

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from to

Commission file number 0-22613

AVI BIOPHARMA, INC.

(Exact name of registrant as specified in its charter)

Oregon

(State or other jurisdiction of incorporation
or organization)

93-0797222

(I.R.S. Employer Identification No.)

One SW Columbia Street, Suite 1105, Portland, Oregon

(Address of principal executive offices)

97258

(Zip Code)

Registrant's telephone number, including area code: **503-227-0554**

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Securities Exchange Act of 1934 (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock with \$.0001 par value
(Class)

52,961,950
(Outstanding at August 4, 2006)

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FORM 10-Q
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AVI BIOPHARMA, INC.
(A Development Stage Company)
BALANCE SHEETS
(unaudited)

	June 30, 2006	December 31, 2005
Assets		
Current Assets:		
Cash and cash equivalents	\$ 31,764,383	\$ 34,597,734
Short-term securities—available-for-sale	12,709,104	12,453,348
Accounts receivable	44,389	1,236,446
Other current assets	583,500	365,866
Total Current Assets	45,101,376	48,653,394
Property and Equipment, net of accumulated depreciation and amortization of \$9,269,104 and \$8,396,923	4,935,608	5,599,269
Patent Costs, net of accumulated amortization of \$1,373,381 and \$1,270,881	2,312,323	2,117,710
Other Assets	34,709	37,609
Total Assets	\$ 52,384,016	\$ 56,407,982
Liabilities and Shareholders’ Equity		
Current Liabilities:		
Accounts payable	\$ 1,288,154	\$ 1,861,604
Accrued employee compensation	662,500	886,369
Other liabilities	314,167	—
Total Current Liabilities	2,264,821	2,747,973
Commitments and Contingencies		
Shareholders’ Equity:		
Preferred stock, \$.0001 par value, 20,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.0001 par value, 200,000,000 shares authorized; 52,961,694 and 51,182,751 issued and outstanding	5,296	5,118
Additional paid-in capital	238,708,122	226,290,167
Accumulated other comprehensive income	17,200	12,968
Deficit accumulated during the development stage	(188,611,423)	(172,648,244)
Total Shareholders’ Equity	50,119,195	53,660,009
Total Liabilities and Shareholders’ Equity	\$ 52,384,016	\$ 56,407,982

See accompanying notes to financial statements.

AVI BIOPHARMA, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS
(unaudited)

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>		<u>July 22, 1980</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>(inception) through</u>
					<u>June 30, 2006</u>
Revenues from license fees, grants and research contracts	\$ 18,558	\$ 39,317	\$ 84,520	\$ 84,509	\$ 9,950,048
Operating expenses:					
Research and development	5,921,929	3,915,155	12,685,174	8,057,059	134,986,801
General and administrative	1,515,711	1,272,529	4,337,437	2,721,059	37,405,213
Acquired in-process research and development	—	—	—	—	19,545,028
	<u>7,437,640</u>	<u>5,187,684</u>	<u>17,022,611</u>	<u>10,778,118</u>	<u>191,937,042</u>
Other income (loss):					
Interest income, net	517,053	215,725	974,912	261,788	6,514,417
Realized gain on sale of short- term securities— available- for-sale	—	—	—	—	3,862,502
Write-down of short-term securities— available-for- sale	—	—	—	—	(17,001,348)
	<u>517,053</u>	<u>215,725</u>	<u>974,912</u>	<u>261,788</u>	<u>(6,624,429)</u>
Net loss	<u>\$ (6,902,029)</u>	<u>\$ (4,932,642)</u>	<u>\$ (15,963,179)</u>	<u>\$ (10,431,821)</u>	<u>\$ (188,611,423)</u>
Net loss per share - basic and diluted	<u>\$ (0.13)</u>	<u>\$ (0.11)</u>	<u>\$ (0.31)</u>	<u>\$ (0.24)</u>	
Weighted average number of common shares outstanding for computing basic and diluted loss per share	<u>52,946,054</u>	<u>44,167,565</u>	<u>52,333,952</u>	<u>43,316,268</u>	

See accompanying notes to financial statements.

