

Edgar Filing: Daly Joseph Patrick - Form SC 13D/A

Daly Joseph Patrick
Form SC 13D/A
July 17, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13D/A

UNDER THE SECURITIES EXCHANGE ACT OF 1934

MFIC Corp.

(Name of Issuer)

Common Stock, no par value

(Title of Class of Securities)

595073107

(CUSIP Number)

Joseph P. Daly
497 Circle Freeway
Cincinnati, Ohio 45246
(513) 943-7100

(Name, Address and Telephone Number of Person Authorized to Receive Notices
and Communications)

July 17, 2009

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Sections 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. []

NOTE: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Section 240.13d-7 for other parties to whom copies are to be sent.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 595073107

13D/A

1 NAMES OF REPORTING PERSONS

Joseph P Daly

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (entities only)

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

PF

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(D) OR 2(E)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

United States

NUMBER OF SHARES 7 SOLE VOTING POWER

BENEFICIALLY 679,200

OWNED BY 8 SHARED VOTING POWER

EACH REPORTING -0-

PERSON WITH 9 SOLE DISPOSITIVE POWER

679,200

10 SHARED DISPOSITIVE POWER

-0-

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

679,200

12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

6.55%

14 TYPE OF REPORTING PERSON (See Instructions)

IN

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CUSIP No. 595073107 13D/A

1 NAMES OF REPORTING PERSONS

Karina Daly

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (entities only)

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

PF

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(D) OR 2(E)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

United States

| | | |
|------------------|----|--------------------------|
| NUMBER OF SHARES | 7 | SOLE VOTING POWER |
| BENEFICIALLY | | 47,500 |
| OWNED BY | 8 | SHARED VOTING POWER |
| EACH REPORTING | | -0- |
| PERSON WITH | 9 | SOLE DISPOSITIVE POWER |
| | | 47,500 |
| | 10 | SHARED DISPOSITIVE POWER |
| | | -0- |

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

47,500

12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

0.46%

14 TYPE OF REPORTING PERSON (See Instructions)

IN

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CUSIP No. 595073107 13D/A

1 NAMES OF REPORTING PERSONS

EssigPR Inc.

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (entities only)

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(D) OR 2(E)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Mayaguez, PR, USA

NUMBER OF SHARES 7 SOLE VOTING POWER

BENEFICIALLY 257,650

OWNED BY 8 SHARED VOTING POWER

EACH REPORTING -0-

PERSON WITH 9 SOLE DISPOSITIVE POWER

257,650

10 SHARED DISPOSITIVE POWER

-0-

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

257,650

12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

2.48%

14 TYPE OF REPORTING PERSON (See Instructions)

CO

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ITEM 1. SECURITY AND ISSUER.

The class of equity security to which this statement relates is the common stock (the "Common Stock"), no par value per share ("Share"), of MFIC Corporation, a Newton, Massachusetts corporation (the "Issuer"). The address of the principal executive offices of the Issuer is 30 Ossipee Road, PO Box 9101, Newton, MA 02464.

ITEM 3. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

Item 3 is hereby amended to read as follows:

The source of funds used by the Reporting Persons are personal funds of each such person with respect to the purchases of such person, except the source of funds used for the purchases by EssigPR, Inc were from working captial. The Reporting Persons did not borrow any funds to acquire their respective shares. The following table shows the APPROXIMATE amounts of funds paid for the Shares by the Reporting Persons.

| | |
|---------------|-----------|
| Joseph P Daly | \$908,400 |
| Karina Daly | 52,121 |
| EssigPR, Inc. | 245,896 |

ITEM 5. INTEREST IN SECURITIES OF THE ISSUER.

Item 5 is hereby amended to read as follows:

(a) The Reporting Persons hereby report beneficial ownership, in the manner hereinafter described, of 984,350 shares of the Issuer:

| Shares Held in the Name of | Number Of Shares | Percentage of Outstanding Security (1) |
|----------------------------|----------------------|--|
| Joseph P Daly | 679,200 | 6.55% |
| Karina Daly | 47,500 | 0.46% |
| EssigPR Inc. | 257,650 (2) ----- | 2.48% ----- |
| TOTAL | 984,350 | 9.49% |

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(1) The foregoing percentages assume that the number of Shares of the Issuer outstanding, based on the number reported in the Issuer's 10-Q for the quarter ended March 31, 2009 and the subsequent Form 4 filings is 10,371,782 Shares (as of May 13, 2009).

(2) Shares are held by EssigPR, Inc., a C corporation controlled by Joseph P. Daly

(b) Joseph P. Daly has sole voting and dispositive power over his shares enumerated in paragraph (a). Karina Daly has sole voting and dispositive power over her shares enumerated in paragraph (a). EssigPR, Inc. has shared voting and dispositive power over its shares enumerated in paragraph (a).

(c) Transactions for the 60 days prior to the date of this Schedule 13D/A:

| Person Who Effected the Transaction | Transaction Date | Number of Shares Purchased | Pr |
|-------------------------------------|------------------|----------------------------|----|
| Joseph P. Daly | 05/27/2009 | 5000 | |
| Joseph P. Daly | 06/10/2009 | 4000 | |
| Joseph P. Daly | 06/11/2009 | 2000 | |
| Joseph P. Daly | 06/18/2009 | 1000 | |
| EssigPR | 06/30/2009 | 4000 | |
| EssigPR | 07/01/2009 | 1000 | |
| EssigPR | 07/06/2009 | 5000 | |
| EssigPR | 07/17/2009 | 105800 | |
| Karina Daly | 06/11/2009 | 1000 | |
| Karina Daly | 06/11/2009 | 1500 | |
| Karina Daly | 06/12/2009 | 1000 | |
| Karina Daly | 06/18/2009 | 2000 | |
| Karina Daly | 06/22/2009 | 2000 | |

Excluding the private transaction on 07/17/2009, all transactions were effectuated through open-market purchases,

(d) RIGHT TO RECEIVE OR POWER TO DIRECT: Not applicable.

(e) DATE REPORTING PERSON CEASED TO BE 5% OWNER: Not applicable.

SIGNATURES

After reasonable inquiry and to the best of our knowledge and belief, we certify that the information set forth in this statement is true, complete and correct.

Date: July 17, 2009

/s/ Joseph P Daly

Print Name: Joseph P Daly

/s/ Karina Daly

Print Name: Karina Daly

EssigPR, Inc.
By:

/s/ Joseph P Daly

Print Name: Joseph P Daly

Dr. Zamecnik 17,345 9,000

Annual Retainers

In addition to meeting fees, in 2005 the Company paid the Chairman of the Board an annual retainer of \$60,000, which was paid in monthly installments, and paid the Chairman of the Audit Committee an annual retainer of \$15,000, which was paid in quarterly installments. All other non-employee directors were paid an annual retainer of \$10,000, which was paid in quarterly installments.

Equity Compensation

The Company's amended 1995 Director Stock Option Plan provides for the grant of options to purchase 25,000 shares of Common Stock to each non-employee director upon his or her initial election to the Board of Directors. In the first quarter of 2005, each non-employee director received a grant of options to purchase 3,750 shares of Common Stock on the first day of the calendar quarter. Beginning with the second quarter of 2005, each non-employee director receives an automatic quarterly grant of options to purchase 10,000 shares of Common Stock on the first day of each calendar quarter, with options to purchase 3,750 of such shares being granted under the Company's 1995 Director Stock Option Plan and options to purchase 6,250 of such shares being granted under the Company's Amended and Restated 1997 Stock Incentive Plan or the Company's 2005 Stock Incentive Plan. All options are granted with exercise prices equal to the fair market value of the Common Stock on the date of grant. All options vest on the first anniversary of the date of grant. The vesting of all options granted under the Company's 1995 Director Stock Option Plan will be automatically accelerated upon the occurrence of a change in control of the Company.

In 2005, the Company granted the following stock options to its directors under the Company's stock option or stock incentive plans:

On January 1, 2005, the Company granted to each of the non-employee directors an option to purchase 3,750 shares of Common Stock at an exercise price of \$0.48 per share.

On April 1, 2005, the Company granted to each of the non-employee directors an option to purchase 10,000 shares of Common Stock at an exercise price of \$0.60 per share.

On July 1, 2005, the Company granted to each of the non-employee directors an option to purchase 10,000 shares of Common Stock at an exercise price of \$0.56 per share.

On October 1, 2005, the Company granted to each of the non-employee directors an option to purchase 10,000 shares of Common Stock at an exercise price of \$0.67 per share.

Table of Contents*Other Compensation*

The Company paid Dr. Zamecnik \$20,000 for consulting services provided by Dr. Zamecnik in 2005 and expects to pay Dr. Zamecnik \$20,000 in 2006 for similar services. The Company paid Dr. Karr \$10,000 for consulting services provided by Dr. Karr in 2005 prior to his appointment as President.

Summary of 2005 Non-Employee Director Compensation

The following table summarizes the cash payments and equity awards earned by the Company's non-employee directors during 2005:

| Name | Total\$(1) | Fees Earned or Paid in Cash(\$) | Stock | Option | Option Awards (Weighted Average Exercise Price of Option Awards) |
|----------------------|------------|--|-------------------|---------------|--|
| | | | Awards (\$)(1) | Awards (#) | |
| Youssef El-Zein | \$ 283,500 | \$ 283,500(2) | \$ 500 | 599,228(2) | \$ 0.873 |
| James B. Wyngaarden | 79,074 | 65,250 | 13,824 | 33,750 | 0.596 |
| C. Keith Hartley | 31,500 | 31,500 | | 33,750 | 0.596 |
| Williams S. Reardon | 39,279 | 35,750 | 3,529 | 33,750 | 0.596 |
| Alison Taunton-Rigby | 30,250 | 30,250 | | 33,750 | 0.596 |
| Paul C. Zamecnik | 40,588 | 30,000(3) | 10,588 | 33,750 | 0.596 |

(1) Excludes the value of stock options granted in 2005, but includes the fair market value of stock awards.

(2) Includes \$264,000 in cash and 565,478 warrants issued to Pillar Investment Ltd. in connection with the May 2005 financing referred to under the caption *Certain Transactions*.

(3) Includes consulting fees referred to under the caption *Certain Transactions*.

Certain Transactions

Since January 1, 2005, the Company has entered into or has been engaged in the following transactions with the following directors, officers and stockholders of the Company who beneficially owned more than 5% of the outstanding Common Stock of the Company at the time of these transactions, as well as affiliates or immediate family members of those directors, officers and stockholders. The Company believes that the terms of the transactions described below were no less favorable than Idera could have obtained from unaffiliated third parties.

Youssef El Zein and Affiliates

Youssef El Zein, a director of the Company, is a director of Pillar Investment Ltd. and a director of Optima Life Sciences Limited. Pillar is the manager and investment advisor of Optima and holds all of the voting shares of Optima. In 2005, the Company paid \$264,000 to Pillar Investment Ltd. and issued to Pillar Investment Ltd. warrants to purchase 565,478 shares of Common Stock at an exercise price of \$0.89 per share as placement agent fees in connection with the Company's May 2005 convertible note financing. In addition, Optima, which is controlled by Pillar Investment Ltd., purchased \$3,102,750 of the 4% convertible subordinated notes due April 30, 2008.

Pursuant to the Engagement Letter, dated March 24, 2006, the Company engaged Mr. El Zein to assist the Company as a placement agent in securing a commitment from Biotech Shares Ltd. to purchase from the Company Common Stock. For such services, the Company agreed to pay Mr. El Zein a commission equal in value to 5% of the amount available to the Company under the commitment. The Company has paid Mr. El Zein \$262,500 of such commission in cash. The Company and Mr. El Zein are discussing the form of payment for the balance of the commission.

Table of Contents**Executive Compensation**

The following table sets forth the compensation for the Chief Executive Officer of the Company, the President of the Company and the Chief Financial Officer of the Company (collectively, the Named Executive Officers):

Summary Compensation Table

| Name and Principal Position | | Annual Compensation | | | Securities | |
|---|------|---------------------|------------|---------------------------|----------------------------|---------------------------|
| | | Salary | Bonus | Other Annual Compensation | Underlying Options(Shares) | All Other Compensation(1) |
| Sudhir Agrawal, D. Phil CEO & CSO | 2005 | \$ 425,000 | \$ 120,000 | \$ 15,371(2) | 1,700,000 | \$ 9,000 |
| | 2004 | 363,750 | 79,500 | 64,750(2) | 250,000 | 39,370 |
| | 2003 | 360,000 | 100,000 | 65,000(2) | | 41,616 |
| Robert W. Karr(3) President | 2005 | 28,409 | | 760(4) | 1,000,000 | |
| Robert G. Andersen CFO, VP of Operations, Treasurer and Secretary | 2005 | 300,000 | 50,000 | 14,767(4) | 200,000 | 9,000 |
| | 2004 | 297,000 | 32,700 | 15,756(4) | 300,000 | 18,281 |
| | 2003 | 258,000 | 120,000 | 14,489(4) | | 22,877 |

(1) All Other Compensation represents compensation paid for the surrender of unused vacation days and 401(k) employer contributions in the applicable year.

| | 2005 | 2004 | 2003 |
|---|----------|-----------|-----------|
| Sudhir Agrawal, D. Phil | | | |
| 401(k) | \$ 9,000 | \$ 8,000 | \$ 7,000 |
| Compensation paid for the surrender of unused vacation days | | 31,370 | 34,616 |
| Total | \$ 9,000 | \$ 39,370 | \$ 41,616 |
| Robert G. Andersen | | | |
| 401(k) | \$ 9,000 | \$ 8,000 | \$ 7,000 |
| Compensation paid for the surrender of unused vacation days | | 10,281 | 15,877 |
| Total | \$ 9,000 | \$ 18,281 | \$ 22,877 |

(2) Other Annual Compensation paid to Dr. Agrawal consists of:

| | 2005 | 2004 | 2003 |
|--|--------|-----------|-----------|
| Cash paid in lieu of employee benefits pursuant to Dr. Agrawal's previous employment agreement | \$ | \$ 47,363 | \$ 48,591 |
| Premiums paid by the Company for life, disability and health insurance | 15,371 | 17,387 | 16,409 |

| | | | |
|-------|-----------|-----------|-----------|
| Total | \$ 15,371 | \$ 64,750 | \$ 65,000 |
|-------|-----------|-----------|-----------|

(3) Dr. Karr joined the Company as President in December 2005.

(4) Represents premiums paid by the Company for life, disability and health insurance in the applicable year.

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Table of Contents*2005 Option Grants*

All options granted to Dr. Agrawal, Dr. Karr and Mr. Andersen will become fully exercisable upon a change of control of the Company. The following table sets forth certain information concerning grants of stock options made during fiscal year 2005 to the Named Executive Officers:

Option Grants in Last Fiscal Year

| Name | Number of Securities Underlying Option Grants(#) | Individual Grants | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term(\$)(2) | |
|------------------------|--|---|------------------------------|-----------------|---|------------|
| | | Percent of Total Options Granted to Employees in Fiscal Year(%) (1) | Exercise Price Per Share(\$) | Expiration Date | 5% | 10% |
| Sudhir Agrawal, D.Phil | 1,000,000(3) | 23% | \$ 0.56 | 5/12/15 | \$ 352,181 | \$ 892,496 |
| | 300,000(4) | 7% | \$ 0.53 | 12/15/15 | \$ 99,994 | \$ 253,405 |
| | 400,000(3) | 9% | \$ 0.72 | 12/21/15 | \$ 109,450 | \$ 344,873 |
| Robert W. Karr | 1,000,000(4) | 23% | \$ 0.60 | 12/05/15 | \$ 377,337 | \$ 956,245 |
| | 25,000(5) | 1% | \$ 0.61 | 6/15/15 | \$ 9,591 | \$ 24,305 |
| | 10,000(5) | | \$ 0.56 | 7/1/15 | \$ 3,522 | \$ 8,925 |
| | 10,000(5) | | \$ 0.67 | 10/1/15 | \$ 4,214 | \$ 10,678 |
| Robert G. Andersen | 200,000(4) | 5% | \$ 0.53 | 12/15/15 | \$ 66,663 | \$ 168,937 |

- (1) The percentage of total options granted to employees in 2005 is calculated based on options to purchase 4,382,000 shares of Common Stock granted to employees during 2005 under the Company's equity incentive plans plus the options to purchase Common Stock granted to Dr. Karr during the period during which he was a non-employee director.
- (2) The potential realizable value is calculated based on the term of the option at its time of grant, which is ten years. The value is based on assumed rates of stock appreciation of 5% and 10% compounded annually from the date the option is granted until its expiration date. These numbers are calculated based on the requirements of the SEC and do not represent an estimate or projection of the future price of the Company's Common Stock. The gains shown are net of the option exercise price, but do not reflect taxes or other expenses associated with the exercise. Actual gains, if any, on stock option exercises will depend on the future performance of the Common Stock and overall stock market conditions. The amounts reflected in the above table may not necessarily be achieved.
- (3) These options vest quarterly over three years beginning three months after the date of grant.
- (4) These options vest quarterly over four years beginning three months after the date of grant.
- (5) These options were granted to Dr. Karr while he served as a director and prior to his appointment as president. These options vest one year after the date of grant.

