

As filed with the Securities and Exchange Commission on April 15, 1999

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q/A  
(AMENDMENT NO. 2)

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

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For the Quarter Ended: September 30, 1998                      Commission File Number 0-27352

Hybridon, Inc.

(Exact name of registrant as specified in its charter)

Delaware

04-3072298

(State or other jurisdiction of  
organization or incorporation)

(I.R.S. Employer Identification Number)

155 Fortune Blvd.  
Milford, MA 01757

(Address of principal executive offices, including zip code)

(508) 482-7500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports 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  
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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value \$.001 per share	15,306,825
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Class	Outstanding as of April 13, 1999

HYBRIDON, INC.

Form 10-Q/A

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Consolidated Condensed Statements of Operations for the Three Months ended and Nine Months ended September 30, 1998 and 1997 and Cumulative from May 25, 1989 (Inception) to September 30, 1998. (As Restated)

Consolidated Condensed Statements of Cash Flows for the Nine Months ended September 30, 1998 and 1997 and Cumulative from May 25, 1989 (Inception) to September 30, 1998. (As Restated)

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Items 1 through 4 - None

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Signatures

HYBRIDON, INC. AND SUBSIDIARIES  
(A Development Stage Company)  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(UNAUDITED)  
ASSETS

	September 30, 1998 (As Restated)	December 31, 1997
CURRENT ASSETS:		
Cash and cash equivalents	\$ 882,825	\$ 2,202,202
Accounts receivable	825,668	529,702
Accounts receivable related to real estate limited partnership	5,450,000	-
Prepaid expenses and other current assets	448,372	1,005,825
	-----	-----
Total current assets	7,606,865	3,737,729
	-----	-----
PROPERTY AND EQUIPMENT, NET	8,953,117	19,230,804
	-----	-----
OTHER ASSETS:		
Restricted cash	659,618	3,050,982
Note receivable from officer	255,800	247,250
Deferred financing costs and other assets	923,162	3,354,767
Investment in real estate partnership	-	5,450,000
	-----	-----
	1,838,580	12,102,999
	-----	-----

\$18,398,562	\$35,071,532
=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:

Current portion of long-term debt and capital lease obligations	\$ 3,030,981	\$ 7,868,474
Accounts payable	4,387,353	8,051,817
Accrued expenses	3,603,934	11,917,298
	-----	-----
Total current liabilities	11,022,268	27,837,589
	-----	-----

LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION	573,017	3,282,123
	-----	-----
9% CONVERTIBLE SUBORDINATED NOTES PAYABLE	1,306,000	50,000,000
	-----	-----

STOCKHOLDERS' EQUITY (DEFICIT):

Preferred stock, \$.01 par value-		
Authorized -- 5,000,000 shares		
Series A convertible preferred stock		
Designated -- 1,500,000 shares	-	-
Issued and outstanding-624,789 shares at September 30, 1998	6,248	-
Common stock, \$.001 par value-		
Authorized -- 100,000,000 shares		
Issued and outstanding -- 15,254,825 and 5,059,650 shares at		
September 30, 1998, and December 31, 1997, respectively	15,255	5,060
Additional paid-in capital	240,301,274	173,695,698
Deficit accumulated during the development stage	(233,894,707)	(218,655,101)
Deferred compensation	(930,793)	(1,093,837)
	-----	-----
Total stockholders' equity (deficit)	5,497,277	(46,048,180)
	-----	-----

\$ 18,398,562	\$ 35,071,532
=====	=====

The accompanying notes are an integral part of these consolidated condensed financial statements.

HYBRIDON, INC. AND SUBSIDIARIES  
(A Development Stage Company)

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative from May 25, 1989 (Inception) to September 30, 1998 (As Restated)
	1998 (As Restated)	1997	1998 (As Restated)	1997	
REVENUES:					
Research and development	\$ 150,000	\$ 200,000	\$ 949,915	\$ 980,150	\$ 6,449,178

Product and service revenue	846,746	155,368	2,353,435	1,231,226	5,310,472
Interest income	44,010	294,246	106,457	898,160	3,327,196
Royalty and other income	-	18,247	-	33,218	110,321
	-----	-----	-----	-----	-----
	1,040,756	667,861	3,409,807	3,142,754	15,197,167
	-----	-----	-----	-----	-----
OPERATING EXPENSES:					
Research and development	5,201,246	11,338,913	17,180,927	37,784,718	182,640,742
General and administrative	1,503,845	3,057,380	5,817,864	9,011,879	53,634,480
Restructuring charge	-	3,100,000	-	3,100,000	11,020,000
Interest	296,344	1,605,918	2,880,307	3,223,473	9,026,337
	-----	-----	-----	-----	-----
	7,001,435	19,102,211	25,879,098	53,120,070	256,321,559
	-----	-----	-----	-----	-----
Loss from operations	(5,960,679)	(18,434,350)	(22,469,291)	(49,977,316)	(241,124,392)
EXTRAORDINARY ITEM:					
Gain on exchange of 9% convertible subordinated notes	-	-	8,876,685	-	8,876,685
	-----	-----	-----	-----	-----
NET LOSS	(5,960,679)	(18,434,350)	(13,592,606)	(49,977,316)	(232,247,707)
ACCRETION OF PREFERRED STOCK DIVIDEND	(1,026,000)	-	(1,647,000)	-	(1,647,000)
	-----	-----	-----	-----	-----
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	<u>\$ (6,987,179)</u>	<u>\$ (18,434,350)</u>	<u>\$ (15,239,606)</u>	<u>\$ (49,977,316)</u>	<u>\$ (233,894,707)</u>
BASIC AND DILUTED NET LOSS PER COMMON SHARE (Note 3):					
Loss per share before extraordinary item	\$ (0.39)	\$ (3.65)	\$ (2.11)	\$ (9.90)	
Extraordinary item	-	-	0.83	-	
	-----	-----	-----	-----	
Net Loss per share	(0.39)	(3.65)	(1.28)	(9.90)	
Accretion of preferred stock dividends	(0.07)	-	(0.15)	-	
	-----	-----	-----	-----	
Net loss per share applicable to common stockholders	<u>\$ (0.46)</u>	<u>\$ (3.65)</u>	<u>\$ (1.43)</u>	<u>\$ (9.90)</u>	
SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE (Note 3)	<u>15,254,825</u>	<u>5,055,513</u>	<u>10,648,116</u>	<u>5,046,806</u>	

