HYBRIDON INC
Form 10-Q/A
September 23, 2002

Table of Contents

Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q/A

Amendment No. 1

þ **Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2001, or

o **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 þ No o

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	44,882,418
Class	Outstanding as of November 7, 2001

TABLE OF CONTENTS

Table of Contents

This Amendment No. 1 on Form 10-Q/A amends and restates Part 1, Item 1 Financial Statements of the Quarterly Report on Form 10-Q filed by Hybridon, Inc. on November 14, 2001 for the quarter ended September 30, 2001. This Amendment No. 1 is being filed to correct an arithmetic error in the calculation of shares used in computing loss per common share for the three and nine months ended September 30, 2001 and to correct net loss per share applicable to common stockholders for the three and nine months ended September 30, 2001 to reflect the correct number of shares used in computing loss per common share. These changes are shown in the accompanying Consolidated Condensed Statements of Operations and Note 12 to the Financial Statements.

Table of Contents

ITEM 1 FINANCIAL STATEMENTS

HYBRIDON, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)

	September 30, 2001	December 31, 2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,442,284	$ 1,532,155
Restricted cash	1,000,000	
Marketable securities	15,038,277	2,000,000
Receivables	194,416	337,403
Prepaid expenses and other current assets		71,616
Total current assets	24,674,977	3,941,174
PROPERTY AND EQUIPMENT, AT COST:		
Leasehold improvements	170,287	150,342
Laboratory equipment and other	2,762,343	5,236,299
	2,932,630	5,386,641
Less Accumulated depreciation and amortization	2,793,780	5,295,963
	138,850	90,678
OTHER ASSETS:		
Marketable Securities	1,045,060	
Deferred financing costs and other assets	18,274	969,631
Restricted cash		5,000,000
	1,063,334	5,969,631
	$ 25,877,161	$ 10,001,483
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Current portion of long-term debt	$	$ 6,000,000
Accounts payable	623,367	1,084,330
Accrued expenses	1,211,601	1,094,735
Forward contracts	971,482	
Deferred revenue	1,861,362	
Total current liabilities	4,667,812	8,179,065
9% CONVERTIBLE SUBORDINATED NOTES PAYABLE	1,306,000	1,306,000
8% CONVERTIBLE NOTES PAYABLE	387,730	8,046,420
DEFERRED REVENUE	18,525,619	

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 620,013 and 626,170 shares at September 30, 2001 and December 31, 2000, respectively (liquidation preference of $64,016,660 at September 30, 2001)	6,200	6,262
Common stock, $0.001 par value Authorized 100,000,000 shares Issued and outstanding 44,875,294 and 18,382,237 shares at September 30, 2001 and December 31, 2000, respectively	44,875	18,382
Additional paid-in capital	270,773,010	252,645,636
Accumulated deficit	(269,736,128)	(260,193,046)
Deferred compensation	(97,957)	(7,236)
Total stockholders equity (deficit)	990,000	(7,530,002)
	$ 25,877,161	$ 10,001,483

