AVI BioPharma Incorporated Fourth Quarter 2007 Results Conference Call Transcript

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Lippert Heilshorn & Associates

Moderator: Jody Cain

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Operator Welcome to the AVI BioPharma Fourth Quarter 2007 Results Conference Call. At this time all participants are in a listen only mode. Following management's prepared remarks we'll hold a Q&A session. To ask a question please press star followed by 1 on your touchtone phone.

If anyone has difficulty hearing the conference please press star 0 for operator assistance. As a reminder, this conference is being recorded March 12, 2008. I would not like to turn the call over to Jody Cain. Please go ahead ma'am.

Jody Cain This is Jody Cain with Lippert Heilshorn & Associates. Thank you for participating in today's call. As we begin this call I would like to point out that a link to slides accompanying management's presentation is available on the homepage of the AVI Web site at www.avibio.com Joining me this morning from AVI BioPharma are Dr. Leslie Hudson, Chief Executive Officer, and Alan Timmins, President and Chief Operating Officer.

Earlier today AVI BioPharma released financial results for the 2007 fourth quarter and full year. If you have not received this news release or if you'd like to be added to the company's distribution list please call Lippert Heilshorn in Los Angeles at 310–691–7100 and speak with (Amy Higgins).

Before we begin I'd like to state the comments made by management during this conference call will include forward–looking statements within the meaning of Federal Securities laws. These forward–looking statements involve material risks and uncertainties. For a discussion of risk factors I'd encourage you to review the AVI BioPharma annual report on Form 10–K and subsequent reports as filed with the SEC.

Furthermore the content of this conference call contains time sensitive information that is accurate only as of the date of the live broadcast, March 12, 2008. The company undertakes no obligation to revise or update any statements to reflect events or circumstances after the date of this conference call. With that said I'd like to turn the call over to Dr. Hudson. Les.

Leslie Hudson Jody thanks very much indeed and thanks to all of you for joining us today. First of all I want to say just how pleased I am to have the chance of talking with you on this, my first conference call as AVI's Chief Executive Officer. The formal views this morning, during about the next 45 minutes we'll give you an overview of our financial results after some brief comments I'll make at the beginning.

But we'd like to spend most of the time looking at the AVI work plan towards the clinical advancement and commercialization of our new gene–based drug candidates as well as reviewing our near term milestones, so really focusing on the clinical part of our pipeline for the purposes of this first call with you.

If I may, and I promise I'll never do this again, just to give you a very, very brief synopsis of my own background. And maybe in that synopsis we'll be able to highlight to you why in fact I'm so pleased to have a chance of coming on board at AVI at what I believe will be a (unintelligible) time, because in essence I started my career originally in discovery research. I migrated to development and ultimately ended up in Pharmacia running their ophthalmology P&L.

But I think it's fair to say that the largest part of my relevant experience for this particular opportunity really comes from doing turnarounds, developing business strategies, and also being able to implement successful drug development and commercialization programs. I worked in four small companies, so I've actually as many of you will have yourselves had the (vagaries) of success and failure, and as you know those who come through in this biotech area are recidivistic entrepreneurs.

Fortunately my last experience in Nabi Biopharmaceuticals was a good and successful one, so I come here really quite highly energized. So this is really something which I'm looking forward to getting to grips with in a very productive way.

One thing which I should say, which is probably highly relevant in the current context is when I first came to the states, now almost 20 years ago with Glaxo, my first project that I ran was actually with Gilead Sciences in the antisense field. And so in a very real sense having started discovery research, looking actually at antisense effects with (unintelligible). I'm in a particularly good position to be able to look at the opportunity now maybe 10, 15 years on.

In the two weeks that I've had in the company I've also had one week out on the road with our investors and clinical collaborators. I also had four weeks with my family driving across the USA from Princeton to get here, so you can imagine it's been a fairly busy time. And this is really a nice opportunity now to give you some of my perspectives in terms of what I see as the future opportunity here.

