

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2002, or

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

For transition period from _____.

Commission File Number 0-27352

HYBRIDON, INC.

(Exact name of registrant as specified in its charter)

Delaware

04-3072298

*(State or other jurisdiction of
incorporation or organization)*

(I.R.S. Employer Identification Number)

345 Vassar Street

Cambridge, Massachusetts 02139
(Address of principal executive offices)

(617) 679-5500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

46,512,142

Class

Outstanding as of April 26, 2002

TABLE OF CONTENTS

PART I — FINANCIAL STATEMENTS

Item 1 - Financial Statements

Consolidated Condensed Balance Sheets as of March 31, 2002 and December 31, 2001

Consolidated Condensed Statements of Operations for the Three Months ended March 31, 2002 and 2001

Consolidated Condensed Statements of Cash Flows for the Three Months ended March 31, 2002 and 2001

Notes to Consolidated Condensed Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

PART II — OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

Signatures

EX-10.1 Employment Agreement With S. Agrawal

Ex-10.2 Employment Agreement with R.G. Andersen

Ex-99.1 Pages 26 - 32 of the Annual Report

HYBRIDON, INC.

FORM 10-Q

INDEX

	<u>Page</u>
PART I — FINANCIAL STATEMENTS	
Item 1 - Financial Statements	
Consolidated Condensed Balance Sheets as of March 31, 2002 and December 31, 2001	3
Consolidated Condensed Statements of Operations for the Three Months ended March 31, 2002 and 2001	4
Consolidated Condensed Statements of Cash Flows for the Three Months ended March 31, 2002 and 2001	5
Notes to Consolidated Condensed Financial Statements	6
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3 - Quantitative and Qualitative Disclosures About Market Risk	12
PART II — OTHER INFORMATION	
Item 6 - Exhibits and Reports on Form 8-K	13
Signatures	14

This quarterly report on Form 10-Q references the following U.S. trademarks owned by us: Hybridon®, GEM®, Cyclicon™, and IMO™. This quarterly report on Form 10-Q also contains trademarks of other companies.

PART I — FINANCIAL STATEMENTS**ITEM 1 - FINANCIAL STATEMENTS****HYBRIDON, INC. AND SUBSIDIARIES****CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)**

	MARCH 31, 2002	DECEMBER 31, 2001
Assets		
Current Assets:		
Cash and cash equivalents	\$ 11,349,019	\$ 20,923,295
Short-term investments	13,393,165	10,910,987
Receivables	799,277	274,863
Prepaid expenses and other current assets	110,437	56,992
	<u>25,651,898</u>	<u>32,166,137</u>
Property and equipment, net	157,446	143,298
Other assets:		
Deposits	11,500	—
Long-term investments	5,145,843	—
	<u>\$ 30,966,687</u>	<u>\$ 32,309,435</u>
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities:		
Accounts payable	\$ 651,383	\$ 498,642
Accrued expenses	1,290,162	1,021,660
Current portion of long-term debt	288,028	288,028
Current portion of deferred revenue (Note 6)	3,098,654	3,098,654
	<u>5,328,227</u>	<u>4,906,984</u>
9% convertible subordinated notes payable	1,306,000	1,306,000
Deferred revenue, net of current portion (Note 6)	25,355,062	26,129,725
Stockholders' equity (deficit):		
Preferred stock, \$0.01 par value		
Authorized — 5,000,000 shares		
Series A convertible preferred stock		
Designated — 1,500,000 shares		
Issued and outstanding — 639,984 and 640,166 shares at March 31, 2002 and December 31, 2001, respectively	6,400	6,402
Common stock, \$0.001 par value		
Authorized—100,000,000 shares		
Issued and outstanding—45,701,884 and 45,632,525 shares at March 31, 2002 and December 31, 2001, respectively	45,702	45,632
Additional paid-in capital	274,680,072	273,870,458
Accumulated deficit	(275,684,302)	(273,868,184)
Deferred compensation	(70,474)	(87,582)
	<u>(1,022,602)</u>	<u>(33,274)</u>
Total stockholders' deficit	<u>\$ 30,966,687</u>	<u>\$ 32,309,435</u>

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

HYBRIDON, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Revenues:		
License fees	\$ 619,281	\$ —
Royalty and other income	12,516	59,189
Interest income	195,963	105,129
Total revenues	827,760	164,318
Operating expenses:		
Research and development	1,246,166	1,101,051
General and administrative	1,082,934	1,346,538
Stock-based compensation from repriced options(1)	(263,504)	—
Interest	38,033	315,069
Total operating expenses	2,103,629	2,762,658
Loss before provision for income taxes	(1,275,869)	(2,598,340)
Income tax credit	(500,000)	—
Loss before extraordinary item	(775,869)	(2,598,340)
Extraordinary item:		
Loss on early retirement of 8% convertible notes payable	—	(1,411,876)
Net loss	(775,869)	(4,010,216)
Accretion of preferred stock dividends	(1,040,249)	(1,007,884)
Net loss applicable to common stockholders	\$ (1,816,118)	\$ (5,018,100)
Basic and diluted net loss applicable to common stockholders (Note 4)	\$ (0.04)	\$ (0.27)
Shares used in computing basic and diluted loss per common share	45,669,571	18,489,267
(1) The following summarizes the allocation of stock-based compensation from repriced options:		
Research and development	\$ (129,645)	\$ —
General and administrative	(133,859)	—
Total	\$ (263,504)	\$ —

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

HYBRIDON, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Cash Flows From Operating Activities:		
Net loss	\$ (775,869)	\$(4,010,216)
Adjustments to reconcile net loss to net cash used in operating activities -		
Extraordinary loss on exchange of 8% convertible notes payable	—	1,411,876
Stock-based compensation	(263,504)	—
Depreciation and amortization	123,554	121,415
Gain on sale of property and equipment	—	(20,650)
Non-cash interest expense	38,033	250,556
Changes in operating assets and liabilities -		
Accounts receivable	(524,414)	(402,897)
Prepaid expenses and other current assets	(64,945)	31,512
Accounts payable and accrued expenses	383,210	333,232
Deferred revenue	(774,663)	—
Net cash (used in) operating activities	<u>(1,858,598)</u>	<u>(2,285,171)</u>
Cash Flows From Investing Activities:		
Maturities of short-term investments	2,665,000	2,000,000
Purchase of marketable securities	(12,426,018)	—
Sale of marketable securities	2,038,101	—
Purchase of property and equipment	(25,698)	—
Proceeds from sale of property and equipment	—	20,650
Net cash (used in) provided by investing activities	<u>(7,748,615)</u>	<u>2,020,650</u>
Cash Flow From Financing Activities:		
Proceeds from exercise of common stock options	32,937	2,500
Decrease in restricted cash	—	5,000,000
Net cash provided by financing activities	<u>32,937</u>	<u>5,002,500</u>
Net (decrease) increase in cash and cash equivalents	(9,574,276)	4,737,979
Cash and cash equivalents, beginning of period	20,923,295	1,532,155
Cash and cash equivalents, end of period	<u>\$ 11,349,019</u>	<u>\$ 6,270,134</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ —	\$ 120,000
Supplemental disclosure of non cash financing and investing activities:		
Exchange of 8% convertible notes payable for Series B convertible preferred stock	\$ —	\$ 7,604,600
Accretion of Series A and Series B convertible preferred stock dividends	<u>\$ 1,040,250</u>	<u>\$ 1,007,884</u>

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

HYBRIDON, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)****(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 therapeutics and diagnostics using synthetic DNA. The Company's activities are based on four technologies: immunomodulatory oligonucleotide (IMO™) technology, which uses synthetic DNA to modulate responses of the immune system; antisense technology, which uses synthetic DNA to inhibit the production of disease-associated proteins at the cellular level; cancer therapy potentiation, which uses synthetic DNA to enhance the antitumor activity of certain marketed anticancer drugs; and Cyclicon™ technology, which uses novel synthetic DNA structures (Cyclicons), in drug target validation and drug discovery.

(2) Unaudited Interim Financial Statements

The accompanying consolidated condensed financial statements included herein have been prepared by the Company, without audit, in accordance with generally accepted accounting principals for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, 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. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of interim period results have been included. The Company believes that its disclosures are adequate to make the information presented not misleading. Interim results for the three month period ended March 31, 2002 are not necessarily indicative of results that may be expected for the year ended December 31, 2002. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, which was filed with the Securities and Exchange Commission on April 1, 2002.

(3) Reclassifications

Amounts in the prior-period consolidated financial statements have been reclassified to conform with the current period's presentation.

(4) Net Loss per Common Share

The following table sets forth the computation of basic and diluted loss per share:

	Three Months Ended March 31,	
	2002	2001
Numerator:		
Loss before extraordinary item	\$ (775,869)	\$ (2,598,340)
Extraordinary loss on exchange of 8% convertible notes payable	—	(1,411,876)
Net loss	(775,869)	(4,010,216)
Accretion of preferred stock dividends	(1,040,249)	(1,007,884)
Numerator for basic and diluted loss applicable to common shareholders	\$ (1,816,118)	\$ (5,018,100)
Denominator for basic and diluted loss per share	45,669,571	18,489,267
Loss per share – basic and diluted		
Loss before extraordinary item	\$ (0.02)	\$ (0.14)
Extraordinary loss	—	(0.08)
Net loss per share	(0.02)	(0.22)
Accretion of preferred stock dividends	(0.02)	(0.05)
Net loss per share applicable to common stockholders	\$ (0.04)	\$ (0.27)

[Table of Contents](#)

Basic net loss per common share is computed using the weighted average number of shares of common stock outstanding during the period. For the three months ended March 31, 2002 and 2001, diluted net loss per common share is the same as basic net loss per common share, as the effects of the Company's potential common stock equivalents are antidilutive. Total antidilutive securities were 40,994,568 and 55,422,897 for the three months ended March 31, 2002 and 2001, respectively. These securities include stock options, warrants, convertible preferred stock and convertible debt instruments (on an as-converted basis) and are not included in the Company's calculation of diluted net loss per common share.

(5) Cash Equivalents and Investments

The Company considers all highly liquid investments with maturities of 90 days or less when purchased to be cash equivalents. Cash and cash equivalents at March 31, 2002 and December 31, 2001 consist of the following:

	MARCH 31 2002	DECEMBER 31 2001
Cash and cash equivalents		
Cash and money market funds	\$10,149,000	\$20,923,000
Corporate Bond	1,200,000	—
Total	\$11,349,000	\$20,923,000

The Company accounts for investments in accordance with Statement of Financial Accounting standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. In accordance with SFAS No. 115, investments that the Company has the positive intent and ability to hold to maturity are classified as "held to maturity" and reported at amortized cost, which approximates fair market value. Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. All of the Company's short-term investments as of March 31, 2002 and December 31, 2001 are classified as "held-to-maturity."

On January 2, 2002 and prior to maturity, the Company sold two of its asset backed securities issued by the same corporation which the Company had classified as "held-to-maturity" as of December 31, 2001. The Company sold such securities when it became aware that the securities' assets might be deteriorating which may lead to an early repayment of par value. In order to avoid any potential losses, the Company sold these securities for a price that approximated their book value.

Short-term investments have maturities of greater than three months and mature within one year of the balance sheet date. All short-term investments mature prior to March 31, 2003. At March 31, 2002 and December 31, 2001, the Company's short-term investments consisted of the following (at amortized cost which approximates fair market value):

	MARCH 31 2002	DECEMBER 31 2001
Short-term investments		
Government bonds	\$ 9,360,000	\$ 8,929,000
Corporate bonds	4,033,000	1,982,000
Total	\$13,393,000	\$10,911,000

All long-term investments mature prior to June 30, 2003. At March 31, 2002 and December 31, 2001, the Company's long-term investments consisted of the following (at amortized cost which approximates fair market value):

	MARCH 31 2002	DECEMBER 31 2001
Long-term investments		
Government bonds	\$ 4,078,000	\$ —
Corporate bonds	1,068,000	—
Total	\$ 5,146,000	\$ —

(6) Collaboration and License Agreement with Isis Pharmaceuticals, Inc.

The Company recognizes revenue related to its Collaboration and License Agreement with Isis Pharmaceuticals, Inc. (the Agreement)

ratably over the 10-year term of the Agreement. "Deferred revenue" on the accompanying consolidated condensed balance sheet relates to the unrecognized portion of the \$32.3 million of cash and Isis stock received in 2001 and the unrecognized expenses related to the Agreement. While the amounts received are not refundable under any circumstances and the Company does not believe that it will be required to expend any significant future resources under the Agreement, this revenue has been deferred based on SAB 101, which precludes revenue recognition in cases where future obligations are not interpreted to

be “inconsequential and perfunctory”. The combination of significant rights retained by the Company and an ongoing obligation of the Company to make two representatives available to attend semi-annual telephonic meetings of a collaboration committee with the licensee, led to the accounting treatment described above. Direct expenses related to the Agreement and the estimated fair value of the Company’s stock that will be paid to Isis will also be recognized over the term of the Agreement as a reduction to revenue.

During the three months ended March 31, 2002, the Company recognized approximately \$619,000 of revenues under the Agreement. This amount is net of approximately \$214,000, which represents the amortization of direct costs and the amortization of the estimated value of the stock to be issued to Isis. The agreement was not in effect for the three months ended March 31, 2001. Additional information on the Agreement is included in Note (5) to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2001.

(7) Stock-Based Compensation

In September 1999, the Company’s Board of Directors authorized the repricing of options to purchase 5,251,827 shares of common stock to \$0.50 per share, which represented the market value on the date of the repricing. These options are subject to variable plan accounting which requires the Company to remeasure the intrinsic value of the repriced options, through the earlier of the date of exercise, cancellation or expiration, at each reporting date. For the three months ended March 31, 2002, the Company recognized a credit of approximately \$264,000 as stock compensation from repriced options as a result of a decrease in the intrinsic value of these options between December 31, 2001 and March 31, 2002. The Company did not have a charge or credit for the first quarter of 2001 because the fair market value of our common stock at March 31, 2001 was at a level that did not require financial statement recognition.