Table of Contents*Aggregate Option Exercises in 2005 and Fiscal Year-End Option Values*

The following table sets forth certain information concerning options exercised by the Named Executive Officers in 2005, and the number and value of unexercised options held by each of the Named Executive Officers on December 31, 2005.

Aggregate Option Exercises in 2005 and Fiscal Year-End Option Values

| | Shares Acquired on Exercise(#) | Value Realized\$(1) | Number of Securities Underlying Unexercised Options At Fiscal Year-End | | Value of Unexercised In-the-Money Options at Fiscal Year-End(2) | |
|----------------------------|---|------------------------|---|------------------|---|-------------------|
| | | | Exercisable(#) | Unexercisable(#) | Exercisable(\$) | Unexercisable(\$) |
| Sudhir Agrawal, D. Phil | 20,000 | \$ 1,600 | 6,494,835 | 2,154,165 | \$ 222,882 | \$ 82,542 |
| Robert W. Karr | | \$ | | 1,045,000 | \$ | \$ 10,500 |
| Robert G. Andersen | | \$ | 1,175,455 | 425,000 | \$ 53,300 | \$ 36,250 |

(1) Based on the difference between the closing price for the Common Stock as reported on the American Stock Exchange on the date of exercise and the exercise price of the option.

(2) The closing price for the Common Stock as reported by the American Stock Exchange on December 30, 2005 was \$0.61 per share. Value is calculated on the basis of the difference between the option exercise price and \$0.61 multiplied by the number of shares of Common Stock underlying the option.

Employment Agreements, Termination of Employment and Change in Control Arrangements

The Company entered into an amended and restated employment agreement with Dr. Sudhir Agrawal, the Company's Chief Executive Officer and Chief Scientific Officer on October 19, 2005. Under the agreement, Dr. Agrawal's employment will continue for a three-year term ending on October 19, 2008. The term will automatically be extended for an additional year on an annual basis unless either party provides notice otherwise. Under the agreement, Dr. Agrawal is entitled to receive an annual base salary of \$425,000 and an annual bonus in an amount equal to between 20% and 70% of his base salary, as determined by the Compensation Committee of the Company's Board of Directors. Under the agreement, the Company confirmed a May 12, 2005 decision to grant Dr. Agrawal additional options to purchase an aggregate of up to 600,000 shares of Common Stock upon the achievement of specified milestones. Any options granted upon the achievement of these milestones would vest quarterly over a three-year period commencing on the date the option is granted. If Dr. Agrawal's employment is terminated by the Company without cause or by him for good reason, the Company will pay Dr. Agrawal (a) a lump sum cash payment equal to the pro rata portion of the annual bonus that he earned in respect of the year preceding his termination date and (b) his base salary as severance for a period ending on the earlier of the final day of the term of the agreement in effect immediately prior to such termination and the second anniversary of his termination date. The Company has also agreed to continue to provide Dr. Agrawal with certain benefits for a period ending on the earlier of the final day of the term of the agreement in effect immediately prior to such termination and the second anniversary of his termination date, except to the extent another employer provides Dr. Agrawal with comparable benefits. Additionally, any stock options or other equity incentive awards previously granted to Dr. Agrawal will vest as of the termination date to the extent such options or equity incentive awards would have vested had he continued to be an employee of the Company until the final day of the term of the agreement in effect immediately prior to such termination. If Dr. Agrawal's employment is terminated by him for good reason or by the Company without cause in connection with, or within one year after, a change in control of the Company, the Company will pay Dr. Agrawal in

lieu of the Severance Payment a lump sum cash payment equal to his base salary multiplied by the lesser of the aggregate number of years (or portion thereof) remaining in his employment term and two years. The vesting of all stock options held by Dr. Agrawal will be accelerated in full upon the execution by Company of an agreement providing for the Company to be acquired or liquidated, or, if not previously accelerated in full, upon the occurrence of a change in control of the Company. Dr. Agrawal has agreed that during his employment with the Company and for a one-year period thereafter, he will not hire or attempt to hire any employee of the Company or compete with

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the Company. This agreement replaced an employment agreement, between the Company and Dr. Agrawal that was entered into on April 1, 2002 and was superceded by a new agreement on October 19, 2005.

The Company entered into an employment agreement with Dr. Robert W. Karr, the Company's President, on December 5, 2005. Under the agreement, Dr. Karr will serve as President of the Company for a two-year term ending on December 5, 2007, which term will automatically be extended for an additional year on such date and on an annual basis thereafter unless either party provides prior notice otherwise. Under the agreement, Dr. Karr is entitled to receive an annual base salary of \$375,000 and an annual bonus determined by the Compensation Committee of the Company's Board of Directors, which bonus for the fiscal year ending December 31, 2006 will equal between 10% and 50% of his annual base salary. Under the agreement, the Company granted Dr. Karr options, under the Company's 2005 Stock Incentive Plan, to purchase 1,000,000 shares of Common Stock at an exercise price of \$0.60 per share. These options vest quarterly over a four-year period with the first installment having vested on March 5, 2006. If Dr. Karr's employment is terminated by the Company without cause or by him for good reason, the Company will pay Dr. Karr his base salary as severance for a period ending on the first anniversary of his termination date. The Company has also agreed to continue to provide Dr. Karr with certain benefits for a period ending on the earlier of the final day of the term of the agreement in effect immediately prior to such termination and the first anniversary of his termination date, except to the extent another employer provides Dr. Karr with comparable benefits. Additionally, any stock options or other equity incentive awards previously granted to Dr. Karr will vest as of the termination date to the extent such options or equity incentive awards would have vested had he continued to be an employee of the Company until the first anniversary of his termination date. If Dr. Karr's employment is terminated by him for good reason or by the Company without cause in connection with, or within one year after, a change in control of the Company, the Company will pay Dr. Karr in lieu of the Severance Payment a lump sum cash payment equal to his base salary. The vesting of all stock options held by Dr. Karr will be accelerated in full upon the occurrence of a change in control of the Company. Dr. Karr has agreed that during his employment with the Company and for a one-year period thereafter, he will not hire or attempt to hire any employee of the Company or compete with the Company.

The Company entered into an amended and restated employment agreement with Robert G. Andersen, the Company's Chief Financial Officer and Vice President of Operations, on April 13, 2006. Under the agreement, Mr. Andersen's employment will continue for a two-year term ending on April 13, 2008, which term will automatically be extended for an additional year on such date and on an annual basis thereafter unless either party provides prior notice otherwise. Under the agreement, Mr. Andersen is entitled to receive an annual base salary of \$313,500 and an annual bonus determined by the Compensation Committee of the Company's Board of Directors, which bonus for the fiscal year ending December 31, 2006 will equal between 10% and 50% of his annual base salary. If Mr. Andersen's employment is terminated by the Company without cause or by him for good reason, the Company will pay Mr. Andersen his base salary as severance for a period ending on the first anniversary of his termination date. The Company has also agreed to continue to provide Mr. Andersen with certain benefits for a period ending on the earlier of the final day of the term of the agreement in effect immediately prior to such termination and the first anniversary of his termination date, except to the extent another employer provides Mr. Andersen with comparable benefits. Additionally, any stock options or other equity incentive awards previously granted to Mr. Andersen will vest as of the termination date to the extent such options or equity incentive awards would have vested had he continued to be an employee of the Company until the first anniversary of his termination date. If Mr. Andersen's employment is terminated by him for good reason or by the Company without cause in connection with, or within one year after, a change in control of the Company, the Company will pay Mr. Andersen in lieu of the Severance Payment a lump sum cash payment equal to his base salary. The vesting of all stock options held by Mr. Andersen will be accelerated in full upon the occurrence of a change in control of the Company. Mr. Andersen has agreed that during his employment with the Company and for a one-year period thereafter, he will not hire or attempt to hire any employee of the Company or compete with the Company.

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Report of the Compensation Committee on Executive Compensation

The Company's Compensation Committee is responsible for establishing compensation policies with respect to the Company's executive officers, including the Chief Executive Officer and the other executive officers named in the Summary Compensation Table, and setting the compensation for these individuals.

The Compensation Committee seeks to achieve three broad goals in connection with the Company's executive compensation programs and decisions regarding individual compensation. First, the Compensation Committee structures executive compensation programs in a manner that it believes will enable the Company to attract and retain key executives. Second, the Compensation Committee establishes compensation programs that are designed to reward executives for the achievement of business objectives of the Company and/or the individual executive's particular area of responsibility. By linking compensation in part to achievement, the Compensation Committee believes that a performance-oriented environment is created for the Company's executives. Finally, the Company's executive compensation programs are intended to provide executives with an equity interest in the Company so as to link a portion of the compensation of the Company's executives with the performance of the Company's Common Stock.

Since October 2005, the Company has entered into multi-year employment agreements with each of its Named Executive Officers. Dr. Agrawal and Mr. Andersen entered into these agreements in connection with the expiration of existing agreements and Dr. Karr entered into his agreement in connection with joining the Company. The Compensation Committee reviewed the terms of the existing agreements carefully and rather than just extend them on the same terms, negotiated changes to these agreements to reflect the Company's current management structure.

The compensation programs for the Company's executives established by the Compensation Committee generally consist of three elements based upon the foregoing objectives: base salary, cash bonuses, and a stock-based equity incentive in the form of participation in the Company's stock incentive plans.

Base Salary. In establishing base salaries for the executive officers, including the Chief Executive Officer, the Compensation Committee monitors salaries at other companies, particularly those that are in the same industry as the Company or related industries and/or located in the same general geographic area as the Company, considers historic salary levels of the individual and the nature of the individual's responsibilities and compares the individual's base salary with those of other executives at the Company. The Compensation Committee also considers the challenges involved in retaining first-rate managerial and scientific personnel in the science of DNA because of the new nature of this technology. To the extent determined to be appropriate, the Compensation Committee also considers general economic conditions, the Company's financial performance and the individual's performance. The Board of Directors' determinations of the Company's executive officers' annual base salaries are subject to minimum base salaries specified in their employment agreements. In establishing the salaries for Dr. Agrawal and Mr. Andersen for 2005, the Compensation Committee reviewed all of the preceding criteria as well as the contribution each executive made to the achievement of corporate goals.

Performance Bonuses. The Compensation Committee generally structures cash bonuses by linking them to the achievement of specified Company and/or business unit performance objectives. The amount of the bonus paid, if any, varies among the executive officers and key managers depending on their success in achieving individual performance goals and their contribution to the achievement of corporate performance goals. The Compensation Committee reviews and assesses corporate goals and individual performance by executive officers. Corporate performance criteria that are considered by the Compensation Committee include performance with respect to development milestones, business development objectives, commercialization goals and other measures of financial performance, including stock price appreciation. In determining the cash bonuses to be paid to each of the executive officers for services rendered in 2005, the Compensation Committee considered a variety of factors, including the achievement of corporate goals, such as the achievement of clinical milestones and the establishment of corporate collaborations, and individual performance in 2005.

Stock-based Equity Incentives. The Compensation Committee uses stock options as a significant element of the compensation package of the Company's executive officers because they provide an incentive for executives to maximize stockholder value and because they reward the executives only to the extent that

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stockholders also benefit. The timing and amounts of such grants depend upon a number of factors, including new hires of executives, the executives' current stock and option holdings and such other factors as the Compensation Committee deems relevant. When granting stock options, the Compensation Committee's general policy has been to fix the exercise price of such options at 100% of the fair market value of the Common Stock on the date of grant.

2005 Compensation for Dr. Agrawal. In May 2005, in connection with Dr. Agrawal's agreement to modify certain of the terms of his employment agreement then in effect, the Compensation Committee increased Dr. Agrawal's annual base salary to \$425,000 for 2005 retroactive to January 1, 2005, granted Dr. Agrawal stock options to purchase 1,000,000 shares of Common Stock at an exercise price of \$0.56 per share and agreed to grant stock options to purchase up to an additional 1,000,000 shares of Common Stock upon the achievement of specified milestones. In December 2005, the Compensation Committee granted Dr. Agrawal a cash bonus of \$120,000 and options to purchase 300,000 shares of Common Stock at a price of \$0.53 per share in recognition of his accomplishments throughout 2005. In deciding to award Dr. Agrawal's cash bonus and stock options for 2005, the Compensation Committee considered Dr. Agrawal's overall compensation package, the past option grants awarded to him, the leadership role that Dr. Agrawal has played in the Company's accomplishments and on other factors considered by the Compensation Committee in granting bonuses and stock options as described above.

For 2006, Dr. Agrawal's annual base salary is \$445,000, and he will be eligible for a cash bonus of between 20% and 70% of his annual base salary and for stock incentive grants. The amount of these bonuses and the size of the stock option grants, if any, will be based in part on the Company's performance against goals established by the Compensation Committee, on Dr. Agrawal's performance against individual goals established by the Compensation Committee and on the other factors considered by the Compensation Committee in granting bonuses and stock options as described above.

Compliance with Internal Revenue Code Section 162(m). Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), generally disallows a tax deduction to public companies for certain compensation in excess of \$1 million paid to the Company's Chief Executive Officer and the four other most highly compensated executive officers. Certain compensation, including qualified performance-based compensation, will not be subject to the deduction limit if specified requirements are met. In general, the Company structures and administers its stock option plans in a manner intended to comply with the performance-based exception to Section 162(m). Nevertheless, there can be no assurance that compensation attributable to future awards granted under its plans will be treated as qualified performance-based compensation under Section 162(m). Compensation attributable to certain awards previously granted under its plans and to certain awards that were not granted under its plans will not qualify as performance-based compensation and therefore will be subject to the limit. In addition, the Compensation Committee reserves the right to use its judgment to authorize compensation payments that may be subject to the limit when the Compensation Committee believes such payments are appropriate and in the best interests of the Company and its stockholders.

COMPENSATION COMMITTEE

James B. Wyngaarden, *Chairman*
C. Keith Hartley
William S. Reardon
Alison Taunton-Rigby

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Mr. Hartley, Mr. Reardon, Dr. Taunton-Rigby and Dr. Wyngaarden. No member of the Company's Compensation Committee was at any time during 2005, or was formerly, an officer or employee of the Company.

No executive officer of the Company has served as a director or member of the compensation committee (or other committee serving the same function as the compensation committee) of any other entity, while an executive officer of that other entity served as a member of the Company's Compensation Committee.

Table of Contents**Comparative Stock Performance**

On September 12, 2005, the Company changed its name from Hybridon, Inc. to Idera Pharmaceuticals, Inc. On September 13, 2005, Idera's American Stock Exchange ticker symbol changed from HBY to IDP. Prior to December 5, 2003, the Company's Common Stock was quoted on the OTC Bulletin Board under the symbol HYBN.