The accompanying notes are an integral part of these consolidated condensed financial statements

HYBRIDON, INC. AND SUBSIDIARIES  
(A Development Stage Company)

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended September 30,		Cumulative from May 25, 1989 (inception) to September 30, 1998
	1998	1997	1998
	(As Restated)		(As Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (13,592,606)	\$ (49,977,316)	\$ (232,247,707)
Adjustments to reconcile net loss to net cash used in operating activities-			
Extraordinary gain on exchange of 9% convertible subordinated notes payable	(8,876,685)	-	(8,876,685)
Depreciation and amortization	2,419,269	4,081,720	13,605,723
Loss on disposal of fixed assets	424,675	-	424,675
Issuance of common stock for services rendered	-	146,875	146,875
Compensation on grant of stock options, warrants and restricted stock	163,044	261,519	8,286,842
Amortization of discount on convertible promissory notes payable	-	-	690,157
Amortization of deferred financing costs	240,611	358,904	937,080
Noncash interest on convertible promissory notes payable	-	-	260,799
Write-down of assets related to restructuring	-	331,000	1,255,000
Changes in operating assets and liabilitiesB			
Accounts receivable	(295,966)	276,545	(825,668)
Prepaid and other current assets	557,703	(541,718)	(448,122)
Note receivable from officer	(8,550)	55,952	(255,800)
Amounts payable to related parties	-	-	(200,000)
Accounts payable and accrued expenses	328,673	3,349,962	19,642,789
Deferred revenue	-	(86,250)	-
	-----	-----	-----
Net cash used in operating activities	(18,639,832)	(41,742,807)	(197,604,042)
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Increase in short-term investments	-	(5,113,569)	-
Purchases of property and equipment, net	(340,507)	(6,645,439)	(29,652,972)
Proceeds from sale of fixed assets	460,000	-	460,000
Investment in real estate partnership	-	-	(5,450,000)
	-----	-----	-----
Net cash provided by (used in) investing activities	119,493	(11,759,008)	(34,642,972)
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of convertible preferred stock	7,999,960	-	104,584,114
Proceeds from issuance of common stock related to stock options and restricted stock grants	-	83,327	1,260,928
Proceeds from issuance of common stock related to stock warrants	-	9,075	3,185,816
Net proceeds from issuance of common stock	6,876,676	-	59,232,000
Repurchase of common stock	-	-	(263)
Proceeds from notes payable	-	-	9,450,000
Proceeds from issuance of convertible promissory notes payable	4,233,833	50,000,000	63,425,576
Proceeds from long-term debt	-	-	662,107
Payments on long-term debt and capital leases	(4,236,693)	(1,169,656)	(7,602,573)
Proceeds from sale/leaseback	-	1,165,236	4,001,018
Decrease (increase) in restricted cash and other assets	2,327,186	(626,985)	(1,811,945)
(Increase) in deferred financing costs	-	(2,699,957)	(3,256,939)
	-----	-----	-----
Net cash provided by financing activities	17,200,962	46,761,040	233,129,839
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,319,377)	(6,740,775)	882,825
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,202,202	12,633,742	-
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 882,825	\$ 5,892,967	\$ 882,825

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest	\$ 1,494,323	\$ 786,005	\$ 5,124,773
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The accompanying notes are an integral part of these consolidated condensed financial statements.

(1) ORGANIZATION

Hybridon, Inc. (the "Company") was incorporated in the State of Delaware on May 25, 1989. The Company is engaged in the discovery and development of novel genetic medicines based primarily on antisense technology. The Company is in the development stage. Since inception, the Company has been engaged primarily in research and development efforts, development of its manufacturing capabilities and organizational efforts, including recruiting of scientific and management personnel and raising capital. To date, the Company has not received revenue from the sale of biopharmaceutical products developed by it based on antisense technology. In order to commercialize its own products, the Company will need to address a number of technological challenges and comply with comprehensive regulatory requirements. Accordingly, it is not possible to predict the amount of funds that will be required or the length of time that will pass before the Company receives revenues from sales of any of these products. Revenues received by the Company to date have been derived primarily from collaboration agreements, interest on investment funds, revenues from the custom contract manufacturing of synthetic DNA and reagent products by the Company's Hybridon Specialty Products Division. As a result, although the Company has begun to generate revenues from its custom contract manufacturing business, the Company is dependent on the proceeds from possible future sales of equity securities, debt financings and research and development collaborations in order to fund future operations.