May I say first of all that this morning we announced that Michael Casey has been elected as the new Chairman of the board of directors of AVI following the resignation of Jack Bowman for personal reasons. Mike has been a director of AVI for the past two years and has substantial executive and corporate governance experience in our industry.

We would really like to express though our appreciation for the excellent work that Jack Bowman has done in his dedication and guidance during his tenure on the AVI board, particularly as he stepped in as Chairman during the past year in the year of transition. Going forward though we're very delight to have Mike Casey in the Chairman role, and I personally greatly look forward to working with him. With those comments I'd like now to turn the call over to Alan Timmins for an overview of our financial reporting. Alan?

Alan Timmins Thank you Les, and good morning to all of you joining us on the call and over the Internet. Today I'd like to review our 2007 fourth quarter and full year financial results, our year end cash position, and also discuss our 2008 financial guidance.

Revenues from license fees, grants, and research contracts in the fourth quarter of 2007 were $5.2 million, up from $18,000 reported in the fourth quarter of 2006. This increase in revenue reflects increases in research contract revenues of $5.1 million, as well as higher licensing fees and grant revenues.

Our operating expenses for the 2007 fourth quarter were $10.9 million compared with $8.8 million for the 2006 fourth quarter. This increase was due primarily to higher research and development expenses, which increased to $9.4 million from $6.7 million last year. Higher R&D expenses in the 2007 fourth quarter included an increase of $1.9 million in contracting costs for the production of GMP subunits as well as higher expenses for government research contracts, chemical and lab supplies, government contract related equipment, patent amortization, property taxes, and consultant fees.

The increase in R&D expenses was partially offset by decreases in employee costs. General and administrative expenses for the fourth quarter of 2007 were $1.5 million verses $2.1 million in the comparable 2006 period. This decrease in G&A expenses was due primarily to decreases in compensation costs of $735,000, which was partially offset by increases in accounting and legal expenses.

We reported a net loss for the fourth quarter of 2007 of $4.1 million or 7 cents per share, which compares with a net loss of $6.1 million or 11 cents per share for the fourth quarter of 2006. For the full year 2007 we reported revenues of $11 million, compared with $115,000 in revenue in 2006. The increase in 2007 reflects higher research contract revenues of $10.8 million and license fees of $125,000, partially offset by decreases in grant revenue of $51,000.

Operating expenses for 2007 were $44.1 million, compared with $33.1 million in 2006. This increase was due to higher R&D costs of $34.8 million in 2007, compared with $25.3 million in 2006, and increases in G&A expense to $9.1 in 2007, compared with $7.8 million in 2006.

Our net loss for the 2007 full year was $27.2 million, or 50 cents per share. This compares with a net loss for 2006 of $28.7 million, or 54 cents per share. Reviewing our balance sheet, we reported cash, cash equivalents, and short–term securities of $25.1 million as of December 31, 2007, a decrease of $8.1 million from December 31, 2006.

This decrease was due primarily to $24.7 million used in operations and $2.1 million used for the purchase of property and equipment and patent related costs. These numbers were partially offset by the receipt of $18.6 million in net proceeds from a private equity financing completed in December 2007.

In December 2007 we announced the execution of a two year, $28 million research contract with the Defense Threat Reduction Agency, or DTRA, an agency of the United States Department of Defense. The contract is directed towards funding our development of antisense therapeutics to treat the effects of Ebola, Marburg, and Junin hemorrhagic viruses, which are seen as biological warfare and bio–terrorism agents.

In 2007 we recognized $8 million in research contract revenue from this contract. In January of 2006 we were informed that in accordance with the final version of the 2006 Defense Appropriations Act approved by President Bush AVI was to be allocated $11 million to find our ongoing defense related programs including Ebola, Marburg and dengue viruses, as well as anthrax and ricin toxins.

Of this amount we expect to report up to $9.8 million net of government administrative expenses and have now received signed contracts for this total amount. In the full year of 2007 we recognized $2.7 million in research contract revenue under these contracts. We expect to receive the remainder of these funds over approximately the next year as the research is completed and invoiced to the government.