The comparative stock performance graph shown below compares cumulative stockholder return on the Company's Common Stock from December 31, 2000 through December 31, 2005 with the cumulative total return of the AMEX Market Index and an SIC Code Index. This graph assumes the investment of \$100 on December 31, 2000 in the Company's Common Stock, the AMEX Market Index and the SIC Code Index and assumes dividends are reinvested. The SIC Code Index reflects the stock performance of 116 publicly traded companies that comprise the SIC Code Index 2836 (biological products).

| | 12/31/00 | 12/31/01 | 12/31/02 | 12/31/03 | 12/31/04 | 12/31/05 |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Idera Pharmaceuticals, Inc. | \$ 100.00 | \$ 345.24 | \$ 166.67 | \$ 271.43 | \$ 114.29 | \$ 145.24 |
| AMEX Market Index | 100.00 | 95.39 | 91.58 | 124.66 | 142.75 | 157.43 |
| SIC Group Index | 100.00 | 88.63 | 57.91 | 77.65 | 85.82 | 95.99 |

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on its review of copies of reports filed by individuals and entities required to make filings (Reporting Persons) pursuant to Section 16(a) of the Exchange Act or written representations from certain Reporting Persons, the Company believes that during 2005 all filings required to be made by its Reporting Persons were timely made in accordance with the Exchange Act except that each of the following Reporting Persons failed to timely file a Form 4 in connection with transactions effected during 2005 and prior years on the number of occasions set forth in parentheses after each Reporting Person's name: Youssef El Zein (one Form 4 covering one transaction) and Optima Life Sciences Limited (2 Form 4s covering 2 transactions).

**PROPOSAL 2 INCREASE IN THE NUMBER OF AUTHORIZED SHARES OF
COMMON STOCK**

In April 2006, the Board of Directors of the Company unanimously voted to recommend to the stockholders that they approve an amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock from 200,000,000 to 290,000,000, which

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amendment is attached to this proxy statement as Exhibit A. All of the 200,000,000 shares of Common Stock currently authorized, as of March 31, 2006, were outstanding or reserved for issuance as follows:

133,726,085 shares of Common Stock outstanding;

15,412 shares of Common Stock reserved for issuance upon conversion of the Company's Series A Convertible Preferred Stock;

5,654,775 shares of Common Stock reserved for issuance upon conversion of the Company's 4% Convertible Notes;

38,295,024 shares of Common Stock reserved for issuance upon exercise of outstanding warrants;

20,217,493 shares of Common Stock reserved for issuance upon exercise of outstanding stock options; and

2,091,211 shares of Common Stock reserved for future issuance under the Company's equity incentive plans.

In addition, there are currently an additional 1,443,298 shares approved for issuance under the Company's equity incentive plans that cannot be issued because the Company has an insufficient number of authorized shares of Common Stock. As a result, awards for these additional shares cannot be made unless this amendment to the Company's Restated Certificate of Incorporation is approved.

The Board believes that the authorization of the additional shares of Common Stock is necessary to provide the Company with the flexibility to issue shares of Common Stock in connection with possible future financings, joint ventures, acquisitions, stock incentive plans and other general corporate purposes. For instance, in this proxy statement, the Company is seeking stockholder approval for increasing the number of shares of Common Stock authorized for issuance under the Company's 2005 Stock Incentive Plan and the Company's 1995 Employee Stock Purchase Plan. If this proposal to increase the number of authorized shares of Common Stock is not approved, the Company will not have sufficient authorized shares of Common Stock to issue shares of Common Stock to employees and others under those plans, even if the stockholders approve the proposed increases in those plans.

In addition, on March 24, 2006, the Company entered in a Common Stock Purchase Agreement with Biotech Shares Ltd. Pursuant to this purchase agreement, (i) the Company issued to Biotech Shares warrants, exercisable for a five-year period beginning in September 2006, to purchase up to 6,093,750 shares of Common Stock at an exercise price of \$0.74 per share, and (ii) Biotech Shares has agreed to purchase up to a total of \$9.75 million of Common Stock during the period from June 24, 2006 through December 31, 2006 in up to three drawdowns made by the Company, at the Company's discretion. In each drawdown, the Company will sell shares of Common Stock at a price equal to 80% of the volume weighted average of the closing prices of the Common Stock on the five trading days preceding the drawdown notice, but such purchase price in no event will be less than \$0.64 per share. Based on this floor price of \$0.64 per share, a maximum of 15,234,375 shares of Common Stock could be issued under the purchase agreement. The Company is not obligated to sell any of the \$9.75 million of Common Stock available under the purchase agreement and there are no minimum commitments or minimum use penalties. If this proposal is not approved, the Company will not be able to access all of the funds available under the purchase agreement. Although the Company is not required to, and management may not access the funds available under the purchase agreement, the Company believes that access to such funds on the terms stated in the purchase agreement is in the best interests of the Company and its stockholders. As of December 31, 2005, the Company had \$8.4 million in cash, cash equivalents and short-term investments. The Company believes that, based on its current operating plan, its existing cash, cash equivalents and short-term investments, together with the \$8.9 million in net proceeds that was raised in March 2006 through the sale of common stock and warrants, less the \$0.9 million in direct expenses associated with the purchase agreement, will be sufficient to fund the Company's operations through January 2007. With the addition of an estimated \$9.75 million in funds available to the Company under the purchase agreement, the Company believes that its cash, cash equivalents and short-term investments would be sufficient to fund the Company's operations through

mid 2007. If the maximum number of shares of

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Common Stock that are issuable to Biotech Shares under the purchase agreement were issued, the Company would have a total of 215,234,375 shares of Common Stock outstanding or reserved for issuance.

The Company does not currently have any other plans, understandings, arrangements, commitments or agreements, written or oral, for the issuance of the additional shares of Common Stock that would be authorized if this proposal is approved. If this proposal to amend the Company's Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock is adopted by the stockholders, the Board will have authority to issue these additional shares of Common Stock without the necessity of further stockholder action. Holders of the Common Stock have no preemptive rights with respect to any shares that may be issued in the future.

If this proposal is approved, the Company intends to file an amendment to the Restated Certificate of Incorporation promptly following the Annual Meeting reflecting the approved increase in the number of authorized shares of Common Stock. The Company does not expect that the approval of the stockholders of any or all of the reverse stock split proposals described below will change such intention unless the Board determines to effect one of the approved splits promptly following the Annual Meeting, in which case the Company would not file this amendment and would abandon it.

Under Delaware law, stockholders are not entitled to dissenter's rights with respect to the proposed amendment to the Company's Restated Certificate of Incorporation.

The Board of Directors believes that approval of the amendment to the Restated Certificate of Incorporation is in the best interests of the Company and the stockholders and therefore recommends that stockholders vote for the approval of the amendment.

PROPOSAL 3 INCREASE IN THE NUMBER OF SHARES AUTHORIZED FOR ISSUANCE UNDER THE 2005 STOCK INCENTIVE PLAN

In April 2006, the Board of Directors of the Company voted to amend the 2005 Stock Incentive Plan (the "2005 Plan") to increase the number of shares of Common Stock available for issuance from 5,000,000 shares to 9,000,000 shares, subject to stockholder approval.

The Company's stockholders originally approved the adoption of the 2005 plan in June 2005. As of March 31, 2006, options to purchase 2,805,000 shares of Common Stock were outstanding under the 2005 plan. As a result, the Company had only 2,195,000 shares available for future grant under the 2005 plan as of March 31, 2006 and 1,189,490 shares available for future grant under the Company's other stock option and incentive plans as of March 31, 2006.

The Board of Directors believes that the future success of the Company depends, in large part, upon the ability of the Company to maintain a competitive position in attracting, retaining and motivating key personnel. Accordingly, the Board of Directors believes that increasing the number of shares available for issuance pursuant to the 2005 Plan is in the best interests of the Company and its stockholders and recommends a vote FOR the increase in the number of shares available for issuance pursuant to the 2005 Plan and the reservation of an additional 4,000,000 shares of Common Stock for issuance thereunder.

Description of the 2005 Plan

The following is a brief summary of the 2005 Plan.

Types of Awards

The 2005 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Code, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards as described below (collectively, "Awards").

Incentive Stock Options and Non-statutory Stock Options. Optionees receive the right to purchase a specified number of shares of Common Stock at a specified option price and subject to such other terms and

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conditions as are specified in connection with the option grant. Options may be granted at an exercise price which may be less than, equal to or greater than the fair market value of the Common Stock on the date of grant. Under present law, however, incentive stock options and options intended to qualify as performance-based compensation under Section 162(m) of the Code may not be granted at an exercise price less than 100% of the fair market value of the Common Stock on the date of grant (or less than 110% of the fair market value in the case of incentive stock options granted to optionees holding more than 10% of the voting power of the Company). The 2005 Plan permits the following forms of payment of the exercise price of options: (i) payment by cash, check, wire transfer or in connection with a cashless exercise through a broker, (ii) subject to certain conditions, surrender to the Company of shares of Common Stock, (iii) subject to certain conditions, delivery to the Company of a promissory note, (iv) any other lawful means, or (v) any combination of these forms of payment.

Stock Appreciation Rights. A Stock Appreciation Right, or SAR, is an award entitling the holder, upon exercise, to receive an amount in Common Stock determined by reference to appreciation, from and after the date of grant, in the fair market value of a share of Common Stock. SARs may be granted independently or in tandem with an option.

Restricted Stock Awards. Restricted Stock Awards entitle recipients to acquire shares of Common Stock, subject to the right of the Company to repurchase all or part of such shares from the recipient in the event that the conditions specified in the applicable Award are not satisfied prior to the end of the applicable restriction period established for such Award.

Restricted Stock Unit Awards. Restricted Stock Unit Awards entitle the recipient to receive shares of Common Stock to be delivered at the time such shares vest pursuant to the terms and conditions established by the Board of Directors.

Other Stock-Based Awards. Under the 2005 Plan, the Board of Directors has the right to grant other Awards based upon the Common Stock having such terms and conditions as the Board of Directors may determine, including the grant of shares based upon certain conditions, the grant of Awards that are valued in whole or in part by reference to, or otherwise based on, shares of Common Stock, and the grant of Awards entitling recipients to receive shares of Common Stock to be delivered in the future.

Performance Conditions. A committee of the Board, all of the members of which are outside directors as defined in Section 162(m) of the Code (the Section 162(m) Committee), may determine, at the time of grant, that a Restricted Stock Award, Restricted Stock Unit Award or Other Stock-Based Award granted to a 2005 Plan participant will vest solely upon the achievement of specified performance criteria designed to qualify for deduction under Section 162(m) of the Code. The performance criteria for each such Award will be based on one or more of the following measures: (a) earnings per share, (b) return on average equity or average assets with respect to a pre-determined peer group, (c) earnings, (d) earnings growth, (e) revenues, (f) expenses, (g) stock price, (h) market share, (i) return on sales, assets, equity or investment, (j) regulatory compliance, (k) achievement of balance sheet or income statement objectives, (l) total shareholder return, (m) net operating profit after tax, (n) pre-tax or after-tax income, (o) cash flow, (p) achievement of research, development, clinical or regulatory milestones, (q) product sales and (r) business development activities. These performance measures may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated. Such performance goals may be adjusted to exclude any one or more of (i) extraordinary items, (ii) gains or losses on the dispositions of discontinued operations, (iii) the cumulative effects of changes in accounting principles, (iv) the writedown of any asset, and (v) charges for restructuring and rationalization programs. Such performance goals: (i) may vary by participant and may be different for different Awards; (ii) may be particular to a participant or the department, branch, line of business, subsidiary or other unit in which the participant works and may cover such period as may be specified by the Section 162(m) Committee; and (iii) will be set by the Section 162(m) Committee within the time period prescribed by, and will otherwise comply with the requirements of, Section 162(m).

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The Company believes that disclosure of any further details concerning the performance measures for any particular year may be confidential commercial or business information, the disclosure of which would adversely affect the Company.

Transferability of Awards

Except as the Board of Directors may otherwise determine or provide in an Award, Awards may not be sold, assigned, transferred, pledged or otherwise encumbered by the person to whom they are granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution or, other than in the case of an incentive stock option, pursuant to a qualified domestic relations order. During the life of the Participant, Awards are exercisable only by the Participant.

Eligibility to Receive Awards

Employees, officers, directors, consultants and advisors of the Company and its subsidiaries and of other business ventures in which the Company has a controlling interest are eligible to be granted Awards under the 2005 Plan. Under present law, however, incentive stock options may only be granted to employees of the Company and its subsidiaries.

The maximum number of shares with respect to which Awards may be granted to any participant under the 2005 Plan may not exceed 1,000,000 shares per calendar year. For purposes of this limit, the combination of an Option in tandem with SAR is treated as a single award. The maximum number of shares with respect to which restricted stock awards and other stock unit awards that require no purchase or vest on the basis of the passage of time alone that may be granted is 500,000.

Plan Benefits

As of March 1, 2006, approximately 33 persons were eligible to receive Awards under the 2005 Plan, including the Company's three executive officers and six non-employee directors. The granting of Awards under the 2005 Plan is discretionary, and the Company cannot now determine the number or type of Awards to be granted in the future to any particular person or group. On April 18, 2006, the last reported sale price of the Company's Common Stock on the American Stock Exchange was \$0.66.

Administration

The 2005 Plan is administered by the Board of Directors. The Board of Directors has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the 2005 Plan and to interpret the provisions of the 2005 Plan. Pursuant to the terms of the 2005 Plan, the Board of Directors may delegate authority under the 2005 Plan to one or more committees or subcommittees of the Board of Directors. The Board of Directors has authorized the Compensation Committee to administer certain aspects of the 2005 Plan, including the granting of options to executive officers.

Subject to any applicable limitations contained in the 2005 Plan, the Board of Directors, the Compensation Committee, or any other committee to whom the Board of Directors delegates authority, as the case may be, selects the recipients of Awards and determines (i) the number of shares of Common Stock covered by options and the dates upon which such options become exercisable, (ii) the exercise price of options, (iii) the duration of options, and (iv) the number of shares of Common Stock subject to any SAR, restricted stock award, restricted stock unit award or other stock-based Awards and the terms and conditions of such Awards, including conditions for repurchase, issue price and repurchase price.

No option granted under the 2005 Plan shall contain any provision entitling the optionee to the automatic grant of additional options in connection with any exercise of the original option.

The Board of Directors is required to make appropriate adjustments in connection with the 2005 Plan and any outstanding Awards to reflect stock splits, stock dividends, recapitalizations, spin-offs and other similar changes in capitalization. For example, if stockholders approve the amendment to effect a one-for-four reverse

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stock split and the Board effects the split, the number of shares of Common Stock authorized under the 2005 Plan would decrease from 9,000,000 shares to 2,250,000 shares.

The 2005 Plan also contains provisions addressing the consequences of any Reorganization Event, which is defined as:

any merger or consolidation of the Company with or into another entity as a result of which all of the Common Stock of the Company is converted into or exchanged for the right to receive cash, securities or other property, or is cancelled;

any exchange of all of the Common Stock of the Company for cash, securities or other property pursuant to a share exchange transaction; or

any liquidation or dissolution of the Company.

In connection with a Reorganization Event, the Board of Directors or the Compensation Committee will take any one or more of the following actions as to all or any outstanding Awards on such terms as the Board or the Committee determines:

provide that Awards will be assumed, or substantially equivalent Awards will be substituted, by the acquiring or succeeding corporation (or an affiliate thereof);

upon written notice, provide that all unexercised options or other unexercised Awards will become exercisable in full and will terminate immediately prior to the consummation of such Reorganization Event unless exercised within a specified period following the date of such notice;

provide that outstanding Awards will become realizable or deliverable, or restrictions applicable to an Award will lapse, in whole or in part prior to or upon such Reorganization Event;

in the event of a Reorganization Event under the terms of which holders of Common Stock will receive upon consummation thereof a cash payment for each share surrendered in the Reorganization Event (the Acquisition Price), make or provide for a cash payment to an Award holder equal to (A) the Acquisition Price times the number of shares of Common Stock subject to the holder's Awards (to the extent the exercise price does not exceed the Acquisition Price) minus (B) the aggregate exercise price of all the holder's outstanding Awards, in exchange for the termination of such Awards;

provide that, in connection with a liquidation or dissolution of the Company, Awards will convert into the right to receive liquidation proceeds (if applicable, net of the exercise price thereof) and

any combination of the foregoing.

