IDERA PHARMACEUTICALS, INC.
Form 10-Q
May 12, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

or

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

For transition period from _____ to _____.

Commission File Number: 001-31918

IDERA PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-3072298**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
167 Sidney Street	
Cambridge, Massachusetts	**02139**
(Address of principal executive offices)	**(zip code)**

(617) 679-5500

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Class	**Outstanding as of April 30, 2014**
Common Stock, par value $.001 per share	**82,442,460**

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FORM 10-Q

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact, included or incorporated in this report regarding our strategy, future operations, collaborations, intellectual property, cash resources, financial position, future revenues, projected costs, prospects, plans, and objectives of management are forward-looking statements. The words believes, anticipates, estimates, plans, expects, intends, may, could, should, potential, likely, projects, and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated or implied by forward-looking statements. These important factors include those set forth below under Part II, Item 1A Risk Factors. These factors and the other cautionary statements made in this Quarterly Report on Form 10-Q should be read as being applicable to all related forward-looking statements whenever they appear in this Quarterly Report on Form 10-Q. In addition, any forward-looking statements represent our estimates only as of the date that this Quarterly Report on Form 10-Q is filed with the Securities and Exchange Commission and should not be relied upon as representing our estimates as of any subsequent date. We do not assume any obligation to update any forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

IDERA PHARMACEUTICALS, INC.

CONDENSED BALANCE SHEETS

(UNAUDITED)

(In thousands, except per share amounts)	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 60,748	$ 26,278
Short-term investments	9,896	3,125
Prepaid expenses and other current assets	1,160	874
Total current assets	71,804	30,277
Long-term investments		6,189
Property and equipment, net	125	90
Restricted cash	311	311
Total assets	$ 72,240	$ 36,867
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 707	$ 904
Accrued expenses	4,647	3,506
Total current liabilities	5,354	4,410
Other liabilities	4	5
Total liabilities	5,358	4,415
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.01 par value, Authorized 5,000 shares		
Series E convertible preferred stock, Designated, issued and outstanding 424 shares	5,528	5,528
Series D convertible preferred stock, Designated, issued and outstanding zero shares and 1,124 shares at March 31, 2014 and December 31, 2013, respectively		5,464
Series A convertible preferred stock, Designated 1,500 shares, Issued and outstanding 1 share		
Common stock, $0.001 par value, Authorized 280,000 shares ; Issued and outstanding 82,439 and 66,252 shares at March 31, 2014 and December 31, 2013, respectively	82	66

Additional paid-in capital	483,113	434,285
Accumulated deficit	(421,845)	(412,884)
Accumulated other comprehensive gain (loss)	4	(7)
Total stockholders equity	66,882	32,452
Total liabilities and stockholders equity	$ 72,240	$ 36,867

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

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IDERA PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(UNAUDITED)

	Three Months Ended March 31	
(In thousands, except per share amounts)	**2014**	**2013**
Alliance revenue	$ 3	$ 7
Operating expenses:		
Research and development	6,933	2,328
General and administrative	2,043	1,527
Total operating expenses	8,976	3,855
Loss from operations	(8,973)	(3,848)
Other income (expense):		
Investment income, net	15	2
Foreign currency exchange (loss) gain	(3)	39
Net loss	(8,961)	(3,807)
Preferred stock dividends	185	279
Net loss applicable to common stockholders	$ (9,146)	$ (4,086)
Basic and diluted net loss per common share applicable to common stockholders (Note 11)	$ (0.12)	$ (0.15)
Shares used in computing basic and diluted net loss per common share applicable to common stockholders	76,018	27,644
Net loss	$ (8,961)	$ (3,807)
Other comprehensive gain:		
Unrealized gain on available-for-sale securities	11	
Comprehensive loss	$ (8,950)	$ (3,807)

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

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IDERA PHARMACEUTICALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)	Three Months Ended March 31, 2014	2013
Cash Flows from Operating Activities:		
Net loss	$ (8,961)	$ (3,807)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	535	253
Non-employee stock option expense	11	2
Issuance of common stock for services rendered	14	
Amortization of investment premiums	46	
Depreciation and amortization expense	31	42
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(286)	22
Accounts payable, accrued expenses, and other liabilities	1,008	(211)
Net cash used in operating activities	(7,602)	(3,699)
Cash Flows from Investing Activities:		
Purchases of available-for-sale securities	(616)	
Purchases of property and equipment	(12)	(1)
Net cash used in investing activities	(628)	(1)
Cash Flows from Financing Activities:		
Sale of common stock and warrants, net of issuance costs	37,378	
Dividends paid	(345)	(160)
Prior year financing transaction costs paid in current year	(100)	(87)
Proceeds from exercise of common stock warrants and options and employee stock purchases	5,768	1
Payments on capital lease	(1)	(1)
Net cash provided by (used in) financing activities	42,700	(247)
Net increase (decrease) in cash and cash equivalents	34,470	(3,947)
Cash and cash equivalents, beginning of period	26,278	10,096
Cash and cash equivalents, end of period	$ 60,748	$ 6,149

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

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IDERA PHARMACEUTICALS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

March 31, 2014

(UNAUDITED)

(1) Organization

Idera Pharmaceuticals, Inc. (Idera or the Company) is a clinical stage biotechnology company advancing drug candidates for the treatment of certain genetically defined forms of B-cell lymphoma and for the treatment of autoimmune diseases. These drug candidates are designed to inhibit over-activation of specific Toll-like receptors (TLRs). In addition to Idera s TLR program, the Company has initiated a research program employing its gene silencing oligonucleotides (GSOs) to inhibit the production of disease-associated proteins by targeting RNA.

The Company s lead drug candidate in its TLR program is IMO-8400, an antagonist of TLR7, TLR8, and TLR9. IMO-8400 is in development for the treatment of certain genetically defined forms of B-cell lymphoma and for the treatment of selected orphan autoimmune diseases. A TLR antagonist is a compound that blocks activation of an immune response through the targeted TLR. To date, the Company has evaluated IMO-8400 in two clinical trials. The Company also has selected IMO-9200 as a second novel antagonist of TLR7, TLR8, and TLR9 for development as a drug candidate for potential use in selected autoimmune disease indications. The Company has initiated preclinical studies of IMO-9200 to support submission of an Investigational New Drug application to the U.S. Food and Drug Administration (FDA).

Idera s business strategy is to develop IMO-8400 and other TLR antagonist candidates for the treatment of certain genetically defined forms of B-cell lymphoma and for the treatment of orphan autoimmune diseases with unmet medical needs. In addition, the Company may seek to enter into collaborative alliances with pharmaceutical companies to advance its TLR antagonist candidates in broader autoimmune disease indications, such as psoriasis, lupus, and arthritis.

At March 31, 2014, the Company had an accumulated deficit of $421,845,000. The Company expects to incur substantial operating losses in future periods. The Company does not expect to generate significant product revenue, sales-based milestones or royalties until the Company successfully completes development and obtains marketing approval for drug candidates, either alone or in collaborations with third parties, which the Company expects will take a number of years. In order to commercialize its drug candidates, the Company needs to complete clinical development and comply with comprehensive regulatory requirements.

The Company is subject to a number of risks and uncertainties similar to those of other companies of the same size within the biotechnology industry, such as uncertainty of clinical trial outcomes, uncertainty of additional funding, and history of operating losses.

(2) Unaudited Interim Financial Statements

The accompanying unaudited financial statements included herein have been prepared by the Company in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S.

GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments, consisting of normal recurring adjustments, and disclosures considered necessary for a fair presentation of interim period results have been included. Interim results for the three months ended March 31, 2014 are not necessarily indicative of results that may be expected for the year ended December 31, 2014. For further information, refer to the financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which was filed with the SEC on March 13, 2014.

(3) Financial Instruments

The fair value of the Company s financial instruments is determined and disclosed in accordance with the three-tier fair value hierarchy specified in Note 5. The Company is required to disclose the estimated fair values of its financial instruments. The Company s financial instruments consist of cash, cash equivalents, available-for-sale investments and receivables. The estimated fair values of these financial instruments approximate their carrying values as of March 31, 2014 and December 31, 2013. As of March 31, 2014 and December 31, 2013, the Company did not have any derivatives, hedging instruments or other similar financial instruments except for the Series E convertible preferred stock, (the Series E preferred stock), the embedded features of which are discussed in Note 8(g) to the financial statements included in the Company s Form 10-K for the year ended December 31, 2013.