For our 2008 financial guidance we expect our net cash burn for the year to be in the range of $16 to $19 million. With those comments I'd like to turn the call back to Les.

Leslie Hudson Alan thanks very much indeed. So we'll take questions both for Alan and also for myself on the whole of our presentation when we get through to the end of the next piece, which essentially will be to look at the corporate priorities, and also the beginnings of the business strategy which the management team will unfold to basically guide us through the next year.

And obviously as we get more and more depth and detail in this we will be able to take the opportunity of presenting it, both to the analyst community as well as our investors, both through this medium as well as in conferences. Then if you had a chance already on our Web site you will see there was a set of slides which will help structure the information that we want to convey to you this morning, but at the same time also to give us a medium for maybe a more efficient transfer of information.

So I won't go through and read in great detail each slide because I think the better way is to pick out the points that you would really like to have answered in the question and answer session. So starting with the slides and just drawing your attention to the second slide, which is the Safe Harbor statement essentially remind you that the slides plus the verbal is necessary to actually understand the full content on what management is talking about here.

And looking at the first of the tech slides, number three, which is entitled the opportunity. I guess another way you could subtext this is why did I return to antisense (unintelligible) at this stage? What I see in a sense is very compelling parallelism between what has been happening recently with mitochondrial antibodies and what I believe is about to happen with antisense oligormers.

There was a period in both where you often start with hype, and then sometimes that hype comes through. Sometimes it doesn't. What one hopes for through is that research and discovery hype can be converted into solid progress. Often during that solid progress stage it goes below the radar screen, and then as you get pioneer products starting to come out then success starts to come quite rapidly and sequentially.

One of the things that impressed me is the recent success of Isis. I think it's in many ways Stan Crooke is to be congratulated, which of course he steered here. And that also encouraged me that this is a very doable prospect of bringing forth drugs from this particular technology.

What the other area is that really has changed has been this notion that looking at the genome, looking at the set of genes, looking at the proteins, what RNAi interference experiments have been teaching us. The ability to actually go in and interfere to direct the splicing of pre–mRNA is really quite fundamental to many processes, and I'm going to return to that.

So in essence what I'm really saying is it looks like there's pending indications of technology and corporate maturations — so corporate maturation meaning that there will be products coming out, and in terms of the technology there is a very strong understand now that there are diverse chemical solutions, not just one approach which everybody is following.

In fact the ability to be eclectic in that chemistry means that you can start now tacking and solving some of the challenges of bio–availability, tissue localization, uptake in vivo. In our own case the PMO, PPMO and PMO Plus technologies and chemistries that we developed I believe can go forward as a really full structure activity relationship study that we can do for really good solutions to very, very narrow problems of a particular compound which we will bring forward as drugs.

So I think overall that really is largely driven by technology which is about to mature. I think for AVI though the opportunity is to actually focus our R&D to develop a product flow process, and also to very firmly commit to success in the clinic. And I think it's that which has really formed the basis of my presentation this morning, but also on slide four the company goals.

These will come up during the year. It's the agenda against which we will work both in terms of our communication strategy, but also management team in leading the company. Advancing AVI's clinical development programs is central to everything because there you see evidence both of validation in terms of successful clinical demonstration of therapeutic utility, but also successful program partnering and commercialization.

The ability to do that and the necessity to do that is really what's driven our first assessments around how we're going to adapt and evolve the company in the near term, the first being in terms of the infrastructure required to support a flow of product candidates. This is really very central, and looking at what we have in the research portfolio, what we're going to prioritize from the research portfolio, and how we're going to draw that out into a proper product development flow harnessing really exploratory development as the link between research and the clinic is very, very important.

We also want to be able to give more emphasis to the control of alternative gene splicing, particularly as you already know in Duchenne muscular dystrophy we already in fact have got clinical engagement at that level. I'm not going to say more about that at this stage because I would imagine that's probably going to be part of the questioning that we will actually get.

