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:
September 30, 1997

0-27352
Commission File Number

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

DELAWARE	04-3072298
(State or other jurisdiction of organization or incorporation)	(I.R.S. Employer Identification Number)

620 MEMORIAL DRIVE
CAMBRIDGE, MA 02139
(Address of principal executive offices, including zip code)

(617) 528-7000
(Registrant's telephone number, including area code)

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

YES X NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of October 31, 1997
Common Stock, Par Value $.001 Per Share	25,292,252

HYBRIDON, INC.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

HYBRIDON, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED CONDENSED BALANCE SHEETS

(UNAUDITED)

ASSETS

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,892,967	$ 12,633,742
Short-term investments	8,898,715	3,785,146
Accounts receivable	297,351	573,896
Prepaid expenses and other current assets	1,956,043	1,545,324
Total current assets	17,045,076	18,538,108
PROPERTY AND EQUIPMENT, AT COST:		
Leasehold improvements	14,266,008	9,257,516
Laboratory equipment	6,681,385	5,884,861
Equipment under capital leases	5,371,707	2,904,688
Office equipment	1,785,376	1,496,639
Furniture and fixtures	684,595	499,958
Construction-in-progress	1,176,785	2,193,400
	29,965,856	22,237,062
Less--Accumulated depreciation and amortization	10,678,014	6,596,294
	19,287,842	15,640,768
OTHER ASSETS:		
Restricted cash	1,326,840	437,714
Notes receivable from officers	262,026	317,978
Deferred financing costs and other assets	3,230,945	1,152,034

Investment in real estate partnership	5,450,000	5,450,000
	10,269,811	7,357,726
	$ 46,602,729	$ 41,536,602
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 8,062,535	$ 1,308,511
Accounts payable	4,476,576	4,064,419
Accrued expenses	7,128,573	4,190,766
Deferred revenue	--	86,250
Total current liabilities	19,667,684	9,649,946
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION	3,556,763	9,031,852
CONVERTIBLE SUBORDINATED NOTES PAYABLE	50,000,000	--
STOCKHOLDERS' EQUITY(DEFICIT):		
Preferred stock, $.01 par value- Authorized--5,000,000 shares Issued and outstanding--None	--	--
Common stock, $.001 par value- Authorized--100,000,000 shares Issued and outstanding--25,292,252 shares at September 30, 1997, and 25,146,577 shares at December 31, 1996 respectively	25,292	25,147
Additional paid-in capital	173,672,464	173,227,358
Deficit accumulated during the development stage	(199,171,091)	(149,193,775)
Deferred Compensation	(1,148,383)	(1,203,926)
Total stockholders' equity(deficit)	(26,621,718)	22,854,804
	$ 46,602,729	$ 41,536,602

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

HYBRIDON, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,		CUMULATIVE FROM MAY 25, 1989 (INCEPTION) TO SEPTEMBER 30,
	1997	1996	1997	1996	1997
REVENUES:					
Research and development	$ 200,000	$ 358,750	$ 980,150	$ 1,076,250	$ 5,534,413
Product revenue	155,368	611,520	1,231,226	611,520	2,311,401
Interest income	294,246	560,376	898,160	1,195,871	3,039,777
Royalty and other income	18,247	--	33,218	62,321	95,539
	667,861	1,530,646	3,142,754	2,945,962	10,981,130
OPERATING EXPENSES:					
Research and development	11,338,913	10,242,296	37,784,718	27,326,434	156,416,618
General and administrative	3,057,380	2,766,429	9,011,879	7,989,722	45,801,747
Restructuring charge	3,100,000	--	3,100,000	--	3,100,000
Interest	1,605,918	18,070	3,223,473	87,651	4,833,856
	19,102,211	13,026,795	53,120,070	35,403,807	210,152,221
Net loss	$(18,434,350)	$(11,496,149)	$(49,977,316)	$(32,457,845)	$(199,171,091)

NET LOSS PER COMMON SHARE (Note 2)	$ (.73)	$ (.45)	$ (1.98)	$ (1.35)
SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE (Note 2)	25,277,563	25,732,987	25,234,031	23,989,439

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

HYBRIDON, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996	CUMULATIVE FROM MAY 25,1989 (INCEPTION) TO SEPTEMBER 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(49,977,316)	$(32,457,845)	$(199,171,091)
Adjustments to reconcile net loss to net cash used in operating activities-			
Depreciation and amortization	4,081,720	1,626,080	10,779,455
Issuance of common stock for services rendered	146,875	--	146,875
Compensation on grant of stock options, warrants and restricted stock	261,519	--	8,069,250
Amortization of discount on convertible promissory notes payable	--	--	690,157
Amortization of deferred financing costs	358,904	--	575,636
Noncash interest on convertible promissory notes payable	--	--	260,799
Write-down of assets related to restructuring	331,000		331,000
Changes in operating assets and liabilities-			
Accounts receivable	276,545	--	(297,350)
Prepaid and other current assets	(541,718)	(1,427,049)	(2,087,042)
Notes receivable from officers	55,952	(7,371)	(262,026)
Amounts payable to related parties	--	21,500	(200,000)
Accounts payable and accrued expenses	3,349,962	756,899	11,605,147
Deferred revenue	(86,250)	--	--
Net cash used in operating activities	(41,742,807)	(31,487,786)	(169,559,190)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in short-term investments	(5,113,569)	(11,063,626)	(8,898,715)
Purchases of property and equipment, net	(6,645,439)	(7,576,520)	(28,448,149)
Decrease (increase) in restricted cash and other assets	(626,985)	418,118	(2,291,168)
Investment in real estate partnership	--	(3,751,552)	(5,450,000)
Net cash used in investing activities	(12,385,993)	(21,973,580)	(45,088,032)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of convertible preferred stock	--	--	96,584,154
Proceeds from issuance of common stock related to stock options and restricted stock grants	83,327	598,676	1,257,929
Proceeds from issuance of common stock related to stock warrants	9,075	1,539,386	3,185,816
Net proceeds from issuance of common stock	--	52,231,244	52,355,324
Repurchase of common stock	--	--	(263)
Proceeds from notes payable	--	--	9,450,000
Proceeds from issuance of convertible promissory notes payable	50,000,000	--	59,191,744
Proceeds from long-term debt	--	--	662,107
Payments on long-term debt and capital leases	(1,169,656)	(351,849)	(2,971,268)
Proceeds from sale/leaseback	1,165,236	--	3,960,752
(Increase) decrease in deferred financing costs	(2,699,957)	526,721	(3,136,106)
Net cash provided by financing activities	47,388,025	54,544,178	220,540,189
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,740,775)	1,082,812	5,892,967

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,633,742	5,284,262	--
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 5,892,967	$ 6,367,074	$ 5,892,967
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 786,005	$ 87,651	$ 2,396,388

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

HYBRIDON, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

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 genetic medicines based primarily on antisense technology.

The Company is in the development stage. Since inception, the Company has been engaged primarily in research and development efforts, development of its manufacturing capabilities and organizational efforts, including recruiting of scientific and management personnel and raising capital. To date, the Company has not received revenue from the sale of biopharmaceutical products developed by it based on antisense technology. In order to commercialize its own products, the Company will need to address a number of technological challenges and comply with comprehensive regulatory requirements. Accordingly, it is not possible to predict the amount of funds that will be required or the length of time that will pass before the Company receives revenues from sales of any of these products. All revenues received by the Company to date have been derived from collaboration agreements, interest on investment funds and revenues from the custom contract manufacturing of synthetic DNA and reagent products by the Company's Hybridon Specialty Products Division. As a result, although the Company has begun to generate revenues from its contract manufacturing business, the Company is dependent on the proceeds from possible future sales of equity securities, debt financings and research and development collaborations in order to fund future operations. Based on its current operating plan, the Company believes that its existing resources, together with committed collaborative research payments, the Company will have sufficient capital requirements to fund its operations into December 1997. As noted, the Company will require substantial additional funding to enable the Company to continue operations beyond such time.

