Ended September 30,		
	1995	1994	1993
Cash Flows from Operating Activities:			
Cash received from customers	$ 5,380,513	$ 5,864,116	$ 6,714,827
Cash paid to suppliers and employees	(8,920,459)	(8,112,462)	(10,185,682)
Cash paid for purchase of in-process research and development (Note O)	--	(260,000)	--
Dividends and interest received	1,876,214	1,716,811	1,769,625
Income taxes paid	(250,000)	(205,067)	(124,087)
Income tax refund	--	622,849	212,136
Net realized gains on sales of marketable securities	54,966	161,109	1,031,426
Net cash (used in) operating activities	(1,858,766)	(212,644)	(581,755)
Cash Flows from Investing Activities:			
Proceeds from sales of marketable securities	1,385,830	6,863,154	24,725,632
Proceeds from notes and bonds maturing	3,000,000	--	150,000
Purchase of marketable securities	(6,703,475)	(25,117,742)	(27,105,583)
Capital expenditures	(1,484,382)	(780,586)	(2,304,771)
(Increase) decrease in other assets and deposits.	(48,526)	(36,853)	200,447
Net cash (used in) investing activities	(3,850,553)	(19,072,027)	(4,334,275)
Cash Flows from Financing Activities:			
Proceeds from issuance of common stock	313,545	465,544	192,733
Purchase of treasury stock	--	(316,589)	(242,456)
Purchase of warrants	--	(240,000)	--
Net cash provided by (used in) financing activities	313,545	(91,045)	(49,723)
Net (decrease) in cash and cash equivalents	(5,395,774)	(19,375,716)	(4,965,753)
Cash and cash equivalents at beginning of year	6,462,193	25,837,909	30,803,662

Cash and cash equivalents at end of year	$ 1,066,419	$ 6,462,193	$ 25,837,909

The accompanying notes are an integral part of the financial statements.

ADVANCED MAGNETICS, INC.
RECONCILIATION OF NET INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	For The Years Ended September 30,		
	1995	1994	1993
Net income (loss)	$ 2,313,002	$ 888,092	$(2,381,573)
Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities, net of assets disposed of:			
Depreciation and amortization	1,007,005	877,803	821,246
Decrease in deferred income tax asset	---	---	349,948
Net unrealized loss on market value of securities	---	117,540	---
Cumulative effect of accounting change	(117,540)	---	---
Accretion of U.S. Treasury Notes discount	(53,943)	---	---
(Increase) decrease in accounts receivable	(2,231,625)	(22,332)	537,427
(Increase) decrease in inventories	(55,567)	---	155,125
(Increase) decrease in prepaid expenses	13,504	134,063	(149,088)
(Increase) decrease in recoverable income taxes	--	259,831	(95,948)
(Decrease) increase in accounts payable and accrued expenses	900,925	(318,061)	181,108
Increase in income taxes payable	150,000	---	---
Gain on sale of in vitro product line (Note B)	(3,404,527)	(2,649,580)	---
Accrual (credit) for the purchase of in-process research and development (Note O)	(380,000)	500,000	---
Total adjustments	(4,171,768)	(1,100,736)	1,799,818
Net cash provided by (used in) operating activities ...	$(1,858,766)	$ (212,644)	$ (581,755)

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF ACCOUNTING POLICIES:

Business

Founded in November 1981, Advanced Magnetics Inc., a Delaware Corporation (the "Company"), is a biopharmaceutical company engaged in the development and manufacture of compounds utilizing the Company's core proprietary colloidal superparamagnetic particle technology for magnetic resonance imaging ("MRI") and for polysaccharide directed, receptor-mediated drug delivery systems. The initial products developed by the Company are diagnostic imaging agents for use in conjunction with MRI to aid in the diagnosis of cancer and other diseases. In therapeutics, the Company is developing antiviral products, for the treatment of Hepatitis.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, money market funds and marketable securities having a maturity of less than three months at the date acquired. Approximately 55% of the cash and cash equivalents are held in two money-market accounts.