AVI BIOPHARMA, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS
(unaudited)

	<u>Six months ended June 30,</u>		<u>For the Period</u>
	<u>2006</u>	<u>2005</u>	<u>July 22, 1980</u>
			<u>(Inception) to</u>
			<u>June 30, 2006</u>
Cash flows from operating activities:			
Net loss	\$ (15,963,179)	\$ (10,431,821)	\$ (188,611,423)
Adjustments to reconcile net loss to net cash flows used in operating activities:			
Depreciation and amortization	1,037,924	975,604	11,767,788
Loss on disposal of assets	190,989	3,557	313,798
Realized gain on sale of short-term securities— available-for-sale	—	—	(3,862,502)
Write-down of short-term securities—available-for-sale	—	—	17,001,348
Issuance of common stock to vendors	700,000	—	700,000
Compensation expense on issuance of common stock and partnership units	—	—	861,655
Compensation expense to non-employees on issuance of options and warrants to purchase common stock or partnership units	525,126	267,005	2,643,053
Stock-based compensation	2,943,271	—	2,943,271
Conversion of interest accrued to common stock	—	—	7,860
Acquired in-process research and development	—	—	19,545,028
(Increase) decrease in:			
Accounts receivable and other current assets	974,423	438,379	(627,889)
Other assets	2,900	—	(34,709)

Net increase (decrease) in accounts payable, accrued employee compensation, and other liabilities	(308,152)	(322,938)	2,559,821
Net cash used in operating activities	(9,896,698)	(9,070,214)	(134,792,901)
Cash flows from investing activities:			
Purchase of property and equipment	(462,752)	(573,292)	(14,993,981)
Patent costs	(297,113)	(197,644)	(4,085,536)
Purchase of marketable securities	(3,205,522)	(7,649,497)	(101,101,392)
Sale of marketable securities	2,953,998	5,802,462	93,318,642
Acquisition costs	—	—	(2,377,616)
Net cash used in investing activities	(1,011,389)	(2,617,971)	(29,239,883)
Cash flows from financing activities:			
Proceeds from sale of common stock, warrants, and partnership units, net of offering costs, and exercise of options and warrants	8,074,736	22,379,431	196,182,604
Buyback of common stock pursuant to rescission offering	—	—	(288,795)
Withdrawal of partnership net assets	—	—	(176,642)
Issuance of convertible debt	—	—	80,000
Net cash provided by financing activities	8,074,736	22,379,431	195,797,167
Increase (decrease) in cash and cash equivalents	(2,833,351)	10,691,246	31,764,383
Cash and cash equivalents:			
Beginning of period	34,597,734	16,654,829	—
End of period	<u>\$ 31,764,383</u>	<u>\$ 27,346,075</u>	<u>\$ 31,764,383</u>

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES AND FINANCING ACTIVITIES:

Short-term securities—available-for-sale received in connection with the private offering	\$ —	\$ —	\$ 17,897,000
Change in unrealized gain on short-term securities—available-for-sale	\$ 4,232	\$ 132,641	\$ 17,200
Issuance of common stock and warrants in satisfaction of liabilities	\$ 175,000	\$ —	\$ 545,000

See accompanying notes to financial statements.

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AVI BIOPHARMA, INC.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The financial information included herein for the three and six-month periods ended June 30, 2006 and 2005 and the financial information as of June 30, 2006 is unaudited; however, such information reflects all adjustments consisting only of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The financial information as of December 31, 2005 is derived from AVI BioPharma, Inc.'s (the "Company's") Form 10-K. The interim financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Form 10-K. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

The Company has two stock-based compensation plans, the 2002 Equity Incentive Plan and the 2000 Employee Stock Purchase Plan, which are described below. Prior to fiscal year 2006, the Company accounted for those plans under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion 25, "Accounting for Stock Issued to Employees", and related Interpretations, as permitted by Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 123, "Accounting for Stock-Based Compensation", ("SFAS 123"). Compensation costs related to stock options granted at fair value under those plans were not recognized in the statements of operations.