(8) Income Taxes

During 2001, the Company had a provision for income taxes of \$500,000 for Alternative Minimum Tax (AMT) of which \$450,000 was paid by the Company in 2001. In March 2002, the National Stabilization and Recovery Act temporarily rescinded the AMT with respect to the use of net operating loss carryforwards to offset current taxable income. As a result, the Company recognized a \$500,000 tax benefit in operating results during the three months ended March 31, 2002 and recorded a receivable of \$450,000 for estimated taxes paid during 2001 for which the Company expects to receive a refund in 2002.

(9) Series A Convertible Preferred Stock Dividend

The holders of Series A convertible preferred stock, as of March 15 or September 15, are entitled to receive dividends payable at the rate of 6.5% per annum, payable semi-annually in arrears. Such dividends shall accrue from the date of issuance of such shares and shall be paid semi-annually on April 1 and October 1 of each year. Such dividends shall be paid, at the election of the Company, either in cash or additional duly authorized, fully paid and non assessable shares of Series A convertible preferred stock. Through March 31, 2002, the Company has always elected to pay these dividends in stock. In calculating the number of shares to be paid with respect to each dividend, the Series A convertible preferred stock is valued at \$100.00 per share. During the three months ended March 31, 2002 and March 31, 2001, total Series A dividend accretion was approximately \$1,040,000 and \$965,000, respectively.

(10) 8% Convertible Notes Payable

On March 5, 2001, the Company made an offer to the holders of its 8% Convertible Notes Payable (the 8% Notes) to exchange their notes in a ratio of one share of a newly-designated class of Series B convertible preferred stock for each \$100 in principal and interest of notes tendered. On March 30, 2001 holders of 8% Notes in the aggregate original principal amount of \$7,354,000 exchanged their notes for 76,046 shares of Series B convertible preferred stock. The Company recorded an extraordinary loss of \$1.4 million related to the early extinguishment of the 8% Notes. The extraordinary loss represents the difference between the carrying value of the 8% Notes and the fair value of the Series B convertible preferred stock, as determined by the fair market value of the common stock into which the Series B convertible preferred stock was convertible and the write-off of deferred financing costs and related legal fees.

(11) Early Exercise Program

In June 2001, the Company began an “early exercise” program (the Early Exercise Program) to exchange its common stock for its Series B convertible preferred stock, several classes of its warrants and its remaining 8% Notes, in order to simplify the Company’s capital structure and to reduce the number of outstanding securities which are exercisable for or convertible into shares of its common stock. At the completion of the Early Exercise Program in 2001, the results were as follows:

All holders of the Company’s Series B convertible preferred stock exchanged their shares for 19,564,500 shares of the Company’s common stock;

Holders of warrants priced between \$0.60 and \$2.40 exchanged their warrants for 4,669,808 shares of the Company’s common stock; and

Holders of \$456,221 in principal and interest under 8% Notes exchanged their 8% Notes for 1,140,448 shares of the Company’s common stock.

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

GENERAL

We are a leading company in the discovery and development of novel therapeutics and diagnostics using synthetic DNA. Our activities are based on four technologies:

- immunomodulatory oligonucleotide, or IMO, technology, which uses synthetic DNA to modulate responses of the immune system;
- antisense technology, which uses synthetic DNA to inhibit the production of disease-associated proteins at the cellular level;
- cancer therapy potentiation, which uses synthetic DNA to enhance the antitumor activity of certain marketed anticancer drugs; and
- Cyclicon technology, which uses novel synthetic DNA structures which we refer to as Cyclicons in drug target validation and drug discovery.

Since we began operations in February 1990, we have been involved primarily in research and development and manufacturing. To date, almost all of our revenues have been from collaborative and license agreements, interest income and manufacturing of synthetic DNA and reagent products by our DNA manufacturing business, known as the Hybridon Specialty Products Division, or HSP, prior to our selling HSP in September 2000.

We have incurred total losses of \$275.7 million through March 31, 2002 and expect to incur substantial operating losses in the future. In order to commercialize our therapeutic products, we need to address a number of technological challenges and to comply with comprehensive regulatory requirements. We expect that our research and development and general and administrative expenses will be significant in 2002 as we use our cash resources to advance more rapidly our discovery and development programs.

This management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas where significant estimates and judgments are made, include, but are not limited to, revenue recognition. A discussion of these estimates and judgments is included in our Annual Report on Form 10-K for the year ended December 31, 2001 under the caption "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies."

RESULTS OF OPERATIONS

Three Months Ended March 31, 2002 and 2001

Total revenues increased by \$664,000, or 405%, from \$164,000 for the three months ended March 31, 2001 to \$828,000 for the three months ended March 31, 2002. The increase in revenues was primarily due to license revenues from agreements with Isis Pharmaceuticals, Inc. and EpiGenesis Pharmaceuticals, Inc. In connection with these agreements, we recorded \$619,000 in revenues, which is net of related costs, in the three months ended March 31, 2002. The increase in revenues for the three months ended March 31, 2002 also reflected increased interest income from higher cash and investment balances as a result of the payments received during 2001 from Isis and EpiGenesis, the sale of our interest in MethylGene, Inc. and the remaining contingent payment due us from the sale of our DNA manufacturing business, known as the Hybridon Specialty Products Division, or HSP.

Research and development expenses increased by \$145,000, or 13%, from \$1,101,000 to \$1,246,000 for the three months ended March 31, 2002 compared to the same period in 2001. The increase was primarily attributable to expanded discovery efforts. In the three months ended March 31, 2002 and 2001, our research and development expenses related primarily to the preclinical development of our IMO technology. In the first quarter of 2002, we commenced a Phase I/II clinical trial of our second generation antisense compound GEM 231 in combination with irinotecan. We are conducting the trial at Vanderbilt University Medical Center and the University of

[Table of Contents](#)

Chicago Medical Center. Given the technological and regulatory hurdles likely to be encountered in the development and commercialization of our products, the future timing and costs of our various research and development programs are uncertain.

General and administrative expenses decreased by \$264,000, or 20%, from \$1,347,000 in the three months ended March 31, 2001 to \$1,083,000 for the three months ended March 31, 2002. This decrease primarily reflected executive compensation awards approved in the first quarter of 2001. There were no comparable awards approved in the first quarter of 2002. General and administrative expenses consist primarily of salary expense, consulting fees and professional legal fees associated with our regulatory filing requirements and business development.

As a result of a repricing of our stock options in September 1999, certain outstanding stock options are subject to variable plan accounting. During the three months ended March 31, 2002, we credited operating results for \$264,000 representing a decrease in the intrinsic value of these options. This credit resulted from a decrease in the market value of the Company's common stock during the first quarter of 2002. We did not have a stock-based compensation charge or credit for the three months ended March 31, 2001 because the fair market value of our common stock was at a level that did not require any financial statement recognition. Compensation charges and credits will likely occur in the future based upon changes in the market value of our common stock.

Interest expense decreased by \$277,000, or 88%, from \$315,000 to \$38,000 for the three months ended March 31, 2002 compared to the same period in 2001. The decrease for the three months ended March 31, 2002 was primarily attributable to a \$13.7 million debt reduction during 2001 which resulted from the conversion of \$8.0 million of our 8% notes into equity and the repayment of a \$6.0 million note payable that occurred in the second and fourth quarters of 2001.

In March 2002, the National Economic Stabilization and Recovery Act temporarily rescinded the Alternative Minimum Tax (AMT) with respect to the use of net operating loss carryforwards to offset current taxable income. As a result, we recognized a tax benefit in operating results of \$500,000 for the three months ended March 31, 2002 and recorded a receivable of \$450,000 for estimated taxes paid during 2001 for which the Company expects to receive a refund in 2002. We did not have any income subject to AMT during the first quarter of 2001.

We pay dividends on our Series A convertible preferred stock of 6.5% per annum, payable semi-annually in arrears. We have the election to pay such dividends in either cash or additional duly authorized, fully paid and non assessable shares of Series A convertible preferred stock. Through March 31, 2002, we had only paid such dividends in Series A convertible preferred stock. Hybridon recorded Series A preferred stock dividends of \$1,040,000 during the first quarter of 2002 and \$965,000 during the first quarter of 2001. Such dividends will continue to be incurred for as long as the Series A convertible preferred stock is outstanding.

As a result of the factors discussed above, our net loss applicable to common stockholders amounted to \$1,816,000 for the three months ended March 31, 2002 and \$5,018,000 for the three months ended March 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

We require cash to fund our operating expenses, to make capital expenditures and to pay debt service. We expect that our cash requirements for these uses will be substantial and will increase as we expand our operations. Historically, we have funded our operations with revenues from collaborative and license agreements, interest income and manufacturing of synthetic DNA and reagent products by HSP, prior to its sale in September 2000, as well as from a variety of debt and equity financings, lease financings, the sale of our shareholdings in MethylGene, and the sale of HSP. Our only material committed external sources of funds are a \$450,000 tax refund expected from the U.S. government during 2002 and the final \$4.5 million payment due to us from Isis under our license agreement. This payment from Isis is due no later than May 2003 and may be made by Isis, at its option, in cash or with its common stock having a fair market value intended to approximate \$4.5 million. Under our agreement with Isis, we are required to pay Isis \$6.0 million in cash or common stock in three equal annual installments of \$2.0 million beginning in May 2002.

As of March 31, 2002, we had approximately \$29.9 million in cash, cash equivalents and investments, a decrease of \$1.9 million from December 31, 2001. In the first quarter of 2002, we utilized approximately \$1.9 million to fund operating activities. The \$1.9 million to fund operating activities consisted of a net loss of \$775,000 combined with non-cash operating adjustments which include stock-based compensation, deferred revenue related to the Isis agreement, and increased accounts receivable.

During the first quarter of 2002, there were no financing activities except for exercises of stock options.

As of March 31, 2002, our outstanding indebtedness consisted of \$0.3 million in principal amount of 8% notes maturing in November 2002 and \$1.3 million in principal amount of 9% notes maturing in April 2004. These notes are unsecured.

[Table of Contents](#)

We believe that our existing cash and investments will be sufficient to fund our cash requirements at least through the end of 2003. Our actual cash requirements will depend on many factors, including particularly the scope and pace of our research and development efforts and our success in entering into strategic alliances.

We do not expect to generate significant additional funds internally until we successfully complete development and obtain marketing approval for products, either alone or in collaboration with third parties, which we expect will take many years. We expect to seek additional external funds periodically from collaborations with other biotechnology companies or pharmaceutical companies and from additional debt, equity and lease financings. We believe that the key factors that will affect our internal and external sources of cash are:

- the success of our clinical and preclinical development programs;
- the receptivity of the capital markets to financings by biotechnology companies; and
- our ability to enter into strategic collaborations with biotechnology and pharmaceutical companies and the success of such collaborations.

We may not be successful in generating funds internally or from external sources. Lack of necessary funds may require us to delay, scale back or eliminate some or all of our research and development programs.

FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that involve risks and uncertainties. We may, in some cases, use words such as “project,” “believe,” “anticipate,” “plan,” “expect,” “estimate,” “intend,” “should,” “would,” “could,” “will,” “may” or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. There are a number of important factors that could cause actual results to differ materially from the results anticipated by these forward-looking statements. These important factors include those set forth in the Company’s Annual Report on Form 10-K for the year ended December 31, 2001 under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations— Risk Factors That May Affect Results” which are filed with this quarterly report as Exhibit 99.1, and are incorporated herein by reference. These factors and the other cautionary statements made in this quarterly report should be read as being applicable to all related forward-looking statements wherever they appear in this quarterly report. If one or more of these factors materialized, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, any forward-looking statements represent our estimates only as of the date this quarterly report was filed with the Securities and Exchange Commission and should not be relied upon as representing the Company’s estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates change.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Historically, our primary exposures have been related to nondollar-denominated operating expenses in Europe. As of December 31, 2002, we have no assets and liabilities related to nondollar denominated currencies.

We maintain investments in accordance with our investment policy. The primary objectives of our investment activities are to preserve principal, maintain proper liquidity to meet operational needs and maximize yield. Although our investments are subject to credit risk, our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure from any single issue, issuer or type of investment. We do not own derivative financial investment instruments in our investment portfolio.

HYBRIDON, INC.

PART II

OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits
 - 10.1 Employment agreement dated April 1, 2002 between the Registrant and Dr. Sudhir Agrawal.
 - 10.2 Employment agreement dated April 1, 2002 between the Registrant and Robert G. Andersen.
 - 99.1 Pages 26 through 32 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Securities and Exchange Commission on April 1, 2002. (which is not deemed filed except to the extent that portions thereof are expressly incorporated by reference herein.)
- (b) The Company did not file any Current Reports on Form 8-K during the quarter ended March 31, 2002.

SIGNATURES

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

/s/ Stephen R. Seiler

Stephen R. Seiler
Chief Executive Officer

/s/ Robert G. Andersen

Robert G. Andersen
Chief Financial Officer and Vice President of Operations
(Principal Financial Officer)

Date: May 14, 2002

Date: May 14, 2002

Exhibit Index

Exhibit No.

- 10.1 Employment agreement dated April 1, 2002 between the Registrant and Dr. Sudhir Agrawal.
- 10.2 Employment agreement dated April 1, 2002 between the Registrant and Robert G. Andersen.
- 99.1 Pages 26 through 32 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Securities and Exchange Commission on April 1, 2002. (which is not deemed filed except to the extent that portions thereof are expressly incorporated by reference herein.)

HYBRIDON, INC.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into by and between Sudhir Agrawal ("Executive") and Hybridon, Inc., a Delaware corporation (the "Company"), and is effective as of the 1st day of April, 2002.

WHEREAS, the Company desires to establish its right to the services of Executive, in the capacity described below, on the terms and conditions hereinafter set forth, and Executive is willing to accept such employment on such terms and conditions;

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, Executive and the Company have agreed and do hereby agree as follows:

1. Definitions. The capitalized terms in this Agreement shall have the meanings set forth in this Agreement or Appendix A attached hereto.

2. Engagement. The Company hereby agrees to employ Executive as its President and Chief Scientific Officer and the Executive hereby accepts such employment on the terms and conditions hereinafter set forth.