The Board of Directors or the Compensation Committee may at any time provide that any Award will become immediately exercisable in full or in part, free of some or all restrictions or conditions, or otherwise realizable in full or in part, as the case may be.

If any Award expires or is terminated, surrendered, canceled or forfeited, the unused shares of Common Stock covered by such Award will again be available for grant under the 2005 Plan, subject, however, in the case of incentive stock options, to any limitations under the Code.

Substitute Options

In connection with a merger or consolidation of an entity with the Company or the acquisition by the Company of property or stock of an entity, the Board may grant options in substitution for any options or other stock or stock-based awards granted by such entity or an affiliate thereof. Substitute options may be granted on such terms, as the Board deems appropriate in the circumstances, notwithstanding any limitations on options contained in the 2005 Plan. Substitute options will not count against the 2005 Plan's overall share limit, except as may be required by the

Code.

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Provisions for Foreign Participants

The Board of Directors or the Compensation Committee may modify Awards granted to Participants who are foreign nationals or employed outside the United States or establish subplans or procedures under the 2005 Plan to recognize differences in laws, rules, regulations or customs of such foreign jurisdictions with respect to tax, securities, currency, employee benefit or other matters.

Amendment or Termination

No Award may be made under the 2005 Plan after April 15, 2015, but Awards previously granted may extend beyond that date. The Board of Directors may at any time amend, suspend or terminate the 2005 Plan; provided that, to the extent determined by the Board, no amendment requiring stockholder approval under any applicable legal, regulatory or listing requirement will become effective until such stockholder approval is obtained. No Award will be made that is conditioned upon stockholder approval of any amendment to the Plan.

Federal Income Tax Consequences

The following is a summary of the United States federal income tax consequences that generally will arise with respect to Awards granted under the 2005 Plan. This summary is based on the federal tax laws in effect as of the date of this proxy statement. In addition, this summary assumes that all Awards are exempt from, or comply with, the rules under Section 409A of the Code regarding nonqualified deferred compensation. The plan provides that no Award will provide for deferral of compensation that does not comply with Section 409A of the Code, unless the Board, at the time of grant, specifically provides that the Award is not intended to comply with Section 409A. Changes to these laws could alter the tax consequences described below.

Incentive Stock Options

A participant will not have income upon the grant of an incentive stock option. Also, except as described below, a participant will not have income upon exercise of an incentive stock option if the participant has been employed by the Company or its corporate parent or 50% or more-owned corporate subsidiary at all times beginning with the option grant date and ending three months before the date the participant exercises the option. If the participant has not been so employed during that time, then the participant will be taxed as described below under Non-statutory Stock Options. The exercise of an incentive stock option may subject the participant to the alternative minimum tax (AMT).

A participant will have income upon the sale of the stock acquired under an incentive stock option at a profit (if sales proceeds exceed the sum of the exercise price plus any adjustment resulting from the AMT). The type of income will depend on when the participant sells the stock. If a participant sells the stock more than two years after the option was granted and more than one year after the option was exercised, then all of the profit will be long-term capital gain. If a participant sells the stock prior to satisfying these waiting periods, then the participant will have engaged in a disqualifying disposition and a portion of the profit will be ordinary income and a portion may be capital gain. This capital gain will be long-term if the participant has held the stock for more than one year and otherwise will be short-term. If a participant sells the stock at a loss (sales proceeds are less than the exercise price), then the loss will be a capital loss. This capital loss will be long-term if the participant held the stock for more than one year and otherwise will be short-term.

Non-statutory Stock Options

A participant will not have income upon the grant of a non-statutory stock option. A participant will have compensation income upon the exercise of a non-statutory stock option equal to the value of the stock on the day the participant exercised the option less the exercise price. Upon sale of the stock, the participant will have capital gain or loss equal to the difference between the sales proceeds and the value of the stock on the day the option was exercised. This capital gain or loss will be long-term if the participant has held the stock for more than one year and otherwise will be short-term.

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Stock Appreciation Rights

A participant will not have income upon the grant of a stock appreciation right. A participant generally will recognize compensation income upon the exercise of a SAR equal to the amount of the cash and the fair market value of any stock received. Upon the sale of the stock, the participant will have capital gain or loss equal to the difference between the sales proceeds and the value of the stock on the day the SAR was exercised. This capital gain or loss will be long-term if the participant held the stock for more than one year and otherwise will be short-term.

Restricted Stock Awards

A participant will not have income upon the grant of restricted stock unless an election under Section 83(b) of the Code is made within 30 days of the date of grant. If a timely 83(b) election is made, then a participant will have compensation income equal to the value of the stock less the purchase price. When the stock is sold, the participant will have capital gain or loss equal to the difference between the sales proceeds and the value of the stock on the date of grant. If the participant does not make an 83(b) election, then when the stock vests the participant will have compensation income equal to the value of the stock on the vesting date less the purchase price. When the stock is sold, the participant will have capital gain or loss equal to the sales proceeds less the value of the stock on the vesting date. Any capital gain or loss will be long-term if the participant held the stock for more than one year and otherwise will be short-term.

Restricted Stock Units

A participant will not have income upon the grant of a restricted stock unit. A participant is not permitted to make a Section 83(b) election with respect to a restricted stock unit award. When the restricted stock unit vests, the participant will have income on the vesting date in an amount equal to the fair market value of the stock on the vesting date less the purchase price, if any. When the stock is sold, the participant will have capital gain or loss equal to the sales proceeds less the value of the stock on the vesting date. Any capital gain or loss will be long-term if the participant held the stock for more than one year and otherwise will be short-term.

Other Stock-Based Awards

The tax consequences associated with any other stock-based Award granted under the 2005 Plan will vary depending on the specific terms of such Award. Among the relevant factors are whether or not the Award has a readily ascertainable fair market value, whether or not the Award is subject to forfeiture provisions or restrictions on transfer, the nature of the property to be received by the participant under the Award and the participant's holding period and tax basis for the Award or underlying Common Stock.

Tax Consequences to the Company

There will be no tax consequences to the Company except that the Company will be entitled to a deduction when a participant has compensation income. Any such deduction will be subject to the limitations of Section 162(m) of the Code.

Table of Contents**Securities Authorized for Issuance Under Existing Equity Compensation Plans**

The following table provides information about the Company's Common Stock that may be issued upon exercise of options, warrants and rights under all of the Company's equity compensation plans as of December 31, 2005.

Equity Compensation Plan Information

| Plan Category | (a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | (b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | (c) Number of Securities Remaining Available for |
|---|--|--|---|
| | | | Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) |
| Equity compensation plans approved by stockholders(1) | 14,178,019 | \$0.65 | 3,526,412 |
| Equity compensation plans not approved by stockholders(2) | 6,837,293 | 0.82 | |
| Total | 21,015,312 | 0.71 | 3,526,412 |

(1) Includes the Company's:
1990 Stock Option Plan

1995 Stock Option Plan

1995 Employee Stock Purchase Plan

1995 Director Stock Option Plan

1997 Stock Incentive Plan

2005 Stock Incentive Plan

(2) Includes

Nonqualified Stock Option Agreements issued to Dr. Sudhir Agrawal, effective as of April 2, 2001 and July 25, 2001;

Nonqualified Stock Option Agreements issued to Stephen R. Seiler, the former Chief Executive Officer of the Company, effective as of July 25, 2001; and

Warrants issued to consultants.

Non-Statutory Stock Option Agreements with Dr. Agrawal

In 2001, the Company granted to Dr. Agrawal non-statutory stock options outside of any equity compensation plan approved by the Company's stockholders, pursuant to the terms of four Non-Statutory Stock Option Agreements, as follows:

A Non-Statutory Stock Option Agreement providing for the purchase of 1,260,000 shares of Common Stock at an exercise price of \$0.825 per share. The option under this agreement vests in eight quarterly installments commencing on March 28, 2004;

A Non-Statutory Stock Option Agreement providing for the purchase of 550,000 shares of Common Stock at an exercise price of \$0.825 per share. The option under this agreement is fully vested;

A Non-Statutory Stock Option Agreement providing for the purchase of 287,293 shares of Common Stock at an exercise price of \$1.063 per share. The option under this agreement is fully vested; and

A Non-Statutory Stock Option Agreement providing for the purchase of 500,000 shares of Common Stock at an exercise price of \$0.825 per share. The option under this agreement vests in its entirety on September 1, 2006.

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If Dr. Agrawal's employment is terminated by the Company without cause or by Dr. Agrawal for good reason, each of Dr. Agrawal's options will vest as of the date of termination to the extent such options would otherwise have been vested as of October 19, 2008 if he had remained employed by the Company through such date. All options granted to Dr. Agrawal will become fully exercisable upon a change of control of Idera.

Non-Statutory Stock Option Agreements with Mr. Seiler

In 2001, the Company granted to Mr. Seiler non-statutory stock options outside of any equity compensation plan approved by the Company's stockholders, pursuant to the terms of two Non-Statutory Stock Option Agreements, as follows:

A Non-Statutory Stock Option Agreement providing for the purchase of 3,150,000 shares of Common Stock at an exercise price of \$0.84 per share. The option under this agreement is fully vested; and

A Non-Statutory Stock Option Agreement providing for the purchase of 490,000 shares of Common Stock at an exercise price of \$0.71 per share. The option under this agreement is fully vested.

Mr. Seiler's options will be cancelled if not exercised by August 30, 2006.

Warrants Issued to Consultants

In 2002 and 2001, the Company issued warrants to purchase shares of Common Stock to consultants outside of any equity compensation plan approved by the Company's stockholders, as follows:

| Year of Issuance | Shares | Exercise Price | Warrant Expiration |
|-------------------------|---------------|-----------------------|---------------------------|
| 2002 | 100,000 | \$ 1.65 | January 2007 |
| 2001 | 500,000 | \$ 0.50 | March 2006 |

No warrants were issued to consultants since 2002.

**PROPOSAL 4 INCREASE IN THE NUMBER OF SHARES AUTHORIZED FOR ISSUANCE
UNDER THE 1995 EMPLOYEE STOCK PURCHASE PLAN**

In April 2006, the Board of Directors of the Company voted to amend the 1995 Employee Stock Purchase Plan (the ESPP Plan) to increase the number of shares of Common Stock available for issuance from 500,000 shares to 1,000,000 shares, subject to stockholder approval. The ESPP Plan allows employees to purchase shares of Common Stock at a discount from market price, four times per year, through payroll deductions.

The ESPP Plan provides an important employee benefit which helps the Company attract and retain employees and encourage their participation in and commitment to the Company's business and financial success. As of March 31, 2006, only 150,019 shares of the 500,000 shares previously authorized by stockholders for issuance under the ESPP Plan remained available for issuance. This is an insufficient number of shares to cover the number of shares the Company anticipates it will need to issue to participating employees during 2006. Approval of this increase in shares authorized for issuance under the plan is needed to allow the Company to continue to offer to its employees the opportunity to purchase shares of the Company's Common Stock under the ESPP Plan. Based on the Company's current stock price and the number of current participants in the ESPP Plan, the Company anticipates that this increase will provide sufficient shares for it to offer purchases under the ESPP Plan through 2010.

The ESPP Plan is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986. If the plan is qualified under Section 423, the employees who participate in the plan may enjoy certain tax advantages, as described below. Stockholder approval is required for the plan to be qualified under Section 423.

The Board of Directors believes that the future success of the Company depends, in large part, upon the ability of the Company to maintain a competitive position in attracting, retaining and motivating key

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personnel. Accordingly, the Board of Directors believes that increasing the number of shares available for issuance pursuant to the ESPP Plan is in the best interests of the Company and its stockholders and recommends a vote FOR the increase in the number of shares available for issuance pursuant to the ESPP Plan and the reservation of an additional 500,000 shares of Common Stock for issuance thereunder.

Description of the ESPP Plan

The following is a brief summary of the ESPP Plan.

Administration

The Board of Directors or a Committee appointed by the Board of Directors administers the ESPP Plan and is authorized to make rules for the administration and interpretation of the plan.

Eligibility

All employees of the Company and of any subsidiary designated by the Board or the Committee are eligible to participate in the ESPP Plan if they are regularly employed by the Company or the designated subsidiary for more than twenty hours a week and for more than five months in a calendar year, they have been employed by the Company or a designated subsidiary for a least three months prior to enrolling in the plan and they are employees of the Company or a designated subsidiary on the first day of the applicable plan offering period. Any employee who, immediately after the grant of an option under the plan, would own 5% or more of the total combined voting power or value of the Company's or any subsidiary's stock, is not eligible to participate. As of March 31, 2006, approximately 26 employees were eligible to participate in the ESPP Plan.

Offerings

The Company may make one or more offerings to employees to purchase the Company's Common Stock under the ESPP Plan, as determined by the Board of Directors. Currently, the Company makes four consecutive offerings each year. The Committee chosen by the Board of Directors has determined that offerings will begin on the first trading day on or after September 1, December 1, March 1 and June 1, of each year, and that each such offering period will end on the last trading day of November, February, May and August. The Board of Directors or the committee appointed by the Board may, at its discretion, change the duration of offering periods and the commencement date of offering periods.

Purchase Limitations

An employee may elect to have any multiple of 1% of the employee's base salary up to a maximum of 10% deducted for the purpose of purchasing stock under the ESPP Plan. An employee may not be granted an option which permits his rights to purchase the Company's Common Stock under this plan and any other stock purchase plan of the Company or its subsidiaries to accrue at a rate which exceeds \$25,000 of the fair market value of the stock (determined at the time the option is granted) for each calendar year in which the option is outstanding at any time.

Purchase Price

A participating employee may purchase the stock at 85% of the last reported sale price of the Company's Common Stock on either the day the offering begins or ends, whichever is lower.

Amendment and Termination

The Board of Directors may at any time amend the plan in any respect, except that (a) if the approval of the Company's stockholders is required under Section 423 of the Internal Revenue Code or any other applicable law, regulation or stock exchange rule, the amendment will not be effected without their approval, and (b) in no event may any amendment be made which would cause the ESPP Plan to fail to comply with Section 423 of the Internal Revenue Code.

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In the event that the Company merges or consolidates with another company and the Company's capital stockholders immediately prior to such merger or consolidation continue to hold at least 80% of the voting power of the capital stock of the surviving corporation, at the end of the then current plan period each optionholder under the ESPP Plan will be entitled to receive securities or property of the surviving entity as if they were a Common Stockholder at the time of such transaction. In the event that such a merger or consolidation occurs and the holders of the Company's capital stock hold less than 80% of the surviving corporation, the Board of Directors may elect to cancel all outstanding options under the ESPP Plan and either: a) refund all contributed payments made by the holders or b) provide the holders with the right to exercise such option as of a date no less than ten days prior to such event. If the Board of Directors does not choose to cancel the options, after the effective date of such transaction each optionholder shall be entitled to receive securities of the surviving entity as if they were a holder of Common Stock at the time of the transaction.

Plan Benefits

Directors who are not employees are not eligible to participate in the ESPP Plan. This table shows the number of shares of Common Stock purchased under the ESPP Plan since its inception in 1995 by the Company's Chief Executive Officer, each of the Company's two other executive officers, all current executive officers as a group and all employees as a group other than current executive officers.

| | Number of Shares Purchased under the ESPP Plan |
|---|---|
| Sudhir Agrawal, D. Phil | |
| Robert W. Karr, M.D. | |
| Robert G. Andersen | 43,429 |
| All current executive officers as a group (3 persons) | 43,429 |
| All employees as a group other than the current executive officers as a group | 306,552 |

The benefits and amounts that may be received in the future by persons eligible to participate in the ESPP Plan are not currently determinable.