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(4) Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of 90 days or less when purchased to be cash equivalents. Cash and cash equivalents at March 31, 2014 and December 31, 2013 consisted of cash and money market funds.

(5) Fair Value of Assets and Liabilities

The Company measures fair value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date using assumptions that market participants would use in pricing the asset or liability (the inputs) into a three-tier fair value hierarchy. This fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets for identical assets or liabilities and the lowest priority (Level 3) to unobservable inputs in which little or no market data exists, requiring companies to develop their own assumptions. Observable inputs that do not meet the criteria of Level 1, and include quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets and liabilities in markets that are not active, are categorized as Level 2. Level 3 inputs are those that reflect the Company s estimates about the assumptions market participants would use in pricing the asset or liability, based on the best information available in the circumstances. Valuation techniques for assets and liabilities measured using Level 3 inputs may include unobservable inputs such as projections, estimates and management s interpretation of current market data. These unobservable Level 3 inputs are only utilized to the extent that observable inputs are not available or cost-effective to obtain. The Company applies Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820), in its fair value measurements and disclosures.

The table below presents the assets and liabilities measured and recorded in the financial statements at fair value on a recurring basis at March 31, 2014 and December 31, 2013 categorized by the level of inputs used in the valuation of each asset and liability.

(In thousands)		Total	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2014					
Assets					
Money market funds		$ 60,684	$ 60,684	$	$
Short-term investments	commercial paper	1,999		1,999	
Short-term investments	corporate bonds	7,897		7,897	
Total Assets		$ 70,580	$ 60,684	$ 9,896	$
December 31, 2013					
Assets					
Money market funds		$ 25,201	$ 25,201	$	$

Short-term investments	commercial paper	1,997		1,997	
Short-term investments	corporate bonds	1,128		1,128	
Long-term investments	corporate bonds	6,189		6,189	
Total Assets		$ 34,515	$ 25,201	$ 9,314	$

The Level 1 assets consist of money market funds, which are actively traded daily. The Level 2 assets consist of corporate bond and commercial paper investments whose fair value may not represent actual transactions of identical securities. The fair value of corporate bonds is generally determined from quoted market prices received from pricing services based upon quoted prices from active markets and/or other significant observable market transactions at fair value. The fair value of commercial paper is generally determined based on the relationship between the investment s discount rate and the discount rates of the same issuer s commercial paper available in the market which may not be actively traded daily. Since these fair values may not be based upon actual transactions of identical securities, they are classified as Level 2. Since any investments are classified as available-for-sale securities, any unrealized gains or losses are recorded in accumulated other comprehensive income or loss within stockholders equity on the balance sheet. The Company did not elect to measure any other financial assets or liabilities at fair value at March 31, 2014 or December 31, 2013.

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(6) Investments

The Company s available-for-sale investments at fair value consisted of the following at March 31, 2014 and December 31, 2013:

	March 31, 2014			
	Cost	Gross Unrealized (Losses)	Gross Unrealized Gains	Estimated Fair Value
	(In thousands)			
Commercial paper due in one year or less	$ 1,999	$	$	$ 1,999
Corporate bonds due in one year or less	7,893	(1)	5	7,897
Total short-term investments	9,892	(1)	5	9,896
Total long-term investments				
Total investments	$ 9,892	$ (1)	$ 5	$ 9,896

	December 31, 2013			
	Cost	Gross Unrealized (Losses)	Gross Unrealized Gains	Estimated Fair Value
	(In thousands)			
Commercial paper due in one year or less	$ 1,997	$	$	$ 1,997
Corporate bonds due in one year or less	1,128			1,128
Total short-term investments	3,125			3,125
Corporate bonds due in one year or more	6,196	(7)		6,189
Total long-term investments	6,196	(7)		6,189
Total investments	$ 9,321	$ (7)	$	$ 9,314

The Company had no realized gains or losses from available-for-sale securities in the three months ended March 31, 2014 and 2013. There were no losses or other-than-temporary declines in value included in Investment income, net on the Company s Statements of Operations and Comprehensive Loss for any securities for the three months ended March 31, 2014 and 2013. The Company had no auction rate securities as of March 31, 2014 and December 31, 2013. See Note 3, Financial Instruments, and Note 5, Fair Value of Assets and Liabilities for additional information related to the Company s investments.

(7) Property and Equipment

At March 31, 2014 and December 31, 2013, net property and equipment at cost consisted of the following:

(In thousands)	March 31, 2014	December 31, 2013
Leasehold improvements	$ 525	$ 525
Laboratory equipment and other	2,920	2,854
Total property and equipment, at cost	3,445	3,379
Less: accumulated depreciation	3,320	3,289
Property and equipment, net	$ 125	$ 90

Depreciation and amortization expense was approximately $31,000 and $42,000 in the three months ended March 31, 2014 and 2013, respectively.

(8) Restricted Cash

As part of the Company s lease arrangement for its office and laboratory facility, the Company is required to restrict cash held in a certificate of deposit securing a line of credit for the lessor. As of March 31, 2014 and December 31, 2013, the restricted cash amounted to $311,000 held in certificates of deposit securing a line of credit for the lessor.

(9) Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) for the three months ended March 31, 2014 and 2013 is comprised of reported net income (loss) and any change in net unrealized gains and losses on investments during each period, which is included in Accumulated other comprehensive income on the accompanying balance sheets. The Company applies ASU No. 2011-05, Comprehensive Income by presenting the components of net income and other comprehensive income as one continuous statement.

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The following table includes the changes in the accumulated balance of the component of other comprehensive income (loss) for the three months ended March 31, 2014:

(In thousands)	Three Months ended March 31, 2014
Accumulated unrealized loss on available-for-sale securities at beginning of period	$ (7)
Change during the period	11
Accumulated unrealized gain on available-for-sale securities at end of period	$ 4

There was no accumulated unrealized gain or loss on available-for-sale securities during the three months ended March 31, 2013.

(10) Stock-Based Compensation

The Company recognizes all share-based payments to employees and directors as expense in the statements of operations and comprehensive loss based on their fair values. The Company records compensation expense over an award s requisite service period, or vesting period, based on the award s fair value at the date of grant. The Company s policy is to charge the fair value of stock options as an expense, adjusted for forfeitures, on a straight-line basis over the vesting period, which is generally four years for employees and three years for directors.

The Company recorded charges of $535,000 and $253,000 in its statements of operations and comprehensive loss for the three months ended March 31, 2014 and 2013, respectively, for stock-based compensation expense attributable to share-based payments made to employees and directors. The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions apply to the options to purchase 992,500 shares of common stock granted to employees and directors during the three months ended March 31, 2014:

	Three Months Ended March 31, 2014
Average risk free interest rate	1.6%
Expected dividend yield	
Expected lives (years)	5.0
Expected volatility	81.0%
Weighted average grant date fair value of options granted during the period (per share)	$ 3.36
	$ 5.15

Weighted average exercise price of options granted during the period (per share)	

The expected lives and the expected volatility of the options granted during the three months ended March 31, 2014 are based on historical experience. All options granted during the three months ended March 31, 2014 were granted at exercise prices equal to the fair market value of the common stock on the dates of grant. The Company did not grant any stock options during the three months ended March 31, 2013.

(11) Net Loss per Common Share Applicable to Common Stockholders

For the three months ended March 31, 2014 and 2013, basic and diluted net loss per common share applicable to common stockholders is computed using the weighted average number of shares of common stock outstanding during the period. Diluted net loss per common share applicable to common stockholders is the same as basic net loss per common share applicable to common stockholders as the effects of the Company s potential common stock equivalents are antidilutive. Total antidilutive securities were 80,345,651 and 33,037,104 for the three months ended March 31, 2014 and 2013, respectively, and consist of stock options, preferred stock and warrants.

For the three months ended March 31, 2014 and 2013, net loss per common share applicable to common stockholders reflects $185,000 and $279,000, respectively, in dividends accrued on shares of our Series D convertible preferred stock (Series D preferred stock) and our Series E convertible preferred stock (Series E preferred stock).