3. Employment Period. The Executive's employment with the Company shall commence on April 1, 2002 and shall continue through April 1, 2007, unless such employment is sooner terminated or subsequently extended as hereinafter provided. The Company and the Executive may agree to extend the period during which this agreement is in effect beyond the initial effective period upon the terms and conditions of this Agreement or upon other terms, but neither the Company nor the Executive is under any obligation to do so. The period during which this Agreement is in effect shall constitute the "Employment Period."

4. Duties and Responsibilities.

(a) Responsibilities. During the Employment Period, the Executive shall perform his duties and responsibilities fully and faithfully as President and Chief Scientific Officer, subject to the direction and supervision of the Chief Executive Officer ("CEO") and the Board and the terms and conditions of this Agreement. During such period, the Executive shall report solely to the CEO and the Board. Executive shall have the duties and responsibilities customarily assigned to the President and Chief Scientific Officer with such other duties not

inconsistent therewith as may from time to time be assigned to the Executive by the CEO or the Board, and all employees of the Company who are involved in research and development shall report to the Executive, subject to the Board's ultimate control. During the Employment Period, the Executive shall perform all services and acts necessary or advisable to fulfill the duties and responsibilities that are commensurate and consistent with the Executive's position. Executive agrees he shall devote substantially his full business time and attention to, and exert his best efforts in, the performance of his duties hereunder, so as to promote the business and best interests of the Company and to comply with the Company's policies as in effect from time to time. Notwithstanding the foregoing, Executive may engage in ordinary and customary interactions with the scientific and academic communities, including writing and reviewing articles and grants, editing books and attending conferences.

(b) Exclusivity. Executive shall devote substantially his full time to his duties hereunder and agrees that, during the Employment Period, except as otherwise provided in Section 4(a), the Executive shall not provide consulting services to, or become an employee of, any other firm, company, corporation, or person engaged in a business.

(c) Location. The Executive's principal place of business shall be in Cambridge, Massachusetts, within thirty (30) miles there from ("Cambridge Area") or within ten miles east of Worcester, MA, although travel could be part of Executive's responsibilities. Executive shall perform services for the Company in the Cambridge Area and at such other locations where Executive's services might be required to be performed from time to time. Notwithstanding the preceding sentence, Executive shall not be required to perform services at a location other than the Cambridge Area for a period in excess of thirty (30) consecutive days without the Executive's prior written consent, except in the event of a change in location of the headquarters of the Company to a site within the continental United States following a Change of Control.

5. Compensation. For all services rendered by Executive pursuant to this Agreement, the Company shall pay Executive, and Executive agrees to accept, the salary, stock options, bonuses, and other benefits described below in this Section 5.

(a) Base Salary. During the Employment Period, the Company shall pay Executive an annual base salary of \$ 360,000.00 ("Base Salary") and such Base Salary shall be payable at periodic intervals in accordance with the Company's payroll practices for salaried employees. In accordance with Section 5(c), below, the amount of Base Salary shall be reviewed and approved, if applicable, by the Board on at least an annual basis, and any increases in the amount of Base Salary

-2-

shall be effective as of the date determined by the Board. Executive's Base Salary may be increased for any reason, including to reflect inflation or such other adjustments as the Board may deem appropriate; provided, however, that Executive's Base Salary, as in effect on the date hereof or as increased in accordance with the terms of this Agreement, may not be subsequently decreased, except with the prior written consent of the Executive.

(b) Bonus. In addition to Base Salary and stock options, and to the extent a bonus program is established by the Board, the Executive shall receive, for each fiscal year of the Company ending with or within the Employment Period, an annual bonus ("Bonus") whether pursuant to a formal bonus or incentive plan or program of the Company or otherwise. Subject to this Section 5(b) and Section 5(c), below, such Bonus shall be based on criteria determined by the Board, in its discretion. Any Bonus earned by the Executive for service or performance rendered in any fiscal year within the Employment Period shall be paid to the Executive in accordance with the applicable plan or program and the Company's policies governing such matters. In the event of Executive's termination of employment because of the Executive's death or Disability during the Employment Period, the Company shall pay to Executive or Executive's estate, as applicable, the pro rata portion of the Bonus that Executive would have earned in respect of the portion of the year preceding Executive's death or commencement of Disability.

(c) Annual Compensation Review. Executive's compensation, consisting of salary, stock option grants and bonuses, shall be reviewed annually by the Board.

(d) Medical, Dental and Other Healthcare Benefits. During the Employment Period, Executive shall be eligible to participate in and receive benefits under the Company's medical, dental, or other healthcare plans, as in effect from time to time, that are available to officers or employees of the Company.

(e) Retirement Plan Benefits. Executive shall be entitled to participate in the Company's tax-qualified and nonqualified retirement plans, as in effect from time to time, that are available to officers and employees of the Company and shall be entitled to receive the benefit of contributions to be made, if any, by the Company for the benefit of Executive under the terms of the applicable tax-qualified or nonqualified retirement plan.

(f) Incentive Plans. During the Employment Period, Executive shall be eligible to receive all benefits, including those under equity participation or bonus programs, to which key employees are or

-3-

become eligible under such plans or programs as may be established by the Company from time to time.

(g) Other Benefits. During the Employment Period, Executive shall be entitled to participate in the benefit and fringe benefit programs afforded by the Company to its executives from time to time; provided, however, that the Company shall be required to pay or contribute to such programs in respect of Executive for any calendar year of the Company an amount (the "Benefits Amount") equal to the lesser of (i) 20% of Executive's annual base salary for such calendar year or (ii) \$50,000. The Benefits Amount shall not include contributions made by the Company to FICA or FUTA or similar legally required payments, expense reimbursements, vacation or any equity incentives granted to Executive. If the Company, after providing a reasonably comprehensive benefit and fringe benefit program for Executive, fails to spend for a calendar year the entire Benefits Amount for such calendar year, the entire unspent Benefits Amount shall be paid to Executive in cash within 60 days after the end of such calendar year. Executive shall be entitled to paid vacation in accordance with the Company's standard vacation policies in effect from time to time (such policies as in effect on the date hereof providing that Executive is entitled to six weeks paid vacation per calendar year based on his years of service to date).

6. [INTENTIONALLY LEFT BLANK]

7. Termination of Employment. The remedies described in this Section 7 are the exclusive remedies of the parties in connection with the termination of Executive's employment under this Agreement

(a) If the Executive's employment with the Company terminates for any reason, except in connection with a Change of Control as provided for in Section 7(b), below, then the Executive or his beneficiary, as applicable, shall be entitled to receive the following severance benefits:

(i) Death. In the event Executive's employment hereunder is terminated by reason of Executive's death, the Company shall pay Executive's designated beneficiary or beneficiaries any Accrued Obligations; provided that such amount shall be paid in a lump sum cash payment within thirty (30) days after the Company's receipt of notification of Executive's death. Additionally, any stock options previously granted to the Executive by the Company and held by the Executive on the date of his death shall vest as of such date to the extent such options would have vested (had Executive's employment not been terminated) during the portion of the Employment Period that ends on the last day of the twenty fourth (24th) month following the date on which Executive's death occurred, and notwithstanding any provisions to the

-4-

contrary contained in the stock option agreements, Executive shall be permitted to exercise such stock options until the two year anniversary of death.

(ii) Disability. If Executive is unable to perform substantially all of his duties hereunder due to a Disability and the Executive does not return to the full-time performance of the Executive's duties within thirty (30) days after written notice to return from the Company, the Executive's employment under this Agreement may be terminated by the Company for Disability. Such termination shall be effective on the 30th day following the written notice or such later date as may be specified in the notice (the "Disability Termination Date"). If Executive's employment hereunder is terminated due to Disability, the Company shall pay Executive any Accrued Obligations (such payment to be made within thirty (30) days after the

Disability Termination Date in the form of a lump sum cash payment). Additionally, any stock options previously granted to the Executive by the Company and held by the Executive on the Disability Termination Date shall vest as of such date to the extent such options would have vested (had the Executive's employment not been terminated) during that portion of the Employment Period that ends on the last day of the twenty fourth (24th) month following such date, and notwithstanding any provisions to the contrary contained in the stock option agreements, Executive shall be permitted to exercise such stock options until the two year anniversary of the Disability Termination Date.

(iii) Termination by the Company for Cause. The Company may terminate Executive's employment under this Agreement for Cause at any time. If Executive's employment hereunder is terminated by the Company for Cause, the Company shall pay Executive any Accrued Obligations, provided that such amount shall be paid in a lump sum cash payment within thirty (30) days after such termination date. Executive shall remain subject to the provisions of this Agreement that, by their terms, survive the termination of the Executive's employment with the Company. All options which are unvested on the date of termination shall expire and terminate on that date and, notwithstanding any provisions to the contrary contained in the stock option agreements, Executive shall be permitted to exercise any vested stock options until the one year anniversary of such termination date. All vested options which remain unexercised after the one year anniversary of such termination date shall expire and terminate.

(iv) Termination by the Company Other than for Death, Disability or Cause. The Company may, at its option and with thirty (30) days' written notice, terminate the Executive's employment under this Agreement without Cause at any time. If the Executive's

-5-

employment is terminated by the Company other than on account of Executive's death, Disability, or for Cause, then, the Company shall pay Executive (A) the lesser of (I) Executive's Base Salary for the twenty-four (24) consecutive calendar months following the termination of Executive's employment (such payments to be made under the Company's payroll practices applicable to salaried executives) and (II) an amount equal to Executive's Base Salary for the period from the time of termination until April 1, 2007, and (B) any Accrued Obligations (such payment to be made within thirty (30) days after Executive's termination date in the form of a lump sum cash payment). Additionally, any stock options previously granted to the Executive by the Company and held by the Executive on the date of termination shall vest as of such date to the extent such option would have vested during the following thirty-six months (or portion thereof) remaining in the Employment Period had Executive's employment not been terminated, and notwithstanding any provisions to the contrary contained in the stock option agreements, Executive shall be permitted to exercise such stock options until the two year anniversary of such date. For this purpose, Executive's Base Salary shall be his Base Salary in effect immediately before his employment terminated and the Employment Period shall be the Employment Period in effect immediately before his termination date.

(v) Termination by the Executive for Good Reason. Executive may, for Good Reason, terminate this Agreement upon thirty (30) days' written notice to the Company. If the Executive's employment is terminated by the Executive for Good Reason, then the Company shall pay the Executive (A) the lesser of (I) Executive's Base Salary for the twenty-four (24) consecutive calendar months following the termination of Executive's employment (such payments to be made under the Company's payroll practices applicable to salaried executives) and (II) an amount equal to Executive's Base Salary for the period from the time of termination until April 1, 2007, and (B) any Accrued Obligations incurred through the date of such termination (such payment to be made within thirty (30) days after such termination in the form of a lump sum cash payment). Additionally, any stock options previously granted to the Executive by the Company and held by the Executive on the date of termination shall vest as of such date to the extent such option would have vested during

the following thirty-six months (or portion thereof) remaining in the Employment Period had Executive's employment not been terminated, and notwithstanding any provisions to the contrary contained in the stock option agreements, Executive shall be permitted to exercise such stock options until the two year anniversary of such date. For this purpose, Executive's Base Salary shall be his Base Salary in effect immediately before his employment terminated and the Employment Period shall be the Employment Period in effect immediately before his termination date.

-6-

(vi) Voluntary Termination by the Executive. Executive may, without Good Reason, terminate this Agreement upon thirty (30) days' written notice to the Company. If the Executive's employment is terminated by the Executive without Good Reason, the Company shall pay Executive any Accrued Obligations, provided that such amount shall be paid in a lump sum cash payment within thirty (30) days after such termination date. All options which remain unvested on the termination date shall expire and terminate as of that date and, and notwithstanding any provisions to the contrary contained in the stock option agreements, Executive shall be permitted to exercise all vested stock options until the one year anniversary of such termination date. All vested options which remain unexercised after the one year anniversary of such termination date shall expire and terminate.

(vii) Continuation of Coverage.

(A) If Executive's employment with the Company is terminated under circumstances to which the provisions of Section 7(a)(iv), Section 7(a)(v), Section 7(b)(iii) or Section 7(b)(vi) apply, the Company shall, for the period during which the Company continues to pay Executive an amount equal to his Base Salary and at its sole cost and expense, provide Executive and his eligible dependents (if any) with healthcare, disability, and life insurance benefits substantially similar to those benefits the Executive and his eligible dependents (if any) were receiving immediately prior to the Executive's termination of employment; provided, however,

(1) the Company shall not be required to provide medical coverage to the extent another employer provides comparable coverage,

(2) with respect to death and disability coverage, the Company shall not be required to provide coverage to the extent another employer provides comparable coverage; and shall pay the cost of supplemental coverage if a new employer provides less than comparable coverage, to allow the Executive to purchase coverage to make total coverage comparable, and

(3) that the coverage provided by the Company pursuant to this subsection 7(a)(vii)(A) shall be in lieu of any other continued coverage for which the Executive or his dependents, if any, would otherwise be eligible pursuant to COBRA.

(B) If the Executive's employment with the Company is terminated under circumstances to which the provisions of Section 7(a)(iv), Section 7(a)(v), Section 7(b)(ii), Section 7(b)(iii) and

-7-

Section 7(b)(vi) do not apply, Executive (and his dependents, if any) shall be permitted to continue to participate in the Company's benefit plans, programs, or arrangements to the extent the Company is required by law, including Part 6 of Title I of the Employee Retirement Income Security Act of 1974, as amended ("COBRA"), to offer such coverage.

(viii) No Offset. Any compensation derived by the Executive from any subsequent employment or self-employment shall not be offset against or reduce any amounts to which the Executive is entitled under this

Agreement.

(b) Termination After a Change of Control. If Executive's employment with the Company is terminated after the effective date of a Change of Control, Executive shall be entitled to receive severance benefits as follows:

(i) Parachute Payments. If all or any portion of the amounts payable to the Executive under this Agreement or otherwise are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended ("Code") or a similar state tax or assessment, the Company shall pay to the Executive an amount necessary to place the Executive in the same after-tax position as Executive would have been had no such excise tax or assessment been imposed. The amount payable pursuant to the preceding sentence shall be increased to the extent necessary to pay income and excise taxes on such amount. The determination of any amounts payable under this Section 7(b)(i) shall be made by an independent accounting firm employed by the Company and such determination shall be final, binding and conclusion on the parties hereto.