On May 5, 1998, the Company completed a private offering of equity securities raising total gross proceeds of approximately \$26.7 million from the issuance of 9,597,476 shares of common stock, 114,285 shares of Series A convertible preferred stock and warrants to purchase 3,329,486 shares of common stock at \$2.40 per share. The gross proceeds include the conversion of approximately \$5.9 million of accounts payable, capital lease obligations and other obligations into common stock. The Company incurred approximately \$1.6 million of cash expenses related to the private offering and issued 597,699 shares of common stock and warrants to purchase 1,720,825 shares of common stock at \$2.40 per share to the placement agents. The compensation received by Pillar Investments Ltd. ("Pillar"), a company affiliated with certain directors of the Company, with respect to the offshore component of the private offering (the "Offshore Offering") consisted of (i) 9% of gross proceeds of such Offshore Offering and (ii) a non-accountable expense allowance equal to 4% of gross proceeds of such Offshore Offering. Pillar received approximately \$1.6 million and warrants to purchase 1,111,630 shares of common stock at \$2.40 per share. In addition, Pillar is entitled to received 300,000 shares of common stock in connection with its efforts in assisting the Company in restructuring its balance sheet. The Company has recorded \$600,000 of general and administrative expense in the accompanying statement at operations for the nine months ended September 30, 1998, which represents the value of this common stock on May 5, 1998.

On February 6, 1998, the Company commenced an exchange offer to the holders of the 9% Convertible Subordinated Notes (the "9% Notes") (see Note 6) to exchange the 9% Notes for Series A convertible preferred stock and certain warrants of the Company. On May 5, 1998, noteholders holding \$48.7 million of principal and \$2,361,850 of accrued interest tendered such principal and accrued interest to the Company for 510,505 shares of Series A convertible preferred stock and warrants to purchase 3,002,958 shares of common stock with an exercise price of \$4.25 per share. In accordance with Statement of Financial Accounting ("SFAS") No.15, Accounting by Debtors and Creditors for Troubled Debt Restructurings, the Company recorded an extraordinary gain of approximately \$8.9 million related to

the conversion. The extraordinary gain represents the difference between the carrying value of the 9% Notes plus accrued interest, less \$2,249,173 of deferred financing costs written off and the fair value of the Series A convertible preferred stock, as determined by the per share sales price of Series A convertible preferred stock sold in the private offering described above, and warrants to purchase common stock issued by the Company.

(2) UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited consolidated condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and include, in the opinion of management, all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of interim period results. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The Company believes, however, that its disclosures are adequate to make the information presented not misleading. The results for the interim periods presented are not necessarily indicative of results to be expected for the full fiscal year. It is suggested that these financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1997, as filed with the Securities and Exchange Commission.

In April 1999, the Company restated its September 30, 1998 financial statements to reflect the accretion on the Series A convertible preferred stock and \$600,000 of general and administrative expense related to common stock issuable to Pillar (see Note 1). Such restatement resulted in a decrease in the net loss applicable to common stockholders of \$620,500 for the three months ended September 30, 1998 and an increase of \$600,000 for the nine months ended September 30, 1998. (See Note 14).

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Loss per Common Share

The Company applies SFAS No. 128, Earnings per Share, in calculating earnings per share. Basic net loss per share is computed by dividing net loss applicable to common stockholders (net loss plus cumulative preferred stock dividends) by the weighted average number of common shares outstanding during the period. Diluted net loss per share for the periods presented is the same as basic net loss per share as the inclusion of the potential common stock equivalents would be antidilutive. Antidilutive securities which consist of stock options and warrants that are not included in diluted net loss per common share were 12,568,143 and 2,686,863 for the nine month periods ended September 30, 1998 and 1997, respectively.

(4) CASH EQUIVALENTS

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents and restricted cash at September 30, 1998 and December 31, 1997 consisted of the following (at amortized cost, which approximates fair market value):

	September 30, 1998	December 31, 1997
Cash and cash equivalents		
Cash and money market funds	\$ 400,949	\$ 1,702,272
Corporate bond	481,876	499,930
	-----	-----
	\$ 882,825	\$ 2,202,202
	=====	=====
Restricted cash - long-term		

Certificates of deposit	\$	-	\$	2,016,364
Savings account		659,618		1,034,618
		-----		-----
	\$	659,618	\$	3,050,982
		=====		=====

(5) ACCOUNTS RECEIVABLE RELATED TO REAL ESTATE LIMITED PARTNERSHIP

Under the terms of the Cambridge, Massachusetts building lease (the "Cambridge Lease"), the Company accounted for \$5,450,000 of its payments for a portion of the costs of construction of the leased premises as contributions to the capital of the Cambridge landlord in exchange for a limited partnership interest in the Cambridge landlord (the "Partnership Interest"). Under the terms of the Partnership Interest, the Company has the right at any time prior to February 2000 to sell the Partnership Interest back to the other limited partners of the landlord. In April 1998, the Company exercised its right to sell back the Partnership Interest and accordingly the contribution to the real estate partnership has been classified as a current asset at September 30, 1998. Subsequent to September 30, 1998, the sale of the building was finalized and the Company received payment in November 1998.