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(12) Common Stock Warrant and Option Exercises and Employee Stock Purchases

During the three months ended March 31, 2014, the Company issued 2,050,578 shares of common stock in connection with warrant and stock option exercises and purchases under the Company s 1995 Employee Stock Purchase Plan (the ESPP) resulting in total proceeds to the Company of $5,768,000.

During the three months ended March 31, 2013, the Company issued 1,744 shares of common stock in connection with employee stock purchases under the ESPP, which resulted in total proceeds to the Company of $1,000. During this period, there were no warrant or option exercises.

(13) Related Party Transactions

February 6, 2014 Conversion of Series D Preferred Stock

On January 10, 2014, the Company notified Pillar Pharmaceuticals I, L.P. (Pillar I), an investment partnership managed by one of the Company s directors and significant stockholders and the holder of all 1,124,260 shares of the Company s issued and outstanding Series D preferred stock, of its intention to redeem the Series D preferred stock on February 10, 2014 in accordance with the terms of the Certificate of Designations, Preferences and Rights of Series D Preferred Stock (the Series D Certificate of Designations). Following this notice, Pillar I had the right to convert its Series D preferred stock into shares of the Company s common stock at any time prior to the close of business on February 9, 2014. On February 6, 2014, Pillar I converted such shares into 6,266,175 shares of the Company s common stock in accordance with the terms of the Series D Certificate of Designations. As a result of the conversion, no shares of the Company s Series D preferred stock remain outstanding.

On March 28, 2014, the Company filed a Certificate of Elimination of Number of Shares of Preferred Stock Designated as Series D Convertible Preferred Stock with the State of Delaware Secretary of State which eliminated the designation of the shares of Series D preferred stock.

Director Stock Purchases

The Company issued 2,855 shares of common stock in lieu of director board and committee fees of approximately $14,000 pursuant to the Company s director compensation program during the three months ended March 31, 2014.

(14) Financing

February 10, 2014 Follow-on Underwritten Public Offering

On February 10, 2014, the Company closed a follow-on underwritten public offering, in which it sold 7,867,438 shares of common stock at a price to the public of $4.00 per share and pre-funded warrants to purchase up to 2,158,750 shares of common stock at a price to the public of $3.99 per share for aggregate gross proceeds of $40.1 million. The pre-funded warrants have an exercise price of $0.01 per share and will expire if not exercised by February 10, 2021. The estimated net proceeds to the Company from the offering, after deducting underwriters discounts and commissions and other offering costs and expenses and excluding the proceeds of the exercise of the warrants, if any, were approximately $37.2 million.

(15) Subsequent Events

In May 2014, the Company entered into a collaboration with Abbott Molecular, Inc. (Abbott Molecular) for the development of a companion diagnostic that can be used to identify patients with the MYD88 L265P oncogenic mutation in future clinical trials of IMO-8400. Under the agreement, Abbott Molecular has agreed to develop the companion diagnostic to comply with the requirements of the FDA Center for Devices and Radiological Health. The Company expects to pay approximately $6,700,000 in external development expenses to develop an assay as the prototype of the companion diagnostic, to validate the prototype during a Phase 2 clinical trial of IMO-8400, and to complete FDA and launch activities of the resultant final version of the companion diagnostic over five years under the agreement, subject to increase if Abbott Molecular incurs additional expenses in order to meet unexpected material requirements or obligations not included in the agreement or if the Company is required to conduct additional or different clinical trials which result in Abbott Molecular incurring additional costs. The Company will not receive any revenues from future sales, if any, of the companion diagnostic.

On April 29, 2014, the Company entered into an amendment to its exclusive license and research collaboration agreement with Merck Sharp & Dohme Corp. (formerly Merck & Co., Inc.). Under the license and research collaboration agreement, which the Company entered into with Merck Sharp & Dohme Corp. in December 2006, the Company had granted Merck Sharp & Dohme Corp. worldwide exclusive rights to its TLR7, TLR8, and TLR9 agonists for use in combination with Merck Sharp & Dohme Corp. s therapeutic and prophylactic vaccines under development in the fields of cancer, infectious diseases, and Alzheimer s disease. As a result of this amendment, Merck Sharp & Dohme Corp. s rights under the exclusive license and collaboration agreement have been limited to specified TLR7, TLR8, and TLR9 agonists that Merck Sharp & Dohme Corp. selected in January 2012, and the Company regained the rights to pursue its other independently discovered TLR7, TLR8, and TLR9 agonists for use as vaccine adjuvants in the fields of cancer, infectious diseases and Alzheimer s disease so that it now has the right to pursue its TLR7, TLR8, and TLR9 agonists for use as vaccine adjuvants in all fields. Merck Sharp & Dohme Corp. s obligations under the agreement to pay the Company milestone payments and royalties continue in effect with respect to the specified TLR7, TLR8, and TLR9 agonists. However, in connection with this amendment, the Company agreed that, to the extent that the Company licenses to third parties any TLR7, TLR8, and TLR9 agonists for use as vaccine adjuvants in the fields of cancer, infectious diseases and Alzheimer s disease and receives income under such licenses, Merck Sharp & Dohme Corp. may credit against any milestone payments and royalties it owes to the Company an amount equal to 15% of the license income received by the Company under the third party licenses, up to a maximum of $60.0 million in credits.

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

GENERAL

We are a clinical stage biotechnology company advancing drug candidates for the treatment of certain genetically defined forms of B-cell lymphoma and for the treatment of autoimmune diseases. These drug candidates are designed to inhibit over-activation of specific Toll-like receptors, or TLRs. In addition to our TLR program, we have initiated a research program employing our gene silencing oligonucleotides, or GSOs, to inhibit the production of disease-associated proteins by targeting RNA.

Programs for Toll-like Receptor Antagonists

Our lead drug candidate in our TLR program is IMO-8400, an antagonist of TLR7, TLR8, and TLR9. A TLR antagonist is a compound that blocks activation of an immune response through the targeted TLR. IMO-8400 is in development for the treatment of certain genetically defined forms of B-cell lymphoma and for the treatment of selected orphan autoimmune diseases. To date, we have evaluated IMO-8400 in two clinical trials. IMO-8400 has been well tolerated at subcutaneous dosages up to 0.6 mg/kg/week for up to 12 weeks of treatment and has shown clinical activity in an autoimmune disease.

Our business strategy is to develop IMO-8400 and other TLR antagonist candidates for the treatment of certain genetically defined forms of B-cell lymphoma and for the treatment of orphan autoimmune diseases with unmet medical needs. In addition, we may seek to enter into collaborative alliances with pharmaceutical companies to advance our TLR antagonist candidates in broader autoimmune disease indications, such as psoriasis, lupus, and arthritis.

Program in Genetically Defined Forms of B-cell Lymphoma. Independent research has suggested that the inhibition of specific TLRs may be a useful approach to the treatment of certain B-cell lymphoma characterized by the presence of the oncogenic mutation referred to scientifically as MYD88 L265P. Oncogenic mutations are changes in the DNA of tumor cells that promote the survival and proliferation of the tumor cells. The MYD88 L265P oncogenic mutation has been reported in patients with Waldenström s macroglobulinemia, diffuse large B-cell lymphoma, or DLBCL, and other forms of B-cell malignancies, including Burkitt s lymphoma, cutaneous diffuse large B-cell lymphoma (leg type), chronic lymphocytic leukemia, gastric mucosa-associated lymphoid tissue lymphoma, marginal zone lymphoma, and splenic marginal zone lymphoma. In this research, the inhibition of TLR7 and TLR9 suppressed MYD88 L265P induced signaling and promoted tumor cell death.

We presented results from our preclinical studies of IMO-8400 in April 2014 at the annual meeting of the American Association for Cancer Research. In these studies, IMO-8400 induced cell death in human Waldenström s macroglobulinemia and DLBCL tumor cells harboring the MYD88 L265P oncogenic mutation. Consistent with its proposed mechanism of action, IMO-8400 treatment inhibited cell signaling pathways that promote tumor cell survival and proliferation including those referred to scientifically as IRAK1/4, NF-kB, STAT3 p38, and BTK. Further, in these studies, IMO-8400 treatment suppressed tumor cell production of cytokines such as interleukin-10, or IL-10, that create a favorable microenvironment for tumor cell survival and proliferation. In addition to inducing tumor cell death *in vitro*, IMO-8400 treatment of mice in xenograft models decreased tumor burden, even in studies where treatment was initiated after tumors had become well established. Tumor cells that did not harbor the MYD88 L265P mutation were not affected by IMO-8400 treatment, demonstrating the specificity of the treatment effect.