(ii) Voluntary Resignation. If Executive's employment with the Company is terminated by the Executive by reason of his voluntary resignation within thirty (30) days after the anniversary date of the effective date of a Change in Control, the Company shall pay or otherwise provide to the Executive the following severance benefits:

(A) a lump sum cash payment in an amount equal to the lesser of two (2) times the Executive's current Base Salary at the time of termination, or the Executive's current Base Salary at the time of termination multiplied by the aggregate number of years (or any portion thereof, calculated on a daily basis) remaining in the Employment Period had the Executive's employment not been terminated, provided that such amount shall be paid to the Executive within ten (10) days after the date of termination;

(B) until the earlier of the date the Employment Period would otherwise have terminated had Executive's employment not

-8-

been terminated, or the expiration of the twenty-four (24) month period measured from the date of the Executive's termination of employment, the Company shall, at its sole cost and expense provide Executive and his eligible dependents (if any) with healthcare, disability, and life insurance benefits substantially similar to those benefits the Executive and his eligible dependents (if any) were receiving immediately prior to the Executive's termination of employment; provided, however,

(1) the Company shall not be required to provide medical coverage to the extent another employer provides comparable coverage,

(2) with respect to death and disability coverage, the Company shall not be required to provide coverage to the extent another employer provides comparable coverage; and shall pay the cost of supplemental coverage if a new employer provides less than comparable coverage, to allow the Executive to purchase coverage to make total coverage comparable, and

(3) that the coverage provided by the Company pursuant to this subsection 7(b)(ii)(B) shall be in lieu of any other continued coverage for which the Executive or his dependents, if any, would otherwise be eligible pursuant to COBRA; and

(C) notwithstanding any provisions to the contrary contained in the stock option agreements, Executive shall be permitted to exercise all vested stock options until the one year anniversary of the date of the Executive's termination of employment.

(iii) Termination by the Executive for Good Reason. If, after the effective date of a Change of Control, Executive terminates his employment

with the Company for Good Reason, the Company shall pay or otherwise provide to the Executive the severance benefits described in Section 7(a)(v) hereof.

(iv) Termination by Reason of Death. If, after the effective date of a Change of Control, Executive's employment with the Company is terminated by reason of Executive's death, the Company shall pay or otherwise provide to Executive's designated beneficiary or beneficiaries the severance benefits described in Section 7(a)(i) hereof.

(v) Termination by Reason of Disability. If, after the effective date of a Change of Control, Executive's employment with the Company is terminated by the Company by reason of Disability as described in Section 7(a)(ii) hereof, the Company shall pay or otherwise provide to Executive the severance benefits described in that section.

-9-

(vi) Termination by the Company Other Than for Death, Disability or Cause. If, after the effective date of a Change of Control, Executive's employment with the Company is terminated by the Company other than for Death, Disability, or Cause, the Company shall pay or otherwise provide to the Executive the severance benefits described in Section 7(a)(iv) hereof.

(vii) Termination by the Company for Cause. If, after the effective date of a Change of Control, Executive's employment with the Company is terminated by the Company for Cause, the Company shall pay Executive the amounts described in Section 7(a)(iii) hereof.

(viii) Voluntary Termination by Executive. If, after the effective date of a Change of Control, Executive voluntarily terminates his employment with the Company under circumstances to which section 7(b)(ii) does not apply, the Company shall pay Executive the amounts described in Section 7(a)(vi).

Acceleration of Vesting. Any provisions of this Agreement regarding vesting of stock options notwithstanding, the vesting of all Previously Granted Stock Options shall be accelerated as described below upon the occurrence of the following events:

Creeping Tender. In the event of a Creeping Tender, the unvested portion of the Previously Granted Stock Options shall become fully vested and nonforfeitable as of the date that is ten business days before the effective date of the Creeping Tender.

Acquisition Event. Upon the execution by the Company of an agreement to effect an Acquisition Event that is not a Creeping Tender, the unvested portion of the Previously Granted Stock Options shall become fully vested and nonforfeitable upon the occurrence of the Acquisition Event or as of such earlier date as may be specified by the Board by written notice to the Executive and the Board may take one or both of the following actions with respect to the Previously Granted Stock Options: (I) provide that the Previously Granted Stock Options shall be assumed, or equivalent stock options be substituted by the acquiring or succeeding corporation (or an affiliate thereof), or (II) upon written notice to the Executive, provide that all then unexercised Previously Granted Stock Options will terminate to the extent not exercised by the Executive prior to the consummation of such Acquisition Event or such earlier date as may be specified by the Board by written notice to the Executive.

IP Divestiture. Upon an IP Divestiture, the option to purchase shares of the Company's common stock at \$0.825 per

-10-

share granted to Executive on July 25, 2001 shall immediately vest with respect to 500,000 shares.

(ix) Amendments to Stock Option Agreements. The Company and the Executive agree promptly to take such steps to amend the Previously Granted Stock Options to the extent necessary to reflect the provisions of this Section 7.

8. Proprietary Information; Company Documents and Materials.

(a) Proprietary Information. Executive acknowledges that during the Employment Period, Executive will occupy a position of trust and confidence with respect to Proprietary Information of the Company. Executive understands that he possesses or will possess Proprietary Information that is important to the Company's business and operation. Executive acknowledges that such Proprietary Information is specialized, unique in nature and of great value to the Company and its Affiliates, and that such information gives the Company and its Affiliates a competitive advantage. Executive acknowledges that all Proprietary Information is and shall remain the sole property of the Company or any of its Affiliates. Executive shall not disclose to others or use, whether directly or indirectly, any Proprietary Information, or anything relating to such information, regarding the Company or any of its Affiliates; provided, however that Executive's obligations under this Section 8 shall not apply to any information that (i) is or becomes known to the general public under circumstances involving no breach by Executive of the terms of this Section 8, (ii) is generally disclosed to third parties by the Company without restriction on such third parties, (iii) is approved for release by written authorization of the Board of Directors or an authorized employee of the Company, (iv) is communicated to Executive by a third party under no duty of confidentiality with respect to such information to the Company or another party, or (v) is required to be disclosed by Executive to comply with applicable laws, governmental regulations, or court order, provided that Executive provides prior written notice of such disclosure to the Company and an opportunity for the Company to object to such disclosure and further provided that Executive cooperates with the Company and takes reasonable and lawful actions requested by the Company (the out-of-pocket costs of which shall be paid by the Company) to avoid and/or minimize the extent of such disclosure.

(b) Company Documents and Materials. Executive agrees that during Executive's employment by the Company, Executive will not remove any Company documents or materials, including Proprietary Information, from the business premises of the Company or deliver any such Company documents or materials to any person or entity outside the Company, except as Executive is required to do in connection with

-11-

performing the duties of Executive's employment. Executive agrees that, immediately upon the termination of Executive's employment by Executive or by the Company for any reason, or during Executive's employment if so requested by the Company, Executive will return all Company documents and materials, computer tapes and disks, records, lists, data, drawings, prints, notes and written information, apparatus, equipment and other physical property, or any reproduction of such property, excepting only (i) Executive's personal copies of records relating to Executive's compensation; (ii) Executive's personal copies of any materials previously distributed generally to stockholders of the Company; and (iii) Executive's copy of this Agreement. Provided that the Company has copies and the matters covered therein do not contain Proprietary Information, Executive may keep copies of correspondence or publications relating to scientific or academic matters.

9. Non-solicitation and Non-competition.

(a) Non-solicitation. Executive agrees that during his employment with the Company and for a period of one (1) year following the termination of his employment with the Company, the Executive shall not hire, attempt to hire, or assist in or facilitate in any way the hiring of any person who, at the time of any such action by the Executive, is an employee of the Company (or any of its Affiliates).

(b) Non-competition. Executive agrees that if his employment with the Company is terminated for any reason, including upon the expiration of the Employment Period, for a period of one (1) year from the date of such termination of employment, the Executive shall not, directly or indirectly, own, manage, operate, control, be employed by, participate in, or be connected in any manner with the ownership, management, operation or control of any company, or any subsidiary or division of a company, more than 50% of whose annual revenues, annual research and development expense (including the cost of research and laboratory personnel) or income is attributable to the business of developing, marketing or selling antisense therapeutics or oligonucleotide-based immunostimulatory/immunoregulatory therapeutics or oligonucleotide-based diagnostics.

10. Assignment of Rights. All inventions, discoveries, computer programs, data, technology, designs, innovations and improvements (whether or not patentable and whether or not copyrightable) related to the business of the Company which are made, conceived, reduced to practice, created, written, designed or developed by the Executive, solely or jointly with others and whether during normal business hours or otherwise, during his employment by the Company pursuant to this Agreement ("Inventions") shall be the sole property of the Company. The Executive hereby assigns to the Company all such Inventions and any

-12-

and all related patents, copyrights, trademarks, trade names, and other industrial and intellectual property rights and applications therefor, in the United States and elsewhere and appoints any officer of the Company as his duly authorized attorney, but without any out-of-pocket expenses to the Executive, to executive, file, prosecute and protect the same before any government agency, court or authority. The Executive hereby waives all claims to moral rights in any Invention. Upon the request of the Company and at the Company's expense, the Executive shall execute such further assignments, documents and other instruments as may be necessary or desirable to fully and completely assign all such Inventions to the Company and to assist the Company in applying for, obtaining and enforcing patents or copyrights or other rights in the United States and in any foreign county with respect to any such Invention. The Executive shall promptly disclose to the Company all such Inventions and will maintain adequate and current written records (in the form of notes, sketches, drawings and as may be reasonably specified by the Company) to document the conception and/or first actual reduction to practice of any such Invention. Such written records shall be available to and remain the sole property of the Company at all times. Executive shall, upon the Company's request, whether during or after the Employment Period, promptly execute and deliver to the Company all such assignments, certificates and instruments, and shall promptly perform such other acts, as the Company may from time to time in its discretion deem necessary or desirable to evidence, establish, maintain, perfect, enforce or defend the Company's rights in the inventions. These services (the "IP Services"), shall be rendered by the Executive without additional compensation during the Employment Period, the Compliance Period (as defined below) and at any time when the Company is paying the Executive his Base Salary pursuant to Sections 7(a)(iv), 7(a)(v), 7(b)(iii) or 7(b)(vi) (payments made pursuant to such sections, the "Severance Payments"). The Executive shall otherwise render the IP Services at the rate of compensation provided in the last sentence of this paragraph. Upon termination of the Executive's employment, whether pursuant to the termination of this Agreement upon completion of its five-year term or otherwise, the Company shall be obligated to pay Executive the sum of \$30,000 per month for a period (the "Compliance Period"), equal to twelve months minus the number of months, if any, during which the Company makes Severance Payments to the Executive, but only for as long as the Executive complies with the reasonable requests which the Company may make for IP Services. The Compliance Period shall begin after all Severance Payments, if any, have been made. In addition, the Executive agrees, from time to time, and for as long as reasonably required, to make himself available on a consulting basis to assist the Company in the prosecution of patent applications or other filings or proceedings before the Office of Patents and Trademarks and to advise with respect to issues

arising in the licensing of the Company's

-13-

patents and the pursuit or defense of infringement claims. The Company's requests under the preceding sentence shall be made upon reasonable notice to Executive and the Company shall pay the Executive for such services at the hourly rate of \$200 per hour plus reasonable expenses.

11. Publications. Following the expiration or termination of the Employment Period, Executive will have a continuing right, on the terms and conditions set forth in this Section 11, to disclose in scientific journals or publications or in presentations at scientific conferences the results of any research performed by Executive while employed by the Company. Executive will provide the Company with an advance copy of any proposed publication or presentation before submission of such advance copy to any publisher or before the intended date of presentation, as the case may be. If the Company informs Executive, within 30 days of receipt of such advance copy, that such publication or presentation would have an adverse effect on the confidentiality of any confidential information of the Company or on the ability of the Company to obtain, enforce or maintain any intellectual property rights in any proprietary information of the Company, Executive will delay or prevent such publication or presentation as proposed. Executive will incorporate in such proposed publication or presentation prior to its submission such changes, including without limitation deletions, as the Company believes are necessary to preserve the confidentiality of any confidential information, and Executive will delay such proposed publication or presentation until such time as the Company has filed a U.S. patent application covering any proprietary information.

12. Successors. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) or to all or substantially all of the Company's business and/or assets shall assume the obligations under this Agreement and shall perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. The Company may assign this Agreement without the Executive's consent to any company that acquires all or substantially all of the Company's stock or assets. Executive may not assign this Agreement and no person other than the Executive (or his estate) may assert the Executive's rights under this Agreement.

13. Notice. All notices, requests, consents and other communications hereunder ("Notices") to any party shall be contained in a written instrument addressed to such party at the address set forth below or such other address as may hereafter be designated in writing by the addressee to the addressor listing all parties and shall be deemed

-14-

given (a) when delivered in person or duly sent by fax showing confirmation of receipt, (b) three days after being duly sent by first class mail postage prepaid, or (c) two days after being duly sent by DHL, Federal Express or other recognized express courier service:

(a) if to the Company, to:

Hybridon, Inc.
345 Vassar Street
Cambridge, MA 02139
fax: (617) 679-5582

(b) if to the Executive, to:

14. Company Plans. Except to the extent otherwise explicitly provided by this Agreement, any awards made to the Executive under any Company compensation or benefit plan, program, or arrangement shall be governed by the terms of that plan, program, or arrangement and any applicable award agreement thereunder, as

in effect from time to time. Notwithstanding the preceding sentence, Executive shall not be entitled to participate in any Company compensation or benefit plan, program or arrangement that is established after his employment with the Company terminates, and except as specifically provided in this Agreement, Executive shall not be entitled to any additional grants or awards under any Company compensation or benefit plan, program, or arrangement after his employment with the Company terminates.

15. Miscellaneous Provisions.

(a) Entire Agreement. This Agreement constitutes the entire agreement between the parties and terminates and supersedes any and all prior agreements and understandings (whether written or oral) between the parties with respect to the subject matter of this Agreement. Executive acknowledges and agrees that neither the Company, nor anyone acting on its behalf has made, and in executing this Agreement Executive has not relied upon, any representations, promises, or inducements except to the extent the same is expressly set forth herein.