(6) 9.0% CONVERTIBLE SUBORDINATED NOTES

On April 2, 1997, the Company issued \$50,000,000 of the 9% Notes. As discussed in Note 1, on May 5, 1998 noteholders holding \$48.7 million of principal value of the 9% Notes tendered such notes in exchange for Series A convertible preferred stock and warrants to purchase common stock. In addition, \$2,361,850 of accrued interest thereon was converted into shares of Series A convertible preferred stock and warrants to purchase common stock. As of September 30, 1998, there is \$1.3 million principal amount of 9% Notes outstanding. Under the terms of the 9% Notes, the Company must make semi-annual interest payments on the outstanding principal balance through the maturity date of April 1, 2004. If the 9% Notes are converted prior to April 1, 2000, the Noteholders are entitled to receive accrued interest from the date of the most recent interest payment through the conversion date. The 9% Notes are convertible at any time prior to the maturity date at a conversion price equal to \$35.0625 per share, subject to adjustment under certain circumstances, as defined.

Beginning April 1, 2000, the Company may redeem the 9% Notes at its option for a 4.5% premium over the original issuance price, provided that from April 1, 2000 to March 31, 2001, the 9% Notes may not be redeemed unless the closing price of the common stock equals or exceeds 150% of the conversion price for a period of at least 20 out of 30 consecutive trading days and the 9% Notes redeemed within 60 days after such trading period. The premium decreases by 1.5% each year through March 31, 2003. Upon a change of control of the Company, as defined, the Company will be required to offer to repurchase the 9% Notes at 150% of the original issuance price.

(7) NEW ACCOUNTING STANDARDS

Effective January 1, 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income. SFAS No. 130 requires disclosure of all components of comprehensive income on an annual and interim basis. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's total comprehensive net loss for the three and nine month periods ended September 30, 1998 and 1997 were the same as reported net loss for those periods.



In July 1997, the FASB issued SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. SFAS No. 131 requires certain financial and supplementary information to be disclosed on an annual and interim basis for each reportable segment of an enterprise. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997. Unless impracticable, companies would be required to restate prior period information upon adoption. The Company believes that the adoption of SFAS No. 131 will not have a material impact on its financial results or financial position.

(8) RESTRUCTURING

Beginning in July 1997, the Company implemented a restructuring plan to reduce expenditures on a phased basis over the balance of 1997 in an effort to conserve its cash resources. As a part of this restructuring plan, the Company recorded an \$11,020,000 restructuring charge in 1997 to provide for (i) the termination of certain research programs, (ii) the abandonment of certain leased facilities (net of sublease income and related disposal of fixed assets), (iii) severance obligations to nearly 100 terminated employees and (iv) the cancellation of certain other contracts.

(9) NOTE PAYABLE TO A BANK

In December 1996, the Company entered into a five year \$7,500,000 note payable with a bank. The note contains certain financial covenants that require the Company to maintain minimum tangible net worth and minimum liquidity and prohibits the payment of dividends. The note is payable in 59 equal installments of \$62,500 commencing on February 1, 1997 with a balloon payment of the then remaining outstanding principal balance due on January 1, 2002. During 1997, the Company's minimum liquidity had fallen below the required amount and the Company deposited \$1,758,542 as collateral under the cash pledge agreement. During 1998, the bank withdrew the full amount of the restricted cash and applied it against the outstanding balance of the note. The minimum liquidity requirements were subsequently amended to provide that if as of the fifteenth and last day of each calendar month the Company does not have minimum liquidity of at least \$4,000,000, as defined, the Company will be required to immediately repay to the bank 100% of the then outstanding balance. As of September 30, 1998, \$2,895,000 was outstanding under the note, which is classified as a current liability in the accompanying September 30, 1998 consolidated balance sheet. During August 1998, the Company placed \$1.6 million in escrow at the bank's request, which was withdrawn and applied against the outstanding balance of the note by the bank. Also, upon the closing of the sale of the Partnership Interest (see Note 5) the Company was required to pay down an additional \$750,000 on the note. The Company is also required to pay to the bank one-half of any proceeds received from the sale of certain assets. The Company intends to make payments relating to these items to the bank during November 1998 in the event that the Loan is not purchased as described in Note 13. On September 29, 1998, the Company received a waiver of noncompliance since the Company was not in compliance with the minimum liquidity and minimum tangible net worth covenants associated with the note. Following the sale of the partnership interest, the Company was in compliance with all such covenants.

(10) METHYLGENE, INC. LICENSING AGREEMENT

In January 1996, the Company and MethylGene, Inc. ("MethylGene") (a Canadian company which is approximately 30% owned by the Company) entered into a licensing agreement for the purpose of researching and developing compounds for the treatment of cancer and other indications. In May 1998, this agreement was amended to grant MethylGene a non-exclusive right to use any and all antisense chemistries discovered by the Company or any of its affiliates for a period commencing on May 5, 1998 and ending on the earlier of (i) the effective date of termination by MethylGene of its contract for development services to be provided by the Company, (ii) May 5, 1999, unless MethylGene exercises its option to continue contracting for development services, or (iii) May 5, 2000. As additional consideration for this non-exclusive right, MethylGene is required to pay the Company certain milestone amounts, as defined, and transfer 300,000 shares of MethylGene's class B shares to the Company. The Company has placed no value on these shares. In the third quarter of 1998, the Company recorded \$250,000 of revenue received from MethylGene.