Slide five really is just to underpin if you like the technological, scientific, clinical drive that we're looking for in the company. The idea of a good background in virus infection, of immunomodulation as a way of controlling virus infection in (unintelligible) disease, but also with our toe in the water with DMD this whole idea that there is a really fundamental process here which excitement is being generated around by RNAi. But I believe that the antisense (unintelligible) are what's going to unlock it for therapeutic utility.

You can actually correct mutations. You can in fact often push cellular processes in different directions, for example either promoting or inhibiting signal transduction by using exon skipping technology. And also one can generate totally new proteins, for example exon deletion in membrane bound proteins can give you soluble receptors actually produced in situ, which clearly can be a highly relevant technological opportunity relative to the ability of producing therapeutic proteins actually inside you in the human body.

So let's pause at that level and go over now to look briefly at each of our ongoing clinical programs, and then we will actually get to the Q&A part. First of all if I may report on the Cook Partnership. As you know this is very important for AVI. Currently it's not only most important active partnership, in fact it's actually our only active commercial partnership at the present time.

Cook continues to pursue applications with AVI–5126. This is our antisense PPMO product, which is being looked at for restenosis including both a catheter deliver kit as well as a coated stent. So AVI is supporting Cook with product and analytics, and Cook is performing the required regulatory studies basically to be able to take forward the development candidates that they have. And they may ultimately pursue both catheters as well as coated stents, so that in fact the diversity of clinical maneuver is optimized.

So clearly this is an area where the program is very firmly under Cook's control and they as you know are a private company and we are supporting their development efforts. The next slide goes back to the notion of central importance on slide seven of business development. As I said, Cook is currently our most important because it's our only business relationship.

So the ability to advance our programs to phase two and then have a very, very important and very large effort for partnering out of those programs is really quite important in my view, quite simply because ideally one wants to have one's commercialization partner present at the end of phase two meetings for example with the FDA.

So in a sense what I'm signaling to you here is what I see as our sweet spot in AVI as a drug developer, partner, and commercialization channel that we're going to operate. We have I think three opportunities for business development and these will be priorities for Ray Cummings, who is our head of business development, increasing access to external funding for DMD. DMD as many of you will know, it's very timely in the sense there is a lot of public interest at the present time both at the government level as well as the foundational level in being able to use exon skipping technology for the correction of the mutations in DMD.

And there is also leverage we believe in additional government funding opportunities of the sort that Alan actually reported on in the financial section. So the R&D partnership though, with a farmer and a large biotech is really quite important because it's not only validation of what we're doing and its importance for drug discovery, development, and commercialization. It's also because in fact it's important to our cash requirements as a company.

Looking now at the two ongoing clinical programs starting with CABG, so AVI–5126 is in the clinic for the treatment of restenosis in saphenous vein donor graft prior to CABG. What we are looking for is a 50% reduction of graft failure compared to placebo. It's a double blind randomized trial which is ongoing.

Per protocol we had a review of clinical data at the first 30 subjects that had been recruited, and by the time that review had been completed by the DSMB we have recruited an additional 17 subjects. And what we saw then in looking at that evaluation, obviously blind, and so this is feedback from the DSMB. They advised us to actually expand from the single site that we currently have to include more sites.

Clearly that was always part of the protocol. Operationally it actually — we had more recruitment as a single site at the beginning. Now we're actually expanding it. And to enroll the next 30 subjects from a series of additional sites. This is now ongoing. And then to review the rate of engraftment among those additional 30 subjects in the light of the 47 that we've also already collected.

So presently what we're seeing is an overall higher than expected graft failure rate among 47 subjects. What's not clear — because obviously it's a

very small data set, and for us in the company it's blinded. It's not clear whether it's related to patient characteristics, the drug, or the bias from a small sample of patients, all of which have come from a single data set, or indeed other factors which we haven't actually been able to identify at this stage.

Going over to the next slide which is slide nine, the AVI–4658 DMD program. As you know, we have an ongoing program in the United Kingdom. It's a small dose escalation study. That actually started in the last quarter of last year. We heard already in our initial discussions with the Medicine and Healthcare Product Regulatory Agency in Europe that the data package, the existing data package should be sufficient to support a proposed IV study.