Marketable Securities

In its first fiscal quarter ended December 31, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Prior period financial statements have not been restated. The Company's current portfolio consists of securities classified as available-for-sale which are recorded at fair market value. The fair values of marketable securities are based on quoted market prices. Net unrealized gains or losses on marketable securities are recorded as a separate component of equity. Interest income is accrued as earned. Dividend income is accrued on the ex-dividend date, and net realized gains and losses are computed on the basis of average cost and are recognized when realized.

Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. The cost of additions and improvements is charged to the property accounts while maintenance and repairs are expenses as incurred.

Upon sale or other disposition of property and equipment, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

Depreciation and Amortization

Depreciation and amortization are recorded on the straight line method based on rates sufficient to provide for retirement over estimated useful lives as follows: buildings - 40 years; laboratory equipment and furniture and fixtures - 5 years; and leasehold improvements - over the life of the lease.

Revenue Recognition

Revenue is recognized when products are shipped, when contract objectives are achieved or when research activities are performed. License and royalty revenues are accrued as earned.

Income Taxes

The provision for income taxes includes federal and state income taxes currently payable and deferred income taxes arising from the recognition of certain income and expenses in different periods for financial and tax reporting purposes.

Income (Loss) per Share

Income per share is computed on the basis of the weighted average number of common and common share equivalents outstanding during each period. Loss per share is computed on the weighted average number of shares outstanding during the period.

B. SALE OF IN VITRO PRODUCT LINE:

On October 15, 1993, the Company sold its in vitro product line to PerSeptive Biosystems, Inc. ("PerSeptive") for 151,759 shares of PerSeptive common stock which was worth $4,156,674 as of that date, plus an additional earn-out amount based on the results of fiscal 1995. The earn-out included a percentage of PerSeptive's royalty derived from the in vitro product line for

the fiscal year ended September 30, 1995 as well as a percentage of 1993 product line sales. The Company recognized pre-tax gains on this sale of $3,404,527 and $2,649,580 in fiscal 1995 and 1994, respectively. PerSeptive has elected to satisfy the 1995 earn-out amount with shares of PerSeptive common stock of equivalent value. The number of shares to be issued for the earn-out will be determined when PerSeptive files a registration statement for these shares with the Securities and Exchange Commission. PerSeptive is required to file this statement no later than September 30, 1996, and interest will accrue if payment is received after December 15, 1995. The in vitro product line generated revenues of $5,017,000 and pre-tax income of $1,635,000 for the fiscal year ended September 30, 1993. Net assets included in the sale of the in vitro product line were $1,592,000 at October 15, 1993. This amount consisted of current assets, property and equipment, net of current liabilities.

C. MARKETABLE SECURITIES:

The cost and fair value of the marketable securities portfolio at September 30, 1995 are as follows:

	Cost	Fair Value
U.S. government securities		
Due in one year or less	$ 9,501,365	$ 9,476,430
Due after one through five years	14,869,406	14,737,500
Corporate debt		
Due after five through ten years	1,980,040	2,002,500
Preferred stock	6,116,668	5,740,023
Common stock	3,220,735	4,604,810
	$35,688,214	$36,561,263

At September 30, 1994, the aggregate cost and fair value of the marketable securities portfolio were $33,316,625 and $33,199,085, respectively.

At September 30, 1995, gross unrealized holding gains and gross unrealized holding losses were $1,722,965 and $849,916, respectively, resulting in a net unrealized holding gain of $873,049 which was recorded as a separate component of equity. At September 30, 1994, the Company recorded a $117,540 unrealized net loss on the fair value of securities. In the first fiscal quarter ended December 31, 1994, the Company recorded a cumulative effect of the accounting change of $117,540 including the reversal of the reserve for the carrying value of the marketable securities.