The preclinical observations reported by independent researchers and the data generated by us with IMO-8400 support our plans for the clinical development of IMO-8400 in B-cell lymphomas harboring the MYD88 L265P oncogenic mutation. It has been reported that approximately 90% of patients with Waldenström s macroglobulinemia have the MYD88 L265P oncogenic mutation. We have initiated patient treatment in an open-label, dose-escalation Phase 1/2 clinical trial of IMO-8400 in patients with Waldenström s macroglobulinemia who have relapsed or were refractory to prior therapy. Objectives of the trial include evaluation of safety and tolerability and assessment of the clinical activity of escalating IMO-8400 dose levels using disease-specific international guidelines for classifying clinical response. The initial dose level is 0.6 mg/kg once per week, administered by subcutaneous injection. We expect to enroll up to approximately 30 patients in this trial.

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We are also planning to conduct an open-label, dose-escalation Phase 1/2 clinical trial of IMO-8400 in patients with DLBCL who have relapsed or were refractory to prior therapy. With the concurrence of the U.S. Food and Drug Administration, or FDA, Center for Devices and Radiological Health, or CDRH, we are planning to enroll in this trial only patients who are positive for the presence of the MYD88 L265P oncogenic mutation. Objectives of the trial include evaluation of safety and tolerability and assessment of the clinical activity of escalating IMO-8400 dose levels using disease-specific international guidelines for classifying clinical response. We expect to enroll up to approximately 30 patients in this trial, and expect to initiate patient treatment in the second half of 2014.

We believe that Waldenström s macroglobulinemia and DLBCL in patients with the MYD88 L265P mutation are each orphan indications with unmet medical need, based on prevalence of the indications. If we observe a therapeutic effect in either or both of our Phase 1/2 clinical trials, we plan to meet with regulatory authorities to discuss the possibility of an accelerated clinical development and regulatory path for the applicable program. We cannot predict whether or when any of our product candidates will prove effective or safe in humans, if we will be able to participate in FDA expedited review and approval programs, including breakthrough and fast track designation, or if they will receive regulatory approval.

In May 2014, we entered into a collaboration with Abbott Molecular, Inc., or Abbott Molecular, for the development of a companion diagnostic that can be used to identify patients with the MYD88 L265P oncogenic mutation in future clinical trials of IMO-8400. Under the agreement, Abbott Molecular has agreed to develop the companion diagnostic to comply with the requirements of the FDA CDRH. We expect to pay approximately $6,700,000 in external development expenses to develop an assay as the prototype of the companion diagnostic, to validate the prototype during a Phase 2 clinical trial of IMO-8400, and to complete FDA and launch activities of the resultant final version of the companion diagnostic over five years under the agreement, subject to increase if Abbott Molecular incurs additional expenses in order to meet unexpected material requirements or obligations not included in the agreement or if we are required to conduct additional or different clinical trials which result in Abbott Molecular incurring additional costs. We will not receive any revenues from future sales, if any, of the companion diagnostic.

Program in Autoimmune Diseases with Orphan Designation. We are planning to initiate clinical development of IMO-8400 for the treatment of autoimmune diseases which have been designated as orphan indications. We have evaluated autoimmune diseases with orphan indications for which we may develop our TLR antagonist candidates using selection criteria that include: the reported involvement of altered TLR expression; cytokine profile indicative of key TLR-mediated pathways; auto-antibody profile indicative of self-derived nucleic acids that can induce TLR-mediated immune responses; the identification of prospective clinical biomarkers for evaluation in early clinical trials; high unmet medical need; and established clinical diagnosis.

Based on these selection criteria, we have prioritized polymyositis, dermatomyositis, and graft-versus-host disease, or GvHD, as the initial orphan autoimmune disease indications for clinical evaluation. We anticipate initiating patient treatment in a clinical trial in patients with polymyositis or dermatomyositis and in a clinical trial in patients with GvHD in the second half of 2014. If we observe a therapeutic effect in one or more of these indications, we plan to meet with regulatory authorities to discuss the possibility of an accelerated clinical development and regulatory path for the applicable program. We cannot predict whether or when any of our product candidates will prove effective or safe in humans, if we will be able to participate in FDA expedited review and approval programs, including breakthrough and fast track designation, or if they will receive regulatory approval. We are continuing to use the above criteria to prioritize additional autoimmune diseases with orphan indications for which we may develop our TLR antagonist candidates.

Clinical Proof-of-Concept for TLR Antagonism. We believe that clinical proof-of-concept for TLR antagonists as a potential therapeutic approach for autoimmune diseases has been demonstrated by the results of randomized,

double-blinded Phase 2 clinical trials we have conducted in patients with moderate to severe psoriasis, including the top-line results from our Phase 2 clinical trial of IMO-8400 that we announced in the first quarter of 2014. We expanded the Phase 2 clinical trial of IMO-8400 in patients with psoriasis to include a higher dose cohort of 0.6 mg/kg or placebo with up to 12 patients. Dosing has been completed in all patients in the expansion cohort, and blinded data indicate all treatments were well tolerated. We intend to submit data from the Phase 2 clinical trial of IMO-8400 in patients with psoriasis for presentation at a medical meeting within 2014.

Expanding the Pipeline of TLR Antagonist Drug Candidates. We also have selected IMO-9200 as a second novel antagonist of TLR7, TLR8, and TLR9 for development as a drug candidate for potential use in selected autoimmune disease indications. We have initiated preclinical studies of IMO-9200 to support submission of an Investigational New Drug application, or IND, to the FDA. Pending the results of these studies, we expect to submit an IND for IMO-9200 and to initiate a Phase 1 clinical trial in the second half of 2014.

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Gene Silencing Oligonucleotide Technology to Target RNA

We have created our GSOs to inhibit the expression of disease-associated proteins by targeting RNA. Based on evaluations of GSOs targeted to disease-associated RNA in preclinical models, we believe our GSO technology has the potential to overcome several of the hurdles of antisense and RNA interference, or RNAi, technologies. We are currently undertaking an analysis of priority disease indications for development of drug candidates from our GSO technology. Our key considerations in identifying disease indications in our GSO program are: strong evidence that the disease is caused by a specific protein; clear criteria to identify a target patient population; biomarkers for early assessment of clinical proof-of-concept; a targeted therapeutic mechanism for action; and unmet medical need to allow for a rapid development path to approval. We expect to identify the first two disease indications to be targeted in our GSO program in the second half of 2014, with the goal of initiating disease model studies and an IND-enabling development program in the first half of 2015. Based on this timeline, we could initiate proof-of-concept clinical trials for the first two disease indications as early as the second half of 2015.

Our business strategy for our GSO program is focused on the further development of our GSO technology. We may seek to enter into collaborative alliances with pharmaceutical companies with respect to applications of our GSO technology program.

At March 31, 2014, we had an accumulated deficit of $421,845,000. We expect to incur substantial operating losses in future periods. We do not expect to generate product revenue, sales-based milestones or royalties until we successfully complete development and obtain marketing approval for drug candidates, either alone or in collaborations with third parties, which we expect will take a number of years. In order to commercialize our drug candidates, we need to complete clinical development and comply with comprehensive regulatory requirements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This management s discussion and analysis of financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, stock-based compensation and our convertible preferred stock and related common stock warrants. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We regard an accounting estimate or assumption underlying our financial statements as a critical accounting estimate where:

- the nature of the estimate or assumption is material due to the level of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and

the impact of the estimates and assumptions on financial condition or operating performance is material.

Our significant accounting policies are described in Note 2 of the notes to our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013. Not all of these significant policies, however, fit the definition of critical accounting policies and estimates. We believe that our accounting policies relating to stock-based compensation and convertible preferred stock and related common stock warrants, as described under the caption Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the year ended December 31, 2013, fit the description of critical accounting estimates and judgments. There were no changes in these policies during the three months ended March 31, 2014.

