

HYBRIDON INC
Form DEF 14A
May 11, 2004

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SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

HYBRIDON, INC.

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) 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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- Fee paid previously with preliminary materials.
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 - 1) Amount Previously Paid:
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4) Date Filed:

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HYBRIDON, INC.

345 Vassar Street
Cambridge, Massachusetts 02139

NOTICE OF 2004 ANNUAL MEETING OF STOCKHOLDERS

To Be Held on June 24, 2004

The 2004 Annual Meeting of the Stockholders of Hybridon, Inc. (the Company) will be held on Thursday, June 24, 2004 at 10:00 a.m., local time, at the American Stock Exchange, 86 Trinity Place, New York, New York (the Annual Meeting), for the purpose of considering and voting upon the following matters:

1. To elect three Class III Directors to the Board of Directors for the ensuing three years.
2. To approve an amendment to the Company's Restated Certificate of Incorporation increasing the number of authorized shares of the Company's Common Stock from 150,000,000 to 185,000,000.
3. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

The Board of Directors presently has no knowledge of any other business to be transacted at the Annual Meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on Monday, April 26, 2004 as the record date for the determination of stockholders entitled to receive notice of and to vote at the Annual Meeting or any adjournment thereof.

By Order of the Board of Directors,

/s/ ROBERT G. ANDERSEN

Robert G. Andersen, *Secretary*

Cambridge, Massachusetts
May 11, 2004

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE PROMPTLY COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE IN ORDER TO ASSURE REPRESENTATION OF YOUR SHARES. NO POSTAGE NEED BE AFFIXED IF THE PROXY IS MAILED IN THE UNITED STATES.

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HYBRIDON, INC.

**345 Vassar Street
Cambridge, Massachusetts 02139**

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS

To Be Held on June 24, 2004

This Proxy Statement and the enclosed form of proxy are being furnished by the Board of Directors of Hybridon, Inc. (Hybridon or the Company) in connection with the Company s 2004 Annual Meeting of Stockholders (the Annual Meeting) to be held on Thursday, June 24, 2004 at 10:00 a.m., local time, at the American Stock Exchange, 86 Trinity Place, New York, New York or any adjournment or postponement of the Annual Meeting.

All shares represented by proxy will be voted in accordance with the instructions of the stockholder. If no instructions are provided, proxies will be voted for the director nominees and in favor of the matter set forth in the accompanying Notice of Annual Meeting. A registered stockholder may revoke a proxy at any time before its exercise by delivery of a written revocation or a subsequently dated proxy to the Secretary of the Company or by voting in person at the Annual Meeting. Attendance at the Annual Meeting will not itself be deemed to revoke a proxy unless the stockholder is registered on the books of the Company and gives affirmative notice at the Annual Meeting that the stockholder intends to revoke the proxy and vote in person.

The Notice of the Annual Meeting, this Proxy Statement, the enclosed proxy and the Company s 2003 Annual Report to Stockholders, which contains the Company s Annual Report on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission, without exhibits, are being mailed to stockholders on or about May 24, 2004. Exhibits to the Company s Annual Report on Form 10-K will be provided upon written request and payment of an appropriate processing fee. Please address all such requests to the Company, Attention: Investor Relations, 345 Vassar Street, Cambridge, Massachusetts 02139.

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Voting Securities and Votes Required

On April 26, 2004, the record date for determination of stockholders entitled to notice of and to vote at the Annual Meeting, there were outstanding and entitled to vote 101,948,669 shares of the Company’s common stock, \$0.001 par value per share (the Common Stock). Each share of Common Stock entitles the holder to one vote on each of the matters to be considered at the Annual Meeting.

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock entitled to vote at the Annual Meeting shall be necessary to constitute a quorum for the transaction of business at the Annual Meeting. Shares of Common Stock present in person or represented by executed proxies received by the Company, including shares that are held in street name by brokers or nominees who indicate on their proxies that they do not have discretionary authority to vote such shares as to one or more of the matters to be voted upon (broker non-votes), and shares that abstain or do not vote with respect to one or more of the matters to be voted upon, will be counted for purposes of establishing a quorum at the Annual Meeting

The affirmative vote of the holders of a plurality of the votes cast by stockholders entitled to vote at the Annual Meeting is required for the election of directors. The affirmative vote of the holders of a majority of the Company’s outstanding Common Stock entitled to vote at the meeting is required for the approval of the amendment to the Company’s Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock from 150,000,000 to 185,000,000.

Shares will not be counted as votes in favor of a matter, and will also not be counted as votes cast or shares voting on such matter, if the holder of the shares either withholds the authority to vote for a particular director nominee or nominees or abstains from voting on a particular matter or if the shares constitute broker non-votes. Accordingly, withheld shares, abstentions and broker non-votes will have no effect on the election of directors, but will have the same effect as a vote against the proposed amendment to the Company’s Restated Certificate of Incorporation.

Security Ownership of Certain Beneficial Owners and Management

On April 26, 2004, Hybridon had 101,948,669 shares of Common Stock issued and outstanding. The following table sets forth certain information about the beneficial ownership of Common Stock, as of April 26, 2004, by (i) each person known by the Company to own beneficially more than 5% of the outstanding shares of Common Stock, (ii) each director of the Company, (iii) each executive officer of the Company named in the Summary Compensation Table set forth under the caption Executive Compensation below and (iv) all directors and executive officers as a group.

Name of Beneficial Owner	Number of Shares Beneficial Ownership	Percentage of Common Stock Outstanding(1)
5% Stockholders		
Youssef El Zein(2) c/o Optima Life Sciences Limited St. James’s Chambers 64A Athol Street Isle of Man IM1 1JE	9,598,789	9.2%
Optima Life Sciences Limited(3) St. James’s Chambers 64A Athol Street Isle of Man IM1 1JE	7,150,495	6.9%
Great Point Partners LLC(4) 2 Pickwick Plaza Suite 450 Greenwich, CT 06830	6,694,300	6.6%

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Name of Beneficial Owner	Number of Shares Beneficial Ownership	Percentage of Common Stock Outstanding(1)
Jeffrey R. Jay, M.D.(5) 2 Pickwick Plaza Suite 450 Greenwich, CT 06830	6,694,300	6.6%
Other Directors and Executive Officers		
Sudhir Agrawal, D. Phil(6)	5,248,660	4.9%
Stephen R. Seiler(7)	3,082,700	2.9%
Robert G. Andersen(8)	1,157,026	1.1%
Paul C. Zamecnik, M.D.(9)	993,843	1.0%
James B. Wyngaarden, M.D.(10)	734,253	*
R. Russell Martin, M.D.(11)	486,955	*
C. Keith Hartley(12)	209,518	*
William S. Reardon(13)	33,910	*
All directors and executive officers as a group (9 persons)(14)	21,545,654	18.9%

* 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 also any shares that the stockholder has the right to acquire within 60 days of April 26, 2004 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.
- (2) Includes 32,750 shares of Common Stock subject to outstanding stock options, which are exercisable within the 60-day period following April 26, 2004. Also includes (a) 1,650,114 shares of Common Stock issuable upon the exercise of warrants held by Optima Life Sciences Ltd. (Optima), (b) 5,500,381 shares of Common Stock held by Optima and (c) 587,709 shares of Common Stock issuable upon the exercise of warrants held by Pillar Investment Ltd. (Pillar). 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 a director of the Company.
- (3) Includes 1,650,114 shares of Common Stock issuable upon the exercise of warrants held by Optima.
- (4) Consists of 4,552,100 shares of Common Stock held by Biomedical Value Fund, LP and 2,142,200 shares of Common Stock held by Biomedical Offshore Value Fund Ltd.
- (5) Dr. Jay has voting and investment power with respect to the shares held by Biomedical Value Fund, LP and Biomedical Offshore Value Fund Ltd. as set forth in Note (4) above.
- (6) Includes 5,116,500 shares of Common Stock subject to outstanding stock options, which are exercisable within the 60-day period following April 26, 2004.
- (7) Includes 2,572,500 shares of Common Stock subject to outstanding stock options, which are exercisable within the 60-day period following April 26, 2004, and 200 shares of Common Stock held by Mr. Seiler's children.
- (8) Includes 1,100,455 shares of Common Stock subject to outstanding stock options, which are exercisable within the 60-day period following April 26, 2004.