The unaudited consolidated condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and include, in the opinion of management, all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of interim period results. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The Company believes, however, that its disclosures are adequate to make the information presented not misleading. The results for the interim periods presented are not

necessarily indicative of results to be expected for the full fiscal year. It is suggested that these financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1996, as filed with the Securities and Exchange Commission.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Loss per Common Share

Net loss per common share is computed using the weighted average number of shares of common stock outstanding during the period. Pursuant to the requirements of the Securities and Exchange Commission, common stock issued by the Company during the 12 months immediately preceding its initial public offering, plus shares of common stock that became issuable during the same period pursuant to the grant of common stock options and preferred and common stock warrants, has been included in the calculation of weighted average number of shares outstanding for the period from January 1, 1996 through February 2, 1996 (using the treasury-stock method and the initial public offering price of $10 per share). In addition, the calculation of the weighted average number of shares outstanding includes shares of common stock as if all shares of preferred stock were converted into common stock on the respective original dates of issuance.

(3) CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Company applies Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Accordingly, the Company has classified its cash equivalents and short-term investments as held-to-maturity, and has recorded them at amortized cost, which approximates market value. Short-term investments mature within one year of the balance sheet date. Cash equivalents have original maturities of less than three months. Cash and cash equivalents and short-term investments at September 30, 1997 and December 31, 1996 consisted of the following:

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
Cash and cash equivalents-		
Cash and money market funds	$5,892,967	$10,144,367
U.S. government securities	--	2,489,375
	$5,892,967	$12,633,742
Short-term investments-		
U.S. government securities	$ --	$ 3,785,146
Commercial paper and certificates of deposit	8,898,715	--
	$8,898,715	$ 3,785,146

(4) CONVERTIBLE SUBORDINATED NOTES PAYABLE

On April 2, 1997, the Company issued $50,000,000 of 9% convertible subordinated notes (the Notes). Under the terms of the Notes, the Company must make semi-annual interest payments on the outstanding principal balance through the maturity date of April 1, 2004. If the Notes are converted prior to April 1, 2000, the Noteholders are entitled to receive accrued interest from the date of the most recent interest payment

through the conversion date. The Notes are subordinate to substantially all of the Company's existing indebtedness. The Notes are convertible at any time prior to the maturity date at a conversion price equal to $7.0125 per share, subject to adjustment under certain circumstances, as defined.

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

(5) NEW ACCOUNTING STANDARDS

On March 31, 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128, Earnings per Share. SFAS No. 128 establishes standards for computing and presenting earnings per share and applies to entities with publicly held common stock or potential common stock. SFAS No. 128 is effective for fiscal years ending after December 15, 1997 and early adoption is not permitted. When adopted by the Company, SFAS No. 128 will require restatement of prior years' earnings per share. The Company will adopt SFAS No. 128 for its fiscal year ended December 31, 1997. The Company believes that the adoption of SFAS No. 128 will not have a material effect on its financial statements.

In June 1997, the FASB issued SFAS No. 130, Reporting Comprehensive Income. SFAS No. 130 requires disclosure of all components of comprehensive income on an annual basis and interim basis. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997.

In July 1997, the FASB issued SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. SFAS No. 131 requires certain financial and supplementary information to be disclosed on an annual and interim basis for each reportable segment of an enterprise. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997. Unless impracticable, companies would be required to restate prior period information upon adoption.

(6) RESTRUCTURING

In July and August 1997 the Company implemented a restructuring plan to reduce expenditures on a phased basis over the balance of 1997 in an effort to conserve its cash resources. As part of this restructuring plan, in addition to stopping the clinical development of GEM 91, the Company's first generation antisense drug for the treatment of AIDS and HIV the Company reduced or suspended selected programs unrelated to its core drug development programs involving four second generation antisense compounds based on the Company's proprietary mixed backbone chemistries. To begin the implementation of these changes the Company terminated the employment of 34 employees at its Cambridge and Milford, Massachusetts facilities in July 1997 and substantially reduced operations at its Paris, France office and terminated 10 employees at that location in August 1997.

Also, in connection with the restructuring the Company entered into two different sub-leasing arrangements. The Company has sub-leased one facility in Cambridge, MA and a portion of its corporate headquarters

located at 620 Memorial Drive, Cambridge, MA. The Company incurred expenses relating to these sub-leases for broker fees and renovation expenses incurred in preparing the Memorial Drive space for the new tenant. In addition, the Company plans to sub-lease its office in Paris, France and has accrued the remaining lease payments net of anticipated sub-lease income.

The Company is continuing to review its expenditure rate and implement additional measures to conserve its cash resources. See Note 9(a).

Because of the significant costs involved in terminating employees and substantially reducing operations at its Paris, France office, the Company does not expect its expenditure rate to materially decrease until at least October 1997. The following are the significant components of the charge for restructuring:

Employee severance, benefits and related costs	$2,214,000
Development programs terminated	356,000
Facility costs	330,000
Writedown of assets to net realizable value	200,000
	$3,100,000

The total cash impact of the restructuring amounted to approximately $2.7 million. The total cash paid as of September 30, 1997 was approximately $500,000 and the remaining amount of approximately $2.2 million will be paid through the first quarter of 1998.

(7) NOTE PAYABLE TO A BANK

The note payable to Silicon Valley Bank (the "Bank") contains certain financial covenants that require the Company to maintain minimum tangible net worth (as defined) and minimum liquidity (as defined) and prohibits the payment of dividends. The Company has secured the obligations under the note with a lien on all of its assets. If, at specified times, the Company's minimum liquidity is less than $15,000,000, $10,000,000, or $5,000,000, the Company is required to pledge cash collateral to the bank equal to 25%, 50% or 100%, respectively, of the then outstanding balance under the note, pursuant to a cash pledge agreement. The notes also contain certain non-financial covenants. As of September 30, 1997, the Company's minimum liquidity had fallen below $15,000,000 and subsequent to September 30, 1997 the Company pledged cash collateral to the bank of $1,750,000. If the Company does not obtain additional financing by the end of November, the Company's minimum liquidity as of November 30, 1997 may be less than $5,000,000 and the balance of the note will need to be pledged by December 31, 1997. The Company has classified the entire balance as a current liability in the accompanying September 30, 1997 balance sheet as it does not currently have the financing to remain in compliance with the financial covenants as of November 19, 1997 (see Note 9(c)). Failure by the Company to pledge cash collateral when required would result in a default under the Company's credit facility with the bank.

(8) RESTRICTED CASH

In November 1997 the Company was notified by Bank Fur Vermogensanlagen

Und Handel AG ("BVH") that the Federal Banking Supervisory Office ("BAKred") in Germany had imposed a moratorium, effective as of August 19, 1997 on BVH and had closed BVH for business. Accordingly, the Company classified its $1,021,000 deposit with BVH as restricted at September 30, 1997. The Company has contacted BVH and is actively pursuing the release of its deposit or sale of the deposit to a third party, including possibly an entity affiliated with a director of the Company. The Company expects to recover substantially all of its deposit in BVH through such means. However, the timing of the recovery may be over a period of up to one year. There can be no assurance that the Company will be able to recover any or all of its deposit or that the Company will not be required to write off all or a portion of the $1,021,000.