That systemic exposure is clearly very, very important for what we're looking to demonstrate here as proof of concept in our DMD program. Direct injection into a muscle in essence is an in vivo parallel to an in vitro experiment. And so although it will give us very, very important safety data and also dosing data, as well as when we get to the right dose a demonstration of the ability to actually induce dystrophin expression, really what we're targeting is in the first quarter of this year to submit a CTA for systemic IV dose ranging safety in de novo dystrophin production in ambulatory DMD boys.

And then also the notion — having started with exon 51, as you know there are a range of exons that are deleted or mutated in DMD, a more limited range that actually produce the majority of the cases. But the clinical strategy as to how one addresses those mutations is really quite important.

Go to the next program on page ten, and essentially Alan reported — even in the financials you can tell that our research to date has been funding Ebola, Marburg, Junin, as well as dengue viruses. And within that program we also have work which is being funded for ricin and anthrax toxins.

And so from that point of view the importance of this program is that the scientific efforts are really very important to us because advancements are really core to one of our basic areas that we've been researching in for now the past many years which is the whole idea of control the viral infections using antisense technologies.

And so from that point of view the government programs really are duly important. Clearly it's a source of revenue which offsets quite a lot of our fixed costs, particularly at the manufacturing and the production stage of our chemical facility in Corvallis here in Oregon, but also some really very, very sound scientific relevance.

The final slide, which I will probably leave as a series of time and events for 2008 effectively shows you what our clinical and regulatory milestones are during the next four quarters. The first one as you see, the filing of the pre–IND for AVI -6003 for Marburg virus has been completed. And you can read through and see how the rest of the year is disposed with regard to clinical and regulatory milestones. So with that I will now actually pause and invite you to ask questions and turn control of the call back to our operator Christy, please.

Operator Thank you. Ladies and gentlemen, if you wish to register for a question for today's question and answer session you will need to press star then the number 1 on your telephone keypad. You will hear a prompt to acknowledge your request.

If your question has been answered and you wish to withdraw your polling request you may do so my pressing star then the number 2. If you are using a speakerphone please pick up your handset before entering your request. Again, we request that if you have pressed star 1 to ask a question before this time please press it once more to ensure your question is entered. One moment please for the first question. Your first question comes from the line of Ren Benjamin of Rodman & Renshaw.

Ren Benjamin Hi. Good morning and thanks for taking the question.

Man Hi Ren.

Ren Benjamin I guess just starting off — maybe we can just start off with the CABG program first. You mentioned that there is a higher than expected graft failure among the first 47 patients. Do you have some numbers behind this? And since you are blinded do we know from which — it would make sense that we don't know from which group we're seeing this, but maybe you can give us some additional color as to what has the (DSMB) somewhat troubled?

Leslie Hudson Well I mean I think in saying what you've just said, essentially that there was a higher than historically expected rate of failure of engraftment. I mean that basically is the extent to which we have an understanding of what's happened. We know that all of those cases came from a single site. The DSMB basically suggested that we expand to additional sites which operationally we would do anyway, and they asked us to actually go for the next 30 patients to then again look at the graft failure.

It could be that in fact this is just an aberration of the small sample size. It could clearly be a series of other contributions, and as you know we in fact are not able to actually get any details because basically that would be to un–blind the trial. But the trial is going forward. Clearly it is something where we are expanding to other sites, and we will actually be looking at the next tranche of data as you can see on the timelines that I put in the last slide there. We're anticipating by the third quarter that we'll have enrolled the next 30 patients.

Ren Benjamin Okay. So if you enroll the next 30 patients by the third quarter, approximately how long after that will the DSMB meet to take another look? And can you remind me, is the DSMB blinded as well and they're just looking at the overall sort of safety of the trial or are they un–blind?

Leslie Hudson The DSMB are looking at the data. We're blinded with regard to the data and also their discussions. And so clearly what we get back from them of necessity are very opaque statements of the type that we just talked about. I think the information within that third quarter for enrolling the patients and getting the information back will be between the end of the third quarter, beginning of the fourth quarter. Clearly this is an important decision for the company and we want to have that data as rapidly as possible.

