

IDERA PHARMACEUTICALS, INC.

Form DEF 14A

April 30, 2007

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OMB APPROVAL

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

IDERA PHARMACEUTICALS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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**IDERA PHARMACEUTICALS, INC.
345 Vassar Street
Cambridge, Massachusetts 02139**

NOTICE OF 2007 ANNUAL MEETING OF STOCKHOLDERS

Date and Time: June 13, 2007 at 10:00 a.m., local time

Place: Hotel @ MIT
20 Sidney Street
Cambridge, Massachusetts 02139

Items of Business: At the meeting, we will ask our stockholders to:

(1) Elect three Class III Directors to our board of directors for terms to expire at the 2010 annual meeting of stockholders;

(2) Approve an amendment to our 2005 Stock Incentive Plan to increase the number of shares of common stock authorized for issuance under the plan from 1,125,000 shares to 2,625,000 shares; and

(3) Transact any other business as may properly come before the meeting or any postponement or adjournment of the meeting.

The board of directors has no knowledge of any other business to be transacted at the annual meeting.

Record Date: You may vote if you were a stockholder of record at the close of business on April 17, 2007.

Proxy Voting: It is important that your shares be represented and voted at the meeting. Whether or not you plan to attend the meeting, please mark, sign, date and promptly mail your proxy card in the enclosed postage-paid envelope or follow the instructions on the proxy card to vote by telephone or internet. You may revoke your proxy at any time before its exercise at the meeting.

By Order of the Board of Directors,

/s/ ROBERT G. ANDERSEN
Robert G. Andersen
Secretary

Cambridge, Massachusetts
April 30, 2007

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**IDERA PHARMACEUTICALS, INC.
345 Vassar Street
Cambridge, Massachusetts 02139**

PROXY STATEMENT

For our Annual Meeting of Stockholders to be held on June 13, 2007

Idera Pharmaceuticals, Inc., a Delaware corporation, which is referred to as we or us in this document, is sending you this proxy statement and the enclosed proxy card because our board of directors is soliciting your proxy to vote at our 2007 annual meeting of stockholders. The annual meeting will be held on Wednesday, June 13, 2007, at 10:00 a.m., local time, at the Hotel @ MIT, 20 Sidney Street, Cambridge, Massachusetts 02139. If the annual meeting is adjourned for any reason, then the proxies may be used at any adjournments of the annual meeting.

This proxy statement summarizes information about the proposals to be considered at the meeting and other information you may find useful in determining how to vote. The proxy card is the means by which you actually authorize another person to vote your shares in accordance with your instructions.

We are mailing this proxy statement and the enclosed proxy card to stockholders on or about May 8, 2007.

In this mailing, we are also including copies of our annual report to stockholders for the year ended December 31, 2006. Our annual report on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission, or SEC, and including our audited financial statements, is included in our annual report to stockholders in this mailing and is also available free of charge on the Investor Center section of our website at www.iderapharma.com or through the SEC's electronic data system at www.sec.gov. **To request a printed copy of our Form 10-K, which we will provide to you free of charge, either write to Investor Relations, Idera Pharmaceuticals, Inc., 345 Vassar Street, Cambridge, Massachusetts 02139, or after June 2007 to 167 Sidney Street, Cambridge, Massachusetts, 02139, or email Investor Relations at ir@iderapharma.com.**

INFORMATION ABOUT THE ANNUAL MEETING

Who may vote?

Holders of record of our common stock at the close of business on April 17, 2007, the record date for the meeting, are entitled to one vote per share on each matter properly brought before the meeting. As of the close of business on April 17, 2007, we had 21,212,773 shares of our common stock outstanding.

A list of registered stockholders entitled to vote will be available at the meeting. In addition, you may contact our Secretary, Robert G. Andersen, at our address set forth above, to make arrangements to review a copy of the stockholder list at our offices, for any purpose germane to the meeting, between the hours of 8:30 A.M. and 5:00 P.M., local time, on any business day from June 3, 2007 up to the time of the meeting.

How may I vote my shares if I am the stockholder of record?

If you are a stockholder of record (meaning that you hold shares in your name in the records of our transfer agent, Mellon Investor Services LLC and that your shares are not held in street name by a bank or brokerage firm), you may vote your shares in any one of the following ways:

You may vote by mail. To vote by mail, you need to complete, date and sign the proxy card that accompanies this proxy statement and promptly mail it in the enclosed postage-prepaid envelope. You do not need to put a

stamp on the enclosed envelope if you mail it in the United States.

You may vote by telephone. To vote by telephone through services provided by Mellon Investor Services LLC, call 1-866-540-5760, and follow the instructions provided on each proxy card. If you vote by telephone, you do not need to complete and mail your proxy card.

You may vote by internet. To vote over the Internet through services provided by Mellon Investor Services LLC, please go to the following website: <http://www.proxyvoting.com/idp> and follow the instructions at that

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site for submitting your proxy card. If you vote on the internet, you do not need to complete and mail your proxy card.

You may vote in person. If you attend the annual meeting, you may vote by delivering your completed proxy card in person or you may vote by completing a ballot at the meeting. Ballots will be available at the meeting.

Your proxy will only be valid if you complete and return or otherwise submit the proxy card on or before the annual meeting. The persons named in the proxy card will vote the shares you own in accordance with your instructions on your proxy card. If you return the proxy card, but do not give any instructions on a particular matter described in this proxy statement, the persons named in the proxy card will vote the shares you own in accordance with the recommendations of our board of directors. Our board of directors recommends that you vote FOR each of the proposals.

The proxy card enclosed with this proxy statement states the number of shares you are entitled to vote if you are a stockholder of record.

How may I vote my shares if I hold them in street name?

If the shares you own are held in street name by a bank or brokerage firm, your bank or brokerage firm, as the record holder of your shares, is required to vote your shares according to your instructions. In order to vote your shares, you will need to follow the directions your bank or brokerage firm provides you. Many banks and brokerage firms may solicit voting instructions over the internet or by telephone.

If you do not give instructions to your bank or brokerage firm, it will still be able to vote your shares with respect to certain discretionary items, but will not be allowed to vote your shares with respect to certain non-discretionary items. The election of directors (proposal one) is considered a discretionary item. However, the approval of the amendment to our 2005 Stock Incentive Plan (proposal two) is a non-discretionary item. Accordingly, if you do not give instructions to your bank or brokerage firm with respect to proposal two, or if your bank or brokerage firm does not exercise its discretionary authority with respect to proposal one, your shares will be treated as broker non-votes on that particular matter. Broker non-votes are shares with respect to which a bank or brokerage firm does not receive voting instructions from the beneficial holder or does not have or exercise discretionary authority in voting on a proposal.