Federal Income Tax Consequences

This is a summary of the United States federal income tax consequences that generally apply when an employee purchases shares under the ESPP Plan and sells those shares.

Tax Consequences to Participating Employees

In general, an employee will not recognize taxable income upon enrolling in the ESPP Plan or upon purchasing shares of Common Stock at the end of an offering.

The tax treatment when the employee sells the shares depends on how long the employee has held the shares, as follows. In this table, the grant date means the first day of the offering period in which the shares were purchased.

| Date Sold | Sale Price | Tax Treatment |
|---|--------------------------------|---|
| More than 1 year after the purchase date and more than 2 years after the grant date | Higher than the purchase price | Employee will recognize ordinary income equal to: 15% of the fair market value of the stock on the grant date, or, if less, the amount the sale price of the shares exceeds the purchase |

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| Date Sold | Sale Price | Tax Treatment |
|---|--------------------------------|---|
| More than 1 year after the purchase date and more than 2 years after grant date | Lower than the purchase price | price; and any additional gain will be long-term capital gain Employee will recognize long-term capital loss equal to the amount that the purchase price exceeds the sale price |
| Within 1 year after the purchase date or within 2 years after the grant date | Higher than the purchase price | Employee will recognize: Ordinary compensation income equal to the fair market value on the purchase date over the purchase price; and capital gain equal to the amount the sale price exceeds that fair market value or capital loss equal to the amount that fair market value exceeds sale price. It will be long-term capital gain or loss if the employee held the stock for more than 1 year and short-term capital gain or loss if held for a shorter period. |
| Within 1 year after the purchase date or within 2 years after the grant date | Lower than the purchase price | Employee will recognize: Ordinary compensation income equal to the fair market value on the purchase date over the purchase price; and a capital loss equal to the amount that the fair market value on the purchase date exceeds the sale price. It will be long-term capital loss if the employee held the stock for more than 1 year and short-term capital loss if held for a shorter period. |

Tax Consequences to the Company

There will be no tax consequences to the Company except that the Company will be entitled to a deduction when an employee has ordinary compensation income. Any such deduction will be subject to the limitations of Section 162(m) of the Code.

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PROPOSAL 5 TO APPROVE AN AMENDMENT TO THE COMPANY S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A ONE-FOR-FOUR REVERSE SPLIT OF THE COMPANY S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK AND TO FIX ON A POST-SPLIT BASIS THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK AT 75,000,000 SHARES, SUCH AMENDMENT TO BE EFFECTED IN THE SOLE DISCRETION OF THE BOARD OF DIRECTORS WITHOUT FURTHER APPROVAL OR AUTHORIZATION OF THE COMPANY S STOCKHOLDERS.

General

The Company s stockholders are being asked to approve four different proposals for a reverse split of the Common Stock in the ratios of one-for-four, one-for-six, one-for-eight and one-for-ten. The board of directors has adopted a resolution (i) declaring the advisability of each of the reverse stock splits, (ii) approving amendments to the Company s Restated Certificate of Incorporation, as amended, to effect each proposed reverse stock split and fix the number of authorized shares of Common Stock following the reverse stock split (the Reverse Split Amendments), subject to stockholder approval, which amendments are attached to this proxy statement as Exhibit B, Exhibit C, Exhibit D and Exhibit E, respectively, and (iii) authorizing any other action it deems necessary to effect the reverse stock split, without further approval or authorization of the Company s stockholders, at any time prior to the Company s next annual meeting of stockholders. Following approval of one or more of the Reverse Split Amendments at the Annual Meeting, the Board of Directors will have the authority, without further stockholder consent, to effect any one of the Reverse Split Amendments approved by the stockholders at such time as the Board of Directors may determine is in the best interest of the Company and its stockholders. In the event the Board of Directors determines to implement a reverse stock split, the Company will file the Reverse Split Amendment containing the ratio that, in the Board of Directors judgment, will be most beneficial to the Company and the Company s stockholders, in light of various factors, including market conditions, existing and expected trading prices for the Common Stock, and the likely effect of business developments on the market price for the Common Stock.

The Board of Directors reserves the right, even after stockholder approval, to forego or postpone the filing of the one-for-four Reverse Split Amendment or any other Reverse Split Amendment approved by the stockholders if it determines such is not in the best interests of the Company and the Company s stockholders. If none of the Reverse Split Amendments approved by the stockholders is subsequently implemented by the Board of Directors before the next annual meeting of stockholders, all such Reverse Split Amendments will be deemed abandoned, without any further effect. In such case, the Board of Directors may again seek stockholder approval at a future date for a reverse stock split if it deems a reverse stock split to be advisable at that time.

In this proposal, the Company s stockholders are being asked to authorize the Board of Directors, in its discretion, to amend the Company s Restated Certificate of Incorporation, as amended, to effect a one-for-four reverse split of the issued and outstanding Common Stock and to fix the number of authorized shares of Common Stock at 75,000,000 on a post-split basis, without further approval or authorization of the Company s stockholders, at any time prior to the Company s next annual meeting of stockholders.

If approved by the Company s stockholders and implemented by the Board of Directors, the proposed one-for-four reverse stock split would become effective by filing the Reverse Split Amendment attached hereto as Exhibit B with the Delaware Secretary of State. At 5:00 p.m. eastern time on the date of filing the Reverse Split Amendment (the Effective Time):

each outstanding share of Common Stock would automatically be changed into one-fourth of a share of Common Stock;

the number of shares of Common Stock subject to the Company s outstanding options and warrants, the number of shares reserved for future issuances under the Company s stock plans and the number of shares issuable upon conversion of the Company s convertible preferred stock will be reduced by a factor of four;

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the number of authorized shares of Common Stock under the Company's Restated Certificate of Incorporation would be fixed at 75,000,000; and

any other Reverse Split Amendment approved by the stockholders would be deemed abandoned, without any further effect.

Reasons for the Reverse Stock Split

The reasons for the reverse stock split are generally to increase the per share market price of the Common Stock and to reduce the number of shares outstanding, which the Company believes will have several benefits to the Company and the Company's stockholders.

Following effectiveness of a reverse stock split, the Company believes that the perception of the Company's Common Stock as an investment may improve and that the Company's Common Stock may appeal to a broader market. Due to the volatility of low-priced stocks, the Company believes the investment community generally has a negative view of Common Stock that sells at a low price. For example, some institutional investors have internal policies preventing the purchase of low-priced stocks. Similarly, a variety of policies and practices of broker-dealers discourage individual brokers within those firms from dealing in low-priced stocks. Accordingly, some brokers are reluctant to or will not recommend that their clients purchase low-priced stocks. Also, because the brokers' commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher priced stocks, the current low share price of the Common Stock can result in individual stockholders paying transaction costs (commissions, markups or markdowns) which are a higher percentage of their total share value than would be the case if the share price of the Common Stock were substantially higher. This factor is also believed to limit the willingness of institutions to purchase the Company's Common Stock. The Company believes that by increasing the market price of the Company's Common Stock, a reverse stock split may build additional interest in the Company's Common Stock by the investment community and result in a more stable trading market for the Company's Common Stock.

Principal Effects of a One-for-Four Reverse Stock Split

If the Reverse Split Amendment for the proposed one-for-four reverse stock split is approved at the Annual Meeting and the Board of Directors elects to effect the proposed one-for-four reverse stock split, each share of Common Stock outstanding immediately prior to the Effective Time would automatically be changed, as of the Effective Time, into one-fourth of a share of Common Stock. In addition, the number of shares of Common Stock subject to outstanding options and warrants issued by us, the number of shares reserved for future issuances under the Company's stock plans and the number of shares of Common Stock issuable upon conversion of the Company's convertible preferred stock and convertible notes, will be reduced by a factor of four. No fractional shares of Common Stock will be issued in connection with the proposed reverse stock split. Holders of Common Stock who would otherwise receive a fractional share of Common Stock pursuant to the reverse stock split will receive cash in lieu of the fractional share as explained more fully below.

Because the reverse stock split will apply to all issued and outstanding shares of Common Stock and outstanding rights to acquire Common Stock, the proposed reverse stock split will not alter the relative rights and preferences of existing stockholders. In addition, the reverse stock split will not affect the par value of the Common Stock. As a result, at the Effective Time of the reverse stock split, the stated capital with respect to the Common Stock on the Company's balance sheet will be reduced to one-fourth of its present amount, and the additional paid-in capital account will be credited with the amount by which such stated capital account is reduced. The per share net income or loss and net book value of the Common Stock will be increased because there will be fewer shares of the Common Stock outstanding.

If the proposed Reverse Split Amendment is approved at the Annual Meeting and effected by the Board of Directors, some stockholders may consequently own less than one hundred shares of Common Stock. A purchase or sale of less than one hundred shares (an "odd lot" transaction) may result in incrementally higher trading costs through certain brokers, particularly "full service" brokers. Therefore, those stockholders who

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own less than one hundred shares following the reverse stock split may be required to pay modestly higher transaction costs should they then determine to sell their shares of Common Stock.

The proposed Reverse Split Amendment would also fix the number of authorized shares of Common Stock at 75,000,000. The Board of Directors considered that the number of authorized shares would be reduced proportionately with the reverse stock split, but believed that this would reduce the number of authorized shares too drastically and limit the Company's flexibility to issue shares of Common Stock in connection with possible future financings, joint ventures, acquisitions, stock incentive plans and other general corporate purposes. As a result, the Board of Directors has provided in the Reverse Split Amendment that the number of authorized shares of Common Stock of the Company be set at 75,000,000.

Stockholders have no dissenter's right under Delaware law or the Company's Restated Certificate of Incorporation, as amended, or the Company's Amended and Restated Bylaws with respect to the reverse stock split.

Cash Payment in Lieu of Fractional Shares

In lieu of any fractional shares to which a holder of Common Stock would otherwise be entitled as a result of the reverse stock split, the Company will pay the holder cash equal to such fraction multiplied by the average of the high and low trading prices of the Common Stock on the American Stock Exchange during regular trading hours for the five trading days immediately preceding the Effective Time.

Federal Income Tax Consequences

The following description of the material federal income tax consequences of the reverse stock split is based on the Code, applicable Treasury Regulations promulgated thereunder, judicial authority and current administrative rulings and practices as in effect on the date of this Proxy Statement. Changes to the laws could alter the tax consequences described below, possibly with retroactive effect. The Company has not sought and will not seek an opinion of counsel or a ruling from the Internal Revenue Service regarding the federal income tax consequences of the reverse stock split. This discussion is for general information only and does not discuss the tax consequences which may apply to special classes of taxpayers (e.g., non-resident aliens, broker/ dealers or insurance companies). The state and local tax consequences of the reverse stock split may vary significantly as to each stockholder, depending upon the jurisdiction in which such stockholder resides. Stockholders are urged to consult their own tax advisors to determine the particular consequences to them.

In general, the federal income tax consequences of the reverse stock split will vary among stockholders depending upon whether they receive cash for fractional shares or solely a reduced number of shares of Common Stock in exchange for their old shares of Common Stock. The Company believes that because the reverse stock split is not part of a plan to increase periodically a stockholder's proportionate interest in the Company's assets or earnings and profits, the reverse stock split will likely have the following federal income tax effects:

A stockholder who receives solely a reduced number of shares of Common Stock will not recognize gain or loss. In the aggregate, such a stockholder's basis in the reduced number of shares of Common Stock will equal the stockholder's basis in its old shares of Common Stock.

A stockholder who receives cash in lieu of a fractional share as a result of the reverse stock split will generally be treated as having received the payment as a distribution in redemption of the fractional share, as provided in Section 302(a) of the Code, which distribution will be taxed as either a distribution under Section 301 of the Code or an exchange to such stockholder, depending on that stockholder's particular facts and circumstances. Generally, a stockholder receiving such a payment should recognize gain or loss equal to the difference, if any, between the amount of cash received and the stockholder's basis in the fractional share. In the aggregate, such a stockholder's basis in the reduced number of shares of Common Stock will equal the stockholder's basis in its old shares of Common Stock decreased by the basis allocated to the fractional share for which such stockholder is entitled to receive cash.

The Company will not recognize any gain or loss as a result of the reverse stock split.

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Board Discretion to Implement the One-for-Four Reverse Stock Split

If the proposed Reverse Split Amendment for the one-for-four reverse stock split is approved at the Annual Meeting, the Board of Directors may, in its sole discretion, at any time prior to the Company's next annual meeting of stockholders, authorize the one-for-four reverse stock split and file the Reverse Split Amendment with the Delaware Secretary of State. The determination by the Board of Directors will be based on various factors, including market conditions, existing and expected trading prices for the Common Stock, and the likely effect of business developments on the market price for the Common Stock. Notwithstanding the approval by the stockholders of the Reverse Split Amendment at the Annual Meeting, the Board of Directors may, in its sole discretion, determine not to implement the one-for-four reverse stock split. If the Board of Directors does not implement the one-for-four reverse stock split before the date of the Company's next annual meeting of stockholders, or if the Board of Directors implements the reverse stock split in another ratio approved by the stockholders, the authorization provided to the Board of Directors at this Annual Meeting to effect a one-for-four reverse stock split (or to effect a reverse stock split in the other ratio or ratios that were not selected) will no longer have any effect. In any such event, the Board of Directors would need to seek stockholder approval again at a future date for a reverse stock split if it deems a reverse stock split to be advisable at that time.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL TO APPROVE AN AMENDMENT TO THE COMPANY'S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A ONE-FOR-FOUR REVERSE SPLIT OF THE COMPANY'S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK AND TO FIX ON A POST-SPLIT BASIS THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK AT 75,000,000 SHARES, SUCH AMENDMENT TO BE EFFECTED IN THE SOLE DISCRETION OF THE BOARD OF DIRECTORS WITHOUT FURTHER APPROVAL OR AUTHORIZATION OF THE COMPANY'S STOCKHOLDERS.

PROPOSAL 6 TO APPROVE AN AMENDMENT TO THE COMPANY'S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A ONE-FOR-SIX REVERSE SPLIT OF THE COMPANY'S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK AND TO FIX ON A POST-SPLIT BASIS THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK AT 50,000,000 SHARES, SUCH AMENDMENT TO BE EFFECTED IN THE SOLE DISCRETION OF THE BOARD OF DIRECTORS WITHOUT FURTHER APPROVAL OR AUTHORIZATION OF THE COMPANY'S STOCKHOLDERS.

General

The Company's stockholders are being asked to approve four different proposals for a reverse split of the Common Stock in the ratios of one-for-four, one-for-six, one-for-eight and one-for-ten. The board of directors has adopted a resolution (i) declaring the advisability of each of the reverse stock splits, (ii) approving the Reverse Split Amendments, subject to stockholder approval, and (iii) authorizing any other action it deems necessary to effect the reverse stock split, without further approval or authorization of the Company's stockholders, at any time prior to the Company's next annual meeting of stockholders. Following approval of one or more of the Reverse Split Amendments at the Annual Meeting, the Board of Directors will have the authority, without further stockholder consent, to effect any one of the Reverse Split Amendments approved by the stockholders at such time as the Board of Directors may determine is in the best interest of the Company and its stockholders. In the event the Board of Directors determines to implement a reverse stock split, the Company will file the Reverse Split Amendment containing the ratio that, in the Board of Directors' judgment, will be most beneficial to the Company and the Company's stockholders, in light of various factors, including market conditions, existing and expected trading prices for the Common Stock, and the likely effect of business developments on the market price for the Common Stock.

The Board of Directors reserves the right, even after stockholder approval, to forego or postpone the filing of the one-for-six Reverse Split Amendment or any other Reverse Split Amendment approved by the stockholders if it determines such is not in the best interests of the Company and the Company's stockholders.