During the year ended September 30, 1995, gross realized gains and gross realized losses on the sale of marketable securities were $57,394 and $2,428, respectively, resulting in a net realized gain of $54,966. Proceeds relating to the gross realized gains and gross realized losses were $693,224 and $747,572, respectively. Proceeds from U.S. treasury bonds maturing were $3,000,000.

Interest, dividends and net gains (losses) on sales of securities consist of the following:

	Years Ended September 30,

	1995	1994	1993
Interest income	$1,644,329	$1,135,614	$1,259,960
Dividend income	588,016	665,822	531,716
Net gains on sales of securities	54,966	161,109	1,031,426
Unrealized (loss included in the determination of income	---	(117,540)	---
	$2,287,311	$1,845,005	$2,823,102

D. INVENTORIES:

At September 30, 1994, there were no inventories as the Company's products were predominately in the research and development stages and the Company produced products for sale on a made-to-order basis only. In the fourth fiscal quarter ended September 30, 1995, the Company began to accumulate production costs for its products for future sale resulting in an ending inventory of $55,567 of raw materials.

E. COMMITMENTS:

The Company leases laboratory, office and warehouse space under various agreements. Rental expenses for the years ended September 30, 1995, 1994, and 1993 amounted to $320,920, $38,017, and $237,755, respectively. Future minimum lease payments for fiscal 1996, 1997 and 1998 amount to $336,368, $216,331 and $35,233, respectively.

F. ACCRUED EXPENSES:

Accrued expenses consist of the following at September 30:

	1995	1994
Salaries and other compensation	$ 194,881	$190,497
Professional fees	154,668	119,925
Other	348,856	137,418
Accrual for payment due Bristol-Myers Squibb Co. for purchase of in-process research and development	---	500,000
Payable for the purchase of marketable securities	515,747	--
	$1,214,152	$947,840

G. INCOME TAXES:

Deferred tax assets and deferred tax liabilities are recognized based on temporary differences between the financial reporting and tax basis of assets and liabilities using statutory rates. A valuation allowance is recorded against deferred tax assets if it is more likely than not that some or all of

the deferred tax assets will not be realized.

The income tax provision consists of the following:

	Years Ended September 30,		
	1995	1994	1993
Currently payable:			
Federal	$ 385,000	$ ---	$ (349,948)
State	15,000	8,000	---
	400,000	8,000	(349,948)

Deferred:			
Federal	---	---	349,948
State	---	---	---
	---	---	349,948
	$400,000	$8,000	$ ---

The provisions for income taxes were at different rates than the U.S. statutory rates for the following reasons:

	Years Ended September 30,		
	1995	1994	1993
U.S. Federal statutory tax (benefit) rate	34.0%	34.0%	(34.0%)
Dividends received deductions	(5.2)	(17.7)	(5.3)
Other, including a prior year tax adjustment	1.0	1.7	1.6
Losses without tax benefit	---	---	37.7
Tax benefit of temporary differences	(14.4)	(17.1)	---
	15.4%	0.9%	-0-

The components of the deferred tax assets and liabilities at September 30, were as follows:

	1995	1994
Assets		

Net operating loss carryforward	$ 460,506	$ 847,811
Research and experimentation tax credit carryforward	1,656,069	1,331,147
Deductible intangibles	911,066	1,492,948
Other	630,670	224,697
Liabilities		
Property, plant and equipment depreciation	(249,373)	(646,623)
Other	(96,598)	(63,199)
	3,312,340	3,186,781
Valuation Allowance	(3,312,340)	(3,186,781)
Net deferred taxes	$ ---	$ ---

Due to the uncertainty surrounding the realization of the favorable tax attributes in future tax returns, the Company has placed a valuation allowance against its otherwise recognizable net deferred tax assets. Realization of favorable tax attributes is, therefore, reflected as a tax benefit in the provision for income taxes.

The net tax effects of temporary differences on the provision for income taxes were as follows:

	Years Ended September 30,		
	1995	1994	1993
Tax benefit of temporary differences for financial reporting purposes	$220,831	$407,787	$ ---
Tax benefit of net operating loss for income tax purposes	---	---	349,948
	$220,831	$407,787	$349,948

At September 30, 1995, the recoverable income taxes result from carryback of losses for federal income tax purposes to amounts paid for income taxes in prior years.