(11) UNITS ISSUED TO PRIMEDICA CORPORATION

The Company has issued 250,000 shares of common stock and 62,500 warrants to purchase common stock to Primedica Corporation ("Primedica") for \$250 in cash and future services to be provided. The services shall commence upon the Company's request after (i) the Company's securities are listed on a nationally recognized exchange, and (ii) the average closing price of the Company's common stock is at least \$2.00 per share for the twenty day trading period preceding the contract commencement date. In the event that the Company does not use these services as a result of the failure to meet the contract conditions, Primedica may forfeit to the Company all or part of the common stock and warrants held by Primedica. The Company has recorded these shares as issued and outstanding at September 30, 1998 at par value. The Company will record an expense for these services as the services are provided.

(12) SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The accompanying consolidated financial statements include the following information:

	Nine Months Ended September 30,		Cumulative from May 25, 1989 (Inception) to September 30, 1998
	1998	1997	
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:			
Issuance of Series A convertible preferred stock and attached warrants in exchange for conversion of 9% convertible subordinated notes payable and accrued interest	\$51,055,850	\$ -	\$ 51,055,850
Accretion of Series A convertible preferred stock dividends	\$ 1,026,500	\$ -	\$ 1,647,000
Issuance of common stock and attached warrants in exchange for conversion of convertible subordinated notes payable	\$ 4,800,000	\$ -	\$ 4,800,000
Issuance of common stock in exchange for conversion of accounts payable, and other obligations	\$ 5,934,558	\$ -	\$ 5,934,558

(13) SUBSEQUENT EVENT

Subsequent to September 30, 1998, Forum Capital Markets, LLC ("Forum") and Pecks Management Partners Ltd. ("Pecks"; Forum and Pecks collectively, the "Lender"), affiliates of two members of the Company's Board of Directors, agreed to purchase the Company's note payable to the bank (see Note 9). In connection with this purchase, the Lender will lend an additional amount to the Company as soon as practicable so as to increase the outstanding principal amount of the note payable to \$6,000,000. In addition, the terms of the note payable will be amended as follows: (i) the maturity will be extended to November 30, 2003; (ii) the interest rate will be decreased to 8%; (iii) interest will be payable monthly in arrears, with the principal due in full at maturity of the note payable; (iv) the note payable will be convertible, at the Lender's option, in whole or in part, into shares of common stock of the Company; (v) the threshold of the minimum liquidity covenant will be reduced from \$4,000,000 to \$2,000,000; and (vi) the note payable may not be prepaid, in whole or in part, at any time prior to December 1, 2000. The other terms of the note payable will remain unchanged. In connection with the purchase of the note payable, Forum will receive a fee of \$400,000, which will be reinvested by Forum by purchasing from the Company common or preferred stock and warrants, and will also receive warrants to purchase \$400,000 of shares of common stock of the Company.

(14) RESTATEMENT OF SEPTEMBER 30, 1998

In April of 1999, the Company restated its 1998 financial statements to reflect the accretion on the Series A convertible preferred stock and \$600,000 of general and administrative expense related to the issuance of common stock to Pillar (see Note 1). The following table presents the net loss, net loss applicable to common stockholders and net loss per share as originally reported, and as restated.

	Three Months Ended September 30, 1998		Nine Months Ended September 30, 1998	
	As Reported	As Restated	As Reported	As Restated
Net Loss	\$ (5,960,679)	\$ (5,960,679)	\$ (12,992,606)	\$ (13,592,606)
Net Loss applicable to common stockholders	(7,607,679)	(6,987,179)	(14,639,606)	(15,239,606)
Net Loss per share	\$ (0.50)	\$ (0.46)	\$ (1.37)	\$ (1.43)

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

The Company is engaged in the discovery and development of genetic medicines based on antisense technology. The Company commenced operations in February 1990 and since that time has been engaged primarily in research and development efforts, development of its manufacturing capabilities and organizational efforts, including recruitment of scientific and management personnel, and raising capital. To date, the Company has not received revenue from the sale of biopharmaceutical products developed by it. In order to commercialize its own products, the Company will need to address a number of technological challenges and comply with comprehensive regulatory requirements. Accordingly, it is not possible to predict the amount of funds that will be required or the length of time that will pass before the Company receives revenues from sales of any of these products. All revenues received by the Company to date have been derived from collaborative and service agreements, interest on invested funds and revenues from the custom contract manufacturing of synthetic DNA and reagent products by the Hybridon Specialty Products ("HSP") Division.

The Company has incurred cumulative losses from inception through September 30, 1998 of approximately \$232.2 million. In the second half of 1997, the Company commenced a restructuring program that has significantly reduced the Company's operating expenses and cost requirements in 1998 from 1997 levels. However, the Company expects that its research and development expenses will continue to be significant in the fourth quarter of 1998 and in future years as it pursues its core drug development programs and expects to continue to incur operating losses and have significant capital requirements that it will not be able to satisfy with internally generated funds. The Company continues to explore opportunities to reduce operating expenses in an effort to conserve its cash resources. The number of employees has continued to decline through attrition; as of November 10, 1998, the Company had 49 full-time employees.