Regardless of whether your shares are held in street name, you are welcome to attend the meeting. If your shares are held in street name, you may not vote your shares in person at the meeting unless you obtain a proxy, executed in your favor, from the holder of record (i.e., your brokerage firm or bank). If you hold your shares in street name and wish to vote in person, please contact your brokerage firm or bank before the meeting to obtain the necessary proxy from the holder of record.

How may I change my vote?

If you are a stockholder of record, even if you complete and return a proxy card, you may revoke it at any time before it is exercised by taking one of the following actions:

send written notice to our Secretary, Robert G. Andersen, at our address above, stating that you wish to revoke your proxy;

send us another signed proxy with a later date; or

attend the meeting, notify our Secretary that you are present, and then vote by ballot.

If you own shares in street name, your bank or brokerage firm should provide you with instructions for changing your vote.

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What constitutes a quorum?

In order for business to be conducted at the meeting, a quorum must be present. A quorum consists of the holders of at least 10,606,387 shares, representing a majority of the shares of common stock issued, outstanding and entitled to vote at the meeting.

Shares of common stock present in person or represented by proxy (including broker non-votes and shares that are abstained or withheld, or with respect to which no voting instructions are provided for one or more of the matters to be voted upon) will be counted for the purpose of determining whether a quorum exists.

If a quorum is not present, the meeting will be adjourned until a quorum is obtained.

What vote is required to approve each matter?

Proposal One Election of Directors Directors will be elected by a plurality of the votes cast by our stockholders entitled to vote on the election. In other words, the three nominees for director receiving the highest number of votes FOR election will be elected as directors, regardless of whether any of those numbers represents a majority of the votes cast.

You may vote FOR all of the nominees, WITHHOLD your vote from all of the nominees or WITHHOLD your vote from any one or more of the nominees.

Proposal Two Approval of the Amendment to our 2005 Stock Incentive Plan The affirmative vote of the holders of a majority of the shares of common stock present or represented and voting on the matter is needed to approve the amendment to our 2005 Stock Incentive Plan.

How will votes be counted?

Each share of common stock will be counted as one vote. Shares will not be voted in favor of a matter, and will not be counted as voting on a matter if the holder of the shares either withholds authority in the proxy to vote for a particular director nominee or nominees, or abstains from voting on a particular matter, or if the shares are broker non-votes. As a result, withheld shares, abstentions and broker non-votes will have no effect on the outcome of voting on any of the proposals.

How does the board of directors recommend that I vote?

Our board of directors recommends that you vote:

FOR Proposal One elect our three nominees to the board of directors

FOR Proposal Two approve the amendment to our 2005 Stock Incentive Plan

Will any other business be conducted at the annual meeting?

Our board of directors does not know of any other business to be conducted or matters to be voted upon at the meeting. Under our by-laws, the deadline for stockholders to notify us of any proposals or nominations for director to be presented for action at the annual meeting has passed. If any other matter properly comes before the meeting, the

persons named in the proxy card that accompanies this proxy statement will exercise their judgment in deciding how to vote, or otherwise act, at the meeting with respect to that matter.

Who pays for the solicitation of proxies?

We will bear the costs of soliciting proxies. In addition to solicitations by mail, our directors, officers and regular employees, without additional remuneration, may solicit proxies by telephone, facsimile, email, personal interviews and other means. We have requested brokerage houses, custodians, nominees and fiduciaries to forward copies of the proxy materials to the persons for whom they hold shares and request instructions for voting the proxies. We will reimburse the brokerage houses and other persons for their reasonable out-of-pocket expenses in connection with this distribution.

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How and when may I submit a proposal for the 2008 annual meeting?

If you are interested in submitting a proposal for inclusion in the proxy statement and proxy card for our 2008 annual meeting, you need to follow the procedures outlined in Rule 14a-8 of the Securities Exchange Act of 1934. We must receive your proposal intended for inclusion in the proxy statement at our new principal executive offices, 167 Sidney Street, Cambridge, Massachusetts 02139, Attention: Secretary, no later than January 1, 2008. SEC rules set standards for the types of stockholder proposals and the information that must be provided by the stockholder making the request.

If you wish to present a proposal at the 2008 annual meeting, but do not wish to have the proposal considered for inclusion in the proxy statement and proxy card or have not complied with the requirements for inclusion of such proposal in our proxy statement under SEC rules, you must also give written notice to us at the address noted above. Our bylaws specify the information that must be included in any such notice, including a brief description of the business to be brought before the annual meeting and the name of the stockholder proposing such business. In accordance with our bylaws, we must receive this notice at least 60 days, but not more than 90 days, prior to the date of the 2008 annual meeting. Notwithstanding the foregoing, if we provide 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 our 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 us by this date, the proxies that management solicits for that 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.

Are annual meeting materials householded?

Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that the brokers and nominee record holders send only one copy of this proxy statement and the accompanying annual report to multiple stockholders in the same household. Upon request, we will promptly deliver separate copies of this proxy statement and our annual report. To make such a request, please call (617) 679-5500 or write to Investor Relations, 345 Vassar Street, Cambridge, Massachusetts 02139, or after June 2007 to 167 Sidney Street, Cambridge, Massachusetts 02139. To receive separate copies of our 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 us at the above address and phone number.

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PROPOSAL 1 ELECTION OF DIRECTORS

Our board of directors is divided into three classes and currently consists of two Class I Directors, C. Keith Hartley and William S. Reardon, two Class II Directors, Dr. Robert W. Karr and Dr. James B. Wyngaarden, and three Class III Directors, Dr. Sudhir Agrawal, Youssef El Zein and Dr. Alison Taunton-Rigby. The terms of the three classes are staggered so that one class is elected each year. Members of each class are elected for three-year terms. The Class I, Class II and Class III directors were elected to serve until the annual meeting of stockholders to be held in 2008, 2009 and 2007, respectively, and until their respective successors are elected and qualified.

Our board of directors, on the recommendation of our nominating and corporate governance committee, has nominated Dr. Sudhir Agrawal, Youssef El Zein and Dr. Alison Taunton-Rigby for election as Class III Directors. The persons named in the enclosed proxy card will vote to elect Dr. Sudhir Agrawal, Youssef El Zein and Dr. Alison Taunton-Rigby as Class III Directors unless you withhold authority to vote for the election of any or all nominees by marking the proxy to that effect. The proxy card may not be voted for more than three directors. Each Class III Director will be elected to hold office until the 2010 annual meeting of stockholders and until his or her successor is elected and qualified. Each of the nominees is presently a director, and each has indicated a willingness to serve as a director, if elected. If a nominee becomes unable or unwilling to serve, however, the persons acting under the proxy may vote for substitute nominees selected by the board of directors.