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If none of the Reverse Split Amendments approved by the stockholders is subsequently implemented by the Board of Directors before the next annual meeting of stockholders, all such Reverse Split Amendments will be deemed abandoned, without any further effect. In such case, the Board of Directors may again seek stockholder approval at a future date for a reverse stock split if it deems a reverse stock split to be advisable at that time.

In this proposal, the Company's stockholders are being asked to authorize the Board of Directors, in its discretion, to amend the Company's Restated Certificate of Incorporation, as amended, to effect a one-for-six reverse split of the issued and outstanding Common Stock and to fix the number of authorized shares of Common Stock at 50,000,000 on a post-split basis, without further approval or authorization of the Company's stockholders, at any time prior to the Company's next annual meeting of stockholders.

If approved by the Company's stockholders and implemented by the Board of Directors, the proposed one-for-six reverse stock split would become effective by filing the Reverse Split Amendment attached hereto as Exhibit C with the Delaware Secretary of State. At the Effective Time:

each outstanding share of Common Stock would automatically be changed into one-sixth of a share of Common Stock;

the number of shares of Common Stock subject to the Company's outstanding options and warrants, the number of shares reserved for future issuances under the Company's stock plans and the number of shares issuable upon conversion of the Company's convertible preferred stock will be reduced by a factor of six;

the number of authorized shares of Common Stock under the Company's Restated Certificate of Incorporation would be fixed at 50,000,000; and

any other Reverse Split Amendment approved by the stockholders would be deemed abandoned, without any further effect.

Reasons for the Reverse Stock Split

For a discussion of the reasons underlying the Company's decision to seek approval for the reverse stock split, see the caption entitled "Reasons for the Reverse Stock Split" in Proposal 5.

Principal Effects of a One-for-Six Reverse Stock Split

If the Reverse Split Amendment for the proposed one-for-six reverse stock split is approved at the Annual Meeting and the Board of Directors elects to effect the proposed one-for-six reverse stock split, each share of Common Stock outstanding immediately prior to the Effective Time would automatically be changed, as of the Effective Time, into one-sixth of a share of Common Stock. In addition, the number of shares of Common Stock subject to outstanding options and warrants issued by us, the number of shares reserved for future issuances under the Company's stock plans and the number of shares of Common Stock issuable upon conversion of the Company's convertible preferred stock and convertible notes, will be reduced by a factor of six. No fractional shares of Common Stock will be issued in connection with the proposed reverse stock split. Holders of Common Stock who would otherwise receive a fractional share of Common Stock pursuant to the reverse stock split will receive cash in lieu of the fractional share as explained more fully below.

Because the reverse stock split will apply to all issued and outstanding shares of Common Stock and outstanding rights to acquire Common Stock, the proposed reverse stock split will not alter the relative rights and preferences of existing stockholders. In addition, the reverse stock split will not affect the par value of the Common Stock. As a result, at the Effective Time of the reverse stock split, the stated capital with respect to the Common Stock on the Company's balance sheet will be reduced to one-sixth of its present amount, and the additional paid-in capital account will be credited with the amount by which such stated capital account is reduced. The per share net income or loss and net book value of the Common Stock will be increased because there will be fewer shares of the Common Stock outstanding.

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If the proposed Reverse Split Amendment is approved at the Annual Meeting and effected by the Board of Directors, some stockholders may consequently own less than one hundred shares of Common Stock. A purchase or sale of less than one hundred shares (an odd lot transaction) may result in incrementally higher trading costs through certain brokers, particularly full service brokers. Therefore, those stockholders who own less than one hundred shares following the reverse stock split may be required to pay modestly higher transaction costs should they then determine to sell their shares of Common Stock.

The proposed Reverse Split Amendment would also fix the number of authorized shares of Common Stock at 50,000,000. The Board of Directors considered that the number of authorized shares would be reduced proportionately with the reverse stock split, but believed that this would reduce the number of authorized shares too drastically and limit the Company's flexibility to issue shares of Common Stock in connection with possible future financings, joint ventures, acquisitions, stock incentive plans and other general corporate purposes. As a result, the Board of Directors has provided in the Reverse Split Amendment that the number of authorized shares of Common Stock of the Company be set at 50,000,000.

Stockholders have no dissenter's right under Delaware law or the Company's Restated Certificate of Incorporation, as amended, or the Company's Amended and Restated Bylaws with respect to the reverse stock split.

Cash Payment in Lieu of Fractional Shares

For a discussion of the treatment of fractional shares resulting from the reverse stock split, see the caption entitled Cash Payment in Lieu of Fractional Shares in Proposal 5.

Federal Income Tax Consequences

For a discussion of the federal income tax consequences of the reverse stock split, see the caption entitled Federal Income Tax Consequences in Proposal 5.

Board Discretion to Implement the One-for-Six Reverse Stock Split

If the Reverse Split Amendment for the proposed one-for-six reverse stock split is approved at the Annual Meeting, the Board of Directors may, in its sole discretion, at any time prior to the Company's next annual meeting of stockholders, authorize the one-for-six reverse stock split and file the Reverse Split Amendment with the Delaware Secretary of State. The determination by the Board of Directors will be based on various factors, including market conditions, existing and expected trading prices for the Common Stock, and the likely effect of business developments on the market price for the Common Stock. Notwithstanding the approval by the stockholders of the Reverse Split Amendment at the Annual Meeting, the Board of Directors may, in its sole discretion, determine not to implement the one-for-six reverse stock split. If the Board of Directors does not implement the one-for-six reverse stock split before the date of the Company's next annual meeting of stockholders, or if the Board of Directors implements the reverse stock split in another ratio approved by the stockholders, the authorization provided to the Board of Directors at this Annual Meeting to effect a one-for-six reverse stock split (or to effect a reverse stock split in the other ratio or ratios that were not selected) will no longer have any effect. In any such event, the Board of Directors would need to seek stockholder approval again at a future date for a reverse stock split if it deems a reverse stock split to be advisable at that time.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL TO APPROVE AN AMENDMENT TO THE COMPANY'S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A ONE-FOR-SIX REVERSE SPLIT OF THE COMPANY'S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK AND TO FIX ON A POST-SPLIT BASIS THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK AT 50,000,000 SHARES, SUCH AMENDMENT TO BE EFFECTED IN THE SOLE DISCRETION OF THE BOARD OF DIRECTORS WITHOUT FURTHER APPROVAL OR AUTHORIZATION OF THE COMPANY'S STOCKHOLDERS.

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PROPOSAL 7 TO APPROVE AN AMENDMENT TO THE COMPANY S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A ONE-FOR-EIGHT REVERSE SPLIT OF THE COMPANY S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK AND TO FIX ON A POST-SPLIT BASIS THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK AT 40,000,000 SHARES, SUCH AMENDMENT TO BE EFFECTED IN THE SOLE DISCRETION OF THE BOARD OF DIRECTORS WITHOUT FURTHER APPROVAL OR AUTHORIZATION OF THE COMPANY S STOCKHOLDERS.

General

The Company s stockholders are being asked to approve four different proposals for a reverse split of the Common Stock in the ratios of one-for-four, one-for-six, one-for-eight and one-for-ten. The board of directors has adopted a resolution (i) declaring the advisability of each of the reverse stock splits, (ii) approving the Reverse Split Amendments, subject to stockholder approval, and (iii) authorizing any other action it deems necessary to effect the reverse stock split, without further approval or authorization of the Company s stockholders, at any time prior to the Company s next annual meeting of stockholders. Following approval of one or more of the Reverse Split Amendments at the Annual Meeting, the Board of Directors will have the authority, without further stockholder consent, to effect any one of the Reverse Split Amendments approved by the stockholders at such time as the Board of Directors may determine is in the best interest of the Company and its stockholders. In the event the Board of Directors determines to implement a reverse stock split, the Company will file the Reverse Split Amendment containing the ratio that, in the Board of Directors judgment, will be most beneficial to the Company and the Company s stockholders, in light of various factors, including market conditions, existing and expected trading prices for the Common Stock, and the likely effect of business developments on the market price for the Common Stock.

The Board of Directors reserves the right, even after stockholder approval, to forego or postpone the filing of the one-for-eight Reverse Split Amendment or any other Reverse Split Amendment approved by the stockholders if it determines such is not in the best interests of the Company and the Company s stockholders. If none of the Reverse Split Amendments approved by the stockholders is subsequently implemented by the Board of Directors before the next annual meeting of stockholders, all such Reverse Split Amendments will be deemed abandoned, without any further effect. In such case, the Board of Directors may again seek stockholder approval at a future date for a reverse stock split if it deems a reverse stock split to be advisable at that time.

In this proposal, the Company s stockholders are being asked to authorize the Board of Directors, in its discretion, to amend the Company s Restated Certificate of Incorporation, as amended, to effect a one-for-eight reverse split of the issued and outstanding Common Stock and to fix the number of authorized shares of Common Stock at 40,000,000 on a post-split basis, without further approval or authorization of the Company s stockholders, at any time prior to the Company s next annual meeting of stockholders.

If approved by the Company s stockholders and implemented by the Board of Directors, the proposed one-for-eight reverse stock split would become effective by filing the Reverse Split Amendment attached hereto as Exhibit D with the Delaware Secretary of State. At the Effective Time:

each outstanding share of Common Stock would automatically be changed into one-eighth of a share of Common Stock;

the number of shares of Common Stock subject to the Company s outstanding options and warrants, the number of shares reserved for future issuances under the Company s stock plans and the number of shares issuable upon conversion of the Company s convertible preferred stock will be reduced by a factor of eight;

the number of authorized shares of Common Stock under the Company s Restated Certificate of Incorporation would be fixed at 40,000,000; and

any other Reverse Split Amendment approved by the stockholders would be deemed abandoned, without any further effect.

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Reasons for the Reverse Stock Split

For a discussion of the reasons underlying the Company's decision to seek approval for the reverse stock split, see the caption entitled "Reasons for the Reverse Stock Split" in Proposal 5.

Principal Effects of a One-for-Eight Reverse Stock Split

If the Reverse Split Amendment for the proposed one-for-eight reverse stock split is approved at the Annual Meeting and the Board of Directors elects to effect the proposed one-for-eight reverse stock split, each share of Common Stock outstanding immediately prior to the Effective Time would automatically be changed, as of the Effective Time, into one-eighth of a share of Common Stock. In addition, the number of shares of Common Stock subject to outstanding options and warrants issued by us, the number of shares reserved for future issuances under the Company's stock plans and the number of shares of Common Stock issuable upon conversion of the Company's convertible preferred stock and convertible notes, will be reduced by a factor of eight. No fractional shares of Common Stock will be issued in connection with the proposed reverse stock split. Holders of Common Stock who would otherwise receive a fractional share of Common Stock pursuant to the reverse stock split will receive cash in lieu of the fractional share as explained more fully below.

Because the reverse stock split will apply to all issued and outstanding shares of Common Stock and outstanding rights to acquire Common Stock, the proposed reverse stock split will not alter the relative rights and preferences of existing stockholders. In addition, the reverse stock split will not affect the par value of the Common Stock. As a result, at the Effective Time of the reverse stock split, the stated capital with respect to the Common Stock on the Company's balance sheet will be reduced to one-eighth of its present amount, and the additional paid-in capital account will be credited with the amount by which such stated capital account is reduced. The per share net income or loss and net book value of the Common Stock will be increased because there will be fewer shares of the Common Stock outstanding.

If the proposed Reverse Split Amendment is approved at the Annual Meeting and effected by the Board of Directors, some stockholders may consequently own less than one hundred shares of Common Stock. A purchase or sale of less than one hundred shares (an "odd lot" transaction) may result in incrementally higher trading costs through certain brokers, particularly "full service" brokers. Therefore, those stockholders who own less than one hundred shares following the reverse stock split may be required to pay modestly higher transaction costs should they then determine to sell their shares of Common Stock.

The proposed Reverse Split Amendment would also fix the number of authorized shares of Common Stock at 40,000,000. The Board of Directors considered that the number of authorized shares would be reduced proportionately with the reverse stock split, but believed that this would reduce the number of authorized shares too drastically and limit the Company's flexibility to issue shares of Common Stock in connection with possible future financings, joint ventures, acquisitions, stock incentive plans and other general corporate purposes. As a result, the Board of Directors has provided in the Reverse Split Amendment that the number of authorized shares of Common Stock of the Company be set at 40,000,000.

Stockholders have no dissenter's right under Delaware law or the Company's Restated Certificate of Incorporation, as amended, or the Company's Amended and Restated Bylaws with respect to the reverse stock split.

Cash Payment in Lieu of Fractional Shares

For a discussion of the treatment of fractional shares resulting from the reverse stock split, see the caption entitled "Cash Payment in Lieu of Fractional Shares" in Proposal 5.

Federal Income Tax Consequences

For a discussion of the federal income tax consequences of the reverse stock split, see the caption entitled "Federal Income Tax Consequences" in Proposal 5.

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Board Discretion to Implement the One-for-Eight Reverse Stock Split

If the Reverse Split Amendment for the proposed one-for-eight reverse stock split is approved at the Annual Meeting, the Board of Directors may, in its sole discretion, at any time prior to the Company's next annual meeting of stockholders, authorize the one-for-eight reverse stock split and file the Reverse Split Amendment with the Delaware Secretary of State. The determination by the Board of Directors will be based on various factors, including market conditions, existing and expected trading prices for the Common Stock, and the likely effect of business developments on the market price for the Common Stock. Notwithstanding the approval by the stockholders of the Reverse Split Amendment at the Annual Meeting, the Board of Directors may, in its sole discretion, determine not to implement the one-for-eight reverse stock split. If the Board of Directors does not implement the one-for-eight reverse stock split before the date of the Company's next annual meeting of stockholders, or if the Board of Directors implements the reverse stock split in another ratio approved by the stockholders, the authorization provided to the Board of Directors at this Annual Meeting to effect a one-for-eight reverse stock split (or to effect a reverse stock split in the other ratio or ratios that were not selected) will no longer have any effect. In any such event, the Board of Directors would need to seek stockholder approval again at a future date for a reverse stock split if it deems a reverse stock split to be advisable at that time.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL TO APPROVE AN AMENDMENT TO THE COMPANY'S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A ONE-FOR-EIGHT REVERSE SPLIT OF THE COMPANY'S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK AND TO FIX ON A POST-SPLIT BASIS THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK AT 40,000,000 SHARES, SUCH AMENDMENT TO BE EFFECTED IN THE SOLE DISCRETION OF THE BOARD OF DIRECTORS WITHOUT FURTHER APPROVAL OR AUTHORIZATION OF THE COMPANY'S STOCKHOLDERS.

PROPOSAL 8 TO APPROVE AN AMENDMENT TO THE COMPANY'S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A ONE-FOR-TEN REVERSE SPLIT OF THE COMPANY'S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK AND TO FIX ON A POST-SPLIT BASIS THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK AT 35,000,000 SHARES, SUCH AMENDMENT TO BE EFFECTED IN THE SOLE DISCRETION OF THE BOARD OF DIRECTORS WITHOUT FURTHER APPROVAL OR AUTHORIZATION OF THE COMPANY'S STOCKHOLDERS.

General

The Company's stockholders are being asked to approve four different proposals for a reverse split of the Common Stock in the ratios of one-for-four, one-for-six, one-for-eight and one-for-ten. The board of directors has adopted a resolution (i) declaring the advisability of each of the reverse stock splits, (ii) approving the Reverse Split Amendments, subject to stockholder approval, and (iii) authorizing any other action it deems necessary to effect the reverse stock split, without further approval or authorization of the Company's stockholders, at any time prior to the Company's next annual meeting of stockholders. Following approval of one or more of the Reverse Split Amendments at the Annual Meeting, the Board of Directors will have the authority, without further stockholder consent, to effect any one of the Reverse Split Amendments approved by the stockholders at such time as the Board of Directors may determine is in the best interest of the Company and its stockholders. In the event the Board of Directors determines to implement a reverse stock split, the Company will file the Reverse Split Amendment containing the ratio that, in the Board of Directors' judgment, will be most beneficial to the Company and the Company's stockholders, in light of various factors, including market conditions, existing and expected trading prices for the Common Stock, and the likely effect of business developments on the market price for the Common Stock.