RESTATEMENT OF SEPTEMBER 30, 1998 FINANCIAL STATEMENTS

In April of 1999, the Company restated its 1998 financial statements to reflect the accretion on the Series A convertible preferred stock and the issuance of 300,000 shares of common stock which Pillar is entitled to receive in connection with its efforts in assisting the Company in restructuring its balance sheet (see Notes 1, 2 and 14).

## RESULTS OF OPERATIONS

The Company had total revenues of \$1,041,000 and \$668,000 in the three months ended September 30, 1998 and 1997, respectively, and \$3,410,000 and \$3,143,000 in the nine months ended September 30, 1998 and 1997, respectively. Revenues from research and development collaborations were \$150,000 and \$200,000 for the three months ended September 30, 1998 and 1997, respectively, and \$950,000 and \$980,000 for the nine months ended September 30, 1998 and 1997, respectively.

Product and service revenue from the HSP Division was \$847,000 and \$155,000 for the three months ended September 30, 1998 and 1997, respectively, and \$2,353,000 and \$1,231,000 for the nine months ended September 30, 1998 and 1997, respectively. Included in the three months ended September 30,

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1998 was \$250,000 of revenue received under its License Agreement with MethylGene, Inc. ("MethylGene") for certain services provided. The increase in product and service revenue in 1998 was a result of an expansion in the customer base and increasing sales to existing customers and revenue earned under the License Agreement with MethylGene.

Interest income was \$44,000 and \$294,000 for the three months ended September 30, 1998 and 1997, respectively, and \$106,000 and \$898,000 for the nine months ended September 30, 1998 and 1997, respectively. The decrease in interest income is attributable to the decrease in cash and investments held by the Company in 1998 as compared to 1997.

The Company had research and development expenses of \$5,201,000 and \$11,339,000 for the three months ended September 30, 1998 and 1997, respectively, and \$17,181,000 and \$37,785,000 for the nine months ended September 30, 1998 and 1997, respectively. The decrease in research and development expenses in 1998 reflects the restructuring program that was commenced during the second half of 1997. The restructuring included the discontinuation of operations at the Company's facilities in Europe, termination of the clinical development of GEM 91 and the reduction or suspension of selected programs unrelated to the Company's core advanced chemistry antisense drug development program, including the termination of its ribozyme program. The restructuring resulted in significant reductions in employee-related expenses, clinical and outside testing, consulting, materials and lab expenses. The Company's facility costs in 1998 were also reduced by the income received from subleasing its underutilized facilities. The Company has now relocated its headquarters to its manufacturing facility, which is located in Milford, Massachusetts.

The Company had general and administrative expenses of \$1,504,000 and \$3,057,000 for the three months ended September 30, 1998 and 1997, respectively, and \$5,818,000 and \$9,012,000 for the nine months ended September 30, 1998 and 1997, respectively. The decrease in general and administrative expenses in 1998 resulted primarily from the Company's restructuring program initiated during the second half of 1997 and its effect on employee-related expenses, consulting and net facilities costs.

The Company had interest expense of \$296,000 and \$1,606,000 for the three months ended September 30, 1998 and 1997, respectively, and \$2,880,000 and \$3,223,000 for the nine months ended September 30, 1998 and 1997, respectively. The decrease in interest expense in 1998 is mainly attributable to the conversion of approximately \$48.7 million of the 9% Convertible Subordinated Notes (the "9% Notes"), issued in the second quarter of 1997, to Series A Convertible Preferred Stock on May 5, 1998.

As a result of the above factors, the Company incurred losses from operations of \$5,961,000 and \$18,434,000 for the three months ended September 30, 1998 and 1997, respectively, and \$22,469,000 and \$49,977,000 for the nine months ended September 30, 1998 and 1997, respectively.

The Company had extraordinary income of \$8,877,000 for the nine months ended September 30, 1998 resulting from the conversion of the 9% Notes to Series A Convertible Preferred Stock in the second quarter of 1998. See "Item 1 - Financial Statements - Notes to Consolidated Condensed Financial Statements" for a discussion of the Company's extraordinary income. As a result of this transaction, the Company reduced its net loss to \$13,593,000 for the nine months

ended September 30, 1998.

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#### RESTATEMENT OF SEPTEMBER 30, 1998

In April of 1999, the Company restated its 1998 financial statements to reflect the accretion on the Series A convertible preferred stock and \$600,000 of general and administrative expense related to common stock issuable to Pillar. The following table presents the net loss, net loss applicable to common stockholders and net loss per share as originally reported, and as restated.

	Three Months Ended September 30, 1998		Nine Months Ended September 30, 1998	
	As Reported	As Restated	As Reported	As Restated
Net Loss	\$ (5,960,679)	\$ (5,960,679)	\$ (12,992,606)	\$ (13,592,606)
Net Loss applicable to common stockholders	(7,607,679)	(6,987,179)	(14,639,606)	(15,239,606)
Net Loss per share	\$ (0.50)	\$ (0.46)	\$ (1.37)	\$ (1.43)

#### LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended September 30, 1998, the Company's net cash used in operating activities amounted to \$17,444,000. The Company's operating cash requirements were funded primarily through the utilization of existing cash and proceeds raised in private equity offerings conducted in the first half of 1998, the collection of its accounts receivable from sales and services provided by the Company, collaborative payments received, the rental payments from its underutilized facilities, and the sale of equipment. The Company believes that its existing and expected capital resources will be adequate to fund the Company's cash requirements into 1999.