At September 30, 1995, the Company had unused net operating loss (NOL) carryforwards for federal income tax purposes of approximately $830,000 which expire in fiscal 2010. The Company also has federal research and experimentation credits of approximately $1,500,000 which expire in fiscal 2010.

H. EMPLOYEE STOCK PURCHASE PLAN:

The Company's 1992 Employee Stock Purchase Plan (the "Purchase Plan") provides for the issuance of up to 150,000 shares of common stock to employees of the Company. Under the terms of the Purchase Plan, eligible employees may purchase shares in five annual offerings ending 1997, through payroll deductions of up to a maximum of 10% of the employee's earnings, at a price equal to the lower of 85% of the fair market value of the stock on the applicable annual offering commencement date of June 1 or termination date of May 31. The third offering under the Purchase Plan ended on May 31, 1995 and 12,823 shares of common stock were purchased by eligible employees at a price of approximately

$10.20 per share. As of September 30, 1995, 36,476 shares have been issued under the Purchase Plan.

I. STOCK OPTION PLAN:

The Company's 1993 Stock Option Plan (the "1993 Stock Plan") provides for the grant of options to the Company's directors, officers, employees and consultants to purchase up to an aggregate of 500,000 shares of common stock at a price equal to the fair market value of the stock at the date of grant. The maximum term of the options under the 1993 Stock Plan is ten years. The number of shares available for future grants at September 30, 1995 was 289,800.

The Company's 1983 Stock Option Plan (the "Plan") does not allow for option grants after June 1993. The Plan provided for the grant of options to purchase up to 900,000 shares of common stock at a price equal to the fair market value of the stock at the date of grant to the Company's employees and mandatory grants to outside directors upon initial election to the Board of Directors. The maximum terms of incentive stock options and non- statutory options under the Plan are ten years and ten years plus thirty days, respectively.

The Company has also granted to certain scientific advisors nonstatutory options to purchase a total of 29,625 shares of common stock at a price equal to fair market value at the date of grant. All options have been exercised.

The table below summarizes stock option activity during the past three fiscal years for the Company's 1993 and 1983 Stock Option Plans:

	Number of Shares	Option Price		
Options outstanding at September 30, 1992 ...	282,032	$ 1.33	to	$11.88
Granted ...	35,100	13.00	to	15.00
Exercised ...	(20,046)	1.00	to	11.00
Expired ...	(4,927)	7.00	to	15.00
Options outstanding at September 30, 1993 ...	292,159	1.00	to	15.00
Granted ...	126,500	12.00	to	16.00
Exercised ...	(70,648)	1.00	to	12.00
Expired ...	(40,752)	7.00	to	15.00
Options outstanding at September 30, 1994 ...	307,259	1.00	to	16.00
Granted ...	86,200	15.00	to	22.00
Exercised ...	(29,494)	1.00	to	15.00
Expired ...	(4,775)	12.00	to	15.00
Options outstanding at September 30, 1995 (177,140 shares exercisable) ...	359,190	1.33	to	22.00

On November 5, 1991, the Company's Board of Directors adopted the 1992 Non-Employee Director Stock Option Plan which the shareholders approved. This plan provides for the grant to each non-employee director on November 5, 1991, and each fifth anniversary thereafter, an option to purchase 5,000 shares of common stock up to an aggregate of 100,000 shares at a price equal to the fair market value of the stock at the date of the grant, vesting over a five year

period. Under this plan, options to purchase 30,000 shares of common stock at a price of $21.00 per share were granted, none of which have been exercised. No grants may be made under this plan after November 4, 2001.