(9) SUBSEQUENT EVENTS

a) Additional Restructuring

In November 1997, the Company implemented an additional restructuring plan by reducing the number of employees in its Cambridge and Milford, Massachusetts facilities by approximately 50 employees. The Company estimates that the restructuring charge with respect to such reductions, which will be taken in the fourth quarter of 1997, will total between approximately $1.5 million and $2.0 million, and expects that it will make the associated cash payments through the first quarter of 1998.

b) NASDAQ Delisting

On September 19, 1997, the Company received a notice of delisting from the Nasdaq Stock Market, Inc. ("NASDAQ") indicating that because the Company was not in compliance with the continued listing requirements of the Nasdaq National Market, the Company's Common Stock would be delisted from the Nasdaq National Market. The Company appealed the decision with NASDAQ and a hearing was held on November 6, 1997. On November 17, 1997, NASDAQ informed the Company that the Company's Common Stock would not be delisted and would continue to trade on the Nasdaq National Market, subject to certain specified conditions, including (i) the closing of a minimum $12,000,000 from the Private Offering on or before December 1, 1997, (ii) the closing of an additional minimum $20,000,000 from the Private Offering on or before January 2, 1998, (iii) the closing of certain corporate transactions on or before January 2, 1998, and (iv) the filing of a report on or before January 2, 1998 evidencing that the Company had a minimum of $12,000,000 in net tangible assets as of November 30, 1997, with pro forma adjustments for any transactions occurring prior to the filing of such report. The Company is seeking clarification with respect to certain of these conditions. There can be no assurance that the Company will be able to satisfy one or more of these conditions and that the Company's Common Stock will continue to be listed on the Nasdaq National Market.

c) Private Offering of Equity Securities

The Company has entered into a letter of intent with a placement agent related to a proposed "best efforts" private offering (the "Private Offering") by the placement agent on behalf of the Company of shares of the Company's Common Stock pursuant to which the Company is seeking to sell at one or more closing s up to $50.0 million of its Common Stock (with a minimum first closing of $12.5 million). If the Private Offering is consummated as contemplated by the letter of intent, the Common Stock to be issued and sold in the Private Offering will be offered and sold at all closings at an effective price per share equal to the lowest of (i) $1.25 per shares, (ii) 85% of the closing bid price of the Company's Common Stock at the time the Private Offering is commenced, (iii) the average closing bid price of the Company's Common Stock for the 30 consecutive days immediately preceding any closing and (iv) the average closing bid price of the Company's Common Stock for the five consecutive trading days immediately preceding any closing. The letter of intent also contemplates that the purchasers of Common Stock sold in the Private Offering will be afforded significant contractual voting rights and other

protective provisions. For example, if the average closing price of the Company's Common Stock for 20 consecutive trading days immediately preceding the first anniversary of the Final closing Date is less than 125% of the offering price, the Company will be required to issue to the purchasers additional shares of Common Stock such that the value of their original investment, plus these newly issued shares, equals 125% of their original investment; provided that the Company will not be obligated in any event to issue at such time a number of shares in excess of the number of shares originally issued. The Company has agreed that the placement agent will serve as its exclusive agent for a period of up to 120 days and that the Company will not engage in specified activities pending completion or termination of the Private Offering, subject to certain specified limitations.

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

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

In July and August 1997 the Company implemented a restructuring plan to reduce expenditures on a phased basis over the balance of 1997 in an effort to conserve its cash resources. As part of this restructuring plan, in addition to stopping the clinical development of GEM 91, the Company's first generation antisense drug for the treatment of AIDS and HIV infection, the Company reduced or suspended selected programs unrelated to its core drug development programs involving four second generation antisense compounds based on the Company's proprietary mixed backbone chemistries. To begin the implementation of these changes the Company terminated the employment of 34 employees at its Cambridge and Milford, Massachusetts facilities in July 1997 and substantially reduced operations at its Paris, France office and terminated 10 employees at that location in August 1997.

Also, in connection with the restructuring the Company entered into two different sub-leasing arrangements. The Company has sub-leased one facility in Cambridge, MA and a portion of its corporate headquarters located at 620 Memorial Drive, Cambridge, MA. The Company incurred expenses relating to these sub-leases for broker fees and renovation expenses incurred in preparing the Memorial Drive space for the new tenant. In addition, the Company plans to sub-lease its office in Paris, France and has accrued the remaining lease payments net of anticipated sub-lease income.

Because of the significant costs involved in terminating employees and substantially reducing operations at its Paris, France office, the Company does not expect its expenditure rate to materially decrease until at least October 1997. The Company recorded a restructuring charge of $3,100,000 from the actions taken to date and will make the remaining associated cash payments through the first quarter of 1998.

In November 1997, the Company implemented an additional restructuring plan by

further reducing the number of employees in its Cambridge and Milford, Massachusetts facilities by approximately 50 employees. The Company estimates that the restructuring charge to be taken in the fourth quarter will total between approximately $1.5 million and $2.0 million, and expects that it will make the related cash payments through the first quarter of 1998.

The Company has incurred losses since its inception and, despite its restructuring plan, expects to incur significant operating losses in the future. The Company expects that its research and development expenses will continue to be significant during the balance of 1997 and in future years as it pursues its four core development programs. The Company has incurred cumulative losses from inception through September 30, 1997 of approximately, $199,171,000.

This Quarterly Report on Form 10-Q contains forward-looking statements. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "intends," "may," and other similar expressions are intended to identify forward-looking statements.

There are a number of important factors that could cause the Company's actual results to differ materially from those indicated by such forward-looking statements. These factors include the matters set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors that May Affect Future Results" in the Company's Annual Report on Form 10-K for the year ended December 31, 1996, which is hereby incorporated herein by this reference. Any statement contained in such matters shall be deemed to be modified or superseded for purposes of this Quarterly Report on Form 10-Q to the extent that a statement contained herein modifies or supersedes such statement. Moreover, there can be no assurance that the Company will be able to successfully implement its restructuring plan or as to the timing thereof.

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 1997 and 1996

REVENUES

The Company had total revenues of $668,000 and $1,531,000 in the three months ended September 30, 1997 and 1996, respectively, and $3,143,000 and $2,946,000 in the nine months ended September 30, 1997 and 1996, respectively.

Revenues from research and development collaborations were $200,000 and $359,000 for the three months ended September 30, 1997 and 1996, respectively, and $980,000 and $1,076,000 for the nine months ended September, 1997 and 1996, respectively. Revenues for the three months ended September 30, 1997 decreased because the research funding, which the Company received under the Company's research phase of a collaboration with F. Hoffmann-La Roche Ltd. ("Roche") was terminated as of March 31, 1997 in connection with Roche's termination of the research phase of the collaboration. On September 3, 1997 the Company announced that it had received notification that Roche had decided not to pursue further its antisense collaboration with Hybridon, and was terminating the development phase of the collaboration effective February 28, 1998. During the three and nine months ended September 30, 1997 and 1996, revenues also included payments under the Company's collaboration with G. D. Searle & Co. (Searle).

Revenues from the custom contract manufacturing of synthetic DNA and reagent products by the Hybridon Specialty Products Division ("HSPD") were $155,000 and $1,231,000, respectively, for the three and nine months ended September 30, 1997. Revenues from the custom contract manufacturing of synthetic DNA and reagent products by HSPD for the three and nine months ended September 30 were $612,000. HSPD commenced operations in the third quarter of 1996. The decrease in revenues for the three months ended September 30, 1997 was the result of a decrease in orders due to the timing of customer requirements. The Specialty

Products Division currently has firm bookings of $800,000 which it anticipates shipping in the three months ending December 31, 1997. There can be no assurance however that such bookings will not be cancelled prior to shipping or that shipping will occur in the three months ending December 31, 1997.

Interest income was $294,000 and $560,000 for the three months ended September 30, 1997 and 1996, respectively, and $898,000 and $1,196,000 for the nine months ended September 30, 1997 and 1996, respectively. The decrease in interest income in the three and nine months ended September 30, 1997 was the result of lower cash balances in such periods than in the corresponding periods in 1996.