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

Table of Contents

HYBRIDON, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
REVENUES:				
License revenue	$ 146,888	$	$ 401,750	$
Royalty and other income	7,198	43,892	64,726	146,529
Interest income	189,549	15,637	429,392	66,012
Total revenues	343,635	59,529	895,868	212,541
OPERATING EXPENSES:				
Research and development	1,080,186	761,227	3,440,251	2,793,949
General and administrative	1,522,973	562,013	4,522,947	2,339,897
Stock based compensation(1)	(576,583)		347,197	
Interest	514,451	951,673	1,101,603	1,856,677
Total operating expenses	2,541,027	2,274,913	9,411,998	6,990,523
Unrealized loss on trading securities (Note 9 and Note 4)	(1,171,482)		(1,171,482)	
Other income (Note 8)			6,890,261	
Loss from continuing operations	(3,368,874)	(2,215,384)	(2,797,351)	(6,777,982)
Income from discontinued operations (Note 7)	1,967,830	5,868,100	1,967,830	5,292,154
(Loss) Income Before Extraordinary Item	(1,401,044)	3,652,716	(829,521)	(1,485,828)
EXTRAORDINARY ITEM:				
Loss on early retirement of 8% convertible notes payable			(1,411,876)	
Net (Loss) Income	(1,401,044)	3,652,716	(2,241,397)	(1,485,828)
Accretion of Preferred Stock Dividends	(5,112,651)	(1,020,687)	(7,301,684)	(3,112,174)
Net (Loss) Income Applicable to Common Stockholders (Note 12)	$ (6,513,695)	$ 2,632,029	$ (9,543,081)	$ (4,598,002)
Net Income (Loss) Per Share Applicable To Common Stockholders restated:				
Basic	$ (0.16)	$ 0.15	$ (0.37)	$ (0.27)
Diluted	$ (0.16)	$ 0.15	$ (0.37)	$ (0.27)
Shares Used In Computing Income (Loss) Per Common Share restated:				
Basic	40,210,595	17,922,949	25,853,087	17,130,454

Diluted	40,210,595	17,922,949	25,853,087	17,130,454

(1) The following summarizes the allocation of stock based compensation:

Research and development	$ (318,643)	$	$ 290,534	$
General and administrative	(257,940)		56,663	
Total stock-based compensation	$ (576,583)	$	$ 347,197	$

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

3

Table of Contents

HYBRIDON, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
	2001	**2000**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,241,397)	$ (1,485,828)
Income from discontinued operations	1,967,830	5,292,154
Loss from continuing operations, including extraordinary item	(4,209,227)	(6,777,982)
Adjustments to reconcile net loss to net cash used in operating activities		
Extraordinary loss on exchange of 8% convertible subordinated notes payable	1,411,876	
Issuance of common stock for services rendered	26,000	
Depreciation and amortization	31,212	104,576
Gain on sale of property and equipment	(45,650)	
Stock based compensation	347,197	
Amortization of deferred compensation	10,647	334,493
Amortization of deferred financing costs	429,402	343,441
Interest expenses related to the issuance of common stock warrants		731,196
Non-cash interest expense	497,228	151,077
Changes in operating assets and liabilities -		
Accounts receivable	(889,183)	
Prepaid expenses and other current assets	71,616	56,923
Accounts payable and accrued expenses	(227,825)	(694,049)
Forward contracts	971,482	
Deferred revenue	14,667,360	
Net cash provided by (used) in continuing operating activities	13,092,135	(5,750,325)
Net cash provided by discontinued operations	3,000,000	154,419
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(7,794,049)	
Increase in other assets		(101,401)
Proceeds from sale of discontinued operations		11,550,000
Increase in restricted cash		(5,000,000)
Purchases of property and equipment	(71,525)	
Proceeds from sale of property and equipment	45,650	
Net cash used in investing activities	(7,819,924)	6,448,599
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock		114,705
Net proceeds from exercise of common stock options and warrants	209,518	
Sale of common stock	428,400	
Proceeds from issuance of convertible promissory notes payable		1,486,090
Net borrowings under line of credit		231,167
Payments on long-term debt	(6,000,000)	
Decrease in restricted cash	4,000,000	

Net cash provided by financing activities	(1,362,082)	1,831,962
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,910,129	2,684,655
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,532,155	2,551,671
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 8,442,284	$ 5,236,326
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 360,525	$ 592,898
Supplemental disclosure of non cash financing and investing activities:		
Exchange of 8% Convertible Notes Payable for Series B preferred stock and common stock (Note 6)	$ 7,944,801	$
Accretion of Series A and Series B preferred stock dividends	$ 3,201,684	$ 3,112,174
Dividend from induced conversion of Series B preferred stock (Note 10)	$ 4,100,000	$
Issuance of common stock in lieu of bonus	$ 88,577	$
Conversion of Series A preferred stock into common stock	$ 613	$ 1,675
Conversion of Series B preferred stock into common stock	$ 19,565	$
Issuance of stock options to non-employees	$ 20,148	$
Issuance of warrants in connection with consulting services (Note 10(b))	$ 569,667	$

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

Table of Contents

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 involved in the discovery and development of novel therapeutics using synthetic DNA. The Company has established four technology platforms: immunomodulatory oligonucleotides (IMOs), potentiation of cancer therapies, antisense, and proprietary tools for functional genomics and diagnostics called Cyclicons .