No director or executive officer is related by blood, marriage or adoption to any other director or executive officer. No director or officer, or any associate of any such director or officer, is a party adverse to us, or has a material interest adverse to us, in any legal proceeding. No director or executive officer has any interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the annual meeting, other than election to office.

Set forth below are the names of each of the nominees for election as Class III Directors, each Class I Director and each Class II Director, the year in which each first became a director, their ages as of January 31, 2007, their positions and offices with our company, their principal occupations and business experience during at least the past five years and the names of other public companies for which they serve as a director.

Our board of directors recommends that you vote FOR the election of Dr. Sudhir Agrawal, Youssef El Zein and Dr. Alison Taunton-Rigby as Class III Directors.

Nominees for Class III Directors Terms to Expire in 2010

Dr. Sudhir Agrawal

Director since 1993

Dr. Sudhir Agrawal, age 53, is our Chief Executive Officer and Chief Scientific Officer. He joined us in 1990 and has served as our Chief Scientific Officer since January 1993, our Senior Vice President of Discovery from March 1994 to February 2000, our President from February 2000 to October 2005, a director since March 1993 and our Chief Executive Officer since August 2004. Prior to his appointment as Chief Scientific Officer, he served as our Principal Research Scientist from February 1990 to January 1993 and as our Vice President of Discovery from December 1991 to January 1993. He served as Acting Chief Executive Officer from February 2000 until September 2001. Prior to joining us, Dr. Agrawal served as a Foundation Scholar at the Worcester Foundation for Experimental Biology from 1987 through 1991 and at the Medical Research Council's Laboratory of Molecular Biology in Cambridge, England from 1985 to 1986. He has authored more than 260 research papers and reviews. He is a member of the editorial board of several scientific journals. Dr. Agrawal is co-author of more than 300 patents and patent applications worldwide.

Youssef El Zein

Director since 1992

Youssef El Zein, age 58, has been Vice Chairman of our board of directors since February 1997. Mr. El Zein has been Chairman and Chief Executive Officer of Pillar Investment Limited, a private investment and management consulting firm, since 1990. Mr. El Zein is also Managing Director of Optima Life Sciences Ltd., a biotechnology investment fund.

Table of Contents**Dr. Alison Taunton-Rigby****Director since 2004**

Dr. Alison Taunton-Rigby, age 62, has been President and Chief Executive Officer of RiboNovix, Inc., a privately held anti-infectives company, since February 2003. Prior to founding RiboNovix, Dr. Taunton-Rigby was President and Chief Executive Officer of several companies including CMT, Inc., a private medical device company, from 2001 to 2003, Aquila Biopharmaceuticals, Inc., a public biopharmaceutical company, from 1996 to 2000, Cambridge Biotech Corporation, a public biotechnology company, from 1995 to 1996, and Mitotix, Inc., a private biotechnology company, from 1993 to 1994. Previous to these positions, she held senior management positions at several other biotechnology companies including Genzyme Corporation and Biogen. Dr. Taunton-Rigby is a director of RiverSource Funds, a mutual fund complex, Healthways, Inc., a public healthcare services company, and Abt Associates Inc., a research and consulting firm. In June 2002, Dr. Taunton-Rigby was awarded the OBE (Officer of the Order of the British Empire) by Queen Elizabeth II in recognition of her work as a leader in the research, development and promotion of biotechnology.

Continuing Members of the Board of Directors**Class I Directors Terms to Expire in 2008****C. Keith Hartley****Director since 2000**

C. Keith Hartley, age 64, has been President of Hartley Capital Advisors, a financial consulting firm, since June 2000. Mr. Hartley was Managing Partner of Forum Capital Markets LLC, an investment banking firm, from August 1995 to May 2000. Mr. Hartley also serves as a director of Universal Display Corporation, a developer of flat panel displays.

William S. Reardon, CPA**Director since 2002**

William S. Reardon, age 60, was an audit partner at PricewaterhouseCoopers LLP, where he led the Life Science Industry Practice for New England and the Eastern United States from 1986 until his retirement from the firm in July 2002. Mr. Reardon served on the Board of the Emerging Companies Section of the Biotechnology Industry Organization from June 1998 to June 2000 and the board of directors of the Massachusetts Biotechnology Council from April 2000 to April 2002. He also serves as a director of Oscient Pharmaceuticals Corporation (formerly Genome Therapeutics Corp.), a pharmaceutical company, and Synta Pharmaceuticals, Inc., a biopharmaceutical company.

Class II Directors Terms to Expire in 2009**Dr. Robert W. Karr****Director since 2005**

Dr. Robert W. Karr, age 58, is our President. He was appointed a member of our Board of Directors in June 2005 and became our President in December 2005. From June 2000 through December 2004, Dr. Karr was a senior executive for Global Research & Development for Pfizer, Inc., a pharmaceutical company, where he served as Senior Vice President, Strategic Management from 2003 to 2004 and Vice President of Strategic Management from 2000 to 2003. Prior to its merger with Pfizer, Dr. Karr served as Vice President, Research & Development Strategy for Warner-Lambert Company, a pharmaceutical company. He currently serves on the Board of Directors of GTx, Inc., a biotechnology company. Dr. Karr completed his internship and residency in internal medicine at Washington University School of Medicine and served as a faculty member at both the University of Iowa College of Medicine and Washington University School of Medicine.

Dr. James B. Wyngaarden

Director since 1990

Dr. James B. Wyngaarden, age 82, has been Chairman of our board of directors since February 2000 and was Vice Chairman from February 1997 to February 2000. Dr. Wyngaarden co-founded the Washington Advisory Group LLC, a consulting firm, in 1996 and remained a principal until January 2002. He was Senior Associate Dean, International Affairs at the University of Pennsylvania Medical School from 1995 to 1997. Dr. Wyngaarden was Foreign Secretary of the National Academy of Sciences and the Institute of Medicine from 1990 to 1994. He was Director of the Human Genome Organization from 1990 to 1991 and a council member from 1990 to 1993.

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Dr. Wyngaarden was Director of the National Institutes of Health from 1982 to 1989, and Associate Director for Life Sciences, Office of Science and Technology Policy in the Executive Office of the President, the White House, from 1989 to 1990. He is also a member of the board of directors of Genaera Corporation, a biopharmaceutical company, and the author of approximately 250 scientific publications.