The Board of Directors reserves the right, even after stockholder approval, to forego or postpone the filing of the one-for-ten Reverse Split Amendment or any other Reverse Split Amendment approved by the

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stockholders if it determines such is not in the best interests of the Company and the Company's stockholders. If none of the Reverse Split Amendments approved by the stockholders is subsequently implemented by the Board of Directors before the next annual meeting of stockholders, all such Reverse Split Amendments will be deemed abandoned, without any further effect. In such case, the Board of Directors may again seek stockholder approval at a future date for a reverse stock split if it deems a reverse stock split to be advisable at that time.

In this proposal, the Company's stockholders are being asked to authorize the Board of Directors, in its discretion, to amend the Company's Restated Certificate of Incorporation, as amended, to effect a one-for-ten reverse split of the issued and outstanding Common Stock and to fix the number of authorized shares of Common Stock at 35,000,000 on a post-split basis, without further approval or authorization of the Company's stockholders, at any time prior to the Company's next annual meeting of stockholders.

If approved by the Company's stockholders and implemented by the Board of Directors, the proposed one-for-ten reverse stock split would become effective by filing the Reverse Split Amendment attached hereto as Exhibit E with the Delaware Secretary of State. At the Effective Time:

each outstanding share of Common Stock would automatically be changed into one-tenth of a share of Common Stock;

the number of shares of Common Stock subject to the Company's outstanding options and warrants, the number of shares reserved for future issuances under the Company's stock plans and the number of shares issuable upon conversion of the Company's convertible preferred stock will be reduced by a factor of ten;

the number of authorized shares of Common Stock under the Company's Restated Certificate of Incorporation would be fixed at 35,000,000; and

any other Reverse Split Amendment approved by the stockholders would be deemed abandoned, without any further effect.

Reasons for the Reverse Stock Split

For a discussion of the reasons underlying the Company's decision to seek approval for the reverse stock split, see the caption entitled "Reasons for the Reverse Stock Split" in Proposal 5.

Principal Effects of a One-for-Ten Reverse Stock Split

If the Reverse Split Amendment for the proposed one-for-ten reverse stock split is approved at the Annual Meeting and the Board of Directors elects to effect the proposed one-for-ten reverse stock split, each share of Common Stock outstanding immediately prior to the Effective Time would automatically be changed, as of the Effective Time, into one-tenth of a share of Common Stock. In addition, the number of shares of Common Stock subject to outstanding options and warrants issued by us, the number of shares reserved for future issuances under the Company's stock plans and the number of shares of Common Stock issuable upon conversion of the Company's convertible preferred stock and convertible notes, will be reduced by a factor of ten. No fractional shares of Common Stock will be issued in connection with the proposed reverse stock split. Holders of Common Stock who would otherwise receive a fractional share of Common Stock pursuant to the reverse stock split will receive cash in lieu of the fractional share as explained more fully below.

Because the reverse stock split will apply to all issued and outstanding shares of Common Stock and outstanding rights to acquire Common Stock, the proposed reverse stock split will not alter the relative rights and preferences of existing stockholders. In addition, the reverse stock split will not affect the par value of the Common Stock. As a result, at the Effective Time of the reverse stock split, the stated capital with respect to the Common Stock on the Company's balance sheet will be reduced to one-tenth of its present amount, and the additional paid-in capital account will be credited with the amount by which such stated capital account is

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reduced. The per share net income or loss and net book value of the Common Stock will be increased because there will be fewer shares of the Common Stock outstanding.

If the proposed Reverse Split Amendment is approved at the Annual Meeting and effected by the Board of Directors, some stockholders may consequently own less than one hundred shares of Common Stock. A purchase or sale of less than one hundred shares (an odd lot transaction) may result in incrementally higher trading costs through certain brokers, particularly full service brokers. Therefore, those stockholders who own less than one hundred shares following the reverse stock split may be required to pay modestly higher transaction costs should they then determine to sell their shares of Common Stock.

The proposed Reverse Split Amendment would also fix the number of authorized shares of Common Stock at 35,000,000. The Board of Directors considered that the number of authorized shares would be reduced proportionately with the reverse stock split, but believed that this would reduce the number of authorized shares too drastically and limit the Company's flexibility to issue shares of Common Stock in connection with possible future financings, joint ventures, acquisitions, stock incentive plans and other general corporate purposes. As a result, the Board of Directors has provided in the Reverse Split Amendment that the number of authorized shares of Common Stock of the Company be set at 35,000,000.

Stockholders have no dissenter's right under Delaware law or the Company's Restated Certificate of Incorporation, as amended, or the Company's Amended and Restated Bylaws with respect to the reverse stock split.

Cash Payment in Lieu of Fractional Shares

For a discussion of the treatment of fractional shares resulting from the reverse stock split, see the caption entitled Cash Payment in Lieu of Fractional Shares in Proposal 5.

Federal Income Tax Consequences

For a discussion of the federal income tax consequences of the reverse stock split, see the caption entitled Federal Income Tax Consequences in Proposal 5.

Board Discretion to Implement the One-for-Ten Reverse Stock Split

If the Reverse Split Amendment for the proposed one-for-ten reverse stock split is approved at the Annual Meeting, the Board of Directors may, in its sole discretion, at any time prior to the Company's next annual meeting of stockholders, authorize the one-for-ten reverse stock split and file the Reverse Split Amendment with the Delaware Secretary of State. The determination by the Board of Directors will be based on various factors, including market conditions, existing and expected trading prices for the Common Stock, and the likely effect of business developments on the market price for the Common Stock. Notwithstanding the approval by the stockholders of the Reverse Split Amendment at the Annual Meeting, the Board of Directors may, in its sole discretion, determine not to implement the one-for-ten reverse stock split. If the Board of Directors does not implement the one-for-ten reverse stock split before the date of the Company's next annual meeting of stockholders, or if the Board of Directors implements the reverse stock split in another ratio approved by the stockholders, the authorization provided to the Board of Directors at this Annual Meeting to effect a one-for-ten reverse stock split (or to effect a reverse stock split in the other ratio or ratios that were not selected) will no longer have any effect. In any such event, the Board of Directors would need to seek stockholder approval again at a future date for a reverse stock split if it deems a reverse stock split to be advisable at that time.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL TO APPROVE AN AMENDMENT TO THE COMPANY'S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A ONE-FOR-TEN REVERSE SPLIT OF THE COMPANY'S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK AND TO FIX ON A POST-SPLIT BASIS THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK AT 35,000,000 SHARES, SUCH AMENDMENT TO BE EFFECTED IN THE SOLE DISCRETION OF THE BOARD OF DIRECTORS

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**WITHOUT FURTHER APPROVAL OR AUTHORIZATION OF THE COMPANY'S STOCKHOLDERS.
ACCOUNTING MATTERS**

Report of the Audit Committee

During the fiscal year ended December 31, 2005, the Audit Committee of the Company's Board of Directors was composed of three non-employee members and acted under a written charter approved by the Board in June 2000 and amended on April 28, 2004. All members of the Audit Committee are independent directors pursuant to the listing standards of the American Stock Exchange as described above.

The Audit Committee reviewed the Company's audited financial statements for the fiscal year ended December 31, 2005 and discussed these financial statements with the Company's management. Management is responsible for the Company's internal controls and the financial reporting process. The Company's registered public accounting firm is responsible for performing an independent audit of the Company's financial statements in accordance with audit standards generally accepted in the United States of America and for issuing a report on those financial statements. As appropriate, the Audit Committee reviews and evaluates, and discusses with the Company's management, internal accounting and financial personnel and the registered public accounting firm, the following:

the plan for, and the registered public accounting firm's report on, each audit of the Company's financial statements;

the Company's financial disclosure documents, including all financial statements and reports filed with the SEC or sent to shareholders;

management's selection, application and disclosure of significant accounting policies;

changes in the Company's accounting practices, principles, controls or methodologies;

significant developments or changes in accounting rules applicable to the Company; and

the adequacy of the Company's internal controls and accounting and financial personnel.

Management represented to the Audit Committee that the Company's financial statements had been prepared in accordance with accounting principles generally accepted in the United States of America.

The Audit Committee also reviewed and discussed the audited financial statements and the matters required by Statement on Auditing Standards 61 or SAS 61 (Communication with Audit Committees), with the Company's registered public accounting firm. SAS 61 requires the Company's registered public accounting firm to discuss with the Company's Audit Committee, among other things, the following:

methods to account for significant unusual transactions;

the initial selection of and changes in significant accounting policies;

the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;

the process used by management in formulating particularly sensitive accounting estimates and the basis for the registered public accounting firm's conclusions regarding the reasonableness of those estimates;

adjustments arising from the audit that, in the registered public accounting firm's judgment, have a significant effect on the entity's financial reporting; and

disagreements, if any, with management over the application of accounting principles, the basis for management's accounting estimates and the disclosures in the financial statements.

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The Company's registered public accounting firm also provided the Audit Committee with the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). Independence Standards Board Standard No. 1 requires registered public accounting firms to disclose annually in writing all relationships that in the registered public accounting firm's professional opinion may reasonably be thought to bear on independence, confirm their perceived independence and engage in a discussion of their independence. The Audit Committee discussed with the registered public accounting firm the matters disclosed in this letter and their independence from the Company. The Audit Committee also considered whether the registered public accounting firm's provision of the other, non-audit related services to the Company, which are referred to in "Principal Accountant Fees and Services" below, is compatible with maintaining such registered public accounting firm's independence.

Based on its discussions with management and the Company's registered public accounting firm, its review of the representations and information provided by management, and the report of the Company's registered public accounting firm, the Audit Committee recommended to the Company's Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

AUDIT COMMITTEE

William S. Reardon, *Chairman*
C. Keith Hartley
Alison Taunton-Rigby

Registered Public Accounting Firm

On March 13, 2006 the Audit Committee selected Ernst & Young LLP to serve as the Company's registered public accounting firm for the year ending December 31, 2006. Ernst & Young LLP has served as the Company's registered public accounting firm starting with the year ended December 31, 2002.

Representatives of Ernst & Young will be present at the Annual Meeting to answer appropriate questions. They will have the opportunity to make a statement if they desire to do so.

Principal Accountant Fees and Services

Audit Fees

Ernst & Young LLP's fees for audit services totaled \$169,117 and \$191,027 for 2005 and 2004, respectively. Audit services were comprised of services associated with the 2005 and 2004 annual audits, registration statements and reviews of the Company's quarterly reports on Form 10-Q.

Audit-Related Fees

Ernst & Young LLP's fees for audit-related services totaled \$22,446 and \$11,825 for 2005 and 2004, respectively. Audit-related services were comprised of employee benefit plan audits and services provided in connection with Section 404 of the Sarbanes-Oxley Act in 2005.

Tax Fees

Ernst & Young LLP's fees for tax services totaled \$24,500 and \$13,600 for 2005 and 2004, respectively. Tax services were comprised of tax compliance, tax advice and tax planning services.

All Other Fees

Ernst & Young LLP did not have any fees for any other services for 2005 or 2004.

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Pre-Approval Policies and Procedures

The Audit Committee has adopted policies and procedures relating to the approval of all audit and non-audit services that are to be performed by the Company's registered public accounting firm. This policy generally provides that the Company will not engage its registered public accounting firm to render audit or non-audit services unless the service is specifically approved in advance by the Audit Committee or the engagement is entered into pursuant to the pre-approval procedures described below.

From time to time, the Audit Committee may pre-approve specified types of services that are expected to be provided to the Company by its registered public accounting firm during the next 12 months. Any such pre-approval is detailed as to the particular service or type of services to be provided and is also generally subject to a maximum dollar amount.

OTHER MATTERS

The Board of Directors knows of no other business that will be presented for consideration at the Annual Meeting other than that described above. However, if any other business should come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy to vote, or otherwise act, in accordance with their best judgment on such matters.

The Company will bear the costs of soliciting proxies. In addition to solicitations by mail, the Company's directors, officers and regular employees may, without additional remuneration, solicit proxies by telephone, facsimile, internet and personal interviews. Idera reserves the right to retain other outside agencies for the purpose of soliciting proxies. The Company will also request brokerage houses, custodians, nominees and fiduciaries to forward copies of the proxy material to those persons for whom they hold shares and request instructions for voting the proxies. The Company will reimburse such brokerage houses and other persons for their reasonable expenses in connection with this distribution.

Householding of Annual Meeting Materials

Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of this Proxy Statement and Annual Report may have been sent to multiple stockholders in one household. Upon request, the Company will promptly deliver separate copies of this Proxy Statement and Annual Report. To make such a request, please call (617) 679-5500 or write to Investor Relations, 345 Vassar Street, Cambridge, Massachusetts 02139. To receive separate copies of the Annual Report and Proxy Statement in the future, or to receive only one copy for the household, please contact your bank, broker, or other nominee record holder, or contact the Company at the above address and phone number.

Submission of Future Stockholder Proposals for 2007 Annual Meeting

Under SEC rules, a stockholder who intends to present a proposal, including nomination of a director, at the Company's 2007 Annual Meeting of Stockholders and who wishes the proposal to be included in the proxy statement for that meeting must submit the proposal in writing to Investor Relations, 345 Vassar Street, Cambridge, Massachusetts 02139, prior to January 3, 2007. SEC rules set standards for the types of stockholder proposals and the information that must be provided by the stockholder making the request.

If a stockholder of the Company wishes to present a proposal before the 2007 Annual Meeting but has not complied with the requirements for inclusion of such proposal in the Company's proxy statement under SEC rules, such stockholder must give written notice of such proposal to the Secretary of the Company at the principal offices of the Company not less than 60 days nor more than 90 days prior to the 2007 Annual Meeting. Notwithstanding the foregoing, if the Company provides less than 70 days notice or prior public disclosure of the date of the meeting to the stockholders, notice by the stockholders must be received by the Secretary no later than the close of business on the tenth day following the date on which the notice of the meeting was mailed or such public disclosure was made, whichever occurs first. If a stockholder who wished to present a proposal fails to notify the Company by this date, the proxies that management solicits for that

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meeting will have discretionary authority to vote on the stockholder's proposal if it is otherwise properly brought before that meeting. If a stockholder makes timely notification, the proxies may still exercise discretionary authority to vote on stockholder proposals under circumstances consistent with the SEC's rules.

THE BOARD OF DIRECTORS ENCOURAGES ALL STOCKHOLDERS TO ATTEND THE ANNUAL MEETING. WHETHER OR NOT YOU PLAN TO ATTEND, YOU ARE URGED TO COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE. PROMPT RESPONSE WILL GREATLY FACILITATE ARRANGEMENTS FOR THE ANNUAL MEETING AND YOUR COOPERATION IS APPRECIATED. REGISTERED STOCKHOLDERS WHO ATTEND THE ANNUAL MEETING MAY VOTE THEIR STOCK PERSONALLY, EVEN THOUGH THEY HAVE SENT IN THEIR PROXIES, AFTER PROVIDING WRITTEN NOTICE AT THE ANNUAL MEETING OF REVOCATION OF THE PROXY.