The Company's existing capital resources include the following amounts received in the fourth quarter of 1998. First, \$6,163,000 received in connection with relocation of the Company's corporate headquarters to Milford, Massachusetts, and the sale of the Company's interest in the Charles River Building Limited Partnership, which owned the Company's former headquarters facility; this amount includes a portion of the security deposit relating to the Company's lease to its former headquarters facility and the release of \$660,000 in restricted cash. Second, \$254,000 was received in connection with the sale in October 1998 of certain equipment and furniture.

The Company's expected capital resources include committed collaborative research and development payments from Searle, additional amounts expected to be advanced under the Credit Facility (as described

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below), research and development funding expected from MethylGene, Inc. and the profit margins on anticipated sales by the HSP Division.

In June 1998, the Company relocated its headquarters from Cambridge, Massachusetts to its manufacturing facility in Milford, Massachusetts. The Cambridge facility was re-leased in September 1998 to a third party, subject to a sublease of a portion of the facility. As a result, the Company was relieved of its substantial lease obligations for the Cambridge facility, subject to a contingent continuing liability for any defaults which may arise under the

sublease.

Forum Capital Markets, LLC ("Forum") and Pecks Management Partners Ltd. ("Pecks"; Forum and Pecks collectively, the "Lender"), affiliates of two members of the Company's Board of Directors, have agreed to purchase the loan made by Silicon Valley Bank to the Company pursuant to the Loan and Security Agreement dated December 31, 1996, between the Company and Silicon Valley Bank, as amended (the "Loan"), the outstanding principal amount of which is currently approximately \$2.8 million.

In connection with the purchase of the Loan, the Lender will lend an additional amount to the Company as soon as practicable so as to increase the outstanding principal amount of the Loan to \$6,000,000. In addition, the terms of the Loan will be amended as follows: (i) the maturity will be extended to November 30, 2003; (ii) the interest rate will be decreased to 8%; (iii) interest will be payable monthly in arrears, with the principal due in full at maturity of the Loan; (iv) the Loan will be convertible, at the Lender's option, in whole or in part, into shares of common stock, par value \$.001 per share, of the Company ("Common Stock") at a rate equal to the mid-point between the bid and ask price on the date of closing of the purchase of the Loan; (v) the threshold of the Minimum Liquidity covenant will be reduced from \$4,000,000 to \$2,000,000; and the Loan may not be prepaid, in whole or in part, at any time prior to December 1, 2000. The other terms of the Loan will remain unchanged.

In connection with the purchase of the Loan, Forum will receive a fee of \$400,000, which will be reinvested by Forum by purchasing from the Company either (i) shares of Common Stock or shares of preferred stock of the Company and accompanying warrants on the same terms as they are sold to investors in the Company's next equity offering to occur after November 13, 1998 (the "Placement Price"), or (ii) if no equity offering is consummated prior to May 1, 1999, 160,000 shares of Common Stock at \$3.00 per share and warrants to purchase an additional 40,000 shares of Common Stock at \$3.00 per share. In addition, Forum will receive warrants exercisable until maturity of the Loan to purchase \$400,000 of shares of Common Stock priced at the Placement Price or, if no equity offering is consummated prior to May 1, 1999, at \$3.00 per share. These shares and warrants will be issued as soon as practicable following satisfaction of Section 4.10 of the Indenture dated as of March 26, 1997, governing the 9% Notes.

The Company will be required to raise substantial additional funds through external sources, including through collaborative relationships and public or private financings, to support its operations and, except for research and development funding from Searle (which is subject to early termination in certain circumstances), revenue is expected to be received from MethylGene and sale of DNA products and reagents manufactured on a custom contract basis by the HSP Division, the Company has no current external sources of capital, and, as discussed above, expects no product revenues for at least several years from sales of products that it is developing.

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No assurance can be given that such additional funds will be available to fund the Company's operations or, if available, that such funds will be available on acceptable terms. If additional funds are raised by issuing equity securities, further dilution to then existing stockholders will result. Additionally, the terms of any such additional financing may adversely affect the holdings or rights of then existing stockholders.

If adequate funds are not available, the Company may be required to further curtail significantly one or more of its core drug development programs, obtain funds through arrangements with collaborative partners or others that may require the Company to relinquish rights to certain of its technologies, product candidates or products which the Company would otherwise pursue on its own or terminate operations.

The Company's future capital requirements will depend on many factors, including continued scientific progress in its research, drug discovery and development programs, the magnitude of these programs, progress with preclinical and clinical trials, sales of DNA products and reagents to third parties by the HSP Division and the margins on such sales, the time and costs involved in obtaining regulatory approvals, the costs involved in filing, prosecuting and enforcing

patent claims, competing technological and market developments, the ability of the Company to establish and maintain collaborative academic and commercial research, development and marketing relationships, the ability of the Company to obtain third-party financing for leasehold improvements and other capital expenditures and the costs of manufacturing scale-up and commercialization activities and arrangements.