Since inception, the Company has been primarily engaged 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 the antisense and immune stimulation 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 and licensing 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 business prior to the disposal thereof (see Note 7).

The accompanying Statement of Operations and Note 12 have been amended and restated to correct an arithmetic error in the calculation of shares used in computing loss per common share for the three and nine months ended September 30, 2001 and to correct net loss per share for the three and nine months ended September 30, 2001 to reflect the correct number of shares used in computing loss per common share.

(2) UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited consolidated condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and include, in the opinion of management, all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of interim period results. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The Company believes, however, that its disclosures are adequate to make the information presented not misleading. The results for the interim period 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, 2000, as filed with the Securities and Exchange Commission.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Income (Loss) per Common Share

Net income (loss) per common share, computed in accordance with SFAS No. 128, Earnings per Share is based upon the weighted average number of outstanding common shares and the dilutive effect of common share equivalents, such as options and warrants to purchase common stock, convertible preferred stock and convertible debt, if applicable, that are outstanding each period (see Note 12).

Comprehensive Loss

The Company applies SFAS No. 130, Reporting Comprehensive Income. Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. The Company s comprehensive loss is the same as the reported net loss for all periods presented.

Table of Contents

Segment Reporting

The Company applies SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. SFAS No. 131 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS No. 131 also establishes standards for related disclosures about products and services and geographic areas. To date, the Company has viewed its operations and manages its business as principally one operating segment. As a result, the financial information disclosed herein represents all of the material financial information related to the Company s principal operating segment. All of the Company s revenues are generated in the United States and all assets are located in the United States.

Reclassifications

Certain amounts in the prior-period consolidated financial statements have been reclassified to conform to the current period s presentation.

(4) CASH EQUIVALENTS AND MARKETABLE SECURITIES

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 September 30, 2001 and December 31, 2000 consist of the following (at amortized cost, which approximates fair market value):

	September 30 2001*	December 31 2000**
Cash and cash equivalents		
Cash and money market funds	$2,936,365	$ 238,327
Securities	5,505,919	1,293,828
Total cash and cash equivalents	$8,442,284	$1,532,155

Short-term marketable securities have maturities of greater than three months and consist of primarily corporate bonds. Also included in short-term marketable securities are 357,143 shares of stock received in connection with the license agreement discussed in Note 9. Marketable securities with maturities of greater than one year have been classified as long-term. The Company had long-term investments of $1,045,060 with an average maturity period of approximately 13 months as of September 30, 2001. There were no long-term investments as of December 31, 2000.

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. All of the Company s investments as of December 31, 2000 are classified as held-to-maturity. As of September 30, 2001, all of the Company s investments are classified as held-to-maturity except for the shares discussed above received in connection with the license agreement discussed in Note 9. In accordance with SFAS No. 115 the Company has classified these shares as trading securities as the Company s intent is to sell the securities in the short-term. Trading securities are reported at fair value with changes to the fair value being reported in earnings. Upon execution of the forward contracts discussed in Note 9, the gains or losses on the trading securities are offset completely by the gains or losses on the forward contracts. Prior to the execution of the forward contracts the Company recorded approximately $902,000 of unrealized loss related to these trading securities. As of September 30, 2001, the fair value of these trading securities is approximately $6,089,000.

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* Does not include restricted cash of $1,000,000 at September 30, 2001 (see Note 9).