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RESULTS OF OPERATIONS

Three Months Ended March 31, 2014

Alliance Revenue

Alliance revenue consisted of reimbursement by licensees of costs associated with patent maintenance, amounting to $3,000 and $7,000 in the three months ended March 31, 2014 and 2013, respectively.

Research and Development Expenses

Research and development expenses increased by $4,605,000, or 198%, from $2,328,000 for the three months ended March 31, 2013, to $6,933,000 for the three months ended March 31, 2014. In the following table, research and development expenses are set forth in the following four categories which are discussed beneath the table:

	Three Months Ended March 31, (in thousands)		Percentage Increase (Decrease)
	2014	2013	
IMO-8400 external development expense	$ 2,433	$ 600	306 %
Companion diagnostic external development expense	800		
Other drug development expense	2,524	909	178%
Basic discovery expense	1,176	819	44%
	$ 6,933	$ 2,328	198%

IMO-8400 External Development Expenses. These expenses include external expenses that we have incurred in connection with IMO-8400 since October 2012, when we commenced clinical development of IMO-8400. These external expenses include payments to independent contractors and vendors for drug development activities conducted after the initiation of IMO-8400 clinical development but exclude internal costs such as payroll and overhead expenses. Since October 2012, we have incurred approximately $6,396,000 in external development expenses through March 31, 2014, including costs associated with our Phase 1 clinical trial in healthy subjects, preparation for and conduct of our ongoing Phase 2 clinical trial in patients with psoriasis, preparation for and conduct of our ongoing Phase 1/2 clinical trial in patients with Waldenström s macroglobulinemia and our planned Phase 1/2 clinical trial in patients with DLBCL, and additional nonclinical studies.

The increase in our IMO-8400 external development expenses in the three months ended March 31, 2014, as compared to the three months ended March 31, 2013, was primarily attributable to costs incurred in 2014 in connection with preparation for our Phase 1/2 clinical trials in patients with genetically defined forms of B-cell lymphoma, manufacture of additional drug substance for use in our ongoing and planned clinical trials, and conduct of long-term nonclinical safety studies. These increases were partially offset by 2013 costs associated with our Phase 1 clinical trial in healthy subjects that was ongoing during the three months ended March 31, 2013.

We expect our IMO-8400 external development expenses to increase in 2014 due to patient enrollment as we conduct our ongoing and planned Phase 1/2 clinical trials of IMO-8400 in patients with genetically defined forms of B-cell

lymphoma, our planned Phase 1/2 clinical trial of IMO-8400 in patients with polymyositis or dermatomyositis, and our planned Phase 1/2 clinical trial of IMO-8400 in patients with GvHD, manufacturing costs for additional drug supplies of IMO-8400 for use in our ongoing and planned clinical trials and the conduct of ongoing long-term nonclinical safety studies of IMO-8400.

Companion Diagnostic External Development Expenses. These expenses include external expenses associated with our collaboration with Abbott Molecular for the development of a companion diagnostic for identification of patients with B-cell lymphomas harboring the MYD88 L265P oncogenic mutation since January 2014, when development of the companion diagnostic commenced. During the three months ended March 31, 2014, we incurred $800,000 in companion diagnostic external development expenses, reflecting costs associated with start-up activities and the initiation of development of an assay as the prototype of the companion diagnostic. We will not receive any revenues from future sales of the companion diagnostic, if any.

Other Drug Development Expenses. These expenses include external expenses associated with preclinical development of identified compounds in anticipation of advancing these compounds into clinical development. In addition, these expenses include internal costs, such as payroll and overhead expenses, associated with preclinical development and products in clinical development. The external expenses associated with preclinical compounds include payments to contract vendors for manufacturing and the related stability studies, preclinical studies, including animal toxicology and pharmacology studies, and professional fees. Internal expenses

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associated with products in clinical development include costs associated with our Autoimmune Disease Scientific Advisory Board. Other drug development expenses also include costs associated with compounds that were previously being developed but are not currently being developed.

The increase in other drug development expenses in the three months ended March 31, 2014, as compared to the three months ended March 31, 2013, was primarily due to costs of preclinical studies and manufacturing activities to support the planned IND submission for IMO-9200 in the second half of 2014. Increasing payroll costs, including the addition of a Chief Medical Officer in January 2014 and higher stock based compensation costs attributable to options granted after March 31, 2013, also contributed to the increase in other drug development expenses during the three months ended March 31, 2014. The increase in other drug development expenses in the three months ended March 31, 2014 was partially offset by a decrease in IMO-3100 development expenses, reflecting our decision in the second quarter of 2013 to focus our resources on the development of IMO-8400. We expect other drug development expenses to increase in 2014 due to costs associated with the planned IMO-9200 IND submission and increased headcount to support our drug development programs.

Basic Discovery Expenses. These expenses include our internal and external expenses relating to our discovery efforts with respect to our TLR-targeted programs, including agonists and antagonists of TLR3, TLR7, TLR8 and TLR9, TLR antisense, and our GSO program. These expenses reflect payments for laboratory supplies, external research, and professional fees, as well as payroll and overhead expenses. The increase in basic discovery expenses in the three months ended March 31, 2014, as compared to the three months ended March 31, 2013, was primarily due to increases in the cost of employee compensation and laboratory supplies reflecting increased activity and headcount associated with our GSO program. We anticipate an increase in basic discovery expenses in 2014 as we increase headcount and laboratory supply expenses consistent with our strategic plans to identify lead drug candidates for the first two disease indications to be targeted in our GSO program.

We do not know if we will be successful in developing any drug candidate from our research and development programs. At this time, and without knowing the full data set for our ongoing Phase 2 clinical trial of IMO-8400 in patients with moderate to severe plaque psoriasis, our ongoing Phase 1/2 clinical trial of IMO-8400 in patients with Waldenström s macroglobulinemia, our planned Phase 1/2 clinical trial of IMO-8400 in patients with DLBCL and the MYD88 L265P oncogenic mutation, our planned Phase 1/2 clinical trial of IMO-8400 in patients with polymyositis or dermatomyositis, our planned Phase 1/2 clinical trial of IMO-8400 in patients with GvHD, our IND-enabling development program and our planned Phase 1 proof-of-concept clinical trials in each of the first two disease indications selected for further development in our GSO program and our IND-enabling studies and planned Phase 1 clinical trial of IMO-9200, we cannot reasonably estimate or know the nature, timing, and costs of the efforts that will be necessary to complete the remainder of the development of, or the period, if any, in which material net cash inflows may commence from, any drug candidate from our research and development programs. Moreover, the clinical development of any drug candidate from our research and development programs is subject to numerous risks and uncertainties associated with the duration and cost of clinical trials, which vary significantly over the life of a project as a result of unanticipated events arising during clinical development.

General and Administrative Expenses

General and administrative expenses increased by $516,000, or 34%, from $1,527,000 in the three months ended March 31, 2013, to $2,043,000 in the three months ended March 31, 2014. General and administrative expenses consist primarily of salary expense, stock compensation expense, consulting fees and professional legal fees associated with our patent applications and maintenance, our corporate regulatory filing requirements, our corporate legal matters, and our business development initiatives. The increase in general and administrative expenses during the three months ended March 31, 2014, as compared to the three months ended March 31, 2013, was primarily due to

increases in corporate communications, investor relations and recruiting expenses and higher stock based compensation costs primarily attributable to options granted after March 31, 2013.

Investment Income, Net

Investment income, net increased by $13,000, from $2,000 in the three months ended March 31, 2013 to $15,000 in the three months ended March 31, 2014, primarily due to an increase in investment balances, including corporate debt securities, in the three months ended March 31, 2014 resulting from our follow-on underwritten public offerings in September 2013 and February 2014.

Foreign Currency Exchange (Loss) Gain

Our foreign currency exchange loss was $3,000 in the three months ended March 31, 2014 primarily due to the impact that the decreasing value of the U.S. dollar had on our Euro-denominated accrued liabilities during this period. Our foreign currency exchange gain was $39,000 in the three months ended March 31, 2013 primarily due to the impact that the increasing value of the U.S. dollar had on our Euro-denominated accrued liabilities during this period.