#### YEAR 2000 Compliance

As has been widely publicized, many computer systems and microprocessors are not programmed to accommodate dates beyond the year 1999. The Company's exposure to this year 2000 ("Y2K") problem comes not only from its own internal computer systems and microprocessors, but also from the systems and microprocessors of its key suppliers, including utility companies and payroll services.

The Company currently believes that all of its internal systems will be Y2K compliant by the end of the third quarter of 1999. The Company is currently evaluating all of its internal computer systems and microprocessors in light of the Y2K problem. As part of this process, the Company is conducting an inventory of its automated instruments and other computerized equipment and will be contacting applicable vendors for information regarding Y2K compliance. The Company will then upgrade or otherwise modify its internal computer systems and microprocessors, to the extent necessary. Testing of all its internal computer systems and microprocessors should be completed by the end of the first quarter of 1999. The Company does not expect the cost of bringing all the Company's systems and microprocessors into Y2K compliance will be material.

The Company's Y2K compliance efforts are in addition to other planned information technology ("IT") projects. While these efforts have caused and may continue to cause delays in other IT projects, the Company does not expect that any of these delays will have a significant effect on the Company's business or that any of the Company's other IT projects will be canceled or postponed to pay for the Y2K upgrades.

With regard to potential supplier Y2K problems, the Company has compiled a list of its critical suppliers, and has sent a Y2K questionnaire to each of them in order to permit the Company to ascertain the Y2K

compliance status of each. The Company is awaiting the return of these questionnaires. The Company does not know of any key supplier Y2K problems that could have a material effect on the Company's business. If through a Y2K questionnaire or otherwise the Company becomes aware of any such problems and is not satisfied that those problems are being adequately addressed, it will take appropriate steps to find alternative suppliers.

It has been acknowledged by governmental authorities that Y2K problems have the potential to disrupt global economies, that no business is immune from the potentially far-reaching effects of Y2K problems, and that it is difficult to predict with certainty what will happen after December 31, 1999. Consequently, it is possible that Y2K problems will have a material effect on the Company's business even if the Company takes all appropriate measures to ensure that it and its key suppliers are Y2K compliant.

It is possible that the conclusions reached by the Company from its analysis to date will change, which could cause the Company's Y2K cost estimates and target completion dates to change.

#### SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

This Form 10-Q filing contains forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Such forward-looking statements are based on management's current expectations and involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "intends,"

"may," and other similar expressions are intended to identify forward-looking statements.

Factors which may cause actual future results to differ from forward-looking statements include, among others, the matters set forth under the heading "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Certain Factors that May Affect Future Results" in the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (the "1997 10-K") which information is incorporated herein by reference.

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HYBRIDON, INC.

PART II

OTHER INFORMATION

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Items 1-4        None

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Item 5    OTHER INFORMATION

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Stockholder Proposals for 1999 Annual Meeting

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As set forth in the Company's Proxy Statement for its 1998 Annual Meeting of Stockholders, stockholder proposals submitted pursuant to Rule 14a-8 under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), for inclusion in the Company's proxy material for its 1999 Annual Meeting of Stockholders (the "1999 Annual Meeting") must be received by the Secretary of the Company at the principal offices of the Company no later than January 18, 1999.

In addition, the Company's by-laws require that the Company be given advance notice of stockholder nominations for election to the Company's Board of Directors and of other matters (other than matters included in the Company's proxy statement in accordance with Rule 14a-8). The required notice must be made in writing and delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Company at the principal offices of the Company, and received not less than 60 days nor more than 90 days prior to the 1999 Annual Meeting; provided however, that if less than 70 days' notice or prior public disclosure of the date of the meeting is given to stockholders, such nomination or other proposal shall have been mailed or delivered to the Secretary no later than the close of business on the 10th day following the date on which the notice of the meeting was mailed or such public disclosure made, whichever occurs first. The 1999 Annual Meeting is currently expected to be held on May 10, 1999. Assuming that this date does not change, in order to comply with the time periods set forth in the Company's by-laws, appropriate notice would need to be provided no earlier than February 9, 1999 and no later than March 11, 1999. The advance notice provisions of the Company's by-laws supersede the notice requirements contained in recent amendments to Rule 14a-4 under the Exchange Act.

Item 6. Exhibits and Reports on Form 8-K

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(a) Exhibits

27 .1 Financial Data Schedule (EDGAR)

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The following exhibits were previously filed as part of the Form 10-Q for the period ended September 30, 1998.

99.1 Third Amendment to Loan and Security Agreement between Hybridon, Inc. and Silicon Valley Bank.

99.2 Fourth Amendment to Loan and Security Agreement between Hybridon, Inc. and Silicon Valley Bank.

(b) No Reports on Form 8-K were filed during the third quarter ended September 30, 1998.

SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HYBRIDON, INC.

April 13, 1999

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Date

/s/ E. Andrews Grinstead, III

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E. Andrews Grinstead, III  
Chairman, President and Chief Executive  
Officer (Principal Executive Officer)

April 13, 1999

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Date

/s/ Robert G. Andersen

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Robert G. Andersen  
Treasurer (Principal Accounting and  
Financial Officer)

HYBRIDON, INC.

EXHIBIT INDEX

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27.1 Financial Data Schedule (EDGAR)

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