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- (9) Includes 204,950 shares of Common Stock subject to outstanding stock options, which are exercisable within the 60-day period following April 26, 2004, and 20,548 shares of Common Stock issuable upon the exercise of warrants.
- (10) Includes 533,750 shares of Common Stock subject to outstanding stock options, which are exercisable within the 60-day period following April 26, 2004, and 10,274 shares of Common Stock issuable upon the exercise of warrants.
- (11) Includes 388,205 shares of Common Stock subject to outstanding stock options, which are exercisable within the 60-day period following April 26, 2004.
- (12) Includes 38,750 shares of Common Stock subject to outstanding stock options, which are exercisable within the 60-day period following April 26, 2004.
- (13) Includes 28,750 shares of Common Stock subject to outstanding stock options, which are exercisable within the 60-day period following April 26, 2004.
- (14) Includes 10,016,610 shares of Common Stock subject to outstanding stock options held by the directors and executive officers, which are exercisable within the 60-day period following April 26, 2004, and 30,822 shares of Common Stock issuable upon the exercise of warrants held by directors and officers. Also includes securities owned by Optima and Pillar as set forth in Note (2) above.

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PROPOSAL 1 ELECTION OF DIRECTORS

The Company's 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. James B. Wyngaarden and Dr. Paul C. Zamecnik) and three Class III Directors (Dr. Sudhir Agrawal, Youssef El Zein and Stephen R. Seiler). 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 Board of Directors has nominated Dr. Agrawal and Messrs. El Zein and Seiler for election as Class III Directors. The persons named in the enclosed proxy card will vote to elect Dr. Agrawal and Messrs. El Zein and Seiler as Class III Directors, unless the proxy card is marked otherwise. The proxy card may not be voted for more than three directors. Each Class III Director will be elected to hold office until the 2007 Annual Meeting of Stockholders and until his successor is elected and qualified. Each of the nominees is presently a director, and each has indicated a willingness to serve as 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. **The Board of Directors recommends that the stockholders vote for the election of Dr. Agrawal and Messrs. El Zein and Seiler as Class III Directors.**

Set forth below are the names of each member of the board of directors, including each of the nominees, the year in which each first became a director, their ages as of March 31, 2004, their positions and offices with the Company, their principal occupations and business experience during the past five years and the names of other public companies for which they serve as a director.

Nominees for Class III Directors Terms to Expire in 2007

Dr. Sudhir Agrawal

Director since 1993

Dr. Sudhir Agrawal, age 50, joined the Company in 1990 and has been the Company's Chief Scientific Officer since January 1993, Senior Vice President of Discovery since March 1994 and President since February 2000. Prior to his appointment as Chief Scientific Officer, Dr. Agrawal served as Principal Research Scientist from February 1990 to January 1993 and as Vice President of Discovery from December 1991 to January 1993. He also served as Acting Chief Executive Officer from February 2000 until September 2001. Prior to joining the Company, Dr. Agrawal served as a Foundation Scholar at the Worcester Foundation for Biomedical Research from 1987 to 1991 and served as a Research Associate at Medical Research Council's Laboratory of Molecular Biology in Cambridge, England from 1985 to 1986, studying DNA chemistry and synthetic oligonucleotides. He is a member of the editorial board of *Antisense Research & Development Journal*, *Trends in Molecular Medicine*, *Investigational Drug Journal* and *Current Cancer Drug Targets*, and is associate editor of *Molecular Biotechnology*.

Youssef El Zein

Director since 1992

Youssef El Zein, age 55, has been Vice Chairman of the Company's Board of Directors since February 1997. Mr. El Zein has been Chairman and Chief Executive Officer of Pillar S.A., a private investment and management consulting firm, since 1991 and has served as a member of the Board of Directors of WorldCare Group, a telemedicine and insurance company, since 1993. Mr. El Zein is also Managing Director of Optima Life Sciences Ltd., a biotechnology investment fund.

Stephen R. Seiler

Director since 2001

Stephen R. Seiler, age 47, has been Chief Executive Officer of the Company since September 2001. Mr. Seiler was Executive Vice President, Planning, Investment & Development at Elan Corporation, plc from 1995 to June 2001. He worked as an investment banker at Paribas Capital Markets in both London and New York from 1991 to 1995 where he was founder and head of Paribas's pharmaceutical investment banking group.

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Continuing Members of the Board of Directors

Class I Directors Terms to Expire in 2005

C. Keith Hartley

Director since 2000

C. Keith Hartley, age 61, 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 57, 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 biopharmaceutical company.

Class II Directors Terms to Expire in 2006

Dr. James B. Wyngaarden

Director since 1990

Dr. James B. Wyngaarden, age 79, has been Chairman of the Company's Board of Directors since February 2000 and was Vice Chairman from February 1997 to February 2000. Dr. Wyngaarden is a principal in the Washington Advisory Group LLC, a consulting firm, which he founded in 1996. 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. Dr. Wyngaarden was Director of the National Institutes of Health from 1982 to 1989, and Associate Director for Lifesciences, 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 Human Genome Sciences, Inc., a genomics and biopharmaceutical company, and Genaera Corporation, a biopharmaceutical company, and the author of approximately 250 scientific publications.

Dr. Paul C. Zamecnik

Director since 1990

Dr. Paul C. Zamecnik, age 91, has been Collis P. Huntington Professor of Oncologic Medicine Emeritus at the Harvard Medical School since 1979. Dr. Zamecnik is also a Senior Scientist and Honorary Physician at Massachusetts General Hospital in Boston. He was Principal Scientist at the Worcester Foundation for Biomedical Research, Inc., a biomedical research institution, from 1979 to 1996. Dr. Zamecnik received the National Medal of Science in 1991, the City of Medicine Award in 1995 and the Lasker Award for Special Achievement in Medical Science in 1996.

Board of Directors

The Board of Directors held nine meetings in 2003 in person, by teleconference or by written action. Each of the directors participated in at least 75% of the meetings of the Board of Directors and of the committees of the Board of Directors on which he served in 2003.

Under American Stock Exchange rules that become applicable to the Company on the date of the Annual Meeting, a director of the Company will only qualify as independent if the Board of Directors affirmatively determines that he or she has no material relationship with the Company that would interfere with the exercise of independent judgment. The determination of whether a material relationship that would

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interfere with the exercise of independent judgment exists is made by the other members of the Board who are independent.

The Board has determined that none of C. Keith Hartley, William S. Reardon, Dr. James B. Wyngaarden and Dr. Paul C. Zamecnik has a material relationship with the Company that would interfere with the exercise of independent judgment and that each of these directors is independent as determined under Section 121(A) of the American Stock Exchange's listing standards.

Board Committees

The Board of Directors has established five standing committees – Audit, Compensation, Executive, Finance and Nominating and Corporate Governance. Each of the Audit, Compensation and Nominating and Corporate Governance Committees operates under a charter that has been approved by the Board. Current copies of the charters for the Audit, Compensation and Nominating and Corporate Governance Committees are posted on the Corporate Governance section of the Company's website, www.hybridon.com. In addition, a copy of the Audit Committee charter as in effect on the date of this proxy statement is attached as Appendix A.

The 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 that become applicable to the Company on the date of the Annual Meeting, 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, as amended. In addition, all of the members of the Audit Committee are independent as defined by the current rules of the American Stock Exchange, which apply to the Company until the date of the Annual Meeting.

Audit Committee

The Audit Committee's responsibilities include:

- appointing, approving the compensation of, and assessing the independence of the Company's independent auditor;
- overseeing the work of the Company's independent auditor, including through the receipt and consideration of certain reports from the independent auditor;
- reviewing and discussing with management and the independent auditors the Company's annual and quarterly financial statements and related disclosures;
- monitoring the Company's internal control over financial reporting, disclosure controls and procedures and code of business conduct and ethics;
- discussing the Company's risk management policies;
- establishing policies regarding hiring employees from the independent auditor 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 of the Company;
- meeting independently with the Company's independent auditors and management; and
- preparing the audit committee report required by SEC rules (which is included on pages 21 and 22 of this proxy statement).

The Audit Committee held ten meetings during 2003. The current members of the Audit Committee are Dr. Wyngaarden and Messrs. Hartley and Reardon. The Board of Directors has determined that Mr. Reardon, the Chairman of the Audit Committee, is an audit committee financial expert as defined in Item 401(h) of Regulation S-K.