** Does not include restricted cash of $5,000,000 at December 31, 2000 (see Note 6).

Table of Contents

(5) $3.0 MILLION NOTE

During November 1998, the Company entered into a $6.0 million note payable with Forum Capital Markets, LLC, which is now Founders Financial Group, L.P. (Founders), and certain investors associated with Pecks Management Partners Ltd. (Pecks). The terms of the note payable were as follows: (i) the maturity was November 30, 2003; (ii) the interest rate is 8%; (iii) interest was payable monthly in arrears, with the principal due in full at maturity of the note; (iv) the note payable was convertible, at Pecks and Founders option, in whole or in part, into shares of common stock at a conversion price equal to $2.40 per share, a premium to fair value at date of issuance, and (v) the note required minimum liquidity, as defined, of $2.0 million. The Company has classified the outstanding balance of $6.0 million at December 31, 2000 as a current liability in the accompanying consolidated balance sheets as it did not have the financing to remain in compliance with the financial covenants at that time.

On March 28, 2001, the Company entered into an agreement with the holders of its $6.0 million notes whereby it would pay, out of the proceeds of the sale of its MethylGene shares discussed in Note 8, up to $3.0 million to the holders in partial satisfaction of the notes. In addition, it agreed that it would deposit the sum of $821,250 in a money market fund for the purpose of securing payment of the balance remaining on notes held by a particular lender group. This arrangement was made to encourage the holders of these notes to release their security interest in the shares of MethylGene, Inc. The notes held by these entities were paid down by $3.0 million, which was distributed proportionately.

In addition, the Company agreed to reduce the conversion price of the note from $2.40 to $1.50 upon completion of the sale of 60% of the Company s holdings in MethylGene. The Company also agreed to further reduce the conversion price from $1.50 to $.50 if the balance of the note was not paid in full by the Company by September 30, 2001. Pursuant to Emerging Issues Task Force Issue No. 98-5 (EITF 98-5) Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios and EITF 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments, since the Company had both the intent and ability to pay the remaining notes prior to September 30, 2001, the Company will measure and recognize any potential beneficial conversion at such time that the Company surrenders its unilateral right to avoid the reduction in the conversion price to $.50.

On September 27, 2001, the Company paid off the remaining $3.0 million to the holders in full satisfaction of the notes. The sum of $821,250 previously deposited to secure the notes held by clients of Pecks Management Partners has been released.

(6) 8.0% CONVERTIBLE NOTES PAYABLE

In March 2000, the Company completed an offering of the 8% Convertible Notes Payable (8% Notes). As of December 31, 2000, the Company had received approximately $7.6 million in principal with respect to the 8% Notes. Under the terms of the 8% Notes, the Company must make semiannual interest payments on the outstanding principal balance through the maturity date of November 30, 2002. The 8% Notes are convertible at any time prior to the maturity date at a conversion price equal to $0.60 per share of common stock, fair value at the commitment date, subject to adjustment under certain circumstances, as defined.

In connection with the 8% Notes, the Company must comply with certain covenants, including making all payments of interest when due and maintaining consolidated cash balances of at least $1.5 million as of the last day of any calendar month. At September 30, 2001 the Company is in compliance with the covenant regarding consolidated cash balances. If an event of default occurs, as defined, the noteholders may declare the unpaid principal and interest due and payable immediately. If the Company defaults with respect to payment of interest, the Company will be required to pay interest at a default rate equal to 12%. On July 10, 2000, the holders of the 8% Notes entered into an amendment to the Subordination and Intercreditor Agreement. In the Subordination and Intercreditor Agreement, as amended, all parties agreed to release their lien on the portion of the collateral that includes assets that were conveyed in the HSP sale (see Note 7). In return for this partial release, the Company undertook in the Subordination and Intercreditor Agreement, as amended, that upon consummation of the HSP sale it would set aside from the proceeds thereof the sum of $5.0 million with which it will purchase a money market instrument and pledge the same as collateral to secure its obligation to the holders of the 8% Notes. The amount of the pledge will be reduced as the Company s obligations are converted to equity or repaid. The lenders that are party to the Subordination and Intercreditor Agreement, as amended, will continue to have a lien on substantially all of the Company s assets remaining after the HSP sale.