(b) Waiver. No provision of this Agreement shall be modified, waived, or discharged unless the modification, waiver, or discharge is agreed to in writing and signed by Executive and by an authorized officer or representative of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at a preceding or subsequent time.

-15-

(c) Capacity. The Executive represents and warrants to the Company that he is not now under any obligation, of a contractual nature or otherwise, to any person, firm, corporation, association or other entity that is inconsistent, or in conflict, with this Agreement or which would prevent, limit or impair in any way the performance by Executive of his obligations hereunder.

(d) Consulting. Executive and the Company may, but are not required to, enter into an agreement pursuant to which Executive will provide consulting services to the Company after the date of Executive's retirement or termination of employment with the Company. Any consulting fees paid to the Executive will be in addition to any retirement or severance payments the Executive is entitled to receive from the Company or under any plans, programs, or arrangements maintained by the Company.

(e) Severability. In the event that a court of competent jurisdiction determines that any portion of this Agreement is in violation of any law or public policy, only the portion of this Agreement that violates such law or public policy shall be stricken. All portions of this Agreement that do not violate any statute or public policy shall continue in full force and effect. Further, any court order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give effect to the intentions of the parties to this Agreement, as expressed herein.

(f) Survival of Provisions. The obligations contained in Sections 8, 9, 10 and 11 above shall survive the termination or expiration of the Employment Period or this Agreement, as applicable, and shall be fully enforceable thereafter in accordance with the terms of this Agreement.

(g) Withholding. The Executive acknowledges that salary and all other compensation payable under this Agreement shall be subject to withholding for income and other applicable taxes to the extent required by law, as determined by the Company in its sole discretion.

(h) Headings. The headings or other captions contained in this Agreement are for convenience of reference only and shall not be used in interpreting, construing or enforcing any of the provisions of this Agreement.

(i) Governing Law. This Agreement shall be governed by the laws of the State of Massachusetts without giving effect to any conflict of law rules that would require the application of the laws of any jurisdiction other than the internal laws of the State of Massachusetts to

-16-

the rights and duties of the parties, except to the extent the laws of the State of Massachusetts are preempted by federal law.

(j) Terms. Where appropriate in this Agreement, words used in the singular shall include the plural, and words used in the masculine shall include the feminine or neuter.

(k) Legal Fees. The Company shall pay or reimburse to the Executive an amount equal to reasonable fees for legal representation incurred by the Executive in connection with the preparation of this Agreement and the amendment of existing options agreements in an amount not to exceed \$6,000.

(l) Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one agreement binding on the parties hereto.

-17-

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date first mentioned above.

HYBRIDON, INC.

EXECUTIVE

BY: /s/ James B. Wyngaarden

BY: /s/ Sudhir Agrawal

Sudhir Agrawal

TITLE: Chairman

DATE: April 1, 2002

DATE: April 1, 2002

-18-

APPENDIX A

DEFINITIONS

ACCRUED OBLIGATIONS. "Accrued Obligations" shall mean the sum of (i) any portion of Executive's Bonus accrued as of the date of termination of the Executive's employment for any reason, including by reason of his death, which has not yet been paid, and (ii) reimbursement of any reimbursable expense incurred by the Executive through the date of termination of employment.

ACQUISITION EVENT means

(i) any merger or consolidation which results in the voting securities of the Company outstanding immediately prior thereto representing (either by remaining outstanding or by being converted into voting securities of the surviving or acquiring entity) less than 60% of the combined voting power of the voting securities of the Company or such surviving or acquiring entity outstanding immediately after such merger or consolidation;

(ii) any sale of all or substantially all of the assets of the Company;

(iii) the complete liquidation of the Company; or

(iv) the acquisition of "beneficial ownership" (as defined in Rule 13d-3 under the Exchange Act) of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities (other than through a merger or consolidation or an acquisition of securities directly from the Company) by any "person," as such term is used in Sections 13(d) and 14(d) of the Exchange Act, other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company (an event specified in this clause (iv) being referred to as a "Creeping Tender").

AFFILIATE. "Affiliate" shall mean any person or entity which directly or indirectly controls, is controlled by or is under common control with the Company, including any entity directly or indirectly controlled by the Company through the Company's ownership of fifty percent (50%) or more of the voting interests of such entity.

CAUSE. "Cause" shall mean Executive's (i) material breach of any material terms of the Agreement, (ii) plea of guilty or nolo contendere to, or

-19-

conviction of, the commission of a felony offense, (iii) repeated unexplained or unjustified absence, or refusals to carry out the lawful directions of the Board or (iv) material breach of a fiduciary duty owed to the Company under this Agreement, provided that any action or inaction described by (i), (iii) or (iv), above, shall not be the basis of a termination of the Executive's employment with the Company for "Cause" unless the Company provided the Executive with at least twenty (20) days advance written notice specifying in reasonable detail the conduct in need of being cured and such conduct was not cured within the notice period.

CHANGE OF CONTROL. "Change of Control" shall mean the occurrence of any of the following events:

(i) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less such that a majority of the members of the Board ceases to be comprised of individuals who are Continuing Members; for such purpose, a "Continuing Member" shall mean an individual who is a member of the Board on the date of this Agreement and any successor of a Continuing Member who is elected to the Board or nominated for election by action of a majority of Continuing Members then serving on the Board; or

(ii) the consummation of an Acquisition Event other than an IP Divestiture.

DISABILITY. "Disability" shall mean the inability of the Executive to perform all the material duties of Executive's position for a continuous period of at least ninety (90) days due to a permanent physical or mental impairment, as determined and certified by a physician selected by the Executive and with the concurrence of a physician selected by the Company, provided that if the physician selected by the Executive and the physician selected by the Company do not agree regarding the determination and certification, a determination and certification rendered by an independent physician mutually agreed upon by the Executive and the Company shall be final and binding on the parties with respect to this Agreement.

GOOD REASON. "Good Reason" shall mean the occurrence of one or more of the following: (i) any action by the Company which results in a material diminution of Executive's position, title, annual base salary, authority, duties or responsibilities or reporting structure; (ii) any material breach of this Agreement by the Company which is not remedied by the Company within thirty (30) days after receipt by the Company of notice thereof given by Executive specifying in reasonable detail the alleged breach; (iii) failure to elect

Executive to serve on the Board during the Employment Period; or (iv) relocation of the Company's headquarters outside the Cambridge Area or 10 miles east of the

-20-

Worcester area, except in the event of a change in the location of the headquarters of the Company to a site within the continental United States following a Change of Control.

IP DIVESTITURE. "IP Divestiture" shall mean a sale or licensing by the Company of all or substantially all of its assets (including patents, patent applications and know-how) relating to any one of its technology platforms.

PROPRIETARY INFORMATION. "Proprietary Information" shall mean information that was developed, created, or discovered by or on behalf of the Company, or which became or will become known by, or was or is conveyed to the Company; including, but not limited to, trade secrets, designs, technology, know-how, processes, data, ideas, techniques, inventions (whether patentable or not), works of authorship, formulae, business and development plans, client or customer lists, software programs and subroutines, source and object code, algorithms, terms of compensation and performance levels of Company employees, information about the Company or any of its Affiliates, and their clients and customers that is not disclosed by the Company or any of its Affiliates for financial reporting purposes and that was learned by the Executive in the course of employment by the Company or any of its Affiliates, other information concerning the Company's actual or anticipated business, research or development, or which is received in confidence by or for the Company from any other person, and all papers, resumes, and records (including electronic or computer-generated records) of the documents containing such Proprietary Information. Proprietary Information shall not include information that is publicly available or available through third party sources so long as it has not become available through a breach of this Agreement by Executive.

PREVIOUSLY GRANTED STOCK OPTIONS. "Previously Granted Stock Options" shall mean options granted to Executive during the period commencing with his 1997 Employment Agreement.

-21-

HYBRIDON, INC.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into by and between Robert G. Andersen ("Executive") and Hybridon, Inc., a Delaware corporation (the "Company"), and is effective as of the 1st day of April, 2002.

WHEREAS, the Company desires to establish its right to the services of Executive, in the capacity described below, on the terms and conditions hereinafter set forth, and Executive is willing to accept such employment on such terms and conditions;

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, Executive and the Company have agreed and do hereby agree as follows:

1. Definitions. The capitalized terms in this Agreement shall have the meanings set forth in this Agreement or Appendix A attached hereto.

2. Engagement. The Company hereby agrees to employ Executive as its Chief Financial Officer and Vice President of Operations and the Executive hereby accepts such employment on the terms and conditions hereinafter set forth.

3. Employment Period. The Executive's employment with the Company under terms of this Agreement shall commence on April 1, 2002 and shall continue through April 1, 2006, unless such employment is sooner terminated or subsequently extended as hereinafter provided. The Company and the Executive may agree to extend the period during which this agreement is in effect beyond the initial effective period upon the terms and conditions of this Agreement or upon other terms, but neither the Company nor the Executive is under any obligation to do so. The period during which this Agreement is in effect shall constitute the "Employment Period."

4. Duties and Responsibilities.

(a) Responsibilities. During the Employment Period, the Executive shall perform his duties and responsibilities fully and faithfully as Chief Financial Officer, subject to the direction and supervision of the Chief Executive Officer ("CEO") and the Board and the terms and conditions of this Agreement. During such period, the Executive shall report solely to the CEO and the Board. Executive shall be permitted to attend, as an observer, all Board meetings except those in executive session. Executive shall have the duties and responsibilities customarily

assigned to the Chief Financial Officer and Vice President of Operations with such other duties not inconsistent therewith as may from time to time be assigned to the Executive by the CEO or the Board. Such duties shall include, without limitation, the management of the Company's financial affairs, operations and human resources, provided that the Board shall have discretion to re-assign the human resources function. During the Employment Period, the Executive shall perform all services and acts necessary or advisable to fulfill the duties and responsibilities that are commensurate and consistent with the Executive's position. Executive agrees he shall devote substantially his full business time and attention to, and exert his best efforts in, the performance of his duties hereunder, so as to promote the business and best interests of the Company and to comply with the Company's policies as in effect from time to time, provided, however, that Executive may serve, at the Board's pleasure, as a director of Origenix, Inc. and other companies with the CEO's approval.

(b) Exclusivity. Executive shall devote substantially his full time to his duties hereunder and agrees that, during the Employment Period, except as otherwise provided in Section 4(a), the Executive shall not provide consulting services to, or become an employee of, any other firm, company, corporation, or person engaged in a business.

(c) Location. The Executive's principal place of business shall be in Cambridge, Massachusetts, within thirty (30) miles there from ("Cambridge Area") or within ten miles east of Worcester, MA, although travel could be part of Executive's responsibilities. Executive shall perform services for the Company in the Cambridge Area and at such other locations where Executive's services might be required to be performed from time to time. Notwithstanding the preceding sentence, Executive shall not be required to perform services at a location other than the Cambridge Area for a period in excess of thirty (30) consecutive days without the Executive's prior written consent, except in the event of a change in location of the headquarters of the Company to a site within the continental United States following a Change of Control.

5. Compensation. For all services rendered by Executive pursuant to this Agreement, the Company shall pay Executive, and Executive agrees to accept, the salary, stock options, bonuses, and other benefits described below in this Section 5.

(a) Base Salary. During the Employment Period, the Company shall pay Executive an annual base salary of \$258,000.00 ("Base Salary") and such Base Salary shall be payable at periodic intervals in accordance with the Company's payroll practices for salaried employees. In accordance with Section 5(c), below, the amount of Base Salary shall be reviewed and approved, if applicable, by the Board on at

-2-

least an annual basis, and any increases in the amount of Base Salary shall be effective as of the date determined by the Board. Executive's Base Salary may be increased for any reason, including to reflect inflation or such other adjustments as the Board may deem appropriate; provided, however, that Executive's Base Salary, as in effect on the date hereof or as increased in accordance with the terms of this Agreement, may not be subsequently decreased, except with the prior written consent of the Executive.

(b) Bonus. In addition to Base Salary and stock options, and to the extent a bonus program is established by the Board, the Executive shall receive, for each fiscal year of the Company ending with or within the Employment Period, an annual bonus ("Bonus") whether pursuant to a formal bonus or incentive plan or program of the Company or otherwise. Subject to this Section 5(b) and Section 5(c), below, such Bonus shall be based on criteria determined by the Board, in its discretion. Any Bonus earned by the Executive for service or performance rendered in any fiscal year within the Employment Period shall be paid to the Executive in accordance with the applicable plan or program and the Company's policies governing such matters. In the event of Executive's termination of employment because of the Executive's death or Disability during the Employment Period, the Company shall pay to Executive or Executive's estate, as applicable, the pro rata portion of the Bonus that Executive would have earned in respect of the portion of the year preceding Executive's death or commencement of Disability.

(c) Annual Compensation Review. Executive's compensation, consisting of salary, stock option grants and bonuses, shall be reviewed annually by the Board.

(d) Medical, Dental and Other Healthcare Benefits. During the Employment Period, Executive shall be eligible to participate in and receive benefits under the Company's medical, dental, or other healthcare plans, as in effect from time to time, that are available to officers or employees of the Company.

(e) Retirement Plan Benefits. Executive shall be entitled to participate in the Company's tax-qualified and nonqualified retirement plans, as in effect from time to time, that are available to officers and employees of the Company and shall be entitled to receive the benefit of contributions to be made, if any, by the Company for the benefit of Executive under the terms of the applicable tax-qualified or nonqualified retirement plan.

(f) Incentive Plans. During the Employment Period, Executive shall be eligible to receive all benefits, including those under

-3-

equity participation or bonus programs, to which key employees are or become eligible under such plans or programs as may be established by the Company from time to time.

(g) Vacation. Executive shall be entitled to paid vacation in accordance with the Company's standard vacation policies in effect from time to time.