RESEARCH AND DEVELOPMENT EXPENSES

The Company had research and development expenses of $37,785,000 and $27,326,000 in the nine months ended September 30, 1997 and 1996, respectively. The increase in research and development expenses for the nine months ended September 30, 1997 primarily reflected increased

expenses related to ongoing clinical trials of the Company's product candidates, including trials of GEM 91 (which were terminated in July of 1997), trials of two different formulations of GEM 132 (an antisense compound for the treatment of systemic CMV and CMV retinitis), which were first initiated with respect to GEM 132 intravenous in Europe during the third quarter of 1996 and with respect to GEM 132 intravitreal for the treatment of CMV retinitis in the United States during the first quarter of 1997, and trials of the Company's second generation GEM 92 product for the treatment of AIDS and HIV infection which were initiated in Europe in 1997. The increase in research and development expenses for the nine months ended September 30, 1997 also reflects an increase in preclinical costs related to GEM 132, GEM 92 and the Company's GEM 231 product for the treatment of solid tumors for which an Investigational New Drug application was filed in November 1997 with respect to which the Company anticipates initiating clinical trials for this product during the beginning of 1998. Significant preclinical costs were incurred to meet the filing requirements to launch the domestic clinical trials for GEM 132 intravitreal and systemic, and GEM 231.

The $11,339,000 in research and development expenses for the three months ended September 30, 1997 is $1,097,000 higher than the corresponding quarter of 1996 and $3,630,000 lower than the research and development expenses reported for the three months ended June 30, 1997. This decrease from the second quarter of 1997 is substantially due to the Company suspending development of GEM 91, its first generation antisense drug for the treatment of AIDS and HIV infection and the related restructuring efforts at the Company. All ongoing research and development efforts related to GEM 91 at the Company and at all clinical sites were suspended in July. Also, during July 1997 as part of the Company's restructuring, approximately 24 research and development positions were eliminated. As part of the restructuring all outside testing and consulting arrangements were reviewed and where appropriate the terms were renegotiated or the arrangements were cancelled. The Company does not anticipate that its expenditure rate will materially decrease as a result of these measures until at least October 1997.

GENERAL AND ADMINISTRATIVE EXPENSES

The Company had general and administrative expenses of $9,012,000 and $7,990,000 in the nine months ended September 30, 1997 and 1996, respectively. The increase in general and administrative expenses for the nine months ended September 30, 1997 was attributable primarily to increased public relations and business development costs as the Company continued to focus its efforts on obtaining financing and strategic pharmaceutical collaborations. In addition, during the nine months ended September 30, 1997 the increase was due to higher facilities costs related to its Cambridge facility, certain financing activities which were terminated during such period, and a one-time charge related to the Company's investment in MethylGene, Inc., a Canadian company in which the Company owns a

minority interest.

The Company had general and administrative expenses of $3,057,000 and $2,766,000 in the three months ended September 30, 1997 and 1996, respectively. This increase is primarily due to the increase in facilities costs and the termination of certain financing activities during the period. In July 1997, as part of the restructuring, approximately 7 general and administrative positions were eliminated. Also as part of the restructuring all expenses including outside consulting, public relations, travel and entertainment were reviewed and where appropriate eliminated or significantly reduced.

RESTRUCTURING CHARGE

In July and August 1997, the Company implemented a restructuring plan to reduce expenditures on a phased basis over the balance of 1997 in an effort to conserve its cash resources. As part of this restructuring plan, in addition to stopping the clinical development of GEM 91, the Company reduced or suspended selected programs unrelated to its four core programs. To begin the implementation of these changes the Company terminated the employment of 34 employees at its Cambridge and Milford, Massachusetts facilities in July 1997 and substantially reduced operations at its Paris, France office and terminated 10 employees at that location in August 1997. Because of the significant costs involved in terminating employees and substantially reducing operations at its Paris, France offices, the Company does not expect its expenditure rate to materially decrease until at least October 1997. Also, in connection with the restructuring the Company entered into two different sub-leasing arrangements. The Company has sub-leased one facility in Cambridge, MA and a portion of its corporate headquarters located at 620 Memorial Drive, Cambridge, MA. The Company incurred expenses relating to these sub-leases for broker fees and renovation expenses incurred in preparing the Memorial Drive space for the new tenant. In addition, the Company plans to sub-lease its office in Paris, France and has accrued the remaining lease payments net of anticipated sub-lease income. As a result of the above actions the Company has recorded a restructuring charge of $3,100,000 in the three and nine months ending September 30, 1997.

The Company is continuing to review its expenditure rate and implement additional measures to conserve its cash resources. In November 1997, the Company implemented an additional restructuring plan by reducing the number of employees at its Cambridge and Milford, Massachusetts facilities by approximately 50 employees. The Company estimates that the restructuring charges taken in the fourth quarter of 1997 will range between $1,500,000 and $2,000,000, and expects to make the related cash payments during the fourth quarter of 1997 and through the first quarter of 1998.

INTEREST EXPENSE

The Company had interest expense of $1,606,000 and $18,000 in the three months ended September 30, 1997 and 1996, respectively, and $3,223,000 and $88,000 in the nine months ended September 30, 1997 and 1996, respectively. The increase in interest expense for the three and nine months ended September 30, 1997 reflected an increase in the debt outstanding associated with the Company's issuance of $50,000,000 of 9% Convertible Subordinated Notes (the"Notes") on April 2, 1997 and interest incurred on borrowing to finance the purchase of property and equipment, and leasehold improvements.

NET LOSS

As a result of the above factors, the Company incurred net losses of $18,434,000 and $11,496,000 for the three months ended September 30, 1997 and 1996,

respectively, and $49,977,000 and $32,458,000 for the nine months ended September 30, 1997 and 1996, respectively.

LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended September 30,1997, the Company used $41,743,000 of net cash for

operating activities, principally for ongoing research and development programs, and $11,364,000 of net cash for investment in property and equipment, consisting primarily of costs related to leasehold improvements, equipment and furnishings of the Cambridge facility which the Company moved into on February 1, 1997.

The Company had cash, cash equivalents and short term investments of $14,792,000 at September 30, 1997. Based on its current operating plan, including the expenditure rate reduction initiatives being undertaken by the Company as part of its restructuring plan, the Company believes that its existing capital resources, together with the committed collaborative research and development payments from Searle, and anticipated sales of the Hybridon Specialty Products Division and margins on such sales, will be adequate to fund the Company's capital requirements into December 1997. The Company will require substantial additional funds from external sources in the fourth quarter of 1997 to support the Company's operations through the end of the fourth quarter of 1997 and thereafter.

The Company is seeking additional equity, debt and lease financing to fund future operations as well as additional collaborative development and commercialization relationships with potential corporate partners in order to fund certain of its programs. In particular, the Company is exploring selling certain assets or business units to third parties or conducting a financing which could be significantly dilutive to holders of the Company's existing securities and contain certain terms that would adversely affect the rights of holders of the Company's existing securities.

In connection with these efforts, the Company has entered into a letter of intent with a placement agent related to a proposed "best efforts" private offering (the "Private Offering") by the placement agent on behalf of the Company of shares of the Company's Common Stock pursuant to which the Company is seeking to sell at one or more closings up to $50.0 million of its Common Stock (with a minimum first closing of $12.5 million). If the Private Offering is consummated as contemplated by the letter of intent, the Common Stock to be issued and sold in the Private Offering will be offered and sold at all closings at an effective price per share equal to the lowest of (i) $1.25 per share, (ii) 85% of the closing bid price of the Company's Common Stock at the time the Private Offering is commenced, (iii) the average closing bid price of the Company's Common Stock for the 30 consecutive trading days immediately preceding any closing and (iv) the average closing bid price of the Company's Common Stock for the five consecutive trading days immediately preceding any closing. The letter of intent also contemplates that the purchasers of Common Stock sold in the Private Offering will be afforded significant contractual voting rights and other protective provisions. For example, if the average closing price of the Company's Common Stock for 20 consecutive trading days immediately preceding the first anniversary of the Final Closing Date is less than 125% of the offering price, the Company will be required to issue to the purchasers additional shares of Common Stock such that the value of their original investment, plus these newly issued shares, equals 125% of their original investment; provided that the Company will not be obligated in any event to issue at such time a number of shares in excess of the number of shares originally issued. The Company has agreed that the placement agent will serve as its exclusive agent for a period of up to 120 days and that the Company will not engage in specified activities

pending completion or termination of the Private Offering, subject to certain specified limitations.