Ren Benjamin So you think that by the fourth quarter we should know the results, or at least what the DSMB is thinking?

Leslie Hudson That's what we're anticipating.

Ren Benjamin Okay. Moving on to the DMD program, which I think is one of the most exciting programs. Can you just give us an update as to what's happening with the IM study right now? How many patients have been treated if any? And I know that in the milestone table you talk about the IV dosing, but when might we see some preliminary data from the IM site?

Leslie Hudson Well so basically the first patient has been dosed. We're still very early. We're still actually at a very low concentration of drug that is being injected, and I think it's at a point where we would like to get experience with the dose escalation before we talk about in detail what we're seeing

there.

You do know though that obviously in a very similar study (Frazenza) demonstrated the production of dystrophin in vivo by a very similar route. So from that point of view that was part of the reason why I was saying that the IM study is really only an incremental advance from what has previously been demonstrated.

Though I wouldn't take away the importance of actually being able to use it to show that indeed A, we can get the expression of truncated dystrophin, and secondly to actually give us some indications of dose ranging.

Ren Benjamin Okay. And what exactly is the difference between AVI–4658 and there is this new PMO based on exon–skipping 50 product that you're talking about and filing in IND by the end of this year. Is it just a different exon that's being skipped?

Leslie Hudson Yes. In principal it is a different exon that's being skipped. As you know the approach is to be able to treat DMD when one actually has a successful and validated drug product. It's probable to be able to hit enough patients for therapeutic benefit that one would want to perhaps go for example with a range, a limited range of exon skipping capabilities or olgonucleotides.

And so one of the things that we thought it was important early on to get experience with is really more than one exon, because although the idea in principle should translate very well clearly there is no substitute for having clinical evidence that indeed the approach can translate from one exon to another.

And what we actually put into the clinic, how we do it, these are very, very much now plans which are being made by the company.

Ren Benjamin And I guess just one final question. I jumped on the call a little late, so I apologize if you've already answered this. Can you give us some guidance as to what the burn rate will be in 2008?

Leslie Hudson Yes Ren. We announced that guidance as $16 to $19 million.

Ren Benjamin And then that takes into account Alan I guess any of the grants or revenues that would be coming in from the government project?

Leslie Hudson Yes it does, those grants that are contractually committed.

Ren Benjamin Got it. Thank you very much.

Leslie Hudson Thank you.

Operator Your next question comes from the line of Yale Jen of Maxim Group.

Yale Jen Good morning and a very good presentation. Thanks for that. Just a follow–up on some of the (unintelligible) questions. A lot of those I had being answered. One of them is for the DMD. This is little bit longer haul. Do you think that this program you need sort of a commercial partner moving forward — look forward for this. Or do you think that you may be able to do it by yourself should this thing be successful?

Leslie Hudson This is very much a matter of personal experience and in some ways personal preference. So when I was in ophthalmology I ran a specialty pharma business, and in principal the side of the sales force, the number of calls we have to make to different centers, and the ability to access key opinion leaders for something like DMD is very doable in a company of our intended sort of size.

So if you like that, argue for it. Against it, many of our companies of the type like AVI have had a long history in discovery, in development, and a very much more curtailed history and experience in terms of commercialization. And the commercialization, the whole of that translation of a product candidate into a product is an art in itself.

And it's really just a very simple business decision. What the company should always do and we certainly will do is look at what our potential partners would offer us, and then against that look at what in fact we could do ourselves, both in terms of risks and rewards. And that ratio will guide us.

If in fact we believe we can do better on our own than we could by partnering with a major company then it's very clear what we should do. But there are always attendant risks and personally, particularly for the first few products that come through having a commercial partner helps you actually get that culture into a company like ours.

So in all honesty when we get there we'll make the right decision because we'll make the right analysis and we'll have talked to right partners.

Yale Jen Okay great. Thanks a lot. Just another question is about the (unitelligible) of standard that Cook may also develop. Could you shed a little bit more light on that, as much as you can do?