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Compensation Committee

The Compensation Committee's responsibilities include:

- annually reviewing and approving corporate goals and objectives relevant to compensation for the Company's chief executive officer;
- determining the chief executive officer's compensation;
- reviewing and approving, or making recommendations to the Board with respect to, the compensation of the Company's senior executives;
- overseeing an evaluation of the Company's other senior executives;
- overseeing and administering the Company's cash and equity incentive plans; and
- reviewing and making recommendations to the Board with respect to director compensation.

In 2003, the Compensation Committee held two meetings. The current members of the Compensation Committee are Dr. Wyngaarden and Messrs. Hartley and Reardon.

Executive Committee

The Executive Committee of the Board of Directors was established to act on routine matters without having to convene special meetings of the full Board. In 2003, the Executive Committee held six meetings. The current members of the Executive Committee are Drs. Agrawal and Wyngaarden and Messrs. El Zein and Seiler.

Finance Committee

The Finance Committee was established in 2003 to review and advise management and the full Board regarding prospective financing transactions. In 2003, the Finance Committee held four meetings, including one meeting in which it acted as the pricing committee in connection with the Company's August 2003 private placement. The current members of the Finance Committee are Messrs. Hartley, Reardon and Seiler and Dr. Wyngaarden.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee's responsibilities include:

- identifying individuals qualified to become Board members;
- recommending to the Board the persons to be nominated for election as directors and to each of the Board's committees;
- reviewing and making recommendations to the Board with respect to management succession planning;
- developing and recommending to the Board corporate governance principles; and
- overseeing periodic evaluations of the Board.

The members of the Nominating and Corporate Governance Committee are Mr. Hartley, Mr. Reardon and Dr. Wyngaarden. The Nominating and Corporate Governance Committee was formed in February 2004 and, therefore, did not meet during 2003.

Director Attendance at Annual Meeting of Stockholders

It is the Company's policy that directors are expected to attend the annual meeting of stockholders. All directors attended the 2003 annual meeting of stockholders.

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Director Candidates

The process followed by the Nominating and Corporate Governance Committee to identify and evaluate director candidates includes requests to Board members 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 the Nominating and Corporate Governance Committee and the Board.

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 the Company's Corporate Governance Guidelines that the Company has posted on the Corporate Governance Section of its website, which is located at www.hybridon.com. These criteria include the candidate's integrity, business acumen, knowledge of the Company's business and industry, age, experience, diligence, conflicts of interest and the ability to act in the interests of all stockholders. The Nominating and Corporate Governance Committee does not assign specific weights to particular criteria and no particular criterion is a prerequisite for any prospective nominee. The Company believes that the backgrounds and qualifications of its directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities.

Stockholders may recommend individuals to the Nominating and Corporate Governance Committee for consideration as potential director candidates by submitting their 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 the Company's Common Stock for at least a year as of the date such recommendation is made, to Nominating and Corporate Governance Committee, c/o Corporate Secretary, Hybridon, Inc., 345 Vassar 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 determines to nominate a stockholder-recommended candidate and recommends his or her election, then his or her name will be included in the Company's proxy card for the next annual meeting.

Stockholders also have the right under the Company's bylaws to nominate director candidates directly, without any action or recommendation on the part of the Nominating and Corporate Governance Committee or the Board, by following the procedures set forth under Submission of Future Stockholder Proposals for 2005 Annual Meeting below. Candidates nominated by stockholders in accordance with the procedures set forth in the Company's bylaws will not be included in the Company's proxy card for the next annual meeting.

Communicating with the Independent Directors

The Board will give appropriate attention to written communications that are submitted by stockholders and will respond if and as appropriate. The Chairman of the Board 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 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 the Company tends to receive repetitive or duplicative communications.

Stockholders who wish to send communications on any topic to the Board should address such communications to Board of Directors, c/o Corporate Secretary, Hybridon, Inc., 345 Vassar Street, Cambridge, Massachusetts 02139.

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The Company has adopted a written Code of Business Conduct and Ethics that applies to the Company's directors, officers and employees, including its principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. The Company has posted a current copy of the Code in the Corporate Governance section of the Company's website, which is located at www.hybridon.com. In addition, the Company intends to post on its website all disclosures that are required by law or American Stock Exchange listing standards concerning any amendments to, or waivers from, any provision of the Code.

Director Compensation*Meeting Fees*

Members of the Board of Directors who are not employees of the Company are paid \$1,250 for personal attendance and \$500 for telephonic attendance at Board of Directors and committee meetings. These directors are reimbursed for their expenses incurred in connection with their attendance at Board of Directors and committee meetings.

In 2003, the Board established a policy under which non-employee directors may elect to receive their compensation for meeting attendance in cash or in a number of shares of Common Stock determined by dividing the fees for meetings attended by 85% of the fair market value of the Company's 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 2003 as follows:

Director	Date of Issuance	Shares of Common Stock	Cash Forgone
Dr. Wyngaarden	October 1, 2003	2,813	\$2,750
Dr. Zamecnik	October 1, 2003	3,069	3,000
Mr. Reardon	January 6, 2004	5,160	5,000
Dr. Wyngaarden	January 6, 2004	9,288	9,000
Dr. Zamecnik	January 6, 2004	2,580	2,500

Annual Retainers

In addition to meeting fees, in 2003 the Company paid the Chairman of the Board an annual retainer of \$60,000, which was paid in monthly installments, and paid the Chairman of the Audit Committee an annual retainer of \$15,000, which was paid in quarterly installments. All other non-employee directors were paid an annual retainer of \$10,000, which was paid in quarterly installments.

Equity Compensation

In June 2003, the Company's stockholders approved an amendment to Hybridon's 1995 Director Stock Option Plan. The amended 1995 Director Stock Option Plan provides for the grant of options to purchase 25,000 shares of Common Stock to each non-employee director upon his or her initial election to the Board of Directors and for automatic quarterly grants of options to purchase an additional 3,750 shares of Common Stock to each non-employee director on the first day of each calendar quarter. All options are granted with exercise prices equal to the fair market value of the Common Stock on the date of grant. All options vest on the first anniversary of the date of grant. The vesting of all options granted under the 1995 Director Stock Option Plan will be automatically accelerated upon the occurrence of a change in control of the Company, as defined in the 1995 Director Stock Option Plan.

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In 2003, the Company granted the following stock options to its directors under the 1995 Director Stock Option Plan:

On July 1, 2003, each of the non-employee directors was granted an option to purchase 3,750 shares of Common Stock under the 1995 Director Stock Option Plan at an exercise price of \$0.83 per share.

On October 1, 2003, each of the non-employee directors was granted an option to purchase 3,750 shares of Common Stock under the 1995 Director Stock Option Plan at an exercise price of \$1.15 per share.

In addition to the stock options granted under the 1995 Director Stock Option Plan, in 2003 the Company granted the following options to its directors under the 1997 Stock Incentive Plan:

On March 13, 2003, Mr. Hartley, Dr. Georges Anthony Marcel, who served as a director of the Company from December 2002 through February 2004, and Mr. Reardon each was granted an option to purchase 20,000 shares of Common Stock at an exercise price of \$0.79 per share.

On April 1, 2003, each of the non-employee directors was granted an option to purchase 3,750 shares of Common Stock at an exercise price of \$0.70 per share.

All of these options were granted at an exercise price equal to the fair market value of the Common Stock on the date of grant. Except for the March 13, 2003 grants, all of these options vest in full on the first anniversary of the date of grant. The March 13, 2003 grants to Dr. Marcel, a former director, and Mr. Reardon vested in full on December 13, 2003, and the March 13, 2003 grant to Mr. Hartley was fully vested when granted.

Other Compensation

On February 4, 2003, Dr. Wyngaarden acquired 20,000 shares of Common Stock in lieu of \$15,000 in cash for 2002 meeting fees owed by the Company to Dr. Wyngaarden.

The Company paid Dr. Zamecnik \$20,000 for consulting services provided by Dr. Zamecnik in 2003 and expects to pay Dr. Zamecnik \$20,000 in 2004 for such services.

Certain Transactions

Since January 1, 2003, Hybridon has entered into or has been engaged in the following transactions with the following Hybridon directors, officers and stockholders who beneficially owned more than 5% of the outstanding Common Stock of Hybridon at the time of these transactions, as well as affiliates or immediate family members of those directors, officers and stockholders. Hybridon believes that the terms of the transactions described below were no less favorable than Hybridon could have obtained from unaffiliated third parties.