PROPOSAL 2 AMENDMENT TO 2005 STOCK INCENTIVE PLAN

In April 2007, on the recommendation of our compensation committee, our board of directors voted to amend our 2005 Stock Incentive Plan to increase the number of shares of common stock available for issuance from 1,125,000 shares to 2,625,000 shares, subject to stockholder approval at the annual meeting.

Our stockholders originally approved the adoption of the 2005 Stock Incentive Plan in June 2005 and increased the authorization of shares available for issuance under the plan in June 2006. As of March 31, 2007, options to purchase 1,039,656 shares of our common stock were outstanding under the plan and options to purchase 1,171 shares of our common stock under the plan had been exercised. As a result, we only have 84,173 shares available for future grant under the 2005 Stock Incentive Plan as of March 31, 2007. Other than our 1995 Director Stock Option Plan, which provides for automatic grants to our directors but does not permit grants to employees, we have no other stock incentive plans under which we may grant stock options or other stock-based awards.

Our board of directors believes that our future success depends, in large part, upon the ability to maintain a competitive position in attracting, retaining and motivating key personnel. Accordingly, our board of directors believes that increasing the number of shares available for issuance pursuant to the 2005 Stock Incentive Plan is in our best interest and the best interests of our stockholders. **Our board of directors recommends a vote FOR the amendment to increase the number of shares available for issuance pursuant to the 2005 Stock Incentive Plan by an additional 1,500,000 shares.**

Description of the 2005 Stock Incentive Plan

The following is a brief summary of the 2005 Stock Incentive Plan. References to our board of directors throughout this summary also refer to any committee or officer to which our board of directors has delegated authority with respect to the 2005 Stock Incentive Plan.

Types of Awards

The 2005 Stock Incentive Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards as described below, referred to collectively as awards. We refer to the Internal Revenue Code as the Code.

Incentive Stock Options and Non-statutory Stock Options. Option recipients 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 conditions as are specified in connection with the option grant. Options may be granted at an exercise price that 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 option recipients holding more than 10% of the voting power of our company). The 2005 Stock Incentive Plan permits the following forms of payment of the exercise price of options:

payment by cash, check, wire transfer or in connection with a cashless exercise through a broker,
subject to certain conditions, surrendering shares of common stock to us,
subject to certain conditions, delivery of a promissory note to us,

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any other lawful means, or

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 our right 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 Stock Incentive Plan, our board of directors has the right to grant other awards based upon the common stock having such terms and conditions as our 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 our board of directors, all of the members of which are outside directors as defined in Section 162(m) of the Code, may determine, at the time of grant, that a restricted stock award, restricted stock unit award or other stock-based award granted under the 2005 Stock Incentive Plan 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:

earnings per share,

return on average equity or average assets with respect to a pre-determined peer group,

earnings,

earnings growth,

revenues,

expenses,

stock price,

market share,

return on sales, assets, equity or investment,

regulatory compliance,

achievement of balance sheet or income statement objectives,

total shareholder return,

net operating profit after tax,

pre-tax or after-tax income,

cash flow,

achievement of research, development, clinical or regulatory milestones,

product sales and

business development activities.

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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

extraordinary items,

gains or losses on the dispositions of discontinued operations,

the cumulative effects of changes in accounting principles,

the write-down of any asset, and

charges for restructuring and rationalization programs.

Such performance goals:

may vary by recipient and may be different for different awards;

may be particular to a recipient 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 board committee; and

will be set by the board committee within the time period prescribed by, and will otherwise comply with the requirements of, Section 162(m).

Transferability of Awards

Except as our 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 recipient, awards are exercisable only by the recipient.

Eligibility to Receive Awards

Our employees, officers, directors, consultants and advisors are eligible to be granted awards under the 2005 Stock Incentive Plan. Under present law, however, incentive stock options may only be granted to our employees.

The maximum number of shares with respect to which awards may be granted to any one recipient under the 2005 Stock Incentive Plan may not exceed 125,000 shares per calendar year. For purposes of this limit, the combination of an option in tandem with stock appreciation rights 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 62,500.

Plan Benefits

As of March 31, 2007, approximately 40 persons were eligible to receive awards under the 2005 Stock Incentive Plan, including our executive officers and directors. Other than automatic grants of options to directors pursuant to our director compensation program, which is described under [Director Compensation](#), the granting of awards under the 2005 Stock Incentive Plan is discretionary, and we cannot now determine the number or type of awards to be granted

in the future to any particular person or group. On April 17, 2007, the last reported sale price of our common stock on the American Stock Exchange was \$8.95.

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The table below sets forth information regarding options we have granted under the 2005 Stock Incentive Plan since its adoption through March 31, 2007:

Name and Position	Number of Securities Underlying Options Granted	Weighted Average Per Share Exercise Price
Sudhir Agrawal, D. Phil. Chief Executive Officer and Chief Scientific Officer	162,500	\$ 4.90
Robert G. Andersen Chief Financial Officer and Vice President, Operations	55,000	\$ 4.71
Robert W. Karr, M.D. President	250,000	\$ 4.95
Timothy M. Sullivan, Ph.D. Vice President, Development Programs	32,500	\$ 4.77
All current executive officers as a group	500,000	\$ 4.90
All current directors who are not executive officers as a group		
All employees and consultants who are not executive officers as a group	599,875	\$ 5.04

Administration

Our board of directors administers the 2005 Stock Incentive Plan. Our board of directors has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the 2005 Stock Incentive Plan and to interpret the provisions of the 2005 Stock Incentive Plan. Pursuant to the terms of the 2005 Stock Incentive Plan, our board of directors may delegate authority under the 2005 Stock Incentive Plan to one or more committees or subcommittees of our board of directors or to one or more of our officers. Our board of directors has authorized the compensation committee to administer certain aspects of the 2005 Stock Incentive Plan, including the granting of awards to executive officers.

Subject to any applicable limitations contained in the 2005 Stock Incentive Plan, our board of directors, the compensation committee, or any other committee or officer to whom our board of directors delegates authority, as the case may be, selects the recipients of awards and determines

the number of shares of common stock covered by options and the dates upon which such options become exercisable,

the exercise price of options,

the duration of options, and

the number of shares of common stock subject to any stock appreciation right, 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 Stock Incentive Plan will contain any provision entitling the recipient to the automatic grant of additional options in connection with any exercise of the original option.

Our board of directors is required to make appropriate adjustments in connection with the 2005 Stock Incentive Plan and any outstanding awards to reflect stock splits, stock dividends, recapitalizations, spin-offs and other similar changes in capitalization.