Leslie Hudson Yeah I mean this is a partnership as you know with Cook. It is a program which they themselves are running absolutely. It's an internal program to them. We have no milestones so we don't have any reportable events from our side of that partnership. And the reason we don't have any reportable events as milestones is that we traded up in the level of royalty that we will get once the product becomes commercial.

And so from that point of view the information flow is going to of necessity be much more limited around that particular program, other than letting you all know that it's ongoing which I've done. And the reason for that is we don't have control of it directly and it's partnered out and basically Cook or a private company that don't have the same reporting obligations as AVI.

Yale Jen Thank a lot. I appreciate it. The last question before I go back to the queue is that for the exon 50 product that you intend to find the end of this year. Could you tell me a little more about the anticipation for the program, the specific potential goal this program may accomplish compared to the one ongoing right now?

Leslie Hudson It literally is to go after another more rare exon. The frequency with which you see exon 50 mutations is less than you see in exon 51. As I said previously, although there is every reason from a scientific and logical point of view to expect our chemistry to translate, expectation is no translation for experience. And so from that point of view we want to get that experience.

Yale Jen And the funding for this one, you were thinking about internally or this is one you anticipate some sort of funding from externally?

Leslie Hudson As you know a lot of support, both from government funding, DoD funding for example for DMD. The foundations themselves have done an extremely good job in that regard. Personally I have actually had a lot of admiration for what's being accomplished in that regard, and indeed for that particular PMO approach for exon 59, we have already been able to get some funding towards it. It's enough to actually help us over those first initial hurdles into the clinic.

Yale Jen Great. Thanks a lot and congratulations on your new assignment.

Leslie Hudson Thank you. I look forward to working with you.

Yale Jen Thank you.

Operator Your next question comes from the line of Lanny Stout of National Planning Corporation.

Lanny Strout Hi Dr. Hudson.

Leslie Hudson Oh Lanny, Les would be great. My mother used to call me Dr. Hudson when she was really annoyed with me.

Lanny Strout Alright. Good to have you say that. One of the things that we deal with a lot in AVI's expectations and in the area of the virus development where we learn an awful lot form that. What are the real objectives there? Are we trying to get large contracts with the government? Is that a reasonable expectation? Do we have timeframes with that with the state of the government's ability to actually make a contract (unintelligible) and funded?

Leslie Hudson Good question. So I'm going to start and then I'm going to actually ask Alan to pick up with me as well because Alan has been extremely successful in leading the effort on behalf on AVI to actually get government funding along with some of our other colleagues and the management team. And that's an area which I've asked him to take particular responsibility for and will be leading the charge in that regard.

So let me answer this strategy question Lanny that you're really asking and then I'll pass it over to Alan. So we've got a good history of treating virus infections. We've got a good history of treating disease, particularly disease caused by excesses if you like of the immune system. One of the characters of virus disease in general is that very often the infection starts a disease causing process, but by the time you try to come to treat the disease with an antiviral it's already escaped.

I hope that will give you a clue. What we're looking at is our core to our — if you like, our research strategy is the ability to take that concept, that (unintelligible) concept on the one hand of being able to treat the virus and on the other hand to be able to actually limit and curtail and ultimately treat the disease.

And so from that point of view when I was talking about focusing our research pipeline that balance is going to be very important, and it's an area where over the last several years we really have built up a lot of in–house expertise and knowledge and I believe that will also drive some of our early partnering efforts.

With regard to the government and why that's important just beyond the finances, let me hand it over to Alan to just add the (unintelligible) to that please.

Alan Timmins Thank you Les. Lanny, the government programs are extremely important as well because a lot of what we learn under the government's auspices, on their nickel to use the slang phrase, is also applicable for us in other disease settings. And so it's little bit like — well you and I have met so we're over generation that I'm confident in saying it's a little bit like the space program in the 60s. Besides getting the first man on the moon, which is a neat accomplishment but it doesn't pay the rent.

There are also various technological developments or advancements or knowledge bases are gained from that program. And so our program with the government, though rewarding from a financial standpoint, is particularly rewarding from the technology spin–off knowledge base that we get from doing those projects.