6. [INTENTIONALLY LEFT BLANK]

7. Termination of Employment. The remedies described in this Section 7 are the exclusive remedies of the parties in connection with the termination of Executive's employment under this Agreement

(a) If the Executive's employment with the Company terminates for any reason, except in connection with a Change of Control as provided for in Section 7(b), below, then the Executive or his beneficiary, as applicable, shall be entitled to receive the following severance benefits:

(i) Death. In the event Executive's employment hereunder is terminated by reason of Executive's death, the Company shall pay Executive's designated beneficiary or beneficiaries any Accrued Obligations; provided that such amount shall be paid in a lump sum cash payment within thirty (30) days after the Company's receipt of notification of Executive's death. Additionally, any stock options previously granted to the Executive by the Company and held by the Executive on the date of his death shall vest as of such date to the extent such options would have vested (had Executive's employment not been terminated) during the portion of the Employment Period that ends on the last day of the twelfth (12th) month following the date on which Executive's death occurred, and notwithstanding any provisions to the contrary contained in the stock option agreements, Executive shall be permitted to exercise such stock options until the two year anniversary of death.

(ii) Disability. If Executive is unable to perform substantially all of his duties hereunder due to a Disability and the Executive does not return to the full-time performance of the Executive's duties within thirty (30) days after written notice to return from the Company, the Executive's employment under this Agreement may be terminated by the Company for Disability. Such termination shall be effective on the 30th day following the written notice or such later date as may be specified in the notice (the "Disability Termination Date"). If Executive's employment hereunder is terminated due to Disability, the Company shall pay Executive any Accrued Obligations (such payment to be made within thirty (30) days after the Disability Termination Date in

-4-

the form of a lump sum cash payment). Additionally, any stock options previously granted to the Executive by the Company and held by the Executive on the Disability Termination Date shall vest as of such date to the extent such options would have vested (had the Executive's employment not been terminated) during that portion of the Employment Period that ends on the last day of the twelfth (12th) month following such date, and notwithstanding any provisions to the contrary contained in the stock option agreements, Executive shall be permitted to exercise such stock options until the two year anniversary of the Disability Termination Date.

(iii) Termination by the Company for Cause. The Company may terminate Executive's employment under this Agreement for Cause at any time. If Executive's employment hereunder is terminated by the Company for Cause, the

Company shall pay Executive any Accrued Obligations, provided that such amount shall be paid in a lump sum cash payment within thirty (30) days after such termination date. Executive shall remain subject to the provisions of this Agreement that, by their terms, survive the termination of the Executive's employment with the Company. All options which are unvested on the date of termination shall expire and terminate on that date and, notwithstanding any provisions to the contrary contained in the stock option agreements, Executive shall be permitted to exercise any vested stock options until the one year anniversary of such termination date. All vested options which remain unexercised after the one year anniversary of such termination date shall expire and terminate.

(iv) Termination by the Company Other than for Death, Disability or Cause. The Company may, at its option and with thirty (30) days' written notice, terminate the Executive's employment under this Agreement without Cause at any time. If the Executive's employment is terminated by the Company other than on account of Executive's death, Disability, or for Cause, then the Company shall pay the Executive (A) the lesser of (I) Executive's Base Salary for the twenty-four (24) consecutive calendar months following the termination of Executive's employment (such payments to be made under the Company's payroll practices applicable to salaried executives) and (II) an amount equal to Executive's Base Salary for the period from the time of termination until April 1, 2006, but in no event less than twelve (12) calendar months, and (B) any Accrued Obligations incurred through the date of such termination (such payment to be made within thirty (30) days after such termination in the form of a lump sum cash payment). Additionally, any stock options previously granted to the Executive by the Company and held by the Executive on the date of termination shall vest as of such date to the extent such option would have vested during the following thirty-six months (or portion thereof) remaining in the

-5-

Employment Period had Executive's employment not been terminated, and notwithstanding any provisions to the contrary contained in the stock option agreements, Executive shall be permitted to exercise such stock options until the two year anniversary of such date. For this purpose, Executive's Base Salary shall be his Base Salary in effect immediately before his employment terminated and the Employment Period shall be the Employment Period in effect immediately before his termination date.

(v) Termination by the Executive for Good Reason. Executive may, for Good Reason, terminate this Agreement upon thirty (30) days' written notice to the Company. If the Executive's employment is terminated by the Executive for Good Reason, then the Company shall pay the Executive (A) the lesser of (I) Executive's Base Salary for the twenty-four (24) consecutive calendar months following the termination of Executive's employment (such payments to be made under the Company's payroll practices applicable to salaried executives) and (II) an amount equal to Executive's Base Salary for the period from the time of termination until April 1, 2006, but in no event less than twelve (12) calendar months, and (B) any Accrued Obligations incurred through the date of such termination (such payment to be made within thirty (30) days after such termination in the form of a lump sum cash payment). Additionally, any stock options previously granted to the Executive by the Company and held by the Executive on the date of termination shall vest as of such date to the extent such option would have vested during the following thirty-six months (or portion thereof) remaining in the Employment Period had Executive's employment not been terminated, and notwithstanding any provisions to the contrary contained in the stock option agreements, Executive shall be permitted to exercise such stock options until the two year anniversary of such date. For this purpose, Executive's Base Salary shall be his Base Salary in effect immediately before his employment terminated and the Employment Period shall be the Employment Period in effect immediately before his termination date.

(vi) Voluntary Termination by the Executive. Executive may, without Good Reason, terminate this Agreement upon thirty (30) days' written notice to the Company. If the Executive's employment is terminated by the

Executive without Good Reason, the Company shall pay Executive any Accrued Obligations, provided that such amount shall be paid in a lump sum cash payment within thirty (30) days after such termination date. All options which remain unvested on the termination date shall expire and terminate as of that date and, and notwithstanding any provisions to the contrary contained in the stock option agreements, Executive shall be permitted to exercise all vested stock options until the one year anniversary of such

-6-

termination date. All vested options which remain unexercised after the one year anniversary of such termination date shall expire and terminate.

(vii) Continuation of Coverage.

(A) If Executive's employment with the Company is terminated under circumstances to which the provisions of Section 7(a)(iv), Section 7(a)(v), Section 7(b)(iii) or Section 7(b)(vi) apply, the Company shall, for the period during which the Company continues to pay Executive an amount equal to his Base Salary and at its sole cost and expense, provide Executive and his eligible dependents (if any) with healthcare, disability, and life insurance benefits substantially similar to those benefits the Executive and his eligible dependents (if any) were receiving immediately prior to the Executive's termination of employment; provided, however,

(1) the Company shall not be required to provide medical coverage to the extent another employer provides comparable coverage,

(2) with respect to death and disability coverage, the Company shall not be required to provide coverage to the extent another employer provides comparable coverage; and shall pay the cost of supplemental coverage if a new employer provides less than comparable coverage, to allow the Executive to purchase coverage to make total coverage comparable, and

(3) that the coverage provided by the Company pursuant to this subsection 7(a)(vii)(A) shall be in lieu of any other continued coverage for which the Executive or his dependents, if any, would otherwise be eligible pursuant to COBRA.

(B) If the Executive's employment with the Company is terminated under circumstances to which the provisions of Section 7(a)(iv), Section 7(a)(v), Section 7(b)(ii), Section 7(b)(iii) and Section 7(b)(vi) do not apply, Executive (and his dependents, if any) shall be permitted to continue to participate in the Company's benefit plans, programs, or arrangements to the extent the Company is required by law, including Part 6 of Title I of the Employee Retirement Income Security Act of 1974, as amended ("COBRA"), to offer such coverage.

(viii) No Offset. Any compensation derived by the Executive from any subsequent employment or self-employment shall not be offset against or reduce any amounts to which the Executive is entitled under this Agreement.

-7-

(b) Termination After a Change of Control. If Executive's employment with the Company is terminated after the effective date of a Change of Control, Executive shall be entitled to receive severance benefits as follows:

(i) Parachute Payments. If all or any portion of the amounts payable to the Executive under this Agreement or otherwise are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended ("Code") or a similar state tax or assessment, the Company shall pay to the Executive an amount necessary to place the Executive in the same after-tax position as Executive would have been had no such excise tax or assessment been

imposed. The amount payable pursuant to the preceding sentence shall be increased to the extent necessary to pay income and excise taxes on such amount. The determination of any amounts payable under this Section 7(b)(i) shall be made by an independent accounting firm employed by the Company and such determination shall be final, binding and conclusion on the parties hereto.

(ii) Voluntary Resignation. If Executive's employment with the Company is terminated by the Executive by reason of his voluntary resignation within thirty (30) days after the anniversary date of the effective date of a Change in Control, the Company shall pay or otherwise provide to the Executive the following severance benefits:

(A) a lump sum cash payment in an amount equal to the lesser of two (2) times the Executive's current Base Salary at the time of termination, or the Executive's current Base Salary at the time of termination multiplied by the aggregate number of years (or any portion thereof, calculated on a daily basis) remaining in the Employment Period had the Executive's employment not been terminated, but in no event less than one full year, provided that such amount shall be paid to the Executive within ten (10) days after the date of termination;

(B) until the earlier of the date the Employment Period would otherwise have terminated had Executive's employment not been terminated, or the expiration of the twenty-four (24) month period measured from the date of the Executive's termination of employment, but in no event for less than 12 months, the Company shall, at its sole cost and expense provide Executive and his eligible dependents (if any) with healthcare, disability, and life insurance benefits substantially similar to those benefits the Executive and his eligible dependents (if any) were receiving immediately prior to the Executive's termination of employment; provided, however,

-8-

(1) the Company shall not be required to provide medical coverage to the extent another employer provides comparable coverage,

(2) with respect to death and disability coverage, the Company shall not be required to provide coverage to the extent another employer provides comparable coverage; and shall pay the cost of supplemental coverage if a new employer provides less than comparable coverage, to allow the Executive to purchase coverage to make total coverage comparable, and

(3) that the coverage provided by the Company pursuant to this subsection 7(b)(ii)(B) shall be in lieu of any other continued coverage for which the Executive or his dependents, if any, would otherwise be eligible pursuant to COBRA; and

(C) notwithstanding any provisions to the contrary contained in the stock option agreements, Executive shall be permitted to exercise all vested stock options until the one year anniversary of the date of the Executive's termination of employment.

(iii) Termination by the Executive for Good Reason. If, after the effective date of a Change of Control, Executive terminates his employment with the Company for Good Reason, the Company shall pay or otherwise provide to the Executive the severance benefits described in Section 7(a)(v) hereof.

(iv) Termination by Reason of Death. If, after the effective date of a Change of Control, Executive's employment with the Company is terminated by reason of Executive's death, the Company shall pay or otherwise provide to Executive's designated beneficiary or beneficiaries the severance benefits described in Section 7(a)(i) hereof.

(v) Termination by Reason of Disability. If, after the effective date of a Change of Control, Executive's employment with the Company is terminated by the Company by reason of Disability as described in Section

7(a)(ii) hereof, the Company shall pay or otherwise provide to Executive the severance benefits described in that section.

(vi) Termination by the Company Other Than for Death, Disability or Cause. If, after the effective date of a Change of Control, Executive's employment with the Company is terminated by the Company other than for Death, Disability, Voluntary Resignation or Cause, the Company shall pay or otherwise provide to the Executive the severance benefits described in Section 7(a)(iv) hereof.

-9-

(vii) Termination by the Company for Cause. If, after the effective date of a Change of Control, Executive's employment with the Company is terminated by the Company for Cause, the Company shall pay Executive the amounts described in Section 7(a)(iii) hereof.

(viii) Voluntary Termination by the Executive. If after the effective date of a Change of Control, Executive voluntarily terminates his employment with the Company under circumstances to which Section 7(b)(ii) does not apply, the Company shall pay Executive the amounts described in Section 7(a)(vi).

Acceleration of Vesting. Any provisions of this Agreement regarding vesting of stock options notwithstanding, the vesting of all Previously Granted Stock Options shall be accelerated as described below upon the occurrence of the following events:

Creeping Tender. In the event of a Creeping Tender, the unvested portion of the Previously Granted Stock Options shall become fully vested and nonforfeitable as of the date that is ten business days before the effective date of the Creeping Tender.

(A) Acquisition Event. Upon the execution by the Company of an agreement to effect an Acquisition Event that is not a Creeping Tender, the unvested portion of the Previously Granted Stock Options shall become fully vested and nonforfeitable upon the occurrence of the Acquisition Event or as of such earlier date as may be specified by the Board by written notice to the Executive and the Board may take one or both of the following actions with respect to the Previously Granted Stock Options: (I) provide that the Previously Granted Stock Options shall be assumed, or equivalent stock options be substituted by the acquiring or succeeding corporation (or an affiliate thereof), or (II) upon written notice to the Executive, provide that all then unexercised Previously Granted Stock Options will terminate to the extent not exercised by the Executive prior to the consummation of such Acquisition Event or such earlier date as may be specified by the Board by written notice to the Executive.

(ix) Amendments to Stock Option Agreements. The Company and the Executive agree promptly to take such steps to amend the Executive's previously granted options to the extent necessary to reflect the provisions of this Section 7.

8. Proprietary Information; Company Documents and Materials.

(a) Proprietary Information. Executive acknowledges that during the Employment Period, Executive will occupy a position of trust and confidence with respect to Proprietary Information of the Company.

-10-

Executive understands that he possesses or will possess Proprietary Information that is important to the Company's business and operation. Executive acknowledges that such Proprietary Information is specialized, unique in nature and of great value to the Company and its Affiliates, and that such information gives the Company and its Affiliates a competitive advantage. Executive

acknowledges that all Proprietary Information is and shall remain the sole property of the Company or any of its Affiliates. Executive shall not disclose to others or use, whether directly or indirectly, any Proprietary Information, or anything relating to such information, regarding the Company or any of its Affiliates; provided, however that Executive's obligations under this Section 8 shall not apply to any information that (i) is or becomes known to the general public under circumstances involving no breach by Executive of the terms of this Section 8, (ii) is generally disclosed to third parties by the Company without restriction on such third parties, (iii) is approved for release by written authorization of the Board of Directors or an authorized employee of the Company, (iv) is communicated to Executive by a third party under no duty of confidentiality with respect to such information to the Company or another party, or (v) is required to be disclosed by Executive to comply with applicable laws, governmental regulations, or court order, provided that Executive provides prior written notice of such disclosure to the Company and an opportunity for the Company to object to such disclosure and further provided that Executive cooperates with the Company and takes reasonable and lawful actions requested by the Company (the out-of-pocket costs of which shall be paid by the Company) to avoid and/or minimize the extent of such disclosure.