If none of these transactions are consummated by the second week in December, the Company will likely cease operations or be required to seek relief under the applicable bankruptcy laws. There can be no assurance that the Company will be able to consummate any of these transactions including the financing contemplated in the letter of intent by the second week in December, if at all, or as to the terms of any such transactions.

Except for research and development funding from Searle under Hybridon's collaborative agreement with Searle (which is subject to early termination in certain circumstances), Hybridon has no committed external sources of capital, and, as discussed above, expects no product revenues for several years from sales of the products that it is developing (as opposed to sales of DNA products and reagents manufactured on a custom contract basis by the Hybridon Specialty Products Division).

On April 2, 1997, the Company sold $50.0 million of Notes to certain investors. The Notes bear interest at a rate of 9% per annum and have a maturity date of April 1, 2004. Under the Notes, the Company is required to make semi-annual interest payments on the outstanding principal balance through the maturity date of April 1, 2004. The Notes are unsecured and subordinate to substantially all of the Company's existing indebtedness. The Notes are convertible at the option of the holder into the Company's Common Stock at any time prior to maturity, unless previously redeemed or repurchased by the Company under certain specified circumstances, at a conversion price of $7.0125 per share (subject to adjustment). Upon change of control of the Company (as defined), the Company is required to offer to repurchase the Notes at 150% of the original issuance price.

The note payable to Silicon Valley Bank (the "Bank") contains certain financial covenants that require the Company to maintain minimum tangible net worth (as defined) and minimum liquidity (as defined) and prohibits the payment of dividends. The Company has secured the obligations under the note with a lien on all of its assets. If, at specified times, the Company's minimum liquidity is less than $15,000,000, $10,000,000, or $5,000,000, the Company is required to pledge cash collateral to the bank equal to 25%, 50% or 100%, respectively, of the then outstanding balance under the note, pursuant to a cash pledge agreement. The notes also contain certain non-financial covenants. As of September 30, 1997, the Company's minimum liquidity had fallen below $15,000,000 and subsequent to September 30, 1997 Company pledged cash collateral to the bank of $1,750,000. If the Company does not obtain additional financing by the end of November, the Company's minimum liquidity as of November 30, 1997 may be less than $5,000,000 and the balance of the note will need to be pledged by December 31, 1997. The Company has classified the entire balance as a current liability in the accompanying September 30, 1997 balance sheet as it does not currently have the financing to remain in compliance with the financial covenants as of November 19, 1997 (see Note 9(c)) during the fourth quarter of 1997. Failure by the Company to pledge cash collateral when required would result in a default under the Company's credit facility with the bank.

PART II

OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On September 18, 1997, the Company received a notice of delisting from The Nasdaq Stock Market, Inc. ("NASDAQ") indicating that because the Company was not in compliance with the continued listing requirements of the Nasdaq National Market, the Company's Common Stock would be delisted from the Nasdaq National Market. The Company appealed the decision with NASDAQ and a hearing was held on November 6, 1997. On November 17, 1997, NASDAQ informed the Company that the Company's Common Stock would not be delisted and would continue to trade on the Nasdaq National Market, subject to certain specified conditions, including (i) the closing of a minimum $12,000,000 from the Private Offering on or before December 1, 1997, (ii) the closing of an additional minimum $20,000,000 from the Private Offering on or before January 2, 1998, (iii) the closing of certain corporate transactions on or before January 2, 1998 and (iv) the filing of a report on or before January 2, 1998 evidencing that the Company had a minimum of $12,000,000 in net tangible assets as of November 30, 1997, with pro forma adjustments for any transactions occurring prior to the filing of such report. The Company is seeking clarification with respect to certain of these conditions. There can be no assurance that the Company will be able to satisfy one or more of these conditions and that the Company's Common Stock will continue to be listed on the Nasdaq National Market.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The Exhibits listed in the Exhibit Index immediately preceding such Exhibits are filed as part of this Quarterly Report on Form 10-Q.

(b) Reports on Form 8-K

1. On July 25, 1997, the Company filed a Current Report on Form 8-K dated July 25, 1997 reporting, among other things, its announcement that (i) it had elected to stop further development of its lead compound GEM 91, (ii) it would be focusing its resources on its second generation chemistries and (iii) its goal for the second half of 1997 was to effect a reduction in its expenditure rate on a phased basis over the balance of 1997.

2. On September 5, 1997, the Company filed a Current Report on Form 8-K dated September 3, 1997 reporting its announcement of the termination of the Company's research and development collaboration with Hoffman-La Roche Ltd.

3. On September 19, 1997, the Company filed a Current Report on Form 8-K dated September 19, 1997 reporting its announcement of the scheduled delisting of its Common Stock from the Nasdaq National Market.

4. On September 24, 1997, the Company filed a Current Report on Form 8-K dated September 23, 1997 reporting its announcement that the Company was moving forward with the appeal process with respect to the scheduled delisting.

SIGNATURES

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

HYBRIDON, INC.

November 13, 1997 — /s/ E. Andrews Grinstead III

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

November 13, 1997 — /s/ Lynne J. Rudert

Date — Lynne J. Rudert
Director of Finance and Controller
(Chief Accounting Officer)

HYBRIDON, INC.

EXHIBIT INDEX

Exhibit No.	Description
11	Computation of Net Loss Per Common Share.
27	Financial Data Schedule (EDGAR)
99	Pages 39-48 of the Company's Annual Report on Form 10-K for the period ended December 31, 1996 (which is not deemed to be filed except to the extent that portions thereof are expressly incorporated by reference herein).

EXHIBIT 11

HYBRIDON, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

COMPUTATION OF NET LOSS PER COMMON SHARE (1)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
NET LOSS	$(18,434,350)	$(11,496,149)	$(49,977,316)	$(32,457,845)
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES:				
Weighted average common stock outstanding during the period	25,277,563	25,732,987	25,234,031	22,085,644
Conversion of preferred stock	--	--	--	1,845,619
Dilutive effect of common equivalent shares issued subsequent to October 31, 1994 (2)	--	--	--	58,176
	25,277,563	25,732,987	25,234,031	23,989,439
NET LOSS PER COMMON SHARE	$ (.73)	$ (.45)	$ (1.98)	$ (1.35)

(1) Primary and fully diluted net loss per share has not been separately presented, as the amounts would not be meaningful.

(2) Pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83, stock options issued at prices below the initial public offering price per share (cheap stock) during the 12-month period immediately preceding the initial filing date of the Company's Registration Statement of its initial public offering have been included as outstanding for all periods presented. The dilutive effect of the common and common stock equivalents was computed in accordance with the treasury stock method.

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1

EXHIBIT 99

Certain Factors That May Affect Future Results

The following important factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Annual Report on Form 10-K and presented elsewhere by management from time to time.

2

Early Stage of Development; Technological Uncertainty

Hybridon's potential pharmaceutical products are at various stages of research, preclinical testing or clinical development. There are a number of technological challenges that the Company must successfully address to complete any of its development efforts. To date, most of the Company's resources have been dedicated to applying oligonucleotide chemistry and cell biology to the research and development of potential pharmaceutical products based upon antisense technology. As in most drug discovery programs, the results of in vitro, tissue culture and preclinical studies by the Company may be inconclusive and may not be indicative of results that will be obtained in human clinical trials. In addition, results attained in early human clinical trials by the Company may not be indicative of results that will be obtained in later clinical trials. Neither the Company, nor to its knowledge, any other company has successfully completed human clinical trials of a product based on antisense technology, and there can be no assurance that any of the Company's products will be successfully developed.