So from that standpoint it's been quite gratifying for us as well, and I think over time you'll see how and we'll endeavor to point out to you how it's pushed our technology forward at a quicker rate than we could have expected by just doing internally developed programs going forward.

In terms of garnering that huge government contract at the end of the rainbow, a bio–shield type of a thing, there's possibilities for that but I think on a day to day operating basis that isn't why we're in the government business and it's not why we're working with the government. It's something that we'll evaluate when the opportunity arises if the opportunity arises because the government, it's a double edged sword to work with as you might guess.

It's good because we've made great scientific advances, but the government moves slowly and all the while that it's moving slowly there's changes within the government that are happing very rapidly. So the desire for a bio–shield type stockpiling may be in favor one day. It may not be in favor one day. So we're not handing our hat on that being the endpoint to our government efforts.

We're really working toward both offsetting some of our ongoing costs, but also having that great increase in knowledge base from our ongoing efforts in the government sector.

Man Great, thank you. While I got you guys here let me ask you another question on expectations. We have this Cook Program what's been going on for awhile and we're kind of almost blinded from knowledge since they're a private company and don't report to us on milestones. Do we have any clue on expectation of when they plan to do certain filings or reach certain phases?

Leslie Hudson The partnership with Cook is a good one, and as you say it's been going on for some time. It's a situation where the degree of transparency which AVI has into that partnership of necessity is going to be greater than our ability to communicate it out. It's a situation where basically they are in control of the program. That is the price of the partnership. That is also clearly the opportunity of being able to leverage that commercial ability.

And sometimes you can get around that by having early milestones which can be indicative and can be reported very easily. There are no milestones in this program.

Man I think I've understood that from that beginning. I was just trying to figure out how we're going to know when they are really getting ready to something commercial with it since it doesn't seem like there's a lot of communication from them to AVI.

Leslie Hudson Well there is not a lot of communication from AVI to you about what they're telling us. We are actually bonded by our partnership.

Man Well we'll have to deal with that because — well it's a very important program for us. Let's get some more that we're a little visible.

Leslie Hudson Oh amen to that.

Man Thank you.

Operator Once again ladies and gentlemen if you wish to ask a question please press star then the number one on your telephone keypad. Your next question comes from the line of George Haywood.

George Haywood Unless I missed it you haven't mentioned cytochrome P450. I was wondering if you'd had a chance to look at that, and if you have whether you think there are commercial possibilities there or partnership possibilities.

Leslie Hudson George thanks very much indeed for that question and good morning. You didn't miss it. I just didn't mention it. One of the things that is if you like one of the appealing things about the research, the discovery research effort that's been going on in AVI is it's like having a treasure chest that you can sort through.

I think one of the very important opportunities that we have is the ability to get partnerships much earlier than the end of phase two that I was alluding to. And at the present time as you can imagine, my personal focus with the management team is been looking at our clinical programs and also the need to drive partnership in that regard.

I think what we'll go with the research programs, there is a prospectus. If you hear about research progress about every six months to a year you actually then can get a much better appreciation of how things are moving through. What I'd like to bring into being at ABI, I'm not sure whether we've every done if there before is this idea actually of a dedicated day and certainly a dedicated call for our science.

Because I think the priorities are initially going to be by selection, and then secondly by evolution. And so what our research priorities are going to be, and also what the expectation is for speeding up their evolution into exploratory development is very important, and that will actually be coming down the pike.

George Haywood Thank you.

Leslie Hudson Thank you.

Operator There are no further questions at this time. Please proceed with your presentation or any closing remarks.

Leslie Hudson Thanks Christie. So I'd like to thank you all for joining us today, it has been a pleasure to have a chance to talk with you. I hope our excitement has come across and also our commitment to convert that excitement into solid progress. I look forward to working with you and giving you regular updates, and most of all, I wish you all a very good day. Thank you for joining us. Goodbye.

Operator Ladies and gentlemen, that concludes your conference call for today. We thank you for your participation and ask that you please disconnect your line.

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