(b) Company Documents and Materials. Executive agrees that during Executive's employment by the Company, Executive will not remove any Company documents or materials, including Proprietary Information, from the business premises of the Company or deliver any such Company documents or materials to any person or entity outside the Company, except as Executive is required to do in connection with performing the duties of Executive's employment. Executive agrees that, immediately upon the termination of Executive's employment by Executive or by the Company for any reason, or during Executive's employment if so requested by the Company, Executive will return all Company documents and materials, computer tapes and disks, records, lists, data, drawings, prints, notes and written information, apparatus, equipment and other physical property, or any reproduction of such property, excepting only (i) Executive's personal copies of records relating to Executive's compensation; (ii) Executive's personal copies of any materials previously distributed generally to stockholders of the Company; and (iii) Executive's copy of this Agreement.

-11-

9. Non-solicitation and Non-competition.

(a) Non-solicitation. Executive agrees that during his employment with the Company and for a period of one (1) year following the termination of his employment with the Company, the Executive shall not hire, attempt to hire, or assist in or facilitate in any way the hiring of any person who, at the time of any such action by the Executive, is an employee of the Company (or any of its Affiliates).

(b) Non-competition. Executive agrees that if his employment with the Company is terminated for any reason, including upon the expiration of the Employment Period, for a period of one (1) year from the date of such termination of employment, the Executive shall not, directly or indirectly, own, manage, operate, control, be employed by, participate in, or be connected in any manner with the ownership, management, operation or control of any company, or any subsidiary or division of a company, more than 50% of whose annual revenues, annual research and development expense (including the cost of research and laboratory personnel) or income is attributable to the business of developing, marketing or selling antisense therapeutics or oligonucleotide-based immunostimulatory/immunoregulatory therapeutics or oligonucleotide-based diagnostics.

10. Assignment of Rights. All Executive Developments shall be made for hire by Executive for the Company and Executive waives all moral rights. All Executive Developments shall remain the sole property of the Company. Executive shall acquire no proprietary interest in any Executive Developments developed or acquired during the Employment Period. To the extent Executive may, by operation of law or otherwise, acquire any right, title, or interest in or to any Executive Development, Executive hereby assigns to the Company all such

proprietary rights. Executive shall, upon the Company's request, whether during or after the Employment Period, promptly execute and deliver to the Company all such assignments, certificates and instruments, and shall promptly perform such other acts, as the Company may from time to time in its discretion deem necessary or desirable to evidence, establish, maintain, perfect, enforce or defend the Company's rights in Executive Developments.

11. Successors. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) or to all or substantially all of the Company's business and/or assets shall assume the obligations under this Agreement and shall perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. The Company may assign this Agreement without the Executive's consent to

-12-

any company that acquires all or substantially all of the Company's stock or assets. Executive may not assign this Agreement and no person other than the Executive (or his estate) may assert the Executive's rights under this Agreement.

12. Notice. All notices, requests, consents and other communications hereunder ("Notices") to any party shall be contained in a written instrument addressed to such party at the address set forth below or such other address as may hereafter be designated in writing by the addressee to the addressor listing all parties and shall be deemed given (a) when delivered in person or duly sent by fax showing confirmation of receipt, (b) three days after being duly sent by first class mail postage prepaid, or (c) two days after being duly sent by DHL, Federal Express or other recognized express courier service:

(a) if to the Company, to:

Hybridon, Inc.
345 Vassar Street
Cambridge, MA 02139
fax: (617) 679-5582

(b) if to the Executive, to:

Robert G. Andersen

fax: _____

13. Company Plans. Except to the extent otherwise explicitly provided by this Agreement, any awards made to the Executive under any Company compensation or benefit plan, program, or arrangement shall be governed by the terms of that plan, program, or arrangement and any applicable award agreement thereunder, as in effect from time to time. Notwithstanding the preceding sentence, Executive shall not be entitled to participate in any Company compensation or benefit plan, program or arrangement that is established after his employment with the Company terminates, and except as specifically provided in this Agreement, Executive shall not be entitled to any additional grants or awards under any Company compensation or benefit plan, program, or arrangement after his employment with the Company terminates.

14. Miscellaneous Provisions.

(a) Entire Agreement. This Agreement constitutes the entire agreement between the parties and terminates and supersedes any and

-13-

all prior agreements and understandings (whether written or oral) between the parties with respect to the subject matter of this Agreement. Executive acknowledges and agrees that neither the Company, nor anyone acting on its behalf has made, and in executing this Agreement Executive has not relied upon, any representations, promises, or inducements except to the extent the same is expressly set forth herein.

(b) Waiver. No provision of this Agreement shall be modified, waived, or discharged unless the modification, waiver, or discharge is agreed to in writing and signed by Executive and by an authorized officer or representative of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at a preceding or subsequent time.

(c) Capacity. The Executive represents and warrants to the Company that he is not now under any obligation, of a contractual nature or otherwise, to any person, firm, corporation, association or other entity that is inconsistent, or in conflict, with this Agreement or which would prevent, limit or impair in any way the performance by Executive of his obligations hereunder.

(d) Consulting. Executive and the Company may, but are not required to, enter into an agreement pursuant to which Executive will provide consulting services to the Company after the date of Executive's retirement or termination of employment with the Company. Any consulting fees paid to the Executive will be in addition to any retirement or severance payments the Executive is entitled to receive from the Company or under any plans, programs, or arrangements maintained by the Company.

(e) Severability. In the event that a court of competent jurisdiction determines that any portion of this Agreement is in violation of any law or public policy, only the portion of this Agreement that violates such law or public policy shall be stricken. All portions of this Agreement that do not violate any statute or public policy shall continue in full force and effect. Further, any court order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give effect to the intentions of the parties to this Agreement, as expressed herein.

(f) Survival of Provisions. The obligations contained in Sections 8, 9 and 10 above shall survive the termination or expiration of the Employment Period or this Agreement, as applicable, and shall be fully enforceable thereafter in accordance with the terms of this Agreement.

-14-

(g) Withholding. The Executive acknowledges that salary and all other compensation payable under this Agreement shall be subject to withholding for income and other applicable taxes to the extent required by law, as determined by the Company in its sole discretion.

(h) Headings. The headings or other captions contained in this Agreement are for convenience of reference only and shall not be used in interpreting, construing or enforcing any of the provisions of this Agreement.

(i) Governing Law. This Agreement shall be governed by the laws of the State of Massachusetts without giving effect to any conflict of law rules that would require the application of the laws of any jurisdiction other than the internal laws of the State of Massachusetts to the rights and duties of the parties, except to the extent the laws of the State of Massachusetts are preempted by federal law.

(j) Terms. Where appropriate in this Agreement, words used in the singular shall include the plural, and words used in the masculine shall include the feminine or neuter.

(k) Legal Fees. The Company shall pay or reimburse to the Executive

an amount equal to reasonable fees for legal representation incurred by the Executive in connection with the preparation of this Agreement and the amendment of existing options agreements in an amount not to exceed \$6,000.

(1) Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one agreement binding on the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date first mentioned above.

HYBRIDON, INC.

EXECUTIVE

BY: /s/ James B. Wygaarden

BY: /s/ Robert G. Andersen

Robert G. Andersen

TITLE: Chairman

DATE: April 1, 2002

DATE: April 1, 2002

-15-

APPENDIX A

DEFINITIONS

ACCRUED OBLIGATIONS. "Accrued Obligations" shall mean the sum of (i) any portion of Executive's Bonus accrued as of the date of termination of the Executive's employment for any reason, including by reason of his death, which has not yet been paid, and (ii) reimbursement of any reimbursable expense incurred by the Executive through the date of termination of employment.

ACQUISITION EVENT means

(i) any merger or consolidation which results in the voting securities of the Company outstanding immediately prior thereto representing (either by remaining outstanding or by being converted into voting securities of the surviving or acquiring entity) less than 60% of the combined voting power of the voting securities of the Company or such surviving or acquiring entity outstanding immediately after such merger or consolidation;

(ii) any sale of all or substantially all of the assets of the Company;

(iii) the complete liquidation of the Company; or

(iv) the acquisition of "beneficial ownership" (as defined in Rule 13d-3 under the Exchange Act) of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities (other than through a merger or consolidation or an acquisition of securities directly from the Company) by any "person," as such term is used in Sections 13(d) and 14(d) of the Exchange Act, other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company (an event specified in this clause (iv) being referred to as a "Creeping Tender").

AFFILIATE. "Affiliate" shall mean any person or entity which directly or indirectly controls, is controlled by or is under common control with the Company, including any entity directly or indirectly controlled by the Company through the Company's ownership of fifty percent (50%) or more of the voting interests of such entity.

CAUSE. "Cause" shall mean Executive's (i) material breach of any material terms of the Agreement, (ii) plea of guilty or nolo contendere to, or

conviction of, the commission of a felony offense, (iii) repeated unexplained or unjustified absence, or refusals to carry out the lawful directions of the Board or (iv) material breach of a fiduciary duty owed to the Company under this Agreement, provided that any action or inaction described by (i), (iii) or (iv), above, shall not be the basis of a termination of the Executive's employment with the Company for "Cause" unless the Company provided the Executive with at least twenty (20) days advance written notice specifying in reasonable detail the conduct in need of being cured and such conduct was not cured within the notice period.

CHANGE OF CONTROL. "Change of Control" shall mean the occurrence of any of the following events:

(i) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less such that a majority of the members of the Board ceases to be comprised of individuals who are Continuing Members; for such purpose, a "Continuing Member" shall mean an individual who is a member of the Board on the date of this Agreement and any successor of a Continuing Member who is elected to the Board or nominated for election by action of a majority of Continuing Members then serving on the Board; or

(ii) the consummation of an Acquisition Event.

DISABILITY. "Disability" shall mean the inability of the Executive to perform all the material duties of Executive's position for a continuous period of at least ninety (90) days due to a permanent physical or mental impairment, as determined and certified by a physician selected by the Executive and with the concurrence of a physician selected by the Company, provided that if the physician selected by the Executive and the physician selected by the Company do not agree regarding the determination and certification, a determination and certification rendered by an independent physician mutually agreed upon by the Executive and the Company shall be final and binding on the parties with respect to this Agreement.

EXECUTIVE DEVELOPMENTS. "Executive Developments" shall mean any discovery, invention, design, method, technique, improvement, enhancement, development, or other work of authorship that (i) relates to the business or operation of the Company then conducted or part of the Company's business plan, or (ii) results from or is suggested by any undertaking assigned to the Executive or work performed by Executive for or on behalf of the Company, whether or not during working hours.

GOOD REASON. "Good Reason" shall mean the occurrence of one or more of the following: (i) any action by the Company which results in a material diminution of Executive's position, title, annual base salary,

-2-

authority, duties or responsibilities or reporting structure; (ii) any material breach of this Agreement by the Company which is not remedied by the Company within thirty (30) days after receipt by the Company of notice thereof given by Executive specifying in reasonable detail the alleged breach; or (iii) relocation of the Company's headquarters outside the Cambridge Area or 10 miles east of the Worcester area, except in the event of a change in the location of the headquarters of the Company to a site within the continental United States following a Change of Control.

PROPRIETARY INFORMATION. "Proprietary Information" shall mean information that was developed, created, or discovered by or on behalf of the Company, or which became or will become known by, or was or is conveyed to the Company; including, but not limited to, trade secrets, designs, technology, know-how, processes, data, ideas, techniques, inventions (whether patentable or not), works of authorship, formulae, business and development plans, client or

customer lists, software programs and subroutines, source and object code, algorithms, terms of compensation and performance levels of Company employees, information about the Company or any of its Affiliates, and their clients and customers that is not disclosed by the Company or any of its Affiliates for financial reporting purposes and that was learned by the Executive in the course of employment by the Company or any of its Affiliates, other information concerning the Company's actual or anticipated business, research or development, or which is received in confidence by or for the Company from any other person, and all papers, resumes, and records (including electronic or computer-generated records) of the documents containing such Proprietary Information. Proprietary Information shall not include information that is publicly available or available through third party sources so long as it has not become available through a breach of this Agreement by Executive.

RISK FACTORS THAT MAY AFFECT RESULTS

This annual report contains forward-looking statements, including statements about our growth and future operating results, discovery and development of drugs, strategic alliances and intellectual property. For this purpose, any statement that is not a statement of historical fact should be considered a forward-looking statement. We often use the words “believes,” “anticipates,” “plans,” “expects,” “intends” and similar expressions to help identify forward-looking statements.

There are a number of important factors that could cause our actual results to differ materially from those indicated or implied by forward-looking statements. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this annual report. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Risks Relating to Our Business, Strategy and Industry

If our clinical trials are unsuccessful, or if they are significantly delayed, we may not be able to develop and commercialize our products.

In order to obtain regulatory approvals for the commercial sale of our products, we will be required to complete extensive clinical trials in humans to demonstrate the safety and efficacy of our drug candidates. We may not be able to obtain authority from the FDA or other equivalent foreign regulatory agencies to commence or complete these clinical trials.

The results from preclinical testing of a drug candidate that is under development may not be predictive of results that will be obtained in human clinical trials. In addition, the results of early human clinical trials may not be predictive of results that will be obtained in larger scale, advanced stage clinical trials. Furthermore, we, one of our collaborators, or a regulatory agency with jurisdiction over the trials, may suspend clinical trials at any time if the subjects or patients participating in such trials are being exposed to unacceptable health risks, or for other reasons. As an example, in 1997, after reviewing the results from the most recent clinical trial of GEM 91, our lead antisense compound at the time, we determined not to continue the development of GEM 91 and suspended clinical trials of this product candidate.

The rate of completion of clinical trials is dependent in part upon the rate of enrollment of patients. Patient accrual is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the study, the nature of the study, the existence of competitive clinical trials and the availability of alternative treatments. Delays in planned patient enrollment may result in increased costs and prolonged clinical development.

We may not be able to successfully complete any clinical trial of a potential product within any specified time period. In some cases, we may not be able to complete the trial at all. Moreover, clinical trials may not show our potential products to be both safe and efficacious. Thus, the FDA and other regulatory authorities may not approve any of our potential products for any indication.