Conversion of Series A Convertible Preferred Stock

At a special meeting of stockholders held on December 4, 2003, holders of the Company's Common Stock and Series A Convertible Preferred Stock approved amendments to the Company's Certificate of Incorporation that reduced the liquidation preference and annual dividend rate on the Company's Series A Convertible Preferred Stock. The amendments also provided that during a 60-day period that ended on February 2, 2004, shares of the Company's Series A Convertible Preferred Stock could be converted into a number of shares of Common Stock that was 25% greater than the number of shares that would otherwise be issuable upon conversion of the Series A Convertible Preferred Stock. During the 60-day period, holders of 722,092 shares of the Company's Series A Convertible Preferred Stock, or 99.9% of the Series A Convertible Preferred Stock outstanding, converted their shares into 21,238,028 shares of Common Stock, including the

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following stockholders who beneficially owned more than 5% of the outstanding shares of Common Stock on an as-converted basis at the time of the conversion:

Holder	Shares of Series A Preferred Stock	Shares of Common Stock
Founders Financial Group, LP	96,207	2,829,618
General Motors Employees Domestic Group Trust	152,520	4,485,884
Guardian Life Insurance Company of America	145,451	4,277,971

Pillar Investment Ltd. and Affiliates

Youssef El Zein, a Class III director of the Company, is the Chief Executive Officer of Pillar S.A. and a Director of Pillar Investment Ltd. In 2003, the Company:

paid \$195,000 to Pillar for consulting services relating to international investor relations;

paid \$100,000 to Pillar for consulting services related to the repurchase of the Company's Common Stock from certain stockholders; and

paid \$255,000 to Pillar and issued to Pillar warrants to purchase 587,709 shares of Common Stock at an exercise price of \$1.00 per share as placement agent fees in connection with the Company's August 2003 private placement.

During the first quarter of 2004, the Company did not pay compensation to, or receive services from Pillar.

In addition, Optima Life Sciences Limited, which is controlled by Pillar Investment Ltd., purchased 5,500,381 shares of Common Stock and warrants to purchase 1,650,114 additional shares of Common Stock in the August 2003 private placement.

TMC Development

On September 1, 2002, the Company entered into an agreement with TMC Development to provide consulting, advisory and related services to Hybridon. Dr. Marcel, who served as director of the Company from December 2002 through February 2004, is the President and principal stockholder of TMC Development. The Company paid TMC Development \$45,000 in 2003 and \$15,875 in 2004 for consulting services provided to the Company in 2003 under the agreement.

August 2003 Private Placement

Drs. Wyngaarden and Zamecnik participated in the August 2003 private placement offering under the same terms as other investors. Dr. Wyngaarden purchased, at a cost of \$25,000, 34,246 shares of Common Stock and warrants to purchase 10,274 shares of Common Stock with an exercise price of \$1.00 per share; Dr. Zamecnik purchased, at a cost of \$50,000, 68,493 shares of Common Stock and warrants to purchase 20,548 shares of Common Stock with an exercise price of \$1.00 per share.

Table of Contents**Executive Compensation**

The following table sets forth the compensation for the Chief Executive Officer of the Company and the three other executive officers of the Company (collectively, the Named Executive Officers):

Summary Compensation Table

Name and Principal Position		Annual Compensation			Long-Term Compensation Awards	All Other Compensation(1)(\$)
		Salary(\$)	Bonus(\$)	Other Annual Compensation(\$)	Securities Underlying Options(#)	
Stephen R. Seiler Chief Executive Officer	2003	\$ 360,000	\$ 100,000	\$ 15,707(2)		\$ 18,115
	2002	360,000		14,376(2)	350,000	64,086
	2001	120,000(3)		4,249(2)	3,640,000	6,553
Sudhir Agrawal, D. Phil President and Chief Scientific Officer	2003	360,000	100,000	65,000(4)		41,616
	2002	360,000	100,000	64,624(4)		47,039
	2001	345,000	300,000(5)	63,750(4)	5,141,737	35,712
Robert G. Andersen Chief Financial Officer, Vice President of Operations, Treasurer and Secretary	2003	258,000	120,000	14,489(2)		22,877
	2002	258,000	60,000	13,294(2)		18,400
	2001	251,000	172,500(5)	11,549(2)	400,000	11,043
R. Russell Martin, M.D. Senior Vice President of Drug Development and Chief Medical Officer	2003	250,250	10,000	14,397(2)	15,000	31,000
	2002	250,250	15,000	13,212(2)		16,569
	2001	250,250		17,172(2)	50,000	11,988

- (1) All Other Compensation represents compensation paid for the surrender of unused vacation days and 401(k) employer contributions in the applicable year. All Other Compensation for Mr. Seiler also includes relocation benefits paid to Mr. Seiler in 2002 and in 2001.

	2003	2002	2001
Stephen R. Seiler 401(k) Compensation paid for the surrender of unused vacation days Relocation benefits	\$ 6,000	\$ 5,500	\$
	12,115	12,692	
		45,894	6,553
Total for Stephen R. Seiler	\$18,115	\$64,086	\$ 6,553
Sudhir Agrawal, D. Phil			

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401(k) Compensation paid for the surrender of unused vacation days	\$ 7,000	\$ 5,500	\$ 5,250
	<u>34,616</u>	<u>41,539</u>	<u>30,462</u>
 Total for Sudhir Agrawal, D. Phil	 <u>\$41,616</u>	 <u>\$47,039</u>	 <u>\$35,712</u>
 Robert G. Andersen 401(k) Compensation paid for the surrender of unused vacation days	 \$ 7,000	 \$ 5,500	 \$ 5,250
	<u>15,877</u>	<u>12,900</u>	<u>5,793</u>

Total for
Robert G.
Andersen

**Schedule of
Investments
(continued)**

BlackRock MuniYield Quality Fund III, Inc. (MYI)

(Percentages shown are based on Net Assets)

	Par (000)	Value
Municipal Bonds		
Illinois (continued)		
County of Cook Illinois Forest Preserve District, GO, Refunding, Limited Tax Project, Series B, 5.00%, 12/15/37	\$ 775	\$ 850,795
Illinois Finance Authority, RB, Carle Foundation, Series A, 5.75%, 8/15/34	8,700	10,181,610
Illinois Finance Authority, Refunding RB: Northwestern Memorial Hospital, Series A, 6.00%, 8/15/39	5,250	6,060,232
Silver Cross Hospital And Medical Centers, 4.13%, 8/15/37	1,965	1,867,182
Silver Cross Hospital And Medical Centers, 5.00%, 8/15/44	1,965	2,113,868
Illinois Municipal Electric Agency, RB, Series A (NPFGC) (b):		
5.00%, 2/01/17	17,935	19,288,375
5.25%, 2/01/17	15,000	16,197,150
Illinois State Toll Highway Authority, RB, Series B:		
5.50%, 1/01/33	4,000	4,387,240
(BHAC), 5.50%, 1/01/33	2,000	2,200,220
Metropolitan Pier & Exposition Authority, RB, CAB, McCormick Place Explosion Project, Series A (NPFGC) (a):		
0.00%, 12/15/26	8,500	5,546,590
0.00%, 6/15/32	14,000	6,688,780
0.00%, 12/15/33	20,000	8,827,200
0.00%, 12/15/34	41,880	17,453,909
	<u>9,430</u>	<u>2,395,974</u>