The 2005 Stock Incentive Plan also contains provisions addressing the consequences of any reorganization event, which is defined as:

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

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any exchange of all of our common stock for cash, securities or other property pursuant to a share exchange transaction; or

any liquidation or dissolution of our company.

In connection with a reorganization event, our 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 our 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 our liquidation or dissolution, awards will convert into the right to receive liquidation proceeds (if applicable, net of the exercise price thereof) and

any combination of the foregoing.

Our board of directors or our 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 Stock Incentive Plan, subject, however, in the case of incentive stock options, to any limitations under the Code.

Substitute Options

In connection with our merger or consolidation with another entity or our acquisition of the property or stock of another entity, our board of directors 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 our board of directors deems appropriate in the circumstances, notwithstanding any limitations on options contained in the 2005 Stock Incentive Plan. Substitute options will not count against the 2005 Stock Incentive Plan's overall share limit, except as may be required by the Code.

Provisions for Foreign Participants

The board of directors or the compensation committee may modify awards to participants who are foreign nationals or employed outside the United States or establish subplans or procedures under the 2005 Stock Incentive 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 Stock Incentive Plan after April 15, 2015, but awards previously granted may extend beyond that date. Our board of directors may at any time amend, suspend or terminate the 2005

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Stock Incentive Plan; provided that, to the extent determined by our board of directors, 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 Stock Incentive 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 our employee 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.

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). 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.

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

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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 Us

There will be no tax consequences for us except that we 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.

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On January 31, 2007, we had 20,476,923 shares of common stock issued and outstanding. The following table sets forth information we know about the beneficial ownership of our common stock, as of January 31, 2007, by:

each person known by us to own beneficially more than 5% of the outstanding shares of our common stock,

each of our directors,

each of our named executive officers, and

all directors and executive officers as a group.

Name of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percentage of Common Stock Outstanding
5% Stockholders		
Felix J. Baker and Julian C. Baker(2) 667 Madison Avenue New York, NY 10021	3,977,273	17.9%
Merck & Co, Inc. One Merck Drive Whitehouse Station, NJ 08889	1,818,182	8.9%
Youssef El Zein(3) c/o Optima Life Sciences Limited St. James s Chambers 64A Athol Street Isle of Man IM1 1JE	1,852,163	8.7%
Optima Life Sciences Limited(4) St. James s Chambers 64A Athol Street Isle of Man IM1 1JE	1,412,096	6.7%
Other Directors and Named Executive Officers		
Sudhir Agrawal, D. Phil.(5)	994,679	4.6%
Robert G. Andersen(6)	182,440	*
James B. Wyngaarden, M.D.(7)	111,890	*
Timothy M. Sullivan, Ph.D.(8)	73,154	*
C. Keith Hartley(9)	60,997	*
Robert W. Karr, M.D.(10)	53,048	*
William S. Reardon(11)	15,999	*
Alison Taunton-Rigby, Ph.D.(12)	10,313	*
All directors and executive officers		

as a group (9 persons)(13)	3,354,683	14.7%
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* Less than 1%

- (1) The number of shares beneficially owned by each person is determined under rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the stockholder has the sole or shared voting power or investment power and any shares that the stockholder has the right to acquire within 60 days after January 31, 2007 through the conversion of any convertible security or the exercise of any stock option, warrant or other right. Unless otherwise indicated, each stockholder has sole investment and voting power (or shares such power with his spouse) with respect to the shares set forth in the table. The inclusion of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of such shares.

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- (2) As reported on a Schedule 13D filed with the SEC on August 17, 2006 and related Forms 3/A and Forms 4 filed concurrently. Consists of shares of common stock held by the following entities:

Registered Holder	Shares of Common Stock	Common Stock Issuable Upon Exercise of Warrants
Baker Brothers Life Sciences, L.P.	1,396,988	1,047,740
Baker Brothers Investments, L.P.	70,350	52,763
Baker Brothers Investments II, L.P.	63,577	47,682
Baker Biotech Fund I, L.P.	698,811	524,108
14159, L.P.	43,002	32,252
Total	2,272,728	1,704,545

By virtue of their ownership of entities that have the power to control the investment decisions of the limited partnerships listed in the table above, Felix J. Baker and Julian C. Baker may each be deemed to be beneficial owners of shares owned by such entities and may be deemed to have shared power to vote or direct the vote of and shared power to dispose or direct the disposition of such securities.

- (3) Includes 13,252 shares of common stock subject to outstanding stock options, which are exercisable within the 60-day period following January 31, 2007. Also includes (a) 275,466 shares of common stock issuable upon the exercise of warrants held by Optima Life Sciences Ltd., or Optima, (b) 700,851 shares of common stock held by Optima, (c) 198,212 shares of common stock issuable upon the exercise of warrants held by Pillar Investment Ltd., or Pillar, and (d) 435,779 shares of common stock issuable upon conversion of the 4% convertible subordinated note due April 30, 2008 held by Optima, which shares were issued in connection with the automatic conversion of such notes in February 2007. Mr. El Zein is a director of Pillar and a director of Optima. Pillar is the manager and investment advisor of Optima and holds all of the voting shares of Optima. Because of his relationship with Pillar and Optima, Mr. El Zein may be deemed to beneficially own all of the shares of common stock that Pillar and Optima beneficially own. Mr. El Zein is one of our directors.
- (4) Includes 275,466 shares of common stock issuable upon the exercise of warrants held by Optima. Also includes 435,799 shares of common stock issuable upon conversion of our 4% convertible notes held by Optima, which shares were issued in connection with the automatic conversion of such notes in February 2007.
- (5) Includes 972,534 shares of common stock subject to outstanding stock options, which are exercisable within the 60-day period following January 31, 2007.
- (6) Includes 167,266 shares of common stock subject to outstanding stock options, which are exercisable within the 60-day period following January 31, 2007.
- (7) Includes 75,377 shares of common stock subject to outstanding stock options, which are exercisable within the 60-day period following January 31, 2007, and 1,284 shares of common stock issuable upon exercise of warrants.
- (8)

Includes 54,020 shares of common stock subject to outstanding stock options, which are exercisable within the 60-day period following January 31, 2007.