By Order of the Board of Directors,

Robert G. Andersen, *Secretary*

, 2006

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EXHIBIT A

**CERTIFICATE OF AMENDMENT
TO THE
RESTATED CERTIFICATE OF INCORPORATION
OF
IDERA PHARMACEUTICALS, INC.**

Idera Pharmaceuticals, Inc. (hereinafter called the Corporation), organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify as follows:

By action of the Board of Directors of the Corporation at a meeting held on April 12, 2006, the Board of Directors of the Corporation duly adopted a resolution, pursuant to Section 242 of the General Corporation Law of the State of Delaware, setting forth an amendment to the Restated Certificate of Incorporation of the Corporation, as amended to date (the Certificate of Incorporation), and declaring said amendment to be advisable. The stockholders of the Corporation duly approved said proposed amendment in accordance with Section 242 of the General Corporation Law of the State of Delaware at a meeting of stockholders held on June 7, 2006. The resolution setting forth the amendment is as follows:

RESOLVED:

That the first paragraph of Article FOURTH of the Certificate of Incorporation be and hereby is amended and restated in its entirety so that the same shall read as follows:

FOURTH. The total number of shares of all classes of stock which the Corporation shall have authority to issue is (i) Two Hundred and Ninety Million (290,000,000) shares of Common Stock, \$.001 par value per share (Common Stock), and (ii) Five Million (5,000,000) shares of Preferred Stock, \$.01 par value per share (Preferred Stock), which may be issued from time to time in one or more series as set forth in Part B of this Article FOURTH.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by its duly authorized officer this day of , 2006.

IDERA PHARMACEUTICALS, INC.

By:

Name:

Title:

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EXHIBIT B

**CERTIFICATE OF AMENDMENT
TO THE
RESTATED CERTIFICATE OF INCORPORATION
OF
IDERA PHARMACEUTICALS, INC.**

Idera Pharmaceuticals, Inc. (hereinafter called the Corporation), organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify as follows:

By action of the Board of Directors of the Corporation at a meeting held on April 12, 2006, the Board of Directors of the Corporation duly adopted a resolution, pursuant to Section 242 of the General Corporation Law of the State of Delaware, setting forth an amendment to the Restated Certificate of Incorporation of the Corporation, as amended to date (the Certificate of Incorporation), and declaring said amendment to be advisable. The stockholders of the Corporation duly approved said proposed amendment in accordance with Section 242 of the General Corporation Law of the State of Delaware at a meeting of stockholders held on June 7, 2006. The resolution setting forth the amendment is as follows:

RESOLVED:

That the first paragraph of Article FOURTH of the Certificate of Incorporation be and hereby is amended and restated in its entirety so that the same shall read as follows:

FOURTH. That, effective at 5:00 p.m., eastern time, on the filing date of this Certificate of Amendment of Restated Certificate of Incorporation, as amended, (the Effective Time), a one-for-four reverse stock split of the Corporation s Common Stock (as defined below) shall become effective, pursuant to which each four shares of Common Stock outstanding and held of record by each stockholder of the Corporation (including treasury shares) immediately prior to the Effective Time shall be reclassified and combined into one share of Common Stock automatically and without any action by the holder thereof upon the Effective Time and shall represent one share of Common Stock from and after the Effective Time. No fractional shares of Common Stock shall be issued as a result of such reclassification and combination. In lieu of any fractional shares to which the stockholder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the average of the high and low trading prices of the Common Stock on the American Stock Exchange during regular trading hours for the five trading days immediately preceding the Effective Time.

The total number of shares of all classes of stock which the Corporation shall have authority to issue is (i) Seventy-Five Million (75,000,000) shares of Common Stock, \$.001 par value per share (Common Stock), and (ii) Five Million (5,000,000) shares of Preferred Stock, \$.01 par value per share (Preferred Stock), which may be issued from time to time in one or more series as set forth in Part B of this Article FOURTH.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by its duly authorized officer this day of , 200 .

IDERA PHARMACEUTICALS, INC.

By:

Name:

Title:

B-1

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EXHIBIT C

**CERTIFICATE OF AMENDMENT
TO THE
RESTATED CERTIFICATE OF INCORPORATION
OF
IDERA PHARMACEUTICALS, INC.**

Idera Pharmaceuticals, Inc. (hereinafter called the Corporation), organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify as follows:

By action of the Board of Directors of the Corporation at a meeting held on April 12, 2006, the Board of Directors of the Corporation duly adopted a resolution, pursuant to Section 242 of the General Corporation Law of the State of Delaware, setting forth an amendment to the Restated Certificate of Incorporation of the Corporation, as amended to date (the Certificate of Incorporation), and declaring said amendment to be advisable. The stockholders of the Corporation duly approved said proposed amendment in accordance with Section 242 of the General Corporation Law of the State of Delaware at a meeting of stockholders held on June 7, 2006. The resolution setting forth the amendment is as follows:

RESOLVED:

That the first paragraph of Article FOURTH of the Certificate of Incorporation be and hereby is amended and restated in its entirety so that the same shall read as follows:

FOURTH. That, effective at 5:00 p.m., eastern time, on the filing date of this Certificate of Amendment of Restated Certificate of Incorporation, as amended, (the Effective Time), a one-for-six reverse stock split of the Corporation s Common Stock (as defined below) shall become effective, pursuant to which each six shares of Common Stock outstanding and held of record by each stockholder of the Corporation (including treasury shares) immediately prior to the Effective Time shall be reclassified and combined into one share of Common Stock automatically and without any action by the holder thereof upon the Effective Time and shall represent one share of Common Stock from and after the Effective Time. No fractional shares of Common Stock shall be issued as a result of such reclassification and combination. In lieu of any fractional shares to which the stockholder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the average of the high and low trading prices of the Common Stock on the American Stock Exchange during regular trading hours for the five trading days immediately preceding the Effective Time.

The total number of shares of all classes of stock which the Corporation shall have authority to issue is (i) Fifty Million (50,000,000) shares of Common Stock, \$.001 par value per share (Common Stock), and (ii) Five Million (5,000,000) shares of Preferred Stock, \$.01 par value per share (Preferred Stock), which may be issued from time to time in one or more series as set forth in Part B of this Article FOURTH.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by its duly authorized officer this day of , 200 .

IDERA PHARMACEUTICALS, INC.

By:

Name:

Title:

C-1

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EXHIBIT D

**CERTIFICATE OF AMENDMENT
TO THE
RESTATED CERTIFICATE OF INCORPORATION
OF
IDERA PHARMACEUTICALS, INC.**

Idera Pharmaceuticals, Inc. (hereinafter called the Corporation), organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify as follows:

By action of the Board of Directors of the Corporation at a meeting held on April 12, 2006, the Board of Directors of the Corporation duly adopted a resolution, pursuant to Section 242 of the General Corporation Law of the State of Delaware, setting forth an amendment to the Restated Certificate of Incorporation of the Corporation, as amended to date (the Certificate of Incorporation), and declaring said amendment to be advisable. The stockholders of the Corporation duly approved said proposed amendment in accordance with Section 242 of the General Corporation Law of the State of Delaware at a meeting of stockholders held on June 7, 2006. The resolution setting forth the amendment is as follows:

RESOLVED:

That the first paragraph of Article FOURTH of the Certificate of Incorporation be and hereby is amended and restated in its entirety so that the same shall read as follows:

FOURTH. That, effective at 5:00 p.m., eastern time, on the filing date of this Certificate of Amendment of Restated Certificate of Incorporation, as amended, (the Effective Time), a one-for-eight reverse stock split of the Corporation s Common Stock (as defined below) shall become effective, pursuant to which each eight shares of Common Stock outstanding and held of record by each stockholder of the Corporation (including treasury shares) immediately prior to the Effective Time shall be reclassified and combined into one share of Common Stock automatically and without any action by the holder thereof upon the Effective Time and shall represent one share of Common Stock from and after the Effective Time. No fractional shares of Common Stock shall be issued as a result of such reclassification and combination. In lieu of any fractional shares to which the stockholder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the average of the high and low trading prices of the Common Stock on the American Stock Exchange during regular trading hours for the five trading days immediately preceding the Effective Time.

The total number of shares of all classes of stock which the Corporation shall have authority to issue is (i) Forty Million (40,000,000) shares of Common Stock, \$.001 par value per share (Common Stock), and (ii) Five Million (5,000,000) shares of Preferred Stock, \$.01 par value per share (Preferred Stock), which may be issued from time to time in one or more series as set forth in Part B of this Article FOURTH.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by its duly authorized officer this day of , 200 .

IDERA PHARMACEUTICALS, INC.

By:

Name:

Title:

D-1

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EXHIBIT E

**CERTIFICATE OF AMENDMENT
TO THE
RESTATED CERTIFICATE OF INCORPORATION
OF
IDERA PHARMACEUTICALS, INC.**

Idera Pharmaceuticals, Inc. (hereinafter called the Corporation), organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify as follows:

By action of the Board of Directors of the Corporation at a meeting held on April 12, 2006, the Board of Directors of the Corporation duly adopted a resolution, pursuant to Section 242 of the General Corporation Law of the State of Delaware, setting forth an amendment to the Restated Certificate of Incorporation of the Corporation, as amended to date (the Certificate of Incorporation), and declaring said amendment to be advisable. The stockholders of the Corporation duly approved said proposed amendment in accordance with Section 242 of the General Corporation Law of the State of Delaware at a meeting of stockholders held on June 7, 2006. The resolution setting forth the amendment is as follows:

RESOLVED:

That the first paragraph of Article FOURTH of the Certificate of Incorporation be and hereby is amended and restated in its entirety so that the same shall read as follows:

FOURTH. That, effective at 5:00 p.m., eastern time, on the filing date of this Certificate of Amendment of Restated Certificate of Incorporation, as amended, (the Effective Time), a one-for-ten reverse stock split of the Corporation s Common Stock (as defined below) shall become effective, pursuant to which each ten shares of Common Stock outstanding and held of record by each stockholder of the Corporation (including treasury shares) immediately prior to the Effective Time shall be reclassified and combined into one share of Common Stock automatically and without any action by the holder thereof upon the Effective Time and shall represent one share of Common Stock from and after the Effective Time. No fractional shares of Common Stock shall be issued as a result of such reclassification and combination. In lieu of any fractional shares to which the stockholder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the average of the high and low trading prices of the Common Stock on the American Stock Exchange during regular trading hours for the five trading days immediately preceding the Effective Time.

The total number of shares of all classes of stock which the Corporation shall have authority to issue is (i) Thirty-Five Million (35,000,000) shares of Common Stock, \$.001 par value per share (Common Stock), and (ii) Five Million (5,000,000) shares of Preferred Stock, \$.01 par value per share (Preferred Stock), which may be issued from time to time in one or more series as set forth in Part B of this Article FOURTH.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by its duly authorized officer this day of , 200 .

IDERA PHARMACEUTICALS, INC.

By:

Name:

Title:

E-1

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**FOLD AND DETACH HERE
IDERA PHARMACEUTICALS, INC.**

Dear Stockholder:

Please take note of the important information enclosed within this Proxy Ballot. There are a number of issues related to the management and operation of your Company that require your immediate attention and approval. These are discussed in the enclosed proxy materials.

Your vote counts, and you are strongly encouraged to exercise your right to vote your shares.

Please mark the boxes on the proxy card to indicate how your shares shall be voted. Then sign and date the card, detach it and return your proxy vote in the enclosed postage paid envelope. Your vote must be received prior to the Annual Meeting of Stockholders to be held on June 7, 2006.

Thank you in advance for your prompt consideration of these matters.

Sincerely,

Idera Pharmaceuticals, Inc.

This Proxy when properly executed will be voted in the manner directed by the undersigned stockholder(s). If no indication is made, the proxies shall vote FOR the director nominees and FOR proposal numbers 2 through 8.

Please mark your votes as indicated in this example **b**

A vote FOR the director nominees and FOR proposal numbers 2 through 8 is recommended by the Board of Directors.

Election of Class I Directors.

| | | | |
|--|-----------------|---------------------|---------------------|
| 2) Approval of amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of the Company's Common Stock from 200,000,000 shares to 290,000,000 shares. | FOR o | AGAINST o | ABSTAIN o |
|--|-----------------|---------------------|---------------------|

| | | |
|-----------------|----------------------|----------------------------|
| FOR o | WITHHELD o | FOR ALL EXCEPT o |
|-----------------|----------------------|----------------------------|

| | | | |
|---|-----------------|---------------------|---------------------|
| 3) Approval of amendment to increase the number of shares available for issuance under the Company's 2005 Stock Incentive Plan from 5,000,000 shares to 9,000,000 shares. | FOR o | AGAINST o | ABSTAIN o |
|---|-----------------|---------------------|---------------------|

| | | | |
|--|-----------------|---------------------|---------------------|
| 4) Approval of amendment to increase the number of shares of Common Stock authorized for | FOR o | AGAINST o | ABSTAIN o |
|--|-----------------|---------------------|---------------------|

issuance under the 1995 Employee Stock Purchase Plan from 500,000 shares to 1,000,000 shares.

- | | | | | |
|----|---|------------|----------------|----------------|
| 5) | Approval of amendment to the Company's Restated Certificate of Incorporation to effect a one-for-four reverse split of the Company's issued and outstanding shares of Common Stock and to fix on a post-split basis the number of authorized shares of Common Stock at 75,000,000 shares. | FOR | AGAINST | ABSTAIN |
| | | o | o | o |
-
- | | | | | |
|----|--|------------|----------------|----------------|
| 6) | Approval of amendment to the Company's Restated Certificate of Incorporation to effect a one-for-six reverse split of the Company's issued and outstanding shares of Common Stock and to fix on a post-split basis the number of authorized shares of Common Stock at 50,000,000 shares. | FOR | AGAINST | ABSTAIN |
| | | o | o | o |
-
- | | | | | |
|----|--|------------|----------------|----------------|
| 7) | Approval of amendment to the Company's Restated Certificate of Incorporation to effect a one-for-eight reverse split of the Company's issued and outstanding shares of Common Stock and to fix on a post-split basis the number of authorized shares of Common Stock at 40,000,000 shares. | FOR | AGAINST | ABSTAIN |
| | | o | o | o |

8)

| | FOR | AGAINST | ABSTAIN |
|--|------------|----------------|----------------|
| Approval of amendment to the Company's Restated Certificate of Incorporation to effect a one-for-ten reverse split of the Company's issued and outstanding shares of Common Stock and to fix on a post-split basis the number of authorized shares of Common Stock at 35,000,000 shares. | o | o | o |

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Nominees: 01 Dr. Robert W. Karr and 02 Dr. James B. Wyngaarden

Mark box at right if an address change has been noted on the reverse side of this card **o**

If you do not wish your shares voted FOR a particular nominee, mark the For All Except box and strike a line through the nominee name as listed above. Your shares will be voted for the remaining nominee.

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Annual Meeting or any adjournment thereof.

**PLEASE BE SURE TO SIGN
AND DATE THIS PROXY.**

Date _____ Stockholder

Signature _____

Please sign this proxy exactly as your name appears hereon. Joint Owners should each sign personally. Trustees and other fiduciaries should indicate the capacity in which they sign. If a corporation or partnership, this signature should be that of an authorized officer who should state his or her title.

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**IDERA PHARMACEUTICALS, INC.
PROXY SOLICITED BY THE BOARD OF DIRECTORS
Annual Meeting of Stockholders June 7, 2006**

Those signing on the reverse side, revoking prior proxies, hereby appoint(s) Dr. Sudhir Agrawal, Robert G. Andersen and Dr. Robert W. Karr or each or any of them with full power of substitution, as proxies for those signing on the reverse side to act and vote all shares of stock of Idera Pharmaceuticals, Inc. (the Company) which the undersigned would be entitled to vote if personally present at the 2006 Annual Meeting of Stockholders of the Company and at any adjournments thereof as indicated upon all matters referred to on the reverse side and described in the Proxy Statement for the Meeting, and, in their discretion, upon any other matters which may properly come before the Meeting. Attendance of the undersigned at the Meeting or at any adjournment thereof will not be deemed to revoke this proxy unless those signing on the reverse side shall revoke this proxy in writing.

HAS YOUR ADDRESS CHANGED?

**PLEASE VOTE, DATE AND
SIGN
ON OTHER SIDE AND
RETURN
PROMPTLY IN ENCLOSED
ENVELOPE.**