On November 10, 1992, the Company's Board of Directors adopted the 1993 Non-Employee Director Stock Option Plan which the shareholders approved. This plan provides for the grant to each non-employee director on November 10, 1992, and each sixth anniversary thereafter, an option to purchase 5,000 shares of common stock up to an aggregate of 100,000 shares at a price equal to the fair market value of the stock at the date of the grant, vesting over a five year period. Under this plan, options to purchase 30,000 shares of common stock at a price of $14.50 per share were granted, none of which have been exercised. No grants may be made under this plan after November 10, 2002.

J. EMPLOYEE'S SAVING PLAN:

The Company provides a 401(k) Plan to employees of the Company by which they may defer compensation for income tax purposes under Section 401(k) of the Internal Revenue Code. Each employee may elect to defer a percentage of his or her salary on a pre-tax basis up to a specified maximum percentage. The Company matches every dollar each employee contributes to the 401(k) Plan up to six percent of each employee's salary to a maximum of $2,000 annually per employee. Salary deferred by employees and contributions by the Company to the 401(k) Plan are not taxable to employees until withdrawn from the 401(k) Plan and contributions are deductible by the Company when made. The amount of the Company's matching contribution for the 401(k) Plan was $99,751, $79,851, and $114,789 for 1995, 1994 and 1993, respectively.

K. COMMON STOCK TRANSACTIONS:

On February 11, 1991, Squibb Diagnostics, a division of Bristol-Myers Squibb Co., purchased for $950,000 a warrant covering 600,000 shares of common stock exercisable at $10.92 per share and escalating in exercise price in subsequent years. On August 30, 1994, the Company signed an agreement to reacquire the development and marketing rights to the MRI contrast agent Combidex. As part of the transaction, Bristol-Myers Squibb Co. returned the warrant which was valued at $240,000 to the Company. In the first quarter of fiscal 1995, the Company and Bristol- Myers Squibb Co. agreed to modify the agreement. As a result, payments to be made under the agreement were modified (See Note O). Accordingly, the Company adjusted the value of the warrant to purchase 600,000 shares of the Company's common stock by $120,000 in the first quarter of fiscal 1995.

In November 1993, the Board of Directors authorized the purchase of 350,000 shares of the Company's common stock on the open market. Through September 30, 1995, the Company purchased 24,700 shares for $316,589 and the shares have been retired. The Board had previously authorized the purchase of 500,000 shares of which 170,100 were retired through fiscal 1993.

L. PREFERRED STOCK:

The preferred stock may be issued from time to time in one or more series. The rights, preferences, restrictions, qualifications and limitations of such stock shall be determined by the Board of Directors.

M. BUSINESS SEGMENTS AND CUSTOMERS:

The Company's operations are located solely within the United States. The Company is focused principally on developing and manufacturing MRI contrast agents and therapeutic drug delivery systems. Prior to fiscal 1994, the Company was also engaged in developing, producing and marketing in vitro medical diagnostic products for research and clinical laboratories, hospitals, and other manufacturers of diagnostics products. Accordingly, its revenues are

attributable to one principal business segment. The Company performs ongoing credit

evaluations of its customers and generally does not require collateral. Two customers accounted for 52% and 23% respectively of the Company's revenues in fiscal 1995. Two customers accounted for 39% and 33% respectively of the Company's revenues in fiscal 1994 and three customers accounted for 11%, 9% and 5% respectively of the Company's revenues in fiscal 1993.

Revenues in fiscal 1995, 1994 and 1993 from customers and licensees outside of the United States, principally in Europe and Japan, accounted to 23%, 3% and 16%, respectively.

N. LEGAL PROCEEDINGS:

The Company and certain of its officers were sued in an action in the United States District Court for the District of Massachusetts on September 3, 1992. The plaintiff, a former consultant to the Company, claims that he was incorrectly omitted as an inventor or joint inventor on certain of the Company's patents and on pending applications, and seeks injunctive relief and unspecified monetary damages. In April 1993, the plaintiff's federal court claims were dismissed, and the plaintiff appealed. The Appeals Court vacated the judgment and remanded the case to the U.S. District Court. The plaintiff filed a related case in the Superior Court of the Commonwealth of Massachusetts. The Superior Court has dismissed most of the related tort claims on summary judgment. While the final outcome of these actions cannot be determined, the Company believes that the plaintiff's claims are without merit and intends to defend the actions vigorously.