Table of Contents

On March 5, 2001, the Company made an offer to the holders of its 8% Notes to exchange their notes for one share of a newly-designated class of Series B Convertible Preferred Stock (par value $.01 per share) (Series B Preferred Stock) for each $100 in principal amount of notes tendered. On March 30, 2001, holders of $7.6 million of the Company s 8% Notes exchanged their notes for one share of Series B Preferred Stock for each $100 in principal amount of notes tendered (76,046 shares in aggregate). Shares of the Series B Preferred Stock have a face value of $100 per share and are senior in right of payment with respect to liquidation, distributions and dividends to the Company s Series A Convertible Preferred Stock and common stock. Such shares will accrue dividends at the rate of 8% per annum which are payable in kind or in cash at the Company s option. Shares of Series B Preferred Stock are convertible into shares of common stock at an initial rate of one share of Series B Preferred Stock for 200 shares of common stock.

In accordance with SFAS No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings, 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 Preferred Stock, as determined by the fair market value of the common stock into which the Series B Preferred Stock is convertible.

As a result of the exchange, the 8% Noteholders released their claim on $5.0 million of the proceeds from the HSP Sale (Note 7), which was held as collateral prior to the exchange.

During July 2001, $340,242 of the 8% Notes plus accrued interest were converted into 850,500 shares of common stock and all of the 78,259 Series B Preferred shares then outstanding were converted into approximately 19,564,500 shares of common stock. These conversions were based on a reduced conversion price of $0.40 per share which was offered to the holders of the Series B Preferred Stock and 8% Notes as part of the Company s early exercise program discussed in Note 10. In accordance with SFAS No. 84, Induced Conversions of Convertible Debt (an Amendment of APB Opinion No. 26), the Company recorded a charge to interest expense of approximately $267,000. The charge was equal to the fair value of the common stock received less the fair value of common stock that would have been received pursuant to the original conversion terms.

As of September 30, 2001, $387,730 of 8% Notes remained outstanding representing those noteholders who did not participate in the exchange offer described above.

(7) SALE OF HYBRIDON SPECIALTY PRODUCTS

On September 21, 2000, the Company completed the sale of its Hybridon Specialty Products business, which manufactures, markets and sells oligonucleotides, to a subsidiary of Avecia, Inc. of Manchester, United Kingdom, Avecia Biotechnology, for up to $15.0 million. The Company received approximately $12.0 million of the $15.0 million from the sale of HSP to Avecia. The remaining $3.0 million was payable on September 21, 2001, subject to offset rights under the agreement to purchase HSP. As part of this transaction, the Company entered into a supply agreement whereby it may have an obligation to purchase products from Avecia Biotechnology. To the extent that Avecia Biotechnology s third-party sales of HSP product exceeded certain goals, the Company did not have any such purchase commitment. If Avecia Biotechnology s third party sales did not meet such goals, the Company was required to make purchases sufficient to cover the shortfall, subject to an agreed upon formula. The Company s commitment is on a take-or-pay basis for the fourth quarter of 2000 and each quarter of 2001. Purchases by OriGenix Technologies, Inc. and MethylGene are applied against the Company s commitment. Any unpaid amounts under this agreement would reduce the $3.0 million contingent payment to be received in September 2001. The balance of the term of this agreement (through March 31, 2003) does not require minimum purchases.

On September 20, 2001, the Company received the $3.0 million contingent payment in full from Avecia Biotechnology.

To the extent that the Company made payments for a purchasing shortfall where it had no use for the related products, the Company recorded such amount as an offset against the gain in September 2001 upon receipt of the additional $3.0 million payment. On June 30, 2001 and December 31, 2000, the Company had accrued approximately $1,032,000 and $337,000, respectively, for its purchasing shortfall. These amounts have been paid in full to Avecia and were included in the Company s receivables. Upon receipt of the $3.0 million payment, the Company applied approximately $1,032,000 toward the satisfaction of this receivable in full and recognized the remaining $1,968,000 as a gain from the sale of discontinued operations.