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Preferred Stock Dividends

The $185,000 and $279,000 in preferred stock dividends in the three months ended March 31, 2014 and 2013, respectively, reflects dividends accrued on shares of our Series D convertible preferred stock, or Series D preferred stock, and our Series E convertible preferred stock, or Series E preferred stock, during the respective periods. The decrease in preferred stock dividends during the three months ended March 31, 2014 is mainly attributable to the conversion of our Series D preferred stock into common stock on February 6, 2014 at which time dividends on our Series D preferred stock ceased to accrue. Dividends on our Series E preferred stock are expected to amount to approximately $119,000 per quarter during such time that the Series E preferred stock remains outstanding.

Net Loss Applicable to Common Stockholders

As a result of the factors discussed above, our net loss applicable to common stockholders was $9,146,000 for the three months ended March 31, 2014, compared to $4,086,000 for the three months ended March 31, 2013. Since January 1, 2001, we have primarily been involved in the development of our TLR pipeline. From January 1, 2001 through March 31, 2014, we incurred losses of $161,652,000. We also incurred net losses of $260,193,000 prior to December 31, 2000 during which time we were primarily involved in the development of non-TLR targeted antisense technology. Since our inception, we had an accumulated deficit of $421,845,000 through March 31, 2014. We expect to continue to incur substantial operating losses in the future.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

We require cash to fund our operating expenses and to make capital expenditures. Historically, we have funded our cash requirements primarily through the following:

- sale of common stock, preferred stock and warrants and warrant exercises;
- debt financing, including capital leases;
- license fees, research funding and milestone payments under collaborative and license agreements; and
- interest income.

February 10, 2014 Follow-on Underwritten Public Offering

On February 10, 2014, we closed a follow-on underwritten public offering, in which we sold 7,867,438 shares of common stock at a price to the public of $4.00 per share and pre-funded warrants to purchase up to 2,158,750 shares of common stock at a price to the public of $3.99 per share for aggregate gross proceeds of $40.1 million. The pre-funded warrants have an exercise price of $0.01 per share and will expire if not exercised by February 10, 2021. The estimated net proceeds to us from the offering, after deducting underwriters discounts and commissions and other offering costs and expenses and excluding the proceeds of the exercise of the warrants, if any, were approximately $37.2 million.

Collaboration Agreement

Under the terms of our collaboration with Merck KGaA, which was terminated in November 2011, we received in February 2008 a $40.0 million upfront license fee in Euros of which we received $39.7 million due to foreign currency exchange rates and approximately $12.1 million in milestone payments. In addition, Merck KGaA reimbursed us $4.5 million for expenses related to the development of IMO-2055, a TLR9 agonist. In connection with the termination of the collaboration, we regained all rights for developing TLR9 agonists for the treatment of cancer and agreed to reimburse Merck KGaA for up to 1.8 million ($2.5 million using a March 31, 2014 exchange rate) of Merck KGaA s costs for the third-party contract research organization that was coordinating Merck KGaA s Phase 2 trial of IMO-2055 in combination with cetuximab, payable in eleven installments commencing on March 1, 2012 including a final payment payable upon Merck KGaA s completion of certain specified activities. As of March 31, 2014, we have paid 1.2 million of the 1.8 million ($1.6 million (using exchange rates in effect at the time that the payments were made) of the $2.5 million). We also agreed to pay to Merck KGaA one-time 1.0 million ($1.4 million using a March 31, 2014 exchange rate) milestone payments upon the occurrence of each of the following milestones: partnering of IMO-2055 with any third party, initiation of any Phase 2 or Phase 3 clinical trial for IMO-2055 and regulatory submission of IMO-2055 in any country.

Cash Flows

Three Months Ended March 31, 2014

As of March 31, 2014, we had approximately $70,644,000 in cash, cash equivalents and investments, a net increase of approximately $35,052,000 from December 31, 2013. Net cash used in operating activities totaled $7,602,000 during the three months ended March 31, 2014, reflecting our $8,961,000 net loss, as adjusted for non-cash income and expenses, including stock-based compensation, depreciation and amortization. Net cash used in operating activities also reflects changes in our prepaid expenses and accounts payable, accrued expenses and other liabilities.

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The net cash used in investing activities during the three months ended March 31, 2014 reflects the purchase of $616,000 of available-for-sale securities, which are investments that we do not have the positive intent to hold to maturity at the time of purchase, and payments for the purchase of $12,000 in property and equipment.

The $42,700,000 net cash provided by financing activities during the three months ended March 31, 2014 primarily reflects $37,378,000 in net proceeds from our follow-on underwritten public offering of our securities in February 2014, and $5,768,000 in net proceeds from the exercise of common stock options and warrants and employee stock purchases under our 1995 Employee Stock Purchase Plan, or ESPP, which were partially offset by dividends paid on our Series D preferred stock and our Series E preferred stock.

Three Months Ended March 31, 2013

As of March 31, 2013, we had approximately $6,149,000 in cash and cash equivalents, a net decrease of approximately $3,947,000 from December 31, 2012. Net cash used in operating activities totaled $3,699,000 during the three months ended March 31, 2013, reflecting our $3,807,000 net loss, as adjusted for non-cash income and expenses, including stock-based compensation and depreciation. It also reflects changes in our prepaid expenses and accounts payable, accrued expenses and other liabilities.

The $247,000 net cash used in financing activities during the three months ended March 31, 2013 primarily reflects dividends paid on our Series D preferred stock and payments on our capital lease offset, in part, by the proceeds received from employee stock purchases under the ESPP.

Funding Requirements

We have incurred operating losses in all fiscal years except 2002, 2008 and 2009, and we had an accumulated deficit of $421,845,000 at March 31, 2014. We expect to incur substantial operating losses in future periods. These losses, among other things, have had and will continue to have an adverse effect on our stockholders equity, total assets and working capital. We have received no revenues from the sale of drugs. As of April 15, 2014, almost all of our revenues have been from collaboration and license agreements. We have devoted substantially all of our efforts to research and development, including clinical trials, and we have not completed development of any drugs. Because of the numerous risks and uncertainties associated with developing drugs, we are unable to predict the extent of any future losses, whether or when any of our products will become commercially available or when we will become profitable, if at all.

We do not expect to generate significant additional funds internally until we successfully complete development and obtain marketing approval for products, either alone or in collaboration with third parties, which we expect will take a number of years. In addition, we have no committed external sources of funds.

We had cash, cash equivalents and investments of approximately $70,644,000 at March 31, 2014. We believe that our existing cash, cash equivalents and investments will be sufficient to fund our operations into the second half of 2016. Specifically, we believe that our existing cash, cash equivalents and investments will be sufficient to enable us to:

- complete our ongoing Phase 2 clinical trial of IMO-8400 in patients with psoriasis, our ongoing Phase 1/2 clinical trial in patients with Waldenström s macroglobulinemia and our planned Phase 1/2 clinical trial in patients with DLBCL and the MYD88 L265P oncogenic mutation;

submit an IND to the FDA for IMO-9200 and conduct a Phase 1 clinical trial of IMO-9200;

conduct a Phase 1/2 clinical trial of IMO-8400 in patients with polymyositis or dermatomyositis and a Phase 1/2 clinical trial of IMO-8400 in patients with GvHD as the initial orphan indications that we have selected for further development in our autoimmune disease program;

conduct disease model studies and an IND-enabling development program in our GSO program; and

conduct a Phase 1 proof-of-concept clinical trial in each of the first two disease indications selected for further development in our GSO program.

We will need additional funds in order to conduct further clinical development of IMO-8400 or IMO-9200, or to conduct any further development of our GSO technology and our other drug candidates or technologies.

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We may seek additional funding through collaborations, the sale or license of assets or financings of equity or debt securities. We believe that the key factors that will affect our ability to obtain funding are:

- the results of our clinical and preclinical development in our autoimmune disease and genetically defined forms of B-cell lymphoma programs and our GSO program and our ability to advance our product candidates and GSO technology on the timelines anticipated;
- the cost, timing and outcome of regulatory reviews;
- competitive and potentially competitive products and technologies and investors receptivity to our drug candidates and the technology underlying them in light of competitive products and technologies;
- the receptivity of the capital markets to financings by biotechnology companies generally and companies with drug candidates and technologies such as ours specifically; and
- our ability to enter into additional collaborations with biotechnology and pharmaceutical companies and the success of such collaborations.