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Metropolitan Pier & Exposition Authority, Refunding RB, CAB, McCormick Place Expansion Project, Series B (AGM), 0.00%, 6/15/44 (a)		
Railsplitter Tobacco Settlement Authority, RB, 6.00%, 6/01/28	1,700	2,002,345
Regional Transportation Authority, RB, Series C (NPFGC), 7.75%, 6/01/20		
	865	1,007,803
State of Illinois, GO:		
5.25%, 7/01/29	3,160	3,405,374
5.25%, 2/01/33	5,860	6,244,475
5.50%, 7/01/33	2,235	2,468,178
5.25%, 2/01/34	5,360	5,699,663
5.50%, 7/01/38	1,200	1,319,928
Par		
Municipal Bonds	(000)	Value
Illinois (concluded)		
State of Illinois, GO (concluded):		
5.00%, 2/01/39	\$ 7,500	\$ 7,757,325
University of Illinois, RB, Auxiliary Facilities System, Series A, 5.00%, 4/01/39		
	2,580	2,859,646
		221,997,226
Indiana 3.2%		
City of Indianapolis Indiana, Refunding RB, Series B (AGC), 5.25%, 8/15/27		
	5,000	5,481,150
Indiana Finance Authority, RB, Series A:		
CWA Authority Project, 1st Lien, 5.25%, 10/01/38		
	2,900	3,322,704
Private Activity Bond, Ohio River Bridges East End Crossing Project, AMT, 5.00%, 7/01/44		
	1,400	1,491,140
Private Activity Bond, Ohio River Bridges, AMT, 5.00%, 7/01/40		
	2,425	2,593,319
Indiana Municipal Power Agency, RB:		
Series A (NPFGC), 5.00%, 1/01/37		
	3,850	4,056,861
Series B, 6.00%, 1/01/39		
	5,000	5,750,000
Indianapolis Local Public Improvement Bond Bank, Refunding RB, Waterworks Project, Series A:		
5.75%, 1/01/38	2,900	3,314,903
(AGC), 5.25%, 1/01/29	1,350	1,519,236
(AGC), 5.50%, 1/01/38	4,250	4,823,665
		32,352,978
Iowa 2.8%		
Iowa Finance Authority, RB, Iowa Health Care Facilities, Series A (AGC), 5.63%, 8/15/37		
	12,650	14,405,061
Iowa Student Loan Liquidity Corp., RB, Senior Series A-2, AMT:		
5.60%, 12/01/26	3,365	3,640,526
5.70%, 12/01/27	3,360	3,613,915
5.75%, 12/01/28	1,775	1,908,462
5.80%, 12/01/29	2,270	2,438,616

Schedule of
Investments
(continued)

BlackRock MuniYield Quality Fund III, Inc. (MYI)

(Percentages shown are based on Net Assets)

	Par	
	(000)	Value
Municipal Bonds		
Iowa (concluded)		
Iowa Student Loan Liquidity Corp., RB, Senior Series A-2, AMT (concluded):		
5.85%, 12/01/30	\$ 2,355	\$ 2,531,861
		28,538,441
Kentucky 1.1%		
Kentucky Economic Development Finance Authority, RB, Catholic Health Initiatives, Series A, 5.38%, 1/01/40	1,000	1,113,730
Kentucky Public Transportation Infrastructure Authority, RB, Downtown Crossing Project, Convertible CAB, 1st Tier, Series C, 0.00%, 7/01/39 (c)	8,225	5,732,661
Kentucky State Property & Buildings Commission, Refunding RB, Project No. 93 (AGC), 5.25%, 2/01/28	4,000	4,520,360
		11,366,751
Louisiana 1.2%		
City of New Orleans Louisiana Aviation Board, RB, New Orleans Aviation, Series A, AMT (AGM), 5.25%, 1/01/32	6,405	6,875,767
City of New Orleans Louisiana Aviation Board, RB, Series B, AMT, 5.00%, 1/01/40	4,825	5,261,084
		12,136,851
Massachusetts 1.0%		
Massachusetts HFA, RB, M/F Housing, Series B, 7.00%, 12/01/38	3,150	3,437,343
Massachusetts HFA, Refunding RB, Series C, AMT, 5.35%, 12/01/42	3,100	3,217,986
Massachusetts School Building Authority, RB, Dedicated Sales Tax, Senior Series A, 5.00%, 5/15/43	3,495	3,927,366
		10,582,695
Michigan 7.7%		
City of Detroit Michigan Water Supply System, RB, 2nd Lien, Series B (AGM), 6.25%, 7/01/36	1,075	1,178,641
City of Detroit Michigan Water Supply System, Refunding RB, 2nd Lien, Series D (NPFGC), 5.00%, 7/01/33	5,000	5,116,750
	Par	
	(000)	Value
Municipal Bonds		
Michigan (concluded)		
City of Lansing Michigan, RB, Board of Water & Light Utilities System, Series A, 5.50%, 7/01/41	\$ 3,185	\$ 3,720,621
Michigan Finance Authority, Refunding RB, Trinity Health Credit Group, 5.00%, 12/01/39	16,100	17,858,603
State of Michigan, RB, GAB (AGM):		
5.25%, 9/15/22	10,000	11,019,800
5.25%, 9/15/26	6,650	7,312,340
State of Michigan Building Authority, Refunding RB, Facilities Program:		
Series I, 6.25%, 10/15/38	3,125	3,605,969
Series I (AGC), 5.25%, 10/15/24	1,750	2,021,093
Series I (AGC), 5.25%, 10/15/25	3,250	3,741,335
Series I-A, 5.38%, 10/15/36	2,075	2,401,875

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Series I-A, 5.38%, 10/15/41	1,900	2,194,424
Series II-A (AGM), 5.25%, 10/15/36	8,040	8,984,780
State of Michigan HDA, RB, S/F Housing, Series C, AMT, 5.50%, 12/01/28	2,065	2,184,212
Wayne County Airport Authority, Refunding RB, AMT (AGC), 5.38%, 12/01/32	5,000	5,570,200
Western Michigan University, Refunding RB, (AGM), 5.00%, 11/15/39	1,080	1,196,176
		78,106,819
Minnesota 0.6%		
City of Minneapolis Minnesota, Refunding RB, Fairview Health Services, Series B (AGC), 6.50%, 11/15/38	5,500	6,392,595
Nebraska 0.8%		
Central Plains Nebraska Energy Project, RB, Gas Project No. 3, 5.25%, 9/01/37	6,825	7,633,694
Nevada 1.1%		
City of Las Vegas Nevada, GO, Limited Tax, Performing Arts Center, 6.00%, 4/01/34	2,250	2,594,295
County of Clark Nevada, ARB, Las Vegas-McCarran International Airport, Series A: 5.25%, 7/01/42	2,000	2,240,480

BLACKROCK MUNIYIELD QUALITY FUND III, INC. APRIL 30, 2015 5

Schedule of
Investments
(continued)

BlackRock MuniYield Quality Fund III, Inc. (MYI)

(Percentages shown are based on Net Assets)

	Par	
	(000)	Value
Municipal Bonds		
Nevada (concluded)		
County of Clark Nevada, ARB, Las Vegas-McCarran International Airport, Series A (concluded): (AGM), 5.25%, 7/01/39	\$ 5,170	\$ 5,817,026
		10,651,801
New Jersey 8.0%		
New Jersey EDA, RB:		
Private Activity Bond, The Goethals Bridge Replacement Project, AMT, 5.13%, 1/01/34	1,930	2,125,509
School Facilities Construction, Series UU, 5.00%, 6/15/34	1,620	1,711,028
School Facilities Construction, Series UU, 5.00%, 6/15/40	4,015	4,178,932
The Goethals Bridge Replacement Project, AMT, 5.38%, 1/01/43	4,920	5,441,225
New Jersey EDA, Refunding RB, School Facilities Construction:		
Series N-1 (AMBAC), 5.50%, 9/01/24	6,325	7,291,966
Series N-1 (NPFGC), 5.50%, 9/01/28	1,685	1,959,975
New Jersey Educational Facilities Authority, RB, Higher Educational Capital Improvement Fund, Series A, 5.00%, 9/01/26	2,245	2,467,929
New Jersey Higher Education Student Assistance Authority, Refunding RB, Series 1, AMT:		
5.50%, 12/01/25	1,250	1,390,175
5.50%, 12/01/26	1,800	1,992,492
5.75%, 12/01/28	200	220,882
5.88%, 12/01/33	6,895	7,640,970
New Jersey Housing & Mortgage Finance Agency, Refunding RB, M/F Housing, Series 2, AMT, 4.35%, 11/01/33	3,360	3,431,198
New Jersey Transportation Trust Fund Authority, RB: CAB, Transportation System, Series A, 0.00%, 12/15/35 (a)	18,525	6,609,349
CAB, Transportation System, Series C (AGC) (AMBAC), 0.00%, 12/15/25 (a)	10,000	6,810,100
Transportation Program, Series AA, 5.25%, 6/15/33	4,150	4,441,247
Transportation Program, Series AA, 5.00%, 6/15/38	4,990	5,205,169
	Par	
Municipal Bonds		
New Jersey (concluded)		
New Jersey Transportation Trust Fund Authority, RB (concluded):		
Transportation System, Series A (NPFGC), 5.75%, 6/15/25	\$ 4,000	\$ 4,774,280
Transportation System, Series AA, 5.50%, 6/15/39	5,725	6,232,579
Transportation System, Series B, 5.00%, 6/15/42	7,550	7,798,697
		81,723,702
New York 1.9%		
City of New York New York Transitional Finance Authority, RB, Fiscal 2009, Series S-4, 5.50%, 1/15/34	7,250	8,305,455
City of New York New York Transitional Finance Authority, Refunding RB, Future Tax Secured, Series B, 5.00%, 11/01/32	4,150	4,803,500
	1,920	2,208,480