Table of Contents

(8) SALE OF METHYLGENE, INC. SHARES

On April 27, 2001, the Company closed the sale of 60% of its holdings of shares of Class A and Class B stock of MethylGene, Inc., to a group of private United States institutional investors. MethylGene is a Canadian pharmaceutical research company in which the Company had a 22% ownership interest. On May 14, 2001, the Company closed the sale of the remaining 40% of its holdings with three of MethylGene s other shareholders on terms similar to those agreed to by the institutional investors ($2.85 Canadian or approximately $1.84 US per share as of April 27, 2001). The Company received total proceeds of approximately $7.2 million (US). During the second quarter of 2001, the Company recorded a gain for this transaction of approximately $6.9 million, which includes approximately $300,000 in expenses primarily related to professional fees. This gain is included in other income on the accompanying consolidated statement of operations.

(9) COLLABORATION AND LICENSE AGREEMENT WITH ISIS PHARMACEUTICALS, INC.

On May 24, 2001, the Company and Isis Pharmaceuticals entered into a Collaboration and License Agreement (the Agreement) and related documents. Under the Agreement, the Company granted Isis an exclusive license to use and sublicense all of the Company s antisense chemistry and delivery patents and technology. The Company has retained the right to practice its licensed antisense patent technologies and, subject to certain constraints, to sublicense these technologies to its collaborators. In exchange for the license granted by the Company, Isis has paid the Company $15.0 million in cash and will issue to the Company shares of Isis common stock in four installments over the next two years.

Isis has granted the Company a non-exclusive license to use Isis suite of Rnase H patents that cover the mechanism of action of many antisense drugs. In return for the non-exclusive license from Isis, the Company will issue to Isis, shares of the Company s stock over three years.

The number of shares of Isis stock issuable to the Company is based on certain market conditions, as defined in the agreement, and would have a fair market value of $19.5 million, if the stock remains in a certain price range as defined in the Agreement. If the stock is trading above or below these ranges, the fair value of the stock could be materially different. In addition, the number of shares of Hybridon stock issuable to Isis is based on certain market conditions, as defined in the agreement, and would have a fair market value of $6.0 million, if the stock remains in a certain price range as defined in the Agreement. If the stock is trading above or below these ranges the fair value of the stock could be materially different.

The Company will recognize revenue related to the Isis transaction ratably over the life of the license agreement, which is approximately 11 years. Deferred revenue license agreements relates to the unrecognized portion of the $15.0 million payment received in May 2001 and the fair value of the Isis stock received in September 2001 discussed below. Expenses related to the Agreement of approximately $1.0 million consist of professional fees and the fair value of warrants issued to a consultant (see Note 10(b)). These expenses were net against the proceeds received and will be recognized over the life of the license agreement. In addition, the Company will amortize as a reduction to revenue, over the life of the Agreement, the estimated fair value of the Company s stock that will be paid to Isis as discussed above.

During the three and nine month periods ended September 30, 2001, the Company recognized approximately $135,988 and $342,788 respectively of revenues related to this agreement which are included in license revenues on the accompanying consolidated statement of operations.

Under the terms of EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services and EITF 00-8 Accounting by a Grantee for an Equity Instrument to Be Received in Conjunction with Providing Goods or Services, the shares of common stock to be received from Isis as described above will be measured at the time of receipt. As of September 30, 2001, 357,143 shares of common stock have been issued by Isis, representing the first tranche, and no shares have been issued to Isis by the Company related to this transaction. The Company recorded the fair value of the common stock on the date the shares became receivable to the company of approximately $6,289,000 as deferred revenue and will recognize this amount as revenue over the remaining life of the Agreement.