- (9) Includes 14,377 shares of common stock subject to outstanding stock options, which are exercisable within the 60-day period following January 31, 2007.
- (10) Includes 52,499 shares of common stock subject to outstanding stock options, which are exercisable within the 60-day period following January 31, 2007.
- (11) Includes 13,127 shares of common stock subject to outstanding stock options, which are exercisable within the 60-day period following January 31, 2007.
- (12) Consists of 10,313 shares of common stock subject to outstanding stock options, which are exercisable within the 60-day period following January 31, 2007.
- (13) Includes 1,372,765 shares of common stock subject to outstanding stock options held by the directors and executive officers as a group, which are exercisable within the 60-day period following January 31, 2007, and, as described in notes (3), (4) and (7) above, 474,962 shares of common stock issuable upon the exercise of warrants and 435,779 shares issuable upon conversion of our 4% convertible notes, which shares were issued in connection with the automatic conversion of such notes in February 2007.

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INFORMATION RELATING TO OUR BOARD OF DIRECTORS AND ITS COMMITTEES

Board of Directors

Our board of directors is responsible for establishing our broad corporate policies and overseeing the management of our company. Our chief executive officer, our president and our other executive officers are responsible for our day-to-day operations. Our board evaluates our corporate performance and approves, among other things, our corporate strategies and objectives, operating plans, major commitments of corporate resources and significant policies. Our board also evaluates and elects our executive officers.

Our board of directors met 15 times during 2006, including regular, special and telephonic meetings. Each director who served as a director during 2006 attended at least 75% of the aggregate of: (1) the total number of board meetings held during the period of 2006 during which he or she was a director and (2) the total number of meetings held by all board committees on which he or she served during the period of 2006 during which he or she was a member of such committees.

Board Independence

Under American Stock Exchange rules, a director qualifies as independent if the board of directors affirmatively determines that he or she has no material relationship with us that would interfere with the exercise of independent judgment. The other independent members of the board make the determination as to whether a director's material relationship will interfere with the exercise of independent judgment.

Our board of directors has determined that none of our directors, except Sudhir Agrawal, Robert Karr and Youssef El Zein, has a material relationship with us that would interfere with the exercise of independent judgment and that therefore each of these directors is independent under Section 121(A) of the American Stock Exchange's listing standards. Our board of directors reached a similar determination with respect to Dr. Paul C. Zamecnik, who served as a director until June 7, 2006, the date of our 2006 annual meeting of stockholders. Drs. Agrawal and Karr are both employees and are therefore not independent. Mr. El Zein is a party to a number of transactions with us, as described under Certain Transactions, and is therefore not independent.

Board Committees

Our board of directors has established four standing committees—audit, compensation, finance, and nominating and corporate governance. The audit, compensation and nominating and corporate governance committees each operate under a charter that has been approved by our board of directors. Current copies of the charters for the audit, compensation and nominating and corporate governance committees are posted on the Investor Center Committee Charters section of our website, www.iderapharma.com.

Our board of directors has determined that all of the members of each of the audit, compensation and nominating and corporate governance committees are independent as defined under the American Stock Exchange rules including, in the case of all members of the audit committee, the independence requirements contemplated by Rule 10A-3 under the Securities Exchange Act of 1934.

Audit Committee

Our audit committee's responsibilities include:

appointing, approving the compensation of, and assessing the independence of our registered public accounting firm;

overseeing the work of our registered public accounting firm, including through the receipt and consideration of certain reports from the registered public accounting firm;

reviewing and discussing with management and the registered public accounting firm our annual and quarterly financial statements and related disclosures;

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monitoring our internal control over financial reporting, disclosure controls and procedures and code of business conduct and ethics;

discussing our risk management policies;

establishing policies regarding hiring employees from the registered public accounting firm and procedures for the receipt and retention of accounting related complaints and concerns;

reviewing and approving related party transactions, including transactions with affiliates of directors;

meeting independently with our registered public accounting firm and management; and

preparing the audit committee report required by SEC rules that is included in the section of this proxy statement entitled Report of the Audit Committee.

The current members of our audit committee are Mr. Hartley, Mr. Reardon and Dr. Taunton-Rigby. Our board of directors has determined that all three current members of the audit committee are audit committee financial experts as defined in Item 407(d)(5) of Regulation S-K. During 2006, our audit committee held nine meetings in person or by teleconference.

Compensation Committee

Our compensation committee's responsibilities include:

annually reviewing and approving corporate goals and objectives relevant to compensation for our chief executive officer;

determining our chief executive officer's compensation;

reviewing and approving, or making recommendations to our board of directors with respect to, the compensation of our senior executives;

overseeing an evaluation of our other senior executives;

overseeing and administering our cash and equity incentive plans;

reviewing and making recommendations to the board of directors with respect to director compensation;

reviewing and discussing annually with management our Compensation Discussion and Analysis required by the SEC's rules; and

preparing the compensation committee report required by SEC's rules.

The current members of our compensation committee are Mr. Hartley, Mr. Reardon, Dr. Taunton-Rigby and Dr. Wyngaarden. During 2006, the compensation committee held eight meetings in person or by teleconference.

The processes and procedures followed by our compensation committee in considering and determining director and executive compensation are described below under the headings Director Compensation and Executive Compensation.

Finance Committee

Our finance committee's responsibilities include:

reviewing and advising management and our board of directors regarding the relative merits of prospective financing transactions; and

approving the specific terms of financing transactions when authority to do so is delegated to the finance committee by our board of directors.

During 2006, our finance committee reviewed and advised management, approved the specific terms of our private placements with Biotech Shares Ltd. and Baker Brothers, and approved the drawdown of funds from the financing commitment established with Biotech Shares, Ltd.

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The current members of our finance committee are Dr. Agrawal, Mr. Hartley, Dr. Karr, Mr. Reardon and Dr. Taunton-Rigby. During 2006, the finance committee held five meetings in person or by teleconference.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee's responsibilities include:

- identifying individuals qualified to become members of our board of directors;
- recommending to our board of directors the persons to be nominated for election as directors or to fill vacancies on our board of directors, and to be appointed to each of the committees of the board of directors;
- reviewing and making recommendations to the board of directors with respect to management succession planning;
- developing and recommending to the board of directors corporate governance principles; and
- overseeing periodic evaluations of the board of directors.

The members of our nominating and corporate governance committee are Mr. Hartley, Mr. Reardon and Dr. Wyngaarden. During 2006, the nominating and corporate governance committee held two meetings in person or by teleconference.

The processes and procedures followed by our nominating and corporate governance committee in identifying and evaluating director candidates are described below under the heading **Director Candidates and Nominating Process**.

Our board of directors has adopted corporate governance guidelines to assist our board in the exercise of its duties and responsibilities, which we have posted on the **Investor Center Corporate Governance** section of our website, which is located at www.iderapharma.com.