The success of any of the Company's potential pharmaceutical products depends in part on the molecular target on the genetic material chosen as the site of action of the oligonucleotide. There can be no assurance that the Company's choice will be appropriate for the treatment of the targeted disease indication in humans or that mutations in the genetic material will not result in a reduction in or loss of the efficacy or utility of the Company product.

Uncertainty Associated with Clinical Trials

Before obtaining regulatory approvals for the commercial sale of any of its pharmaceutical products under development, the Company must undertake extensive and costly preclinical studies and clinical trials to demonstrate that such products are safe and efficacious. The results from preclinical studies and early clinical trials are not necessarily predictive of results that will be obtained in later stages of testing or development, and there can be no assurance that the Company's clinical trials will demonstrate the safety and efficacy of any pharmaceutical products or will result in pharmaceutical products capable of being produced in commercial quantities at reasonable cost or in a marketable form.

Although the Company is conducting clinical trials of certain oligonucleotide compounds and is developing several oligonucleotide compounds on which it plans to file IND applications with the FDA and equivalent filings outside of the U.S., there can be no assurance that necessary preclinical studies on these compounds will be completed satisfactorily or that the Company otherwise will be able to make its intended filings. Further, there can be no assurance that the Company will be permitted to undertake and complete human clinical trials of any of the Company's potential products, either in the U.S.

or elsewhere, or, if permitted, that such products will not have undesirable side effects or other characteristics that may prevent or limit their commercial use.

The rate of completion of the Company's human clinical trials, if permitted, will be dependent upon, among other factors, the rate of patient enrollment. Patient enrollment is a function of many factors, including the size of the patient population, the nature of the protocol, the availability of alternative treatments, the proximity to clinical sites and the eligibility criteria for the study. Delays in planned patient enrollment might result in increased costs and delays, which could have a material adverse effect on the Company. The Company or the FDA or other regulatory agencies may suspend clinical trials at any time if the subjects or patients participating in such trials are being exposed to unacceptable health risks.

Future Capital Needs; Uncertainty of Additional Funding

The Company's future capital requirements will depend on many factors, including continued scientific progress in its research, drug discovery and development programs, the magnitude of these programs, progress with preclinical and clinical trials, sales of DNA products and reagents to these parties manufactured on a custom contract basis by the Hybridon Specialty Products Division and the margins on such sales, the time and costs involved in obtaining regulatory approvals, the costs involved in filing, prosecuting and enforcing patent claims, competing technological and market developments, the ability of the Company to establish and maintain collaborative academic and commercial research, development and marketing relationships, the ability of the Company to obtain third-party financing for leasehold improvements and other capital expenditures and the costs of manufacturing scale-up and commercialization activities and arrangements.

Based upon its current operating plan, the Company believes that its existing capital resources, together with the committed collaborative research and development payments from Searle, anticipated sales of the Hybridon Specialty Products Division and margins on such sales, which are expected to increase significantly over historic levels, and the net proceeds from the sale of the Notes and the interest earned thereon, will be adequate to fund the Company's capital requirements through at least the first quarter of 1998. The Company anticipates that it will be required to raise substantial additional funds, through external sources, including through collaborative relationships and public or private financings, to support the Company's operations beyond that time. No assurance can be given that additional financing will be available, or, if available, that it will be available on acceptable terms. If additional funds are raised by issuing equity securities, further dilution to then existing stockholders will result. Additionally, the terms of any such additional financing may adversely affect the holdings or rights of then existing stockholders. If adequate funds are not available, the Company may be required to curtail significantly one or more of its research, drug discovery or development programs, or obtain funds through arrangements with collaborative partners or others that may require the Company to relinquish rights to certain of its technologies, product candidates or products which the Company would otherwise pursue on its own. See "Item 1. Business -- Hybridon Drug Development and Discovery Programs."

History of Operating Losses and Accumulated Deficit

Hybridon has incurred net losses since its inception. At December 31, 1996, the Company's accumulated deficit was approximately $149,194,000. Such losses have resulted principally from costs incurred in the Company's research and development programs and from general and administrative costs associated

with the Company's development. No revenues have been generated from sales of pharmaceutical products developed by the Company and no revenues from the sale of such products are anticipated for a number of years, if ever. The Company expects to incur additional operating losses over the next several years and expects cumulative losses to increase significantly as the Company's research and development and clinical trial efforts expand. The Company expects that losses will fluctuate from quarter to quarter and that such fluctuations may be substantial. Although the Company's Hybridon Specialty Products Division has begun to generate revenues from the sale of synthetic DNA products and reagents manufactured by it on a custom contract basis, there can be no assurance that demand for and margins on these products will not be lower than anticipated. The Company's ability to achieve profitability is dependent in part on obtaining regulatory approvals for its pharmaceutical products and entering into agreements for drug discovery, development and commercialization. There can be no assurance that the Company will obtain required regulatory approvals, enter into any additional agreements for drug discovery, development and commercialization or ever achieve sales or profitability.

Patents and Proprietary Rights

The Company's success will depend in part on its ability to develop patentable products and obtain and enforce patent protection for its products both in the U.S. and in other countries. The Company has filed and intends to file applications as appropriate for patents covering both its products and processes. However, the patent positions of pharmaceutical and biotechnology firms, including Hybridon, are generally uncertain and involve complex legal and factual questions. No assurance can be given that patents will issue from any pending or future patent applications owned by or licensed to Hybridon. Since patent applications in the U.S. are maintained in secrecy until patents issue, and since publication of discoveries in the scientific or patent literature tend to lag behind actual discoveries by several months, the Company cannot be certain that it was the first creator of inventions covered by pending patent applications or that is was the first to file patent applications for such inventions. Further, there can be no assurance that the claims allowed under any issued patents will be sufficiently broad to protect the Company's technology. In addition, no assurance can be given that any issued patents owned by or licensed to the Company will not be challenged, invalidated or circumvented, or that the rights granted thereunder will provide competitive advantages to the Company.

The commercial success of the Company will also depend in part on its neither infringing patents issued to competitors or others nor breaching the technology licenses upon which the Company's products might be based. The Company's licenses of patents and patent applications impose various commercialization, sublicensing, insurance and other obligations on the Company. Failure of the Company to comply with these requirements could result in termination of the license. The Company is aware of patents and patent applications belonging to competitors, and it is uncertain whether these patents and patent applications will require the Company to alter its products or processes, pay licensing fees or cease certain activities. In particular, competitors of the Company and other third parties hold issued patents and pending patent applications relating to antisense and other gene expression modulation technologies which may result in claims of infringement against the Company or other patent litigation. There can be no assurance that the Company will be able successfully to obtain a license to any technology that it may require or that, if obtainable, such technology can be licensed at a reasonable cost or on an exclusive basis. See "Item 1. Business -- Patents, Trade Secrets and Licenses."

The pharmaceutical and biotechnology industries have been characterized

by extensive litigation regarding patents and other intellectual property rights. Litigation, which could result in substantial cost to the Company, may be necessary to enforce any patents issued or licensed to the Company and/or to determine the scope and validity of others' proprietary rights. The Company also may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office, which could result in substantial cost to the Company, to determine the priority of inventions. Furthermore, the Company may have to participate at substantial cost in International Trade Commission proceedings to abate importation of products which would compete unfairly with products of the Company.

Hybridon engages in collaborations, sponsored research agreements and other agreements with academic researchers and institutions and government agencies. Under the terms of such agreements, third parties may have rights in certain inventions developed during the course of the performance of such collaborations and agreements.