Following the receipt of these shares, on September 10, 2001 the Company entered into a number of hedging contracts to protect against certain market risks which could reduce the value of the Isis shares while the Company is awaiting registration of the shares. In accordance with SFAS No. 133, Accounting for Hedging Instruments and Hedging Activities, these hedging contracts are derivative instruments and must be marked to fair market value with the corresponding charges recognized in earnings. The Company accrued an unrealized loss of approximately $971,000 related to this agreement, which is included on the accompanying consolidated balance sheet. Approximately $702,000 of this unrealized loss is offset by a corresponding $702,000 gain which arose from marking to market the stock as discussed in Note 4. This $702,000 gain is included in marketable securities shown on the consolidated balance sheet. The remaining $269,000 loss is due to the fee incurred upon execution of the forward contracts which is included in the consolidated statement of operations. In connection with this transaction, the Company placed $1.0 million in an escrow account to serve as collateral until the shares become tradable. This amount is included as short-term marketable securities as the forward contracts mature in approximately four months.

Subsequent to September 30, 2001, 500,000 shares of common stock have been issued to the Company by Isis, representing the second and third tranches. As of November 7, 2001, the Company had sold all 500,000 shares for net proceeds totaling approximately $10,537,000. As a consequence of the above transactions, as of November 8, 2001, Hybridon had received a total of 857,143 Isis shares from which it expects to receive net proceeds in excess of $15.6 million.

(10) EQUITY

(a) Repricing

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, as defined in FASB issued Interpretation No. 44 (FIN 44), Accounting for Certain Transactions Involving Stock Compensation an Interpretation of APB No. 25. FIN 44 became effective on July 1, 2000. The Company is following the provisions of FIN 44 and will 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 and nine months ended September 30, 2001, the Company has recognized approximately ($589,816) and $333,964 respectively in compensation (gain)/expense related to the repriced options. This amount is included in stock based compensation on the accompanying consolidated statement of operations.

(b) Warrants

During March 2001, the Company issued warrants to purchase 500,000 shares of common stock to an individual who has been providing consulting services to the Company related to the Isis Agreement discussed in Note 9. The warrants have an exercise price of $.50, expire five years from the date of grant and vested 100% upon the closing of the Agreement. In accordance with EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, the Company calculated the fair value of the warrants of $569,667 using the Black-Scholes option pricing model.

(c) Amendment to Stock Plan

On June 28, 2001, the stockholders of the Company approved an amendment to the 1997 Stock Incentive Plan (the 1997 Plan), which was adopted by the Compensation Committee on March 28, 2001. Pursuant to this amendment the Company increased the number of options that the Company may issue under the 1997 Plan from 8,500,000 shares to 13,500,000 shares. The maximum number of shares with respect to which options may be granted to any employee under the 1997 Plan was also increased from 500,000 shares of common stock during any calendar year to a limit determined by dividing 1,500,000 by the fair market value of a share of the Company s common stock at the time of grant, and not to exceed an overall per participant annual limit of 5,000,000 shares.

Table of Contents

(d) Conversion of Warrants and Preferred Stock into Common Stock

On July 5, 2001, the Company began an early exercise program to exchange its Series B Convertible Preferred Stock and several classes of its warrants for shares of the Company s common stock, 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. The Company offered the holders of its Series B Shares the right to convert such shares into common stock at a lower conversion price than that set forth in the Certificate of Designation governing the terms of their Series B Shares. The Company offered the holders of various warrants the opportunity to immediately exercise their warrants for the purchase of shares covered by such warrants at a reduced exercise price, either by paying the lower exercise price for such shares in cash or by engaging in a cashless transaction, whereby they could convert their warrants into a specified number of shares of common stock, which would reflect a reduced exercise price and effect payment of the exercise price of the warrants through the acceptance of a reduced number of shares of common stock. As of October 31, 2001, the results of the program were as follows:

All holders of the Company s Series B Preferred Stock have exchanged their securities for 19,564,500 shares of the Company s common stock;

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

$340,242 in 8% notes were exchanged for 850,500 shares of common stock.

In accordance with SFAS No. 84, Induced Conversions of Convertible Debt (an Amendment of APB Opinion No. 26), the Company recorded a charge to retained earnings of approximately $4,100,000. The charge was equal to the fair value of the common stock received less the fair value of common stock that would have been received pursuant to the original conversion terms of the Series B Preferred Stock. This charge was recorded as accretion of preferred stock dividends on the accompanying statement of operations and as a component of the net loss available to common stockholders.