In December of 2004, FASB issued SFAS 123 (revised 2004), "Share-Based Payment", (SFAS 123R). Under the new standard, companies are no longer to account for share-based compensation transactions using the intrinsic value method in accordance with APB Opinion No. 25. Instead, companies are required to account for such transactions using a fair-value method and recognize the expense in the statements of operations.

Effective January 1, 2006, the Company adopted SFAS 123R using the modified-prospective application. Under the modified prospective application, stock compensation cost recognized beginning January 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated.

The Company's net loss for the three and six-month periods ended June 30, 2006 were increased by approximately \$1.0 million and \$2.1 million, respectively, as a result of the application of SFAS 123R.

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Stock-based compensation costs are generally based on the fair value calculated from the Black-Scholes option-pricing model on the date of grant for stock options and on the date of enrollment for the Plan. The fair value of stock grants are amortized as compensation expense on a straight-line basis over the vesting period of the grants. Compensation expense recognized is shown in the operating activities section of the statements of cash flows. Stock options granted to employees are service-based and typically vest over four years.

The fair market values of stock options granted during the periods presented were measured on the date of grant using the Black-Scholes option-pricing model, with the following weighted average assumptions:

Three and Six Months Ended June 30,	2006	2005
Risk-free interest rate	4.14%	3.43%
Expected dividend yield	0%	0%
Expected lives	9.3 years	9.1 years
Expected volatility	91%	94%

The risk-free interest rate is estimated using an average of treasury bill interest rates. The expected dividend yield is zero as the Company has not paid any dividends to date and does not expect to pay dividends in the future. The expected lives are estimated using expected and historical exercise behavior. The expected volatility is estimated using historical calculated volatility and considers factors such as future events or circumstances that could impact volatility.

As part of the requirements of FSAS 123R, the Company is required to estimate potential forfeiture of stock grants and adjust compensation cost recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

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A summary of the Company's stock option compensation activity with respect to the six months ended June 30, 2006 follows:

Stock Options	Shares	Weighted Average Exercisable Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	4,812,396	\$ 4.55		
Granted	1,172,700	\$ 7.13		
Exercised	(205,075)	\$ 3.43		
Canceled or expired	(45,477)	\$ 5.49		
Outstanding at June 30, 2006	5,734,544	\$ 5.11	5.99	\$ 5,304,586
Vested at June 30, 2006 and expected to vest	5,694,751	\$ 5.11	5.97	\$ 5,267,337
Exercisable at June 30, 2006	3,744,887	\$ 5.11	4.49	\$ 3,442,147

The weighted average fair value per share of stock-based payments granted to employees during the six months ended June 30, 2006 and June 30, 2005 was \$6.09 and \$2.12, respectively. During the same periods, the total intrinsic value of stock options exercised were \$763,905 and \$1,869, and the total fair value of stock options that vested were \$2,109,771 and \$1,035,063, respectively.

As of June 30, 2006, there was \$7,151,570 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. These costs are expected to be recognized over a weighted-average period of 2.8 years.

During the six months ended June 30, 2006, \$703,073 was received for the exercise of stock options. The Company is obligated to issue shares from the 2002 Equity Incentive Plan upon the exercise of stock options. The Company does not currently expect to repurchase shares from any source to satisfy its obligations under the Plan.

The following are the stock-based compensation costs recognized in the Company's statements of operations:

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Research and development	\$ 638,584	\$ 1,178,081
General and administrative	367,416	931,690
Total	\$ 1,006,000	\$ 2,109,771

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As discussed above, results for prior periods have not been restated to reflect the effects of implementing SFAS 123R. The following table illustrates the effect on net loss and loss per share for the three and six-month periods ended June 30, 2006 as compared to the pro forma financial results for the three and six-month periods ended June 30, 2005, adjusted for stock-based compensation:

Three Months Ended June 30,	2006	2005
Net loss, excluding the effect of stock-based compensation	\$ (5,896,029)	\$ (4,932,642)
Deduct – Total stock-based employee compensation expense determined under fair value based methods for all awards	(1,006,000)	(572,022)
Net loss, including the effect of stock-based compensation	\$ (6,902,029)	\$ (5,504,664)
Basic and diluted net loss per share:		
Excluding the effect of stock-based compensation	\$ (0.11)	\$ (0.11)

Including the effect of stock-based compensation	\$ (0.13)	\$ (0.12)
Six Months Ended June 30,		
	2006	2005
Net loss, excluding the effect of stock-based compensation	\$ (13,853,408)	\$ (10,431,821)
Deduct – Total stock-based employee compensation expense determined under fair value based methods for all awards	(2,109,771)	(1,035,063)
Net loss, including the effect of stock-based compensation	\$ (15,963,179)	\$ (11,466,884)
Basic and diluted net loss per share:		
Excluding the effect of stock-based compensation	\$ (0.26)	\$ (0.24)
Including the effect of stock-based compensation	\$ (0.31)	\$ (0.26)

The 2000 Employee Stock Purchase Plan (ESPP) provides that eligible employees may contribute, through payroll, deductions, up to 10% of their earnings toward the purchase of the Company's Common Stock at 85% of the fair market value at specific dates. On January 1, 2006, the Company adopted SFAS 123R, which requires the measurement and recognition of compensation expense for all share based payment awards made to the Company's employees and directors related to the Employee Stock Purchase Plan, based on estimated fair values. During the three and six-month periods ended June 30, 2006 the total compensation expense for participants in the ESPP was \$17,601 and \$32,719, respectively, using the Black-Scholes option-pricing model with a weighted average estimated fair value per share of \$1.35, expected life of six months, risk free interest rate of 4.12%, volatility of 84.53%, and no dividend yield. At June 30, 2006, 263,156 shares remain available for purchase through the plan and there were 100 employees eligible to participate in the plan, of which 34 were participants.

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On March 15, 2006 unvested stock options for nine employees in the Company's Colorado facility were accelerated. These employees joined Cook Group Inc. in April 2006, see note 5. The acceleration of these stock options in the first quarter of 2006 increased compensation costs by \$833,500.

During the three and six-month periods ended June 30, 2006 the total compensation expense for stock-based compensation upon adoption of SFAS 123R and for acceleration of the vesting of certain stock options was \$1,006,000 and \$2,943,271, respectively.

The Company records the fair value of stock options granted to non-employees in exchange for services in accordance with EITF 96-18 "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." The fair value of the options granted are expensed when the measurement date is known. The performance for services was satisfied on the grant date for stock options granted to non-employees. The total fair value of the options granted to non-employees during the six months ended June 30, 2006 and June 30, 2005 was \$525,126 and \$267,005, respectively, which was expensed to research and development.

Note 2. Liquidity

The Company is in the development stage. Since its inception in 1980 through June 30, 2006, the Company has incurred losses of approximately \$189 million, substantially all of which resulted from expenditures related to research and development, general and administrative expenses, non-cash write-downs in 2002 of \$4,478,260 and in 2001 of \$12,523,088 on short-term securities—available-for-sale that had an other than temporary impairment as defined by SEC accounting rules and a one-time charge of \$19,545,028 for acquired in-process research and development reflecting the acquisition of ImmunoTherapy Corporation. The Company has not generated any material revenue from product sales to date, and there can be no assurance that revenues from product sales will be achieved. Moreover, even if the Company does achieve revenues from product sales, the Company expects to incur operating losses over the next several years.

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The financial statements have been prepared assuming that the Company will continue as a going concern. The Company's ability to achieve a profitable level of operations in the future will depend in large part on completing product development of its antisense products, obtaining regulatory approvals for such products, and bringing these products to market. During the period required to develop these products, the Company will require substantial additional financing. There is no assurance that such financing will be available when needed or that the Company's planned products will be commercially successful. On March 13, 2006, the Company announced that it had entered into agreements with Cook Group Inc. (Cook) for Cook's development and commercialization of products for vascular and cardiovascular diseases. Under a stock purchase agreement with Cook, the Company received net proceeds of \$4,955,623. The Company sold 692,003 shares of common stock at \$7.23 per share to Cook, as described in Note 5. The Company believes it has sufficient cash to fund operations through 2007. For 2006, the Company expects expenditures for operations, including collaborative efforts and GMP facilities to be approximately \$22 to \$25 million. Expenditures for 2006 could increase if the Company undertakes additional collaborative efforts. If necessary, however, the Company has the ability to significantly curtail certain expenditures because a significant amount of the Company's costs are variable.