The Company relies on trade secrets and proprietary know-how which it seeks to protect, in part, by confidentiality agreements with its collaborators, employees and consultants. There can be no assurance that these agreements will not be breached, that the Company would have adequate remedies for any breach or independently developed by competitors. See "Item 1. Business -- Patents, Trade Secrets and Licenses."

Risks Associated with Hybridon Specialty Products Division

Through its Hybridon Specialty Products Division, the Company manufactures oligonucleotide compounds on a custom contract basis for third parties. The results of operations of the Hybridon Specialty Products Division will be dependent upon the Demand for and margins on these products, which may be lower than anticipated by the Company. The results of operations of the Hybridon Specialty Products Division also may be affected by the price and availability of raw materials. It is possible that Hybridon's manufacturing capacity may not be sufficient for production of oligonucleotides both for the Company's internal needs and for sale to third parties. The Company's manufacturing facility must comply with GMP and other FDA regulation. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - - Certain Factors That May Affect Future Results - - Limited Manufacturing Capability."

The Company will be competing against a number of third parties, as well as the possibility of internal production by the Company's customers, in connection with the operations of the Hybridon Specialty Products Division. Many of these third parties are likely to have greater financial, technical and human resources than the Company. Key competitive factors will include the price and quality of the products as well as manufacturing capacity and ability to comply with specifications and to fulfill orders on a timely basis. The Company may be required to reduce the cost of its product offerings to meet competition. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Certain Factors That May Affect Future Results - - Competition." Failure to manufacture oligonucleotide compounds in accordance with the purchaser's specifications could expose the Company to breach of contract and/or product liability claims from the purchaser or the purchaser's customers. The Company has limited experience in sales, marketing and distribution and is relying in part upon the efforts of third party, Perkin-Elmer, in connection with the marketing and sale of products by the Hybridon Specialty Products Division. See "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations - Certain Factors That May Affect Future Results - - Absence of Sales and Marketing Experience."

Need to Establish Collaborative Commercial Relationships; Dependence on Partners

Hybridon's business strategy includes entering into strategic alliances or licensing arrangements with corporate partners, primarily pharmaceutical and biotechnology companies, relating to the development and commercialization of certain of its potential products. Although the Company is a party to corporate collaborations with Searle, Roche and Medtronic, there can be no assurance that these collaborations will be scientifically or commercially successful, that the Company will be able to negotiate additional collaborations, that such collaborations will be available to the Company on acceptable terms or that any such relationships, if established, will be scientifically or commercially successful. The Company expects that under certain of these arrangements, the collaborative partner will have the responsibility for conducting human clinical trials and the submission for regulatory approval of the product candidate with the FDA and certain other regulatory agencies. Should the collaborative partner fail to develop a marketable product, the Company's business may be materially adversely affected. There can be no assurance that the Company's collaborative partners will not be pursuing alternative technologies or developing alternative compounds either on their own or in collaboration with others, including the Company's competitors, as a means for developing treatments for the diseases targeted by these collaborative programs. The Company's business also will be affected by the performance of its corporate partners in marketing any successfully developed products within the geographic areas in which such partners are granted marketing rights. The Company's plan is to retain manufacturing rights for many of the products it may license pursuant to arrangements with corporate partners. However, there can be no assurance that the Company will be able to retain such rights on acceptable terms, if at all, or that the Company will have the ability to produce the quantities of product required under the terms of such

arrangements. See "Item 1. Business -- Hybridon Drug Development and Discovery Programs" and "-- Corporate Collaborations."

No Assurance of Regulatory Approval; Government Regulation

The Company's preclinical studies and clinical trials, as well as the manufacturing and marketing of its potential products being developed by it and the products sold by the Hybridon Specialty Products Division, are subject to extensive regulation by numerous federal, state and local governmental authorities in the U.S. Similar regulatory requirements exist in other countries where the Company intends to test and market its drug candidates. Preclinical studies of the Company's product development candidates are subject to GLP requirements and the manufacture of any products by the Company, including products developed by the Company and products manufactured for third parties on a custom contract basis by Hybridon Specialty Products Division, will be subject to GMP requirements prescribed by the FDA.

The regulatory process, which includes preclinical studies, clinical trials and post-clinical testing of each compound to establish its safety and effectiveness, takes many years and requires the expenditure of substantial resources. Delays may also be encountered and substantial costs incurred in foreign countries. There can be no assurance that, even after the passage of such time and the expenditure of such resources, regulatory approval will be obtained for any drugs developed by the Company. Data obtained from preclinical and clinical activities are subject to varying interpretation which could delay, limit or prevent regulatory approval by the FDA or other regulatory agencies. The Company, an IRB, the FDA or other regulatory agencies may suspend clinical trials at any time if the participants in such trials are being exposed to unacceptable health risks. Moreover, if regulatory approval of a drug is granted, such approval may entail limitation on the indicated uses for which it may be marketed. Failure to comply with applicable regulatory requirements can, among other things, result in fines, suspension of regulatory approvals, product

recalls, seizure of products, operating restrictions and criminal prosecutions. FDA policy may change and additional government regulations may be established that could prevent or delay regulatory approval of the Company's potential products. In addition, a marketed drug and its manufacturer are subject to continual review, and subsequent discovery of previously unknown problems with a product or manufacturer may result in restrictions on such product or manufacturer, including withdrawal of the product from the market and withdrawal of the right to manufacture the product. All of the foregoing regulatory matters also will be applicable to development, manufacturing and marketing undertaken by any strategic partners or licensees of the Company. See "Item 1. Business -- Government Regulation."

Competition

There are many companies, both private and publicly traded, that are conducting research and development activities on technologies and products similar to or competitive with the Company's antisense technologies and proposed products. For example, many other companies are actively seeking to develop products, including antisense oligonucleotides, with disease targets similar to those being pursued by the Company. Some of these competitive products are in clinical trials. The Company believes that the industry-wide interest in investigating the potential of gene expression modulation technologies will continue and will accelerate as the techniques which permit the design and development of drugs based on such technologies become more widely understood. There can be no assurance that the Company's competitors will not succeed in developing products based on oligonucleotide or other technologies, existing or new, which are more effective than any that are being developed by the Company, or which would render Hybridon's antisense technologies obsolete and noncompetitive. Moreover, there currently are commercially available products for the treatment of certain of the disease targets being pursued by the Company.

Competitors of the Company engaged in all areas of biotechnology and drug discovery in the U.S. and other countries are numerous and include, among others, pharmaceutical and chemical companies, biotechnology firms, universities and other research institutions. Many of the Company's competitors have substantially greater financial, technical and human resources than the Company. In addition, many of these competitors have significantly greater experience than the Company in undertaking preclinical studies and human clinical trials of new pharmaceutical products and obtaining FDA and other regulatory approvals of products for use in health care. Furthermore, if the Company is permitted to commence commercial sales of products, it will also be competing with respect to manufacturing efficiency and marketing capabilities, areas in which it has limited or no experience. Accordingly, the Company's competitors may succeed in obtaining FDA or other regulatory approvals for products or in commercializing such products more rapidly than the Company. See "Item 1. Business -- Competition."

Limited Manufacturing Capability

While the Company believes that its existing production capacity will be sufficient to enable it to satisfy its current research needs and to support the Company's preclinical and clinical requirements for oligonucleotide compounds, the Company will need to purchase additional equipment to expand its manufacturing capacity in order to satisfy its future requirements, subject to obtaining regulatory approvals, for commercial production of its product candidates. In addition, Hybridon Specialty Products Division is using the Company's existing production capacity to custom contract manufacture synthetic DNA products for commercial sale. As a result, depending on the level of sales by the Hybridon Specialty Products Division, and the success of the Company's product development programs, Hybridon's manufacturing capacity may not be

sufficient for production for both its internal needs and sales to third parties. In addition, in order to successfully commercialize its product candidates or achieve satisfactory margins on sales, the Company may be required to reduce further the cost of production of its oligonucleotide compounds, and there can be no assurance that the Company will be able to do so.