O. AGREEMENTS:

In fiscal 1993, the Company entered into an agreement with Sterling Winthrop, Inc. ("Sterling") for a product license and exclusive marketing rights to Advanced Magnetics' Feridex I.V. MRI liver imaging contrast agent in the United States, Canada, Mexico and Australia. Under the agreement, Sterling would have paid up to $7,750,000 in license fees based on achieving certain milestones, of which $1,000,000 was received and recognized in license revenues in fiscal 1993.

In fiscal 1994, Sterling paid a $2,500,000 non-refundable milestone payment for the Company's filing of a New Drug Application ("NDA") with the U.S. Food and Drug Administration ("FDA") for Feridex I.V. On October 6, 1994, the Company terminated its marketing and distribution agreement with Sterling as a direct result of the sale by Sterling of its prescription pharmaceutical business. The agreement with Sterling was not assignable without the Company's consent, which was not sought by Sterling nor given by the Company.

In fiscal 1991, the Company entered into agreements with Squibb Diagnostics granting exclusive world-wide rights (except for Japan, Western Europe and Brazil) to manufacture and sell two MRI products, AMI-HS and Combidex. In addition, Squibb Diagnostics received the right to use the Company's core technology in its own development of other MRI contrast agents. The Company was to receive up to $10,000,000 in licensing fees, of which $4,000,000 was received and recognized in license revenues when the agreements were signed in fiscal 1991

and $1,000,000 was received in fiscal 1992 when the Company filed an

Investigational New Drug ("IND") exemption with the FDA for Combidex.

The Company and Squibb Diagnostics amended their agreement regarding Combidex in fiscal 1994 for which the Company received a non-refundable license fee of $1,000,000. Also in fiscal 1994, the Company and Squibb Diagnostics terminated their agreement with respect to the AMI-HS product and Squibb Diagnostics paid a $2,000,000 license fee milestone payment for Combidex. On August 30, 1994, the Company signed an agreement to reacquire the development and marketing rights to Combidex previously licensed to Squibb Diagnostics. The Company agreed to pay Bristol-Myers Squibb Co. $1,000,000 in two cash payments, of which $500,000 was paid on August 30, 1994 and $500,000 was to be paid upon acceptance of Combidex product suitable for use in worldwide preclinical and clinical studies. Furthermore, the Company is required to pay up to $2,750,000 in future royalties based on the Company's sale of Combidex. As part of the transaction, Bristol- Myers Squibb Co., returned to the Company a warrant to purchase 600,000 shares of the Company's common stock, valued at $240,000. The Company recorded a $760,000 expense which represented the value of in-process research and development reacquired. In the first quarter of fiscal 1995, the Company and Bristol-Myers Squibb Co. agreed that the 1,200 vials of Combidex delivered to the Company were not acceptable. In addition, they modified their prior agreement whereby Bristol-Myers Squibb Co. was relieved of its obligation to deliver Combidex to the Company for clinical trials and the Company was relieved of its obligation to pay $500,000 to Bristol-Myers Squibb Co. Accordingly, the Company recorded a credit for $380,000 to the purchase of in-process research and development and adjusted the value of the warrant downward by $120,000 in the first quarter of fiscal 1995.

On February 1, 1995, the company entered into an agreement with Berlex Laboratories, Inc. ("Berlex") granting Berlex a product license and exclusive marketing rights to Feridex I.V. in the United States and Canada. Under the terms of the agreement, Berlex paid a $5,000,000 non-refundable license fee and will pay an additional $5,000,000 license fee when the product has been approved for commercial marketing in the United States by the FDA. In addition, the Company will receive payments for manufacturing the product and royalties on future sales. The Company submitted an NDA for Feridex I.V. to the FDA in February 1994.