In January 2006, the Company announced that the final version of the 2006 defense appropriations act had been approved, which included an allocation of \$11 million to fund the Company's ongoing defense-related programs. The Company's NEUGENE® technology will be used to continue developing therapeutic agents against Ebola, Marburg and dengue viruses, as well as to continue developing countermeasures for anthrax exposure and antidotes for ricin toxin. The Company continues to work with the government to define the scope of the work to be performed on these programs. This additional funding for 2006 has not been received and has not been reflected in the financial statements.

The likelihood of the long term success of the Company must be considered in light of the expenses, difficulties and delays frequently encountered in the development and commercialization of new pharmaceutical products, competitive factors in the marketplace as well as the burdensome regulatory environment in which the Company operates. There can be no assurance that the Company will ever achieve significant revenues or profitable operations.

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Note 3. Earnings Per Share

Basic EPS is calculated using the weighted average number of common shares outstanding for the period and diluted EPS is computed using the weighted average number of common shares and dilutive common equivalent shares outstanding. Given that the Company is in a loss position, there is no difference between basic EPS and diluted EPS since the common stock equivalents would be antidilutive.

Three Months Ended June 30,	2006	2005
Net loss	\$ (6,902,029)	\$ (4,932,642)
Weighted average number of shares of common stock and common stock equivalents outstanding:		
Weighted average number of common shares Outstanding for computing basic earnings per share	52,946,054	44,167,565
Dilutive effect of warrants and stock options after application of the treasury stock method	*	*
Weighted average number of common shares outstanding for computing diluted earnings per share	52,946,054	44,167,565
Net loss per share - basic and diluted	\$ (0.13)	\$ (0.11)
Six Months Ended June 30,	2006	2005
Net loss	\$ (15,963,179)	\$ (10,431,821)
Weighted average number of shares of common stock and common stock equivalents outstanding:		
Weighted average number of common shares outstanding for computing basic earnings per share	52,333,952	43,316,268
Dilutive effect of warrants and stock options after application of the treasury stock method	*	*
Weighted average number of common shares outstanding for computing diluted earnings per share	52,333,952	43,316,268
Net loss per share - basic and diluted	\$ (0.31)	\$ (0.24)

* Warrants and stock options to purchase 14,242,647 and 16,855,638 shares of common stock as of June 30, 2006 and 2005, respectively, were excluded from the earnings per share calculation as their effect would have been antidilutive.

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Note 4. Comprehensive Income and securities available for sale

Comprehensive income (loss) includes charges or credits to equity that did not result from transactions with shareholders. The Company's only component of "other comprehensive income (loss)" is unrealized gain (loss) on cash equivalents and short-term securities—available-for-sale. Accordingly, such investment securities are stated on the balance sheet at their fair market value. The Company classifies its investment securities with an original maturity of three months or less from the date of purchase as cash equivalents. The Company classifies its investment securities with an original maturity of more than three months from the date of purchase as short-term securities—available-for-sale. At June 30, 2006 and December 31, 2005, the Company's investments in marketable securities had gross unrealized gain of \$17,200 and \$12,968, respectively. The unrealized difference between the adjusted cost and the fair market value of these securities has been reflected as a separate component of shareholders' equity. The following table sets forth the calculation of comprehensive income for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net loss	\$ (6,902,029)	\$ (4,932,642)	\$ (15,963,179)	\$ (10,431,821)
Unrealized gain (loss) on marketable securities	2,342	0	4,232	132,641
Total comprehensive loss	\$ (6,899,687)	\$ (4,932,642)	\$ (15,958,947)	\$ (10,299,180)

Note 5. Equity Financing

On March 13, 2006, the Company announced that it had entered into agreements with Cook Group Inc. (Cook) for Cook's development and commercialization of products for vascular and cardiovascular diseases. There may be future royalty and milestone payments from Cook based on the License and Development Agreement. Under a stock purchase agreement with Cook, the Company received net proceeds of \$4,955,623. The Company sold 692,003 shares of common stock at \$7.23 per share to Cook.