In addition, increases in expenses or delays in clinical development may adversely impact our cash position and require additional funds or further cost reductions. Financing may not be available to us when we need it or may not be available to us on favorable or acceptable terms or at all. We could be required to seek funds through collaborative alliances or through other means that may require us to relinquish rights to some of our technologies, drug candidates or drugs that we would otherwise pursue on our own. In addition, if we raise additional funds by issuing equity securities, our then existing stockholders will experience dilution. An equity financing that involves existing stockholders may cause a concentration of ownership. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends, and are likely to include rights that are senior to the holders of our common stock. Any additional debt financing or equity that we raise may contain terms, such as liquidation and other preferences, or liens or other restrictions on our assets, which are not favorable to us or our stockholders. The terms of any financing may adversely affect the holdings or the rights of existing stockholders.

If we are unable to obtain adequate funding on a timely basis or at all, we will be required to terminate, modify or delay preclinical or clinical trials of one or more of our drug candidates, significantly curtail or terminate discovery or development programs for new drug candidates or relinquish rights to portions of our technology, drug candidates and/or products.

Contractual Obligations

During the three months ended March 31, 2014, there were no material changes outside the ordinary course of our business to our contractual obligations as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Foreign currency exchange gains and losses may result from amounts to be paid under our terminated Merck KGaA collaboration and termination agreements and payments under our clinical trial agreements that are denominated in Euros. As of March 31, 2014, we had net accrued obligations of 831,000 ($1,143,000 using a March 31, 2014 exchange rate). All other assets and liabilities are in U.S. dollars, which is our functional currency.

We maintain investments in accordance with our investment policy. The primary objectives of our investment activities are to preserve principal, maintain proper liquidity to meet operating needs and maximize yields. Although our investments are subject to credit risk, our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure from any single issue, issuer or type of investment. We regularly review our investment holdings in light of the then current economic environment. We do not own auction rate securities or derivative financial investment instruments in our investment portfolio. At March 31, 2014, all of our invested funds were invested in a money market fund, classified in cash and cash equivalents on the accompanying balance sheet, corporate bonds and commercial paper classified in short-term investments.

Based on a hypothetical ten percent adverse movement in interest rates, the potential losses in future earnings, fair value of risk sensitive financial instruments, and cash flows are immaterial, although the actual effects may differ materially from the hypothetical analysis.

ITEM 4. CONTROLS AND PROCEDURES.

(a) *Evaluation of Disclosure Controls and Procedures.* Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of March 31, 2014. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well

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designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applied its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of March 31, 2014, our disclosure controls and procedures were (1) designed to ensure that material information relating to us is made known to our principal executive officer and principal financial officer by others, particularly during the period in which this report was prepared, and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

(b) *Changes in Internal Controls*. No change in our internal control over financial reporting occurred during the fiscal quarter ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1A. RISK FACTORS.

RISK FACTORS

Investing in our securities involves a high degree of risk. You should carefully consider the risks and uncertainties described below in addition to the other information included or incorporated by reference in this Quarterly Report on Form 10-Q before purchasing our common stock. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks or uncertainties. In that case, the market price of our common stock could decline, and you may lose all or part of your investment in our securities.

Risks Relating to Our Financial Results and Need for Financing

We will need additional financing, which may be difficult to obtain. Our failure to obtain necessary financing or doing so on unattractive terms could result in the termination of our operations and the sale and license of our assets or otherwise adversely affect our research and development programs and other operations.

We had cash, cash equivalents and investments of approximately $70.6 million at March 31, 2014. We believe that our existing cash, cash equivalents and investments will be sufficient to fund our operations into the second half of 2016. Specifically, we believe that our existing cash, cash equivalents and investments will be sufficient to enable us to:

- complete our ongoing Phase 2 clinical trial of IMO-8400 in patients with psoriasis, our ongoing Phase 1/2 clinical trial in patients with Waldenström s macroglobulinemia and our planned Phase 1/2 clinical trial in patients with DLBCL and the MYD88 L265P oncogenic mutation;
- submit an IND to the FDA for IMO-9200 and conduct a Phase 1 clinical trial of IMO-9200;
- conduct a Phase 1/2 clinical trial of IMO-8400 in patients with polymyositis or dermatomyositis and a Phase 1/2 clinical trial of IMO-8400 in patients with GvHD as the initial orphan indications that we have selected for further development in our autoimmune disease program;
- conduct disease model studies and an IND-enabling development program in our GSO program; and
- conduct a Phase 1 proof-of-concept clinical trial in each of the first two disease indications selected for further development in our GSO program.

We will need additional funds in order to conduct further clinical development of IMO-8400 or IMO-9200, or to conduct any further development of our GSO technology and our other drug candidates or technologies.

We expect that we will require substantial additional funds to conduct additional research and development, including preclinical testing and clinical trials of our drug candidates, and to fund our operations. We may seek additional funding through collaborations, the sale or license of assets or financings of equity or debt securities. We believe that the key factors that will affect our ability to obtain funding are:

- the results of our clinical and preclinical development in our genetically defined forms of B-cell lymphoma and autoimmune disease programs and our GSO program and our ability to advance our product candidates and GSO technology on the timelines anticipated;

- the cost, timing, and outcome of regulatory reviews;

- competitive and potentially competitive products and technologies and investors receptivity to our drug candidates and the technology underlying them in light of competitive products and technologies;

- the receptivity of the capital markets to financings by biotechnology companies generally and companies with drug candidates and technologies such as ours specifically; and

- our ability to enter into additional collaborations with biotechnology and pharmaceutical companies and the success of such collaborations.

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In addition, increases in expenses or delays in clinical development may adversely impact our cash position and require additional funds or further cost reductions.

Additional financing may not be available to us when we need it or may not be available to us on favorable or acceptable terms or at all. We could be required to seek funds through collaborative alliances or through other means that may require us to relinquish rights to some of our technologies, drug candidates or drugs that we would otherwise pursue on our own. In addition, if we raise additional funds by issuing equity securities, our then existing stockholders will experience dilution. The terms of any financing may adversely affect the holdings or the rights of existing stockholders. An equity financing that involves existing stockholders may cause a concentration of ownership. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends, and are likely to include rights that are senior to the holders of our common stock. Any additional debt financing or equity that we raise may contain terms, such as liquidation and other preferences, or liens or other restrictions on our assets, which are not favorable to us or our stockholders.

If we are unable to obtain adequate funding on a timely basis or at all, we will be required to terminate, modify or delay preclinical or clinical trials of one or more of our drug candidates, significantly curtail or terminate discovery or development programs for new drug candidates or relinquish rights to portions of our technology, drug candidates and/or products.

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

We have incurred losses in every year since our inception, except for 2002, 2008, and 2009 when our recognition of revenues under license and collaboration agreements resulted in our reporting net income for those years. As of March 31, 2014, we had an accumulated deficit of $421.8 million. Since January 1, 2001, we have primarily been involved in the development of our TLR pipeline. From January 1, 2001 to March 31, 2014, we incurred losses of $161.6 million. We incurred losses of $260.2 million prior to December 31, 2000, during which time we were primarily involved in the development of non-TLR-targeted antisense technology. These losses, among other things, have had and will continue to have an adverse effect on our stockholders equity, total assets, and working capital.

We have never had any products of our own available for commercial sale and have received no revenues from the sale of drugs. As of March 31, 2014, almost all of our revenues have been from collaborative and license agreements. We have devoted substantially all of our efforts to research and development, including clinical trials, and have not completed development of any drug candidates. Because of the numerous risks and uncertainties associated with developing drugs, we are unable to predict the extent of any future losses, whether or when any of our drug candidates will become commercially available, or when we will become profitable, if at all. We expect to incur substantial operating losses in future periods.

Risks Relating to Our Business, Strategy and Industry

We are depending heavily on the development of TLR-targeted drug candidates for the treatment of certain genetically defined forms of B-cell lymphoma and autoimmune diseases and on the development of our GSO technology. If we terminate the development of any of our programs or any of our drug candidates in such programs, are unable to successfully develop and commercialize any of our drug candidates, or experience significant delays in doing so, our business may be materially harmed.