The manufacture of the Company's products is subject to GMP requirements prescribed by the FDA or other standards prescribed by the appropriate regulatory agency in the country of use. To the Company's knowledge, therapeutic products based on chemically-modified oligonucleotides have never been manufactured on a commercial scale. There can be no assurance that the Company will be able to manufacture or obtain products in a timely fashion and at acceptable quality and price levels, that it or its suppliers can manufacture in compliance with GMP or other regulatory requirements or that it or its suppliers will be able to manufacture an adequate supply of product. The Company has in the past relied in part and may in the future rely upon third party contractors in connection with the manufacture of some compounds. Reliance on such third parties entails a number of risks, including the possibility that such third parties may fail to perform on an effective or timely basis or fail to abide by regulatory or contractual restrictions applicable to the Company. See "Item 1. Business -- Manufacturing. Technology and the Hybridon Specialty Products Division."

There are three sources of supply for the nucleotide building blocks used by the Company in its current oligonucleotide manufacturing process. This process is covered by issued patents either held by or licensed to these three companies. Therefore, these companies are likely the sole suppliers to Hybridon of these nucleotide building blocks. The inability of Hybridon to obtain these nucleotide building blocks from one of these suppliers could have a material adverse effect on Hybridon.

Absence of Sales and Marketing Experience

The Company expects to market and sell certain of its products directly and certain of its products through co-marketing or other licensing arrangements with third parties. The Company has limited experience in sales, marketing or distribution, and does not expect to establish a sales and marketing plan or direct sales capability with respect to the products being developed by it until such time as one or more of such products approaches marketing approval. In addition, although the Company does have a limited direct sales capability with respect to the sales of custom contract manufactured DNA products to third parties by the Hybridon Specialty Products Division, the Company has entered into a sales and marketing arrangement with Perkin-Elmer with respect to such products and its reliant in par on the efforts of Perkin-Elmer to promote these products. In order to market the products being developed by it directly, the Company will be required to develop a substantial marketing staff and sales force with technical expertise and with supporting distribution capability. There can be no assurance that the Company will be able to build such a marketing staff or sales force, that the cost of establishing such a marketing staff or sales force will be justifiable in light of any product revenues or that the Company's direct sales and marketing efforts will be successful. In addition, if the Company succeeds in bringing one or more products to market, it may compete with other companies that currently have extensive and well-funded marketing and sales operations. There can be no assurance that the Company's marketing and sales efforts would enable it to compete successfully against such other companies. To the extent the Company enters into co-marketing or other licensing arrangements, any revenues received by the Company will be dependent in part on the efforts of third parties and there can be no assurance that such efforts will be successful. See "Item 1. Business -- Marketing Strategy."

No Assurance of Market Acceptance

Pharmaceutical products, if any, resulting from the Company's research and development programs are not expected to be commercially available for a number of years. There can be no assurance that, if approved for marketing, such products will achieve market acceptance. The degree of market acceptance will depend upon a number of factors, including the receipt of regulatory approvals, the establishment and demonstration in the medical community of the clinical efficacy and safety of the Company's products and their potential advantages over existing treatment methods and reimbursement policies of government and third-party payors. There is no assurance that physicians, patients, payors or the medical community in general will accept or utilize any products that may be developed by the Company.

Product Liability Exposure and Insurance

The use of any of the Company's potential products in clinical trials and the commercial sale of any products, including the products being developed by it and the DNA products and reagents manufactured and sold on a custom contract basis by the Hybridon Specialty Products Division, may expose the Company to liability claims. These claims might be made directly by consumers, health care providers or by pharmaceutical and biotechnology companies or others selling such products. Hybridon has product liability insurance coverage, and such coverage is subject to various deductibles. Such coverage is becoming increasingly expensive, and no assurance can be given that the Company will be able to maintain or obtain such insurance at reasonable cost or in sufficient amounts to protect the Company against losses due to liability claims that could have a material adverse effect on the Company.

Hazardous Materials

The Company's research and development and manufacturing activities involves the controlled use of hazardous materials, chemicals, viruses and various radioactive compounds. Although the Company believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by federal, state and local regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable for any damages that result and any such liability could have a material adverse effect on the Company.

Uncertainty of Pharmaceutical Pricing and Adequate Reimbursement

The Company's ability to commercialize its pharmaceutical products successfully will depend in part on the extent to which appropriate reimbursement levels for the cost of such products and related treatment are obtained from government authorities, private health insurers and other organizations, such as health maintenance organization ("HMO's"). Third-party payors are increasingly challenging the prices charged for medical products and services. Also the trend towards managed health care in the U.S. and the concurrent growth of organizations such as HMO's, which could control or significantly influence purchase of health care services and products, as well as legislative proposals to reduce government insurance programs, may all result in lower prices for the Company's products. The cost containment measures that health care providers are instituting could affect the Company's ability to sell its products and may have a material adverse effect on the Company.

Uncertainty of Health Care Reform Measures

Federal, state and local officials and legislators (and certain foreign government officials and legislators) have proposed or are reportedly considering proposing a variety of reforms to the health care systems in the

U.S. and abroad. The Company cannot predict what health care reform legislation, if any, will be enacted in the U.S. or elsewhere. Significant changes in the health care system in the U.S. or elsewhere are likely to have a substantial impact over time on the manner in which the Company conducts its business. Such changes could have a material adverse effect on the Company. The existence of pending health care reform proposals could have a material adverse effect on the Company's ability to raise capital. Furthermore, the Company's ability to commercialize its potential products may be adversely affected to the extent that such proposals have a material adverse effect on the business, financial condition and profitability of other companies that are prospective corporate partners with respect to certain of the Company's proposed products.

Attraction and Retention of Key Employees and Scientific Collaborators

The Company is highly dependent on the principal members of its management and scientific staff, including E. Andrews Grinstead, III, the Company's Chairman of the Board, President and Chief Executive Officer, and Sudhir Agrawal, The Company's Senior Vice President of Discovery and Chief Scientific Officer, the loss of whose services could have a material adverse effect on the Company. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future will also be critical to the Company's success. There can be no assurance that the Company will be able to attract and retain scientific personnel on acceptable terms given the competition for experienced scientists among numerous pharmaceutical, biotechnology and health care companies, universities and non-profit research institutions.

The Company's anticipated growth and expansion into areas and activities requiring additional expertise, such as clinical testing, governmental approvals, production and marketing, are expected to require the addition of new management personnel and the development of additional expertise by

existing management personnel. The failure to acquire such services or to develop such expertise could have a material adverse effect on the Company.

The Company's success will depend in part on its continued ability to develop and maintain relationships with independent researchers and leading academic and research institutions. The competition for such relationships is intense, and there can be no assurance that the Company will be able to develop and maintain such relationships on acceptable terms. The Company has entered into a number of such collaborative relationships relating to specific disease targets and other research activities in order to augment its internal research capabilities and to obtain access to the specialized knowledge or expertise of its collaborative partners. The loss of any such collaborative relationship could have an adverse effect on the Company's ability to conduct research and development in the area targeted by such collaboration. See "Item 1. Business - - - Hybridon Drug Development and Discovery Programs" and "- - Academic and Research Collaborations."

Concentration of Ownership by Directors and Executive Officer

The Company's directors and executive officers and their affiliates beneficially own approximately 18.89% of the Company's outstanding Common Stock (including 4,217,857 shares issuable upon exercise of outstanding warrants and options held by the Company's directors and executive officers and their affiliates which are exercisable within the 60-day period following February 28, 1997). As a result, these stockholders, if acting together, may have the ability to influence the outcome of corporate actions requiring stockholder approval.

This concentration of ownership may have the effect of delaying or preventing a change in control of the Company.