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Hudson Yards Infrastructure Corp., RB, Senior, Fiscal 2012, Series A, 5.75%, 2/15/47		
State of New York Dormitory Authority, ERB, Series B, 5.25%, 3/15/38	3,250	3,675,100
		18,992,535
Ohio 2.2%		
County of Lucas Ohio, Refunding RB, Promedica Healthcare, Series A, 6.50%, 11/15/37	3,000	3,736,380
County of Montgomery Ohio, RB, Catholic Health Initiatives, Series D-2, 5.45%, 10/01/38	11,135	12,753,027
State of Ohio Turnpike Commission, RB, Junior Lien, Infrastructure Projects, Series A-1: 5.25%, 2/15/32	1,950	2,238,151
5.25%, 2/15/33	2,730	3,127,297
		21,854,855
Pennsylvania 4.3%		
Commonwealth Financing Authority, RB, Series B, 5.00%, 6/01/42	3,305	3,589,858
Pennsylvania Economic Development Financing Authority, RB, AMT, Pennsylvania Bridges Finco LP: 5.00%, 12/31/34 (d)	7,115	7,736,993
5.00%, 12/31/38	5,850	6,317,649

6 BLACKROCK MUNIYIELD QUALITY FUND III, INC. APRIL 30, 2015

Schedule of
Investments
(continued)

BlackRock MuniYield Quality Fund III, Inc. (MYI)

(Percentages shown are based on Net Assets)

	Par	
	(000)	Value
Municipal Bonds		
Pennsylvania (concluded)		
Pennsylvania Higher Educational Facilities Authority, Refunding RB, Thomas Jefferson University, Series A, 5.25%, 9/01/50	\$ 11,685	\$ 12,942,657
Pennsylvania Turnpike Commission, RB:		
Series A, 5.00%, 12/01/38	1,775	1,979,480
Series C, 5.50%, 12/01/33	1,565	1,843,617
Sub-Series C (AGC), 6.25%, 6/01/38	5,695	6,453,460
Subordinate, Special Motor License Fund, 6.00%, 12/01/36	2,575	3,045,015
		43,908,729
South Carolina 2.6%		
South Carolina Jobs EDA, Refunding RB, Palmetto Health, Series A (AGM), 6.50%, 8/01/39	3,600	4,361,292
State of South Carolina Public Service Authority, RB, Santee Cooper:		
Series A, 5.50%, 12/01/54	11,450	13,065,709
Series E, 5.50%, 12/01/53	2,025	2,305,706
State of South Carolina Public Service Authority, Refunding RB, Santee Cooper, Series B, 5.00%, 12/01/38	5,870	6,499,205
		26,231,912
Texas 15.8%		
Central Texas Turnpike System, Refunding RB, 2nd Tier, Series C, 5.00%, 8/15/34	1,780	1,951,645
City of Houston Texas Utility System, Refunding RB:		
Combined 1st Lien, Series A (AGC), 6.00%, 11/15/35	5,700	6,752,505
Combined 1st Lien, Series A (AGC), 5.38%, 11/15/38	3,650	4,150,963
Series A (AGM), 5.00%, 11/15/36	10,000	10,868,300
City of San Antonio Texas Public Service Board, RB, Junior Lien, 5.00%, 2/01/38	1,450	1,613,140
County of Midland Texas Fresh Water Supply District No. 1, RB, CAB, City of Midland Project, Series A, 0.00%, 9/15/36 (a)	5,810	2,241,672
	Par	
Municipal Bonds		
Texas (continued)		
County of Tarrant Texas Cultural Education Facilities Finance Corp., Refunding RB, Cook Children s Medical Center, 5.25%, 12/01/39	\$ 2,095	\$ 2,406,673
Dallas ISD, GO, School Building (PSF-GTD), 6.38%, 2/15/18 (b)	10,000	11,505,200
Dallas-Fort Worth International Airport, ARB:		
Joint Improvement, Series D, AMT, 5.00%, 11/01/38	12,580	13,510,039
Series F, 5.00%, 11/01/35	5,000	5,430,800
Dallas-Fort Worth International Airport, Refunding ARB, Series F, 5.25%, 11/01/33	2,745	3,161,005
Grand Prairie ISD, GO, Refunding, 0.00%, 8/15/28 (a)	10,000	4,890,000
Judson ISD Texas, GO, School Building (AGC), 5.00%, 2/01/37	10,000	10,611,900
Leander ISD, GO, CAB, Refunding, Series D, 0.00%, 8/15/38 (a)	9,685	3,498,028
North Texas Tollway Authority, RB, Series B, 0.00%, 9/01/43 (a)	36,000	8,031,600
North Texas Tollway Authority, Refunding RB, System:		

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1st Tier Series A, 6.00%, 1/01/28	6,275	7,284,208
1st Tier Series B (NPFGC), 5.75%, 1/01/40	10,000	11,074,500
Series A (NPFGC), 5.13%, 1/01/28	20,000	21,725,200
San Antonio Public Facilities Corp., Refunding RB, Convention Center Refinancing and Expansion Project, CAB (a):		
0.00%, 9/15/35	680	268,750
0.00%, 9/15/36	12,195	4,545,564
0.00%, 9/15/37	8,730	3,060,302
Texas Municipal Gas Acquisition & Supply Corp. III, RB:		
5.00%, 12/15/31	1,665	1,823,808
5.00%, 12/15/32	5,565	6,072,472

BLACKROCK MUNIYIELD QUALITY FUND III, INC. APRIL 30, 2015 7

Schedule of
Investments
(continued)

BlackRock MuniYield Quality Fund III, Inc. (MYI)

(Percentages shown are based on Net Assets)

	Par	
	(000)	Value
Municipal Bonds		
Texas (concluded)		
Texas Transportation Commission, Refunding RB, Central Texas Turnpike System, 1st Tier, Series A, 5.00%, 8/15/41	\$ 13,435	\$ 14,712,265
		161,190,539
Utah 1.8%		
Utah Transit Authority, Refunding RB, CAB (a):		
Sub-Series A (AGC), 0.00%, 6/15/20	10,000	8,489,700
Sub-Series A (NPFGC), 0.00%, 6/15/24	13,930	9,687,340
		18,177,040
Vermont 0.0%		
Vermont HFA, Refunding RB, Multiple Purpose, S/F Housing, Series C, AMT (AGM), 5.50%, 11/01/38	440	444,158
Washington 1.0%		
Washington Health Care Facilities Authority, RB: MultiCare Health System, Remarketing, Series B, 5.00%, 8/15/44	1,000	1,078,390
Providence Health & Services, Series A, 5.25%, 10/01/39	2,725	3,035,078
Washington Health Care Facilities Authority, Refunding RB, Catholic Health Initiatives, Series D, 6.38%, 10/01/36	5,400	6,205,950
		10,319,418
Wisconsin 0.4%		
State of Wisconsin Health & Educational Facilities Authority, RB, Ascension Health Senior Credit Group, Series E, 5.00%, 11/15/33	3,745	4,164,964
Total Municipal Bonds 110.5%		1,124,519,456
Municipal Bonds Transferred to Tender Option Bond Trusts (e)		
Arizona 1.5%		
Arizona School Facilities Board, COP, (AGC), 5.13%, 9/01/21 (f)	10,000	11,132,600
	Par	
Municipal Bonds Transferred to Tender Option Bond Trusts (e)		
	(000)	Value
Arizona (concluded)		
Salt River Project Agricultural Improvement & Power District, RB, Electric System, Series A, 5.00%, 1/01/38	\$ 3,500	\$ 3,805,865
		14,938,465
California 7.7%		
California State University, RB, Systemwide, Series A (AGM), 5.00%, 11/01/33 (f)	7,996	8,812,044
California State University, Refunding RB, Systemwide, Series A (AGM), 5.00%, 11/01/37	18,435	19,749,212
City of Riverside California, RB, Issue D (AGM), 5.00%, 10/01/38	20,000	22,058,600
County of Alameda California Joint Powers Authority, Refunding LRB, (AGM), 5.00%, 12/01/34	6,990	7,628,676
	9,370	10,299,504