We have invested a significant portion of our time and financial resources in the development of TLR-targeted clinical stage lead drug candidates as part of our autoimmune disease program. In the future, we intend to invest a significant portion of our time and financial resources in the development of our TLR- targeted candidates, including IMO-8400 and IMO-9200 for the treatment of certain genetically defined forms of B-cell lymphoma and for orphan autoimmune diseases. We also plan to invest substantial time and resources to further advance the development of our GSOs under our GSO program. For instance:

- we initiated patient treatment in a Phase 1/2 clinical trial of IMO-8400 in patients with Waldenström s macroglobulinemia in the first half of 2014 and are planning to initiate patient treatment in a Phase 1/2 clinical trial of IMO-8400 in patients with DLBCL and the MYD88 L265P oncogenic mutation in the second half of 2014;

- we initiated IND-enabling studies of IMO-9200 and, pending the results from these studies, expect to submit an IND for IMO-9200 and initiate a Phase 1 clinical trial of IMO-9200 in the second half of 2014;

- we are planning to initiate patient treatment in a Phase 1/2 clinical trial of IMO-8400 in patients with polymyositis or dermatomyositis and in a Phase 1/2 clinical trial of IMO-8400 in patients with GvHD in the second half of 2014; and

- we are planning to initiate a Phase 1 proof-of-concept clinical trial in each of the first two disease indications selected for further development in our GSO program in the second half of 2015.

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We anticipate that our ability to generate product revenues will depend heavily on the successful development and commercialization of our drug candidates in our genetically defined forms of B-cell lymphoma and our autoimmune disease programs, and the successful identification, development and commercialization of drug candidates in our GSO program.

Our ability to generate product revenues under our collaboration with Merck & Co., and under any other collaboration that we enter into with respect to our other programs, will depend on the development and commercialization of the drug candidates being developed.

Our efforts, and the efforts of Merck & Co., to develop and commercialize these compounds are at an early stage and are subject to many challenges. We have experienced setbacks with respect to our programs for IMO-3100, IMO-2125, and IMO-2055, including:

During the fourth quarter of 2010, we commenced additional nonclinical studies of IMO-3100 in light of some reversible immune responses that were observed in the 13-week nonclinical toxicology studies and that were inconsistent with observations made in our other nonclinical studies of IMO-3100. In June 2011, we submitted a Phase 2 protocol to the FDA to conduct a 12-week clinical trial of IMO-3100 in patients with psoriasis. In July 2011, the FDA placed a clinical hold on the protocol that we had submitted. In October 2011, we submitted to FDA a new Phase 2 protocol to evaluate IMO-3100 in adult patients with moderate to severe plaque psoriasis, over a four-week treatment period. In December 2011, the FDA removed the clinical hold. We subsequently initiated in the second quarter of 2012 the four-week Phase 2 clinical trial that we completed in the fourth quarter of 2012. We cannot be certain that the FDA will allow us to conduct further clinical trials of IMO-3100 in patients with psoriasis for treatment periods of more than four weeks or at all without additional clinical or preclinical data.

In April 2011, we chose to delay initiation of our planned 12-week Phase 2 randomized clinical trial of IMO-2125 plus ribavirin in treatment-naïve, genotype 1 hepatitis C virus, or HCV, patients based on preliminary observations in an ongoing 26-week chronic nonclinical toxicology study of IMO-2125 in rodents. We subsequently completed a 39-week chronic nonclinical toxicology study of IMO-2125 in non-human primates in which there were no similar observations. During the third quarter of 2011, we re-assessed and prioritized our drug development programs, and determined to discontinue further investment of internal resources on the development of IMO-2125 for the treatment of HCV.

In July 2011, Merck KGaA, Darmstadt, Germany, or Merck KGaA, informed us that, based on increased incidence of neutropenia and electrolyte imbalances reported in its Phase 1 trial of IMO-2055 in combination with cisplatin/5-FU and cetuximab in patients with first-line squamous cell carcinoma of the head and neck, or SCCHN, and subsequent re-evaluation of its clinical development program, Merck KGaA had determined that it would not conduct further clinical development of IMO-2055. In November 2011, as part of an agreed-upon termination of our collaboration with Merck KGaA, we regained global rights to IMO-2055 and our other TLR9 agonists, including preclinical lead drug candidates selected for further evaluation under the collaboration, for the treatment of cancer. In May 2012, we announced that in the Phase 2 trial of

IMO-2055 in combination with cetuximab in patients with second-line SCCHN, the combination of IMO-2055 and cetuximab did not meet the primary endpoint of the trial.

We may seek to enter into collaborative alliances with pharmaceutical companies to advance our TLR antagonist candidates in broader autoimmune disease indications, such as psoriasis, lupus and arthritis. We may seek to enter into collaborative alliances with pharmaceutical companies with respect to applications of our GSO technology program. Our setbacks with respect to our programs for IMO-3100, IMO-2125, and IMO-2055 could negatively impact our ability to license any of such compounds to a third party.

Our ability to successfully develop and commercialize these drug candidates, or other potential candidates, will depend on our ability to overcome these recent challenges and on several factors, including the following:

- the drug candidates demonstrating activity in clinical trials;
- the drug candidates demonstrating an acceptable safety profile in nonclinical toxicology studies and during clinical trials;
- timely enrollment in clinical trials of IMO-8400 and other drug candidates, which may be slower than anticipated, potentially resulting in significant delays;
- satisfying conditions imposed on us and/or our collaborators by the FDA or equivalent foreign regulatory authorities regarding the scope or design of clinical trials;
- the ability to demonstrate to the satisfaction of the FDA, or equivalent foreign regulatory authorities, the safety and efficacy of the drug candidates through current and future clinical trials;
- timely receipt of necessary marketing approvals from the FDA and equivalent foreign regulatory authorities;
- the ability to combine our drug candidates and the drug candidates being developed by Merck & Co. and any other collaborators safely and successfully with other therapeutic agents;

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achieving and maintaining compliance with all regulatory requirements applicable to the products;

establishment of commercial manufacturing arrangements with third-party manufacturers;

the successful commercial launch of the drug candidates, assuming FDA approval is obtained, whether alone or in combination with other products;

acceptance of the products as safe and effective by patients, the medical community, and third-party payors;

competition from other companies and their therapies;

changes in treatment regimens;

successful protection of our intellectual property rights from competing products in the United States and abroad; and

a continued acceptable safety and efficacy profile of the drug candidates following marketing approval.

We have recently begun to focus our efforts on the research and development of product candidates for use in the treatment of certain genetically defined forms of B-cell lymphoma, and our approach for the treatment of these genetically defined B-cell lymphomas is novel and may not result in any approved and marketable products.

We are in the early stages of developing our program in genetically defined forms of B-cell lymphoma, an area in which we have little experience. In connection with this program, we are focusing our efforts on the research and development of TLR antagonist product candidates for use in the treatment of certain genetically defined forms of B-cell lymphoma. The scientific evidence to support the feasibility of developing product candidates for this use is both preliminary and limited. We have conducted preclinical studies in human lymphoma cell lines that carry the MYD88 L265P oncogenic mutation and have also entered into an M-CRADA with NCI to evaluate our TLR antagonists as a potential approach to the treatment of certain genetically defined forms of B-cell lymphoma. Although the preliminary results of our preclinical studies have been promising, it is unknown whether these results are indicative of results that may be obtained in our planned clinical trials. Therefore, we do not know if our approach of inhibiting TLRs to treat patients with genetically defined forms of B-cell lymphoma will be successful or if we will ever succeed in obtaining regulatory approval to market any product for this purpose. In addition, in the event that our development efforts for such a product candidate progress towards commercialization, we will need to develop companion diagnostics for such product candidate. We have no experience in developing companion diagnostics and will be dependent on the efforts of third-party collaborators to successfully develop and commercialize these companion diagnostics on our behalf. In May 2014, we entered into an agreement with Abbott Molecular to develop a companion diagnostic for identification of patients with B-cell lymphomas harboring the MYD88 L265P oncogenic mutation. We cannot assume that the program under this agreement will be successful.

We are in the early stages of developing our GSO program, which is a novel technology, and our efforts may not be successful or result in any approved and marketable products.

We are in the early stages of developing our GSO technology program, and the scientific evidence to support the feasibility of developing drugs based on this technology is preliminary. Further, neither we nor any other company has received regulatory approval to market therapeutics utilizing GSOs.