On May 9, 1995, the Company entered into a Research and License Agreement with the General Hospital Corporation, a not- for-profit Massachusetts Corporation doing business as Massachusetts General Hospital ("MGH"). The agreement covers organ-specific, receptor-directed, ultrasmall superparamagnetic iron oxide for use as MRI contrast agents. The target organ for the initial collaboration is the pancreas. Minimum annual payment to MGH under the agreement is $300,000, payable quarterly, but payments could exceed this amount depending on milestone achievements and product sales. In the fiscal year ended September 30, 1995, payments of $150,000 were made under the agreement.

P. RELATED PARTY TRANSACTIONS:

During the fiscal years ended September 30, 1995, 1994, and 1993, the Company paid approximately $7,050, $19,650 and $52,000, respectively, to Fahnestock & Co. Inc. as commissions in transactions involving its investments in securities. Mr. Leslie Goldstein, a shareholder and member of the Company's Board of Directors and the brother of Jerome Goldstein, Chairman of the Board, President and Treasurer of the Company, is employed by SRG Associates, a division of Fahnestock & Co. Inc., as an investment analyst and advisor.

Q. QUARTERLY FINANCIAL DATA - UNAUDITED:

The following table provides quarterly data for the fiscal years ended September 30, 1995 and 1994.

	Fiscal 1995 Quarters Ended			
	September 30	June 30	March 31	Dec. 31, 1994
License fees	$ ---	$ ---	$5,000,000	$ ---
Royalties	151,127	38,366	---	---
Product sales	---	1,276,172	789,026	55,259
Interests, dividends and net gains and losses on sales of securities	591,484	575,172	438,669	681,986
Total revenues	742,611	1,889,710	6,227,695	737,245
Cost of product sales	---	256,333	157,804	11,050
Operating expenses	2,916,799	3,090,004	2,440,599	1,533,737
Gain on sale of in vitro product line (Note B)	3,404,527	---	---	---
Net income (loss) before cumulative effect of accounting change	1,026,839	(1,278,127)	3,254,292	(807,542)
Cumulative effect of account change (Note C)	---	---	---	117,540
Net income (loss)	$1,026,839	$(1,278,127)	$3,254,292	$ (690,002)
Net income (loss) per share before cumulative effect of account change	$ 0.15	$ (0.19)	$ 0.48	$ (0.12)
Cumulative effect of account change	---	---	---	.02
Income (loss) per share	$ 0.15	$ (0.19)	$ 0.48	$ (0.10)

	Fiscal 1994 Quarters Ended			
	September 30	June 30	March 31	Dec. 31, 1993
License fees	$ ---	$2,500,000	$2,000,000	$1,005,000
Royalties	2,463	--	--	13,461
Product sales	54,760	25,665	138,950	61,600
Interest, dividends and net gains and losses on sales of securities	422,957	535,896	476,985	409,167
Total revenues	480,180	3,061,561	2,615,935	1,489,228
Cost of product sales	10,950	5,133	26,600	12,300
Operating expenses	2,804,558	2,247,376	2,201,177	2,092,298
Gain on sale of in vitro product line (Note B)	---	---	---	2,649,580
Net income (loss)	$(2,337,828)	$ 905,552	$ 371,658	$1,948,710
Net income (loss) per share	$ (0.35)	$ 0.13	$ 0.05	$ 0.28

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Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements of Advanced Magnetics, Inc. on Form S-8 (File Nos. 33-8697, 33-13953, 33-40744, 33-46963, and 33-62522) of our report, which includes an explanatory paragraph regarding the adoption of Statement of Financial Accounting Standards No. 115, dated November 8, 1995, on our audits of the financial statements of Advanced Magnetics, Inc. as of September 30, 1995 and 1994, and for the years ended September 30, 1995, 1994, and 1993, which report is incorporated by reference in this Annual Report on Form 10-K.

COOPERS & LYBRAND LLP

Boston, Massachusetts
December 22, 1995