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County of San Diego California Water Authority, COP, Refunding, Series A (AGM), 5.00%, 5/01/33		
Los Angeles Community College District California, GO, Refunding, Election of 2008, Series C, 6.00%, 8/01/33	5,248	6,309,377
San Diego Community College District California, GO, Election of 2002, 5.25%, 8/01/33	1,047	1,207,596
University of California, RB, Series O, 5.75%, 5/15/34	2,205	2,615,549
		78,680,558
Colorado 0.3%		
Colorado Health Facilities Authority, Refunding RB, Catholic Health Initiatives, Series A, 5.50%, 7/01/34 (f)	2,469	2,813,836
Connecticut 0.5%		
Connecticut State Health & Educational Facility Authority, RB, Yale University, Series T-1, 4.70%, 7/01/29	5,019	5,392,675
District of Columbia 2.6%		
District of Columbia, RB, Series A, 5.50%, 12/01/30 (f)	2,595	3,031,574
District of Columbia Water & Sewer Authority, Refunding RB, Senior Lien, Series A, 6.00%, 10/01/35 (f)	4,277	4,987,359

8 BLACKROCK MUNIYIELD QUALITY FUND III, INC. APRIL 30, 2015

Schedule of
Investments
(continued)

BlackRock MuniYield Quality Fund III, Inc. (MYI)

(Percentages shown are based on Net Assets)

	Par (000)	Value
Municipal Bonds Transferred to Tender Option Bond Trusts (e)		
District of Columbia (concluded)		
Metropolitan Washington Airports Authority, RB, Series B, AMT, 5.00%, 10/01/32	\$ 10,000	\$ 10,554,200
Metropolitan Washington Airports Authority, Refunding ARB, Series A, AMT, 5.00%, 10/01/30	6,880	7,667,897
		26,241,030
Florida 6.5%		
City of Tallahassee Florida, RB, Energy System (NPFGC), 5.00%, 10/01/32 (f)	3,300	3,565,188
County of Highlands Florida Health Facilities Authority, RB, Adventist, Series C, 5.25%, 11/15/36	5,400	5,774,328
County of Miami-Dade Florida, Refunding RB, Transit System Sales Surtax, 5.00%, 7/01/42	4,840	5,367,802
County of Miami-Dade Florida Transit System, RB (Syncora), 5.00%, 7/01/31	19,800	20,681,496
County of Miami-Dade Florida Water & Sewer System, (AGM), 5.00%, 10/01/39	11,702	13,238,184
County of Orange Florida School Board, COP, Series A (AGC), 5.50%, 8/01/34	12,013	13,473,324
State of Florida Board of Education, GO, Series D, 5.00%, 6/01/37 (f)	3,299	3,583,982
		65,684,304
Georgia 1.1%		
Metropolitan Atlanta Rapid Transit Authority, Refunding RB, 3rd Indenture, Series B (AGM), 5.00%, 7/01/37	10,000	10,749,072
Illinois 2.7%		
City of Chicago Illinois, RB, Motor Fuel Tax Project, Series A (AGC), 5.00%, 1/01/38	4,000	4,276,200
Metropolitan Pier & Exposition Authority, RB, McCormick Place Expansion Project, Series A, 5.00%, 6/15/42	719	763,905
State of Illinois, RB, Build Illinois, Series B, 5.25%, 6/15/34 (f)	3,499	3,911,351
State of Illinois Finance Authority, RB, University of Chicago, Series B, 6.25%, 7/01/38	10,000	11,630,300
	Par	
Municipal Bonds Transferred to Tender Option Bond Trusts (e)		
Illinois (concluded)		
State of Illinois Toll Highway Authority, RB, Series A, 5.00%, 1/01/38	\$ 5,836	\$ 6,411,153
		26,992,909
Kentucky 0.7%		
Kentucky State Property & Building Commission, Refunding RB, Project No. 93 (AGC), 5.25%, 2/01/27	5,985	6,814,476
Louisiana 1.0%		
State of Louisiana Gas & Fuels, RB, Series A (AGM), 5.00%, 5/01/36	10,000	10,465,800
Nevada 0.6%		
County of Clark Nevada Water Reclamation District, GO, Series B:		
Limited Tax, 5.75%, 7/01/34	4,813	5,627,766
5.50%, 7/01/29	510	591,867

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		6,219,633
New Jersey 1.7%		
Garden State Preservation Trust, RB, Election of 2005, Series A (AGM), 5.75%, 11/01/28	10,000	12,406,500
New Jersey Transportation Trust Fund Authority, RB, Transportation System, Series B, 5.25%, 6/15/36 (f)	4,961	5,228,637
		17,635,137
New York 7.8%		
City of New York New York Municipal Water Finance Authority, Refunding RB, Water & Sewer System, 2nd General Resolution:		
Fiscal 2013, Series CC, 5.00%, 6/15/47	15,521	17,282,180
Series DD, 5.00%, 6/15/37	17,567	19,319,190
City of New York New York Water & Sewer System, Refunding RB, 2nd General Resolution, Fiscal 2014, Series DD, 5.00%, 6/15/35	4,740	5,394,310
Metropolitan Transportation Authority, RB, Sub-Series D-1, 5.25%, 11/15/44	9,850	11,289,577

BLACKROCK MUNIYIELD QUALITY FUND III, INC. APRIL 30, 2015 9

Schedule of
Investments
(continued)

BlackRock MuniYield Quality Fund III, Inc. (MYI)

(Percentages shown are based on Net Assets)

	Par (000)	Value
Municipal Bonds Transferred to Tender Option Bond Trusts (e)		
New York (concluded)		
New York State Urban Development Corp., RB, Personal Income Tax, General Purpose, Series A-1, 5.00%, 3/15/43	\$ 14,280	\$ 15,929,911
Port Authority of New York & New Jersey, Refunding RB, Construction, 143rd Series, AMT, 5.00%, 10/01/30	5,180	5,333,173
Triborough Bridge & Tunnel Authority, RB, General, Series A-2, 5.25%, 11/15/34 (f)	4,500	5,087,655
		79,635,996
North Carolina 0.7%		
North Carolina HFA, RB, S/F Housing, Series 31-A, AMT, 5.25%, 7/01/38	7,080	7,315,233
Ohio 0.7%		
County of Montgomery Ohio, RB, Catholic Health, Series C-1 (AGM), 5.00%, 10/01/41	4,990	5,298,781
State of Ohio, RB, Cleveland Clinic Health Obligated Group, Series B, 5.50%, 1/01/34	1,520	1,710,152
		7,008,933
South Carolina 0.2%		
State of South Carolina Housing Finance & Development Authority, Refunding RB, S/F Housing, Series B-1, 5.55%, 7/01/39	2,503	2,547,792
Texas 5.0%		
County of Tarrant Texas Cultural Education Facilities Finance Corp., RB, Baylor Health Care System Project, Series A, 5.00%, 11/15/38	1,799	1,983,667
Dallas Fort Worth International Airport, ARB, Series H, AMT, 5.00%, 11/01/37 (f)	8,868	9,549,987
Friendswood ISD Texas, GO, Schoolhouse (PSF-GTD), 5.00%, 2/15/37	12,955	14,102,476
Houston ISD, GO, Schoolhouse (PSF-GTD), 5.00%, 2/15/33	10,000	10,679,700
North East Texas ISD, GO, School Building, Series A (PSF-GTD), 5.00%, 8/01/37 (f)	3,500	3,812,515
	Par	
Municipal Bonds Transferred to Tender Option Bond Trusts (e)		
Texas (concluded)		
Texas State University Systems, Refunding RB, 5.25%, 3/15/26	\$ 10,000	\$ 11,214,600
		51,342,945
Virginia 0.4%		
University of Virginia, Refunding RB, General, 5.00%, 6/01/40	3,944	4,363,412
Washington 4.4%		
Central Puget Sound Regional Transit Authority, RB, Series A (AGM), 5.00%, 11/01/34	17,000	18,473,497
County of King Washington, RB, (AGM), 5.00%, 7/01/37	15,785	17,219,042
Washington Health Care Facilities Authority, Refunding RB, Seattle Children's Hospital, 5.00%, 10/01/38	8,205	9,521,820