Director Candidates and Nominating Process

The process followed by our nominating and corporate governance committee to identify and evaluate director candidates includes requests to members of our board of directors and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates and interviews of selected candidates by members of our nominating and corporate governance committee and our board of directors.

In considering whether to recommend any particular candidate for inclusion in the board's slate of recommended director nominees, the nominating and corporate governance committee will apply the criteria set forth in our corporate governance guidelines. These criteria include the candidate's:

- business acumen,
- knowledge of our business and industry,
- age,

experience,

diligence,

conflicts of interest,

ability to act in the interests of all stockholders, and

in the case of the renomination of existing directors, the performance of the director on our board of directors and on any committee of which the director was a member.

Our nominating and corporate governance committee does not assign specific weights to particular criteria and no particular criterion is a prerequisite for any prospective nominee. We believe that the backgrounds and

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qualifications of our directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will allow the board of directors to fulfill its responsibilities.

Stockholder Nominees

Stockholders may recommend individuals to the nominating and corporate governance committee for consideration as potential director candidates by submitting the individuals' names, together with appropriate biographical information and background materials and a statement as to whether the stockholder or group of stockholders making the recommendation has beneficially owned more than 5% of our common stock for at least one year as of the date such recommendation is made, to Nominating and Corporate Governance Committee, c/o Corporate Secretary, Idera Pharmaceuticals, Inc., 345 Vassar Street, Cambridge, Massachusetts 02139, or after June 2007, to 167 Sidney Street, Cambridge, Massachusetts 02139. Assuming that appropriate biographical and background material has been provided on a timely basis, the nominating and corporate governance committee will evaluate stockholder-recommended candidates by following substantially the same process, and applying substantially the same criteria, as it follows for candidates submitted by others. If the board of directors determines to nominate a stockholder-recommended candidate and recommends his or her election, then his or her name will be included in our proxy card for the next annual meeting.

Stockholders also have the right under our bylaws to nominate director candidates directly, without any action or recommendation on the part of the nominating and corporate governance committee or the board of directors, by following the procedures set forth under "Information about the annual meeting - How and when may I submit a proposal for the 2008 annual meeting?" above. Candidates nominated by stockholders in accordance with the procedures set forth in our bylaws will not be included in our proxy card for the next annual meeting.

Communicating with our Board of Directors

Our board of directors will give appropriate attention to written communications that are submitted by stockholders and will respond if and as appropriate. The chairman of the board of directors is primarily responsible for monitoring communications from stockholders and for providing copies or summaries to the other directors, as he or she considers appropriate.

Communications are forwarded to all directors if they relate to important substantive matters and include suggestions or comments that the chairman of the board of directors considers to be important for the directors to know. In general, communications relating to corporate governance and long-term corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances and matters as to which we tend to receive repetitive or duplicative communications.

Stockholders who wish to send communications on any topic to the board of directors should address such communications to board of directors, c/o Corporate Secretary, Idera Pharmaceuticals, Inc., 345 Vassar Street, Cambridge, Massachusetts 02139 or, after June 2007, 167 Sidney Street, Cambridge, Massachusetts 02139.

Each communication from a stockholder should include the following information in order to permit stockholder status to be confirmed and to provide an address to forward a response if deemed appropriate:

the name, mailing address and telephone number of the stockholder sending the communication;

the number of shares held by the stockholder; and

if the stockholder is not a record owner of our securities, the name of the record owner of our securities beneficially owned by the stockholder.

Director Attendance at Annual Meeting of Stockholders

Directors are expected to attend the annual meeting of stockholders. All directors attended the 2006 annual meeting of stockholders.

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Code of Business Conduct and Ethics

We have adopted a written Code of Business Conduct and Ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial and accounting officer, controller, and any person performing similar functions. We have posted a current copy of the Code of Business Conduct and Ethics in the Investor Center Code of Ethics section of our website, which is located at www.iderapharma.com.

Any waiver of the code of business conduct and ethics for directors or executive officers, or any amendment to the code that applies to directors or executive officers, may only be made by the board of directors. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K and any disclosures required by law or American Stock Exchange rules regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on our website, at the address and location specified above. To date, no such waivers have been requested or granted.

Compensation Committee Interlocks and Insider Participation

Our compensation committee consists of Mr. Hartley, Mr. Reardon, Dr. Taunton-Rigby and Dr. Wyngaarden. No member of our compensation committee was at any time during 2006, or was formerly, an officer or employee of ours. None of our executive officers 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 our compensation committee.

DIRECTOR COMPENSATION

We use a combination of cash and equity-based compensation to attract and retain candidates to serve on our board of directors. We do not compensate directors who are also our employees for their service on our board of directors. As a result, Dr. Agrawal, our chief executive officer and chief scientific officer, and Dr. Karr, our president, do not receive any compensation for their service on our board of directors. We periodically review our cash and equity-based compensation for non-employee directors. As part of that process, we review director compensation at comparable companies and other relevant market data.

Meeting Fees

Members of the board of directors who are not employees are paid \$1,250 for personal attendance and \$500 for telephonic attendance at board of directors and committee meetings. No additional compensation is paid for committee meetings held in conjunction with board meetings. These directors are also reimbursed for their expenses incurred in connection with their attendance at board of directors and committee meetings.

We have a policy under which non-employee directors may elect to receive meeting fees in the form of common stock in lieu of cash. The number of shares of common stock issued to directors electing to receive common stock is determined on a quarterly basis by dividing the fees for meetings attended in a quarter by 85% of the closing price of our common stock on the first business day of the quarter following the quarter in which fees are earned. In connection with this policy, directors elected to receive common stock in lieu of cash for board of director and committee meeting fees earned during 2006 as follows:

Shares of

Value of Stock

Director	Common Stock	Cash Fees Foregone	Received(1)
William S. Reardon	745	\$ 2,500	\$ 2,941
Dr. James B. Wyngaarden	3,795	\$ 15,250	\$ 17,941
Dr. Paul C. Zamecnik(2)	1,153	\$ 4,500	\$ 5,294

- (1) Value determined by multiplying shares of common stock issued and the closing price of our common stock on the first business day of the quarter following the quarter in which fees are earned.
- (2) Dr. Zamecnik served as a member of our board of directors until June 7, 2006, the date of our 2006 annual meeting of stockholders.

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In addition to meeting fees, we pay our non-employee directors annual retainers in cash. The chairman of our board receives an annual retainer of \$60,000, which is paid in monthly installments, and the chairman of our audit committee receives an annual retainer of \$15,000, which is paid in quarterly installments. All other non-employee directors receive an annual retainer of \$10,000, which is paid in quarterly installments.