In accordance with SFAS No. 123, Accounting for Stock Based Compensation, the Company would apply modification accounting related to reduction in exercise prices related to the exchange of warrants. The Company did not record any charges related to this exchange as the fair value the warrants immediately prior to the exchange was equal to the fair value of the common stock given to the holders as settlement of the warrants.

(e) Executive Agreement

On September 1, 2001, the Company appointed Stephen R Seiler as its Chief Executive Officer. Mr. Seiler s employment agreement provides for the purchase of 510,000 shares of the Company s stock at a fair market value of $428,400. The agreement also provided for the grant of (1) 3,150,000 stock options that are exercisable at a fair market value of $0.84 per share, and vest over a five year period, and (2) 490,000 stock options that are exercisable at $0.71 per share, and vest over a one year period. The Company recorded deferred compensation of approximately $60,000 related to a stock option grant to Mr. Seiler made at below fair market value. The Company will amortize this amount as compensation expense over the vesting period of the grant.

(11) NEW ACCOUNTING PRONOUNCEMENTS

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement supercedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. Under this statement it is required that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the ultimate impact of this statement on its results of operations or financial position until such time as its provisions are applied.

Table of Contents

(12) INCOME (LOSS) PER SHARE -RESTATED

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Numerator:				
Loss from continuing operations before extraordinary item	$ (3,368,874)	$ (2,215,384)	$ (2,797,351)	$ (6,777,982)
Accretion on Series A and B Preferred Stock	(5,112,651)	(1,020,687)	(7,301,684)	(3,112,174)
Numerator for basic loss from continuing operations per share before extraordinary item applicable to common shareholders	(8,481,525)	(3,236,071)	(10,099,035)	(9,890,156)
Income from discontinued operation	1,967,830	5,868,100	1,967,830	5,292,154
Extraordinary loss			(1,411,876)	
Numerator for basic and diluted (loss) income applicable to common shareholders	$ (6,513,695)	$ 2,632,029	$ (9,543,081)	$ (4,598,002)
Denominator for basic and diluted (loss) income per share	40,210,595	17,922,949	25,853,087	17,130,454
(Loss) Income per share basic and diluted				
Continuing operations	$ (0.21)	$ (0.18)	$ (0.39)	$ (0.58)
Discontinued operations	0.05	0.33	0.08	0.31
(Loss) Income before extraordinary item	(0.16)	0.15	(0.31)	(0.27)
Extraordinary loss			(0.06)	
Net income (loss) per share	$ (0.16)	$ 0.15	$ (0.37)	$ (0.27)

For the three and nine month periods ended September 30, 2000 and 2001, diluted net loss per share from continuing operations is the same as basic net loss per common share as the effects of the Company s potential common stock equivalents are antidilutive. Antidilutive securities totaling 36,111,489 for the three and nine month periods ended September 30, 2001 and 49,787,247 for the three and nine month periods ended September 30, 2000 which consist of stock options, warrants, convertible preferred stock and convertible debt instruments (on an as-converted basis) are not included in the Company s calculation of diluted net loss per common share.

Table of Contents

SIGNATURE

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.

Date: September 23, 2002 /s/ Robert G. Andersen

Robert G. Andersen
Chief Financial Officer and Vice President of
Operations and Planning

CERTIFICATIONS

I, Stephen R. Seiler, certify that:

1. I have reviewed this quarterly report of Hybridon, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 23, 2002 /s/ Stephen R. Seiler

Stephen R. Seiler
Chief Executive Officer
(principal executive officer)

I, Robert G. Andersen, certify that:

1. I have reviewed this quarterly report of Hybridon, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 23, 2002 /s/ Robert G. Andersen

Robert G. Andersen
Chief Financial Officer and Vice President
of Operations and Planning
(principal financial officer)