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		45,214,359
Wisconsin 2.8%		
State of Wisconsin, Refunding RB, Series A, 6.00%, 5/01/36	14,780	17,296,147
Wisconsin Health & Educational Facilities Authority, Refunding RB, Froedtert & Community Health, Inc., Obligated Group:		
Series A, 5.00%, 4/01/42	2,490	2,730,434
Series C, 5.25%, 4/01/39 (f)	7,459	8,149,870
		28,176,451
Total Municipal Bonds Transferred to Tender Option Bond Trusts 48.9%		498,233,016
Total Long-Term Investments (Cost \$1,480,989,599) 159.4%		1,622,752,472
 Short-Term Securities		
FFI Institutional Tax-Exempt Fund, 0.02% (g)(h)	5,062,199	5,062,199
Total Short-Term Securities (Cost \$5,062,199) 0.5%		5,062,199

10 BLACKROCK MUNIYIELD QUALITY FUND III, INC. APRIL 30, 2015

Schedule of
Investments
(continued)

BlackRock MuniYield Quality Fund III, Inc. (MYI)

(Percentages shown are based on Net Assets)

Total Investments		
(Cost \$1,486,051,798*)	159.9%	1,627,814,671
Other Assets Less Liabilities	1.3%	12,955,715
Liability for TOB Trust Certificates, Including Interest Expense and Fees Payable	(26.2%)	(266,360,935)
VRDP Shares, at Liquidation Value	(35.0%)	(356,400,000)
Net Assets Applicable to Common Shares	100.0%	\$ 1,018,009,451

* As of April 30, 2015, gross unrealized appreciation and depreciation based on cost for federal income tax purposes were as follows:

Tax cost	\$ 1,224,435,167
Gross unrealized appreciation	\$ 143,964,568
Gross unrealized depreciation	(6,888,066)
Net unrealized appreciation	\$ 137,076,502

Notes to Schedule of Investments

(a) Zero-coupon bond.

(b) U.S. Government securities, held in escrow, are used to pay interest on this security, as well as to retire the bond in full at the date indicated, typically at a premium to par.

(c) Represents a step-up bond that pays an initial coupon rate for the first period and then a higher coupon rate for the following periods. Rate shown is as of report date.

(d) When-issued security. Unsettled when-issued transactions were as follows:

Counterparty	Value	Unrealized Depreciation
Citigroup Global Markets, Inc.	\$ 3,167,602	\$ (14,084)

(e) Represent bonds transferred to a TOB Trust. In exchange of cash and residual certificates received by the Fund. These bonds serve as collateral in a secured borrowing.

(f)

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All or a portion of security is subject to a recourse agreement, which may require the Fund to pay the liquidity provider in the event there is a shortfall between the TOB Trust Certificates and proceeds received from the sale of the security contributed to the TOB Trust or in the event of a default on the security. In the case of a shortfall or default, the aggregate maximum potential amount the Fund could ultimately be required to pay under the agreements, which expire from February 1, 2016 to December 1, 2029, is \$ 37,542,642.

- (g) During the period ended April 30, 2015, investments in issuers considered to be an affiliate of the Fund for purposes of Section 2(a)(3) of the Investment Company Act of 1940, as amended, were as follows:

Affiliate	Shares Held at July 31, 2014	Net Activity	Shares Held at April 30, 2015	Income
FFI Institutional Tax-Exempt Fund	7,872,927	(2,810,728)	5,062,199	\$ 5,868

- (h) Represents the current yield as of report date.

Portfolio Abbreviations

AGC	Assured Guarantee Corp.
AGM	Assured Guaranty Municipal Corp.
AMBAC	American Municipal Bond Assurance Corp.
AMT	Alternative Minimum Tax (subject to)
ARB	Airport Revenue Bonds
BHAC	Berkshire Hathaway Assurance Corp.
CAB	Capital Appreciation Bonds
COP	Certificates of Participation
EDA	Economic Development Authority
ERB	Education Revenue Bonds
GAB	Grant Anticipation Bonds

BLACKROCK MUNIYIELD QUALITY FUND III, INC. APRIL 30, 2015 11

Schedule of Investments (continued)

BlackRock MuniYield Quality Fund III, Inc. (MYI)

GARB	General Airport Revenue Bonds
GO	General Obligation Bonds
GTD	Guaranteed
HDA	Housing Development Authority
HFA	Housing Finance Agency
IDA	Industrial Development Authority
ISD	Independent School District
LRB	Lease Revenue Bonds
M/F	Multi-Family
NPFGC	National Public Finance Guarantee Corp.
PSF	Public School Fund
RB	Revenue Bonds
S/F	Single-Family
Syncora	Syncora Guarantee

As of April 30, 2015, financial futures contracts outstanding were as follows:

Contracts					Unrealized
Short	Issue	Exchange	Expiration	Notional Value	Depreciation
(606)	10-Year U.S. Treasury Note	Chicago Board of Trade	June 2015	\$ 77,795,250	\$ (684,892)
(415)	5-Year U.S. Treasury Note	Chicago Board of Trade	June 2015	\$ 49,855,117	(451,266)
Total					\$ (1,136,158)

Fair Value Measurements Various inputs are used in determining the fair value of investments and derivative financial instruments. These inputs to valuation techniques are categorized into a disclosure hierarchy consisting of three broad levels for financial reporting purposes. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The categorization of a value determined for investments and derivative financial instruments is based on the pricing transparency of the investment and derivative financial instrument and is not necessarily an indication of the risks associated with investing in those securities. The three levels of the fair value hierarchy are as follows:

Level 1 unadjusted quoted prices in active markets/exchanges for identical assets or liabilities that the Fund has the ability to access

Level 2 other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market-corroborated inputs)

Level 3 unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including the Fund's own assumptions used in determining the fair value of investments and derivative financial instruments)

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Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy. In accordance with the Fund's policy, transfers between different levels of the fair value disclosure hierarchy are deemed to have occurred as of the beginning of the reporting period. For information about the Fund's policy regarding valuation of investments and derivative financial instruments, refer to the Fund's most recent financial statements as contained in its semi-annual report.

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Schedule of Investments (concluded)

BlackRock MuniYield Quality Fund III, Inc. (MYI)

As of April 30, 2015, the following tables summarize the Fund's investments and derivative financial instruments categorized in the disclosure hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Long-Term Investments ¹		\$ 1,622,752,472		\$ 1,622,752,472
Short-Term Securities	\$ 5,062,199			5,062,199
Total	\$ 5,062,199	\$ 1,622,752,472		\$ 1,627,814,671

¹ See above Schedule of Investments for values in each state or political subdivision.

	Level 1	Level 2	Level 3	Total
Derivative Financial Instruments²				
Liabilities:				
Interest rate contracts	\$ (1,136,158)			\$ (1,136,158)

² Derivative financial instruments are financial futures contracts, which are valued at the unrealized appreciation (depreciation) on the instrument.

The Fund may hold assets and/or liabilities in which the fair value approximates the carrying amount for financial reporting purposes. As of April 30, 2015, such assets and/or liabilities are categorized within the disclosure hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash pledged for financial futures contracts	\$ 1,252,000			\$ 1,252,000
Liabilities:				
TOB Trust Certificates		\$ (266,303,002)		\$ (266,303,002)
VRDP Shares		(356,400,000)		(356,400,000)
Total	\$ 1,252,000	\$ (622,703,002)		\$ (621,451,002)

During the period ended April 30, 2015, there were no transfers between levels.

Item 2 Controls and Procedures

- 2(a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing of this report based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended.
- 2(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item Exhibits
3

Certifications Attached hereto

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BlackRock MuniYield Quality Fund III, Inc.

By: /s/ John M.
Perlowski
John M. Perlowski
Chief Executive Officer (principal executive officer) of
BlackRock MuniYield Quality Fund III, Inc.

Date: June 22, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ John M.
Perlowski
John M. Perlowski
Chief Executive Officer (principal executive officer) of
BlackRock MuniYield Quality Fund III, Inc.

Date: June 22, 2015

By: /s/ Neal J. Andrews
Neal J. Andrews
Chief Financial Officer (principal financial officer) of
BlackRock MuniYield Quality Fund III, Inc.

Date: June 22, 2015