Equity Compensation

Under our director compensation program, we grant each non-employee director options to purchase 3,125 shares of our common stock upon his or her initial election to the board of directors and options to purchase 1,250 shares of common stock on the first day of each calendar quarter. We grant initial options and options to purchase 469 shares of the quarterly grants under the 1995 Director Stock Option Plan. Until 2007, we have granted the remainder of the quarterly options under our 1997 Stock Incentive Plan. Beginning in 2007, we will make the remainder of the quarterly grants under our 2005 Stock Incentive Plan. All options are granted with exercise prices equal to the closing price of the common stock on the date of grant and vest on the first anniversary of the date of grant. Under the terms of the stock option agreements that we enter into with our non-employee directors, the vesting of all options granted to non-employee directors will be automatically accelerated upon the occurrence of a change in control of the company.

2006 Director Compensation

The following table sets forth a summary of the compensation we paid to our non-employee directors for service on our board in 2006.

DIRECTOR COMPENSATION TABLE FOR 2006

Name	Fees Earned or Paid in Cash (\$)	Option Awards \$(1)	All Other Compensation \$(2)	Total (\$)
Youssef El Zein	\$ 19,750	\$ 15,713		\$ 35,463
James B. Wyngaarden, M.D.	\$ 75,250(3)	\$ 15,713	\$ 2,691	\$ 93,654
C. Keith Hartley	\$ 33,057	\$ 15,713		\$ 48,770
William S. Reardon	\$ 36,500(3)	\$ 15,713	\$ 441	\$ 52,654
Alison Taunton-Rigby, Ph.D.	\$ 31,500	\$ 15,713		\$ 47,213
Paul C. Zamecnik, M.D.(4)	\$ 9,500(3)	\$ 13,875	\$ 10,794	\$ 34,169

- (1) The amount shown represents the amount of compensation cost that we recognized for financial statement reporting purposes for fiscal 2006 for all options held by each of the directors as computed in accordance with SFAS No. 123R utilizing the modified prospective transition method. In accordance with SFAS No. 123R, the fair value of each stock option is determined on the date of grant using the Black-Scholes option pricing model. This value is then amortized ratably over the vesting period. The amounts disregard the estimate of forfeitures related to service-based vesting conditions. See Note 2(k) of the financial statements in our annual report on Form 10-K for the year ended December 31, 2006 regarding assumptions we made in determining the SFAS No. 123R value of equity awards. The grant date fair value, computed in accordance with

SFAS No. 123R, of stock options granted to each of our non-employee directors in 2006 was \$14,447 except that in the case of Dr. Zamecnik it was \$7,913. As of December 31, 2006, our directors held options to purchase shares of our common stock as follows: Mr. El Zein: 15,752; Dr. Wyngaarden: 77,877; Mr. Reardon: 15,627; Mr. Hartley: 16,877; Ms. Taunton-Rigby: 12,813; and Dr. Zamecnik: 34,503.

- (2) Includes consulting fees paid to Dr. Zamecnik and, in the case of Drs. Wyngaarden and Zamecnik and Mr. Reardon, the difference between the value of our common stock purchased by the director and the amount of the cash meeting fees foregone with respect to such purchases. See Director Compensation Meeting Fees above for further information about the cash fees foregone.

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- (3) Includes cash meeting fees foregone at the election of the director of \$15,250 in the case of Dr. Wyngaarden, \$2,500 in the case of Mr. Reardon and \$4,500 in the case of Dr. Zamecnik. In lieu of such fees, the director elected to receive shares of our common stock.
- (4) Dr. Zamecnik served as a member of our board of directors until June 7, 2006, the date of our 2006 annual meeting of stockholders. We paid Dr. Zamecnik \$10,000 in consulting fees while he was serving as a director in 2006.

We have also entered into certain transactions with one of our directors and his affiliates, which transactions are described under **Certain Transactions** below.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The compensation committee of our board of directors is responsible for establishing compensation policies with respect to our executive officers, including our chief executive officer and our other named executive officers. Our compensation committee makes compensation decisions relating to our named executive officers after consultation with our board of directors.

Overview of Compensation Program and Philosophy

The compensation committee seeks to achieve the following broad goals in connection with our executive compensation programs and decisions regarding individual compensation:

attract, retain and motivate the best possible executive talent;

ensure executive compensation is aligned with our corporate strategies and business objectives, including our short-term operating goals and longer-term strategic objectives;

promote the achievement of key strategic and financial performance measures by linking short- and long-term cash and equity incentives to the achievement of measurable corporate and individual performance goals; and

align executives' incentives with the creation of stockholder value.

To achieve these objectives, the compensation committee evaluates our executive compensation program with the goal of setting compensation at levels the committee believes are competitive with those of other companies in our industry and our region that compete with us for executive talent. In addition, our executive compensation program ties a substantial portion of each executive's overall compensation to key strategic, financial and operational goals such as clinical trial and regulatory progress, intellectual property portfolio development, establishment and maintenance of key strategic relationships and exploration of business development opportunities, as well as our financial and operational performance. We also provide a portion of our executive compensation in the form of stock options that vest over time, which we believe helps to retain our executives and aligns their interests with those of our stockholders by allowing them to participate in the longer term success of our company as reflected in stock price appreciation.

In making compensation decisions, our compensation committee reviews survey compensation data, such as the Radford Survey of U.S. biotech companies generally and the Radford Survey of U.S. biotech companies with fewer than 50 employees, as well as publicly available data about our competitors. In making our annual equity grants in

December 2006, the compensation committee also reviewed data on equity compensation of a peer group of publicly traded companies which the committee believes have business life cycles, growth profiles, market capitalizations, products, research and development investment levels and number/capabilities of employees that are roughly comparable to ours and against which the committee believes we compete for executive talent. During 2006, the compensation committee reviewed materials prepared by Millbrook Partners, an executive compensation consulting firm that was engaged by management. Millbrook Partners analyzed the equity compensation of the selected companies and presented results to management and the compensation committee. Millbrook Partners also presented data drawn from the Radford surveys. The companies included in our peer group considered in

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connection with the annual equity grants in December 2006 were Alnylam Pharmaceuticals, Inc., Antigenics Inc., Avant Immunotherapeutics, Inc., Dynavax Technologies Corporation, Genta Incorporated, Glyco Genesys, Inc., GTC Biotherapeutics, Inc., Hemispherx Biopharma, Inc., Immunogen, Inc., Indevus Pharmaceuticals Inc., Isis Pharmaceuticals, Inc., Oxigene Inc., Praecis Pharmaceuticals Incorporated, Point Therapeutics, Inc.