During the six months ended June 30, 2006, the Company issued 910,123 shares of common stock for proceeds of \$3,045,490 from the exercise of stock options and warrants and 26,651 shares of common stock for proceeds of \$73,623 from sales under the Company's employee stock purchase plan.

Note 6. Significant Agreements

On January 27, 2006, the Company announced that it had entered into a definitive License Agreement with Chiron Corporation ("Chiron") granting the Company a nonexclusive license to Chiron's patents and patent applications for the research, development, and commercialization of antisense therapeutics against hepatitis C virus, in exchange for the payment of certain milestone and royalty payments to Chiron. In lieu of the first milestone payment due under the License Agreement, the Company and Chiron also entered into a separate agreement under which the Company issued to Chiron 89,012 shares of the Company's common stock with a market value of \$500,000 and which was expensed to research and development. There may be future payments made to Chiron by the Company based on milestones in the License Agreement.

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On March 13, 2006, the Company announced that it had entered into agreements with Cook Group Inc. (Cook) for Cook's development and commercialization of products for vascular and cardiovascular diseases. See note 5.

Effective January 1, 2006, the Company extended the lease on its facility located at 4575 SW Research Way, Suite 200, Corvallis, OR 97333. This lease now expires on December 31, 2020. As of December 31, 2005, the Company had an accrued rent payable of \$615,163 related to back rent payments. During the first half of 2006 the Company issued 31,154 shares of the Company's common stock, paid cash and sold fixed assets to Research Way Investments to pay off the accrued rent payable related to back rent payments.

In January 2006, the Company issued 30,000 shares of the Company's common stock with a market value of \$200,000 to the Oregon State University Foundation to secure access to certain university research facilities which was expensed to research and development.

Note 7. Other current assets

Amounts included in other current assets are as follows:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Prepaid expenses	\$ 331,557	\$ 272,165
Prepaid rents	100,402	93,701
Restricted cash	151,541	—
Other current assets	<u>\$ 583,500</u>	<u>\$ 365,866</u>

Starting in April 2006, the Company was required to pledge \$150,000 as collateral for company credit cards issued to some employees. The Company classifies this amount as restricted cash. As of June 30, 2006, restricted cash including accrued interest was \$151,541. The remaining components of other current assets include normally occurring prepaid expenses and rents.

Item 2. Management's Discussion and Analysis or Plan of Operations

This section should be read in conjunction with the same titled section contained in our Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2005 and the "Risk Factors" contained in such report.

Forward-Looking Information

The Financial Statements and Notes thereto should be read in conjunction with the following discussion. The discussion in this Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. Forward looking statements are identified by such words as "believe," "expect," "anticipate" and words of similar import. All statements other than historical or current facts, including, without limitation, statements about our business strategy, plans and objectives of management and our future prospects, are forward-looking

statements. Such forward-looking statements involve risks and uncertainties, including, but not limited to, the results of research and development efforts, the success of raising funds in the current offering or future offerings under our current shelf registration, the results of pre-clinical and clinical testing, the effect of regulation by FDA and other agencies, the impact of competitive products, product development, commercialization and technological difficulties, and other risks detailed in the Company's Securities and Exchange Commission filings, that could cause actual results to differ materially from the expected results reflected in such forward looking statements.

Overview

From our inception in 1980, we have devoted our resources primarily to fund our research and development efforts. We have been unprofitable since inception and, other than limited interest, license fees, grants and research contracts, we have had no material revenues from the sale of products or other sources, other than from government grants and research contracts, and we do not expect material revenues for the foreseeable future. We expect to continue to incur losses for the foreseeable future as we continue to expand our research and development efforts and enter additional collaborative efforts. As of June 30, 2006, the Company's accumulated deficit was \$188,611,423.