We face substantial competition which may result in others discovering, developing or commercializing drugs before or more successfully than us.

The field of drug discovery is highly competitive and characterized by rapid and significant technological change. Many of our competitors are substantially larger than us and have substantially greater capital resources, research and development staffs and facilities than us. Furthermore, many of our competitors are more experienced than us in drug discovery, development and commercialization, obtaining regulatory approvals and drug manufacturing and marketing. As a result, our competitors may discover, develop and commercialize drugs based on synthetic DNA before us. In addition, our competitors may discover, develop and commercialize drugs that render non-competitive or obsolete the drugs that we or our collaborators are seeking to develop and commercialize.

Because the products that we may develop will be based on new technologies and therapeutic approaches, the market may not be receptive to these products upon their introduction.

The commercial success of any of our products for which we may obtain marketing approval from the FDA or other regulatory authorities will depend upon their acceptance by the medical community and third party payors as clinically useful, cost-effective and safe. Many of the products that we are developing are based upon new technologies or therapeutic approaches that are relatively new and unproven. As a result, it may be more difficult for us to achieve market acceptance of our products. Our efforts to educate the medical community on these potentially unique approaches may require greater resources than would be typically required for products based on conventional technologies or therapeutic approaches. The safety, efficacy, convenience and cost-effectiveness of our products as compared to competitive products will also affect market acceptance.

Competition for technical and management personnel is intense in our industry and we may not be able to sustain our operations or grow if we are unable to attract and retain key personnel.

Our success is highly dependent on the retention of principal members of our technical and management staff, including Stephen Seiler and Sudhir Agrawal. Furthermore, our future growth will require hiring a significant number of qualified technical and management personnel. Accordingly, recruiting and retaining such personnel in the future will be critical to our success. There is intense competition from other companies and research and academic institutions for qualified personnel in the areas of our activities. If we are not able to continue to attract and retain, on acceptable terms, the qualified personnel necessary for the continued development of our business, we may not be able to sustain our operations or grow.

Regulatory Risks

We may not be able to obtain marketing approval for products resulting from our development efforts.

All of the products that we are developing will require additional research and development, extensive preclinical studies and/or clinical trials and regulatory approval prior to any commercial sales. This process is lengthy, often taking a number of years, and expensive.

We may need to successfully address a number of technological challenges in order to complete development of our products. Moreover, these products may not be effective in treating any disease or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may preclude our obtaining regulatory approval or prevent or limit commercial use.

If we fail to comply with the extensive regulatory requirements to which our products are subject, we could be subject to adverse consequences and penalties.

The testing, manufacturing, labeling, advertising, promotion, export, and marketing, among other things, of our products are subject to extensive regulation by governmental authorities in Europe, the United States, and elsewhere throughout the world.

In general, there can be no assurance that submission of materials requesting permission to conduct clinical trials will result in authorization by the FDA or equivalent foreign regulatory agency to commence clinical trials, or that once clinical trials have begun, testing will be completed successfully within any specific time period, if at all, with respect to any of our products. Once trials are complete and an application for marketing approval has been submitted to the relevant regulatory agency, the regulatory agency may deny the application if applicable regulatory criteria are not satisfied, or may require additional testing or information.

If regulatory approval of a product is granted, such approval may be subject to limitations on the indicated uses for which the product may be marketed or contain requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the product. As to any product for which we obtain marketing approval, the product, the facilities at which the product is manufactured, any post-approval clinical data and our promotional activities will be subject to continual review and periodic inspections by the FDA and other regulatory agencies.

Both before and after approval is obtained, violations of regulatory requirements may result in various adverse consequences, including the regulatory agency's delay in approving, or refusal to approve a product, suspension or withdrawal of an approved product from the market, operating restrictions, or the imposition of civil or criminal penalties.

We have only limited experience in regulatory affairs and our products are based on new technologies; these factors may affect our ability or the time we require to obtain necessary regulatory approvals.

We have only limited experience in filing and prosecuting the applications necessary to gain regulatory approvals. Moreover, the products that result from our research and development programs will likely be based on new technologies and new therapeutic approaches that have not been extensively tested in humans. The

regulatory requirements governing these types of products may be more rigorous than for conventional drugs. As a result, we may experience a longer regulatory process in connection with any product that we develop based on these new technologies or new therapeutic approaches.

Risks Relating to Our Financial Results and Need for Financing

We have incurred substantial losses and expect to continue to incur losses. We will not be successful unless we reverse this trend.

We have incurred losses in every year since our inception. As of December 31, 2001, we had incurred operating losses of approximately \$273.9 million. We expect to continue to incur substantial operating losses in future periods. We have received no revenues from the sale of drugs. To date, almost all of our revenues have been from collaborative and license agreements, interest income and manufacturing of synthetic DNA and reagent products by HSP prior to our selling HSP in September 2000.

We expect to increase our spending significantly in order to expand our infrastructure and research and development programs. As a result, we will need to generate significant revenues to fund this spending. We cannot be certain whether or when we will become profitable because of the significant uncertainties with respect to our ability to generate revenues from the sale of products and from any potential strategic alliances.

We may need additional financing, which may be difficult to obtain. Our failure to obtain necessary financing or doing so on unattractive terms could adversely affect our discovery and development programs and other operations.

We will require substantial funds to conduct research and development, including preclinical testing and clinical trials of our drugs. We will also require substantial funds to conduct regulatory activities and to establish commercial manufacturing, marketing and sales capabilities. Additional financing may not be available when we need it or may not be available on favorable terms.

If we are unable to obtain adequate funding on a timely basis, we may be required to significantly curtail one or more of our discovery or development programs. For example, we significantly curtailed expenditures on our research and development programs during 1999 and 2000 because we did not have sufficient funds available to advance these programs at planned levels. We could be required to seek funds through arrangements with collaborators or others that may require us to relinquish rights to certain of our technologies, drug candidates or drugs which we would otherwise pursue on our own.

If we raise additional funds by issuing equity securities, further dilution to our then existing stockholders will result. In addition, the terms of the financing may adversely affect the holdings or the rights of such stockholders.

Risks Relating to Collaborators

We need to establish collaborative relationships in order to succeed.

An important element of our business plan is entering into collaborative relationships for the development and commercialization of products based on our discoveries. We face significant competition in seeking appropriate collaborators. Moreover, these arrangements are complex to negotiate and time-consuming to document. We may not be successful in our efforts to establish collaborative relationships or other alternative arrangements.

Reliance on collaborative relationships poses a number of risks, including the following:

- we cannot effectively control whether our collaborators will devote sufficient resources to our programs or products;

- disputes may arise in the future with respect to the ownership of rights to technology developed with collaborators;
- disagreements with collaborators could delay or terminate the research, development or commercialization of products, or result in litigation or arbitration;
- contracts with our collaborators may fail to provide sufficient protection;
- we may have difficulty enforcing the contracts if one of these collaborators fails to perform;
- our collaborators may terminate their collaborations with us, which could make it difficult for us to attract new collaborators or adversely affect the perception of us in the business or financial communities;
- collaborators have considerable discretion in electing whether to pursue the development of any additional drugs and may pursue technologies or products either on their own or in collaboration with our competitors; and
- collaborators with marketing rights may choose to devote fewer resources to the marketing of our products than they do to products that they develop.

Given these risks, it is possible that any collaborative arrangements into which we enter may not be successful. Previous collaborative arrangements to which we were a party with F. Hoffmann-La Roche and G.D. Searle & Co. both were terminated prior to the development of any product. Failure of these efforts could delay our drug development or impair commercialization of our products.

Risks Relating to Intellectual Property

If we are unable to obtain patent protection for our discoveries, the value of our technology and products will be adversely affected. If we infringe patent or other intellectual property rights of third parties, we may not be able to develop and commercialize our products or the cost of doing so may increase.

Our patent positions, and those of other drug discovery companies, are generally uncertain and involve complex legal, scientific and factual questions.

Our ability to develop and commercialize drugs depends in significant part on our ability to:

- obtain patents;
- obtain licenses to the proprietary rights of others on commercially reasonable terms;
- operate without infringing upon the proprietary rights of others;
- prevent others from infringing on our proprietary rights; and
- protect trade secrets.

Third parties may own or control patents or patent applications and require us to seek licenses, which could increase our development and commercialization costs, or prevent us from developing or marketing products.

We may not have rights under some patents or patent applications related to our products. Third parties may own or control these patents and patent applications in the United States and abroad. Therefore, in some cases, to develop, manufacture, sell or import certain of our products, we or our collaborators may choose to seek, or be required to seek, licenses under third party patents issued in the United States and abroad or those that might issue from United States and foreign patent applications. In such event, we would be required to pay license fees or royalties or both to the licensor. If licenses are not available to us on acceptable terms, we or our collaborators may not be able to develop, manufacture, sell or import these products.

We may become involved in expensive patent litigation or other proceedings, which could result in our incurring substantial costs and expenses or substantial liability for damages or require us to stop our development and commercialization efforts.

There has been substantial litigation and other proceedings regarding the patent and other intellectual property rights in the biotechnology industry. We may become a party to patent litigation or other proceedings regarding intellectual property rights. The cost to us of any patent litigation or other proceeding, even if resolved in our favor, could be substantial. Some of our competitors may be able to sustain the cost of such litigation or proceedings more effectively than we can because of their substantially greater financial resources. If a patent litigation or other proceeding is resolved against us, we or our collaborators may be enjoined from developing, manufacturing, selling or importing our drugs without a license from the other party and we may be held liable for significant damages. We may not be able to obtain any required license on commercially acceptable terms or at all.

Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace. Patent litigation and other proceedings may also absorb significant management time.

Risks Relating to Product Manufacturing, Marketing and Sales

We have no experience selling, marketing or distributing products and no internal capability to do so.

If we receive regulatory approval to commence commercial sales of any of our products, we will face competition with respect to commercial sales, marketing and distribution. These are areas in which we have no experience. To market any of our products directly, we would need to develop a marketing and sales force with technical expertise and with supporting distribution capability. Alternatively, we could engage a pharmaceutical or other healthcare company with an existing distribution system and direct sales force to assist us. There can be no assurance that we will successfully establish sales and distribution capabilities or gain market acceptance for our products. To the extent we enter co-promotion or other licensing arrangements, any revenues we receive will depend on the efforts of third parties and there can be no assurance that our efforts will succeed. If in the future we elect to perform sales, marketing and distribution functions for such types of products ourselves, we would face a number of additional risks, including the need to recruit a large number of additional experienced marketing and sales personnel.

Because we have limited manufacturing experience, we will be dependent on third-party manufacturers to manufacture products for us or will be required to incur significant costs and devote significant efforts to establish our own manufacturing facilities and capabilities.

We have limited manufacturing experience and no commercial scale manufacturing capabilities. In order to continue to develop our products, apply for regulatory approvals and commercialize products, we will need to develop, contract for or otherwise arrange for the necessary manufacturing capabilities.

We currently rely upon third parties to produce material for preclinical and clinical testing purposes and expect to continue to do so in the future. We also expect to rely upon third parties to produce materials required for clinical trials and for the commercial production of our products.

There are a limited number of manufacturers that operate under the FDA's good manufacturing practices regulations capable of manufacturing our products. As a result, we may have difficulty finding manufacturers for our products with adequate capacity for our needs. If we are unable to arrange for third party manufacturing of our products on a timely basis, or to do so on commercially reasonable terms, we may not be able to complete development of our products or market them.

Reliance on third party manufacturers entails risks to which we would not be subject if we manufactured products ourselves, including reliance on the third party for regulatory compliance and quality assurance, the possibility of breach of the manufacturing agreement by the third party because of factors beyond our control

and the possibility of termination or nonrenewal of the agreement by the third party, based on its own business priorities, at a time that is costly or inconvenient for us.

If we fail to obtain an adequate level of reimbursement for our products by third party payors, there may be no commercially viable markets for our products.

The availability and levels of reimbursement by governmental and other third party payors affect the market for healthcare products. These third party payors continually attempt to contain or reduce the costs of healthcare by challenging the prices charged for medical products and services. We may not be able to sell our products profitably if reimbursement is unavailable or limited in scope or amount.

In both the United States and certain foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the healthcare system. Further proposals are likely. The potential for adoption of these proposals affects or will affect our ability to raise capital, obtain collaborators and market our products.

We expect to experience pricing pressures in connection with the sale of our drugs due to the trend toward managed health care, the increasing influence of health maintenance organizations and additional legislative proposals.

We face a risk of product liability claims and may not be able to obtain insurance.

Our business exposes us to the risk of product liability claims that is inherent in the manufacturing, testing and marketing of human therapeutic drugs. Although we have product liability and clinical trial liability insurance that we believe is appropriate, this insurance is subject to deductibles and coverage limitations. We may not be able to obtain or maintain adequate protection against potential liabilities. If we are unable to obtain insurance at acceptable cost or otherwise protect against potential product liability claims, we will be exposed to significant liabilities, which may materially and adversely affect our business and financial position. These liabilities could prevent or interfere with our commercialization efforts.

Risks Relating to an Investment in Our Common Stock

Certain provisions of our charter documents, our rights agreement and Delaware law could delay or prevent the sale of our company.

Provisions of our charter documents, our rights agreement and Delaware law may make it more difficult for a third party to acquire, or attempt to acquire, control of our company, even if a change in control would result in the purchase of shares of our common stock at a premium to the market price. In addition, these provisions may limit the ability of stockholders to approve transactions that they may deem to be in their best interest.

Our common stock is considered a "penny stock" and may be difficult to sell.

The SEC has adopted regulations which generally define "penny stock" to be an equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to specific exemptions. Presently, the market price of our common stock is substantially less than \$5.00 per share and therefore is designated as a "penny stock" according to SEC rules. This designation requires any broker or dealer selling these securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell our common stock and may affect the ability of investors to sell their shares. In addition, since our common stock is traded on the OTC Bulletin Board, investors may find it difficult to obtain accurate quotations of our common stock.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Historically, our primary exposures have been related to nondollar-denominated operating expenses in Europe. As of December 31, 2001, we have no assets and liabilities related to nondollar-denominated currencies.