Results of Operations

Revenues, from license fees, grants and research contracts, decreased to \$18,558 in the second quarter of 2006 from \$39,317 in the second quarter of 2005, primarily due to decreases in grant revenues, partially offset by increases in research contract revenues. Revenues, from license fees, grants and research contracts, remained essentially unchanged at approximately \$85,000 for both the first half of 2006 and 2005.

Operating expenses increased to \$7,437,640 in the second quarter of 2006 from \$5,187,684 in the second quarter of 2005 and to \$17,022,611 for the six months ended June 30, 2006 from \$10,778,118 for the comparable period of 2005 primarily due to increases in research and development, which increased to \$5,921,929 in the second quarter of 2006 from \$3,915,155 in the second quarter of 2005 and to \$12,685,174 for the six months ended June 30, 2006 from \$8,057,059 in the comparable period in 2005. This research and development increase in the second quarter of 2006 was due to increases in employee costs of approximately \$650,000, of which approximately \$640,000 was upon adoption of SFAS 123R. This research and development increase for the six months ended June 30, 2006 was due primarily to increases in employee costs of approximately \$1,750,000, of which approximately \$1,180,000 was upon adoption of SFAS 123R and approximately \$430,000 related to the acceleration of the vesting of certain stock options. Also, approximately \$750,000 of this increase in the second quarter of 2006 and approximately \$950,000 of this increase for the six months ended June 30, 2006 was due to increases in clinical expenses from the expansion of clinical programs in hepatitis C and coronary artery bypass grafting. Additionally, approximately \$600,000 of this increase in the second quarter of 2006 and approximately \$1.0 million of this increase for the six months ended June 30, 2006 was due to contracting costs for the production of GMP subunits, which are used by the Company to manufacture compounds for future clinical trials. Also, this research and development increase for the six months ended June 30, 2006 included

\$500,000 in AVI common stock issued to Chiron Corporation as the first milestone payment due under a license agreement granting AVI a nonexclusive license to Chiron's patents and patent applications for the research, development, and commercialization of antisense therapeutics against hepatitis C virus. The remaining increase was due to additional professional consulting costs of approximately \$320,000.

The remaining increase in operating expenses was due to general and administrative costs increasing to \$1,515,711 in the second quarter of 2006 from \$1,272,529 in the second quarter of 2005 and to \$4,337,437 for the six months ended June 30, 2006 from \$2,721,059 for the comparable period of 2005. This general and administrative increase in the second quarter of 2006 was due primarily to increases in employee costs of approximately \$260,000, of which approximately \$370,000 was upon adoption of SFAS 123R, partially offset by decreases in employee costs of approximately \$130,000 when nine employees in the Company's Colorado facility joined Cook Group Inc. (Cook) in April 2006, subsequent to the Company's licensing transaction with Cook, see Note 5. This general and administrative increase for the six months ended June 30, 2006 was due primarily to increases in employee costs of approximately \$1,500,000, of which approximately \$930,000 was upon adoption of SFAS 123R and approximately \$400,000 related to the acceleration of the vesting of certain stock options.

Net interest income increased to \$517,053 in the second quarter of 2006 from \$215,725 in the second quarter of 2005 and to \$974,912 for the six months ended June 30, 2006 from \$261,788 for the comparable period in 2005 due to increases in average cash, cash equivalents and short-term securities and increases in average interest rates of the Company's interest earning investments.

Liquidity and Capital Resources

The Company does not expect any material revenues in 2006 or 2007 from its business activities other than from potential government grants and research contracts. The Company expects that its cash requirements through 2007 will be satisfied by existing cash resources. To fund its operations beyond 2007, the Company will need to secure additional funds. Such funds could come from technology license fees, government grants and research contracts, and accessing capital markets.

In January 2006, the Company announced that the final version of the 2006 defense appropriations act had been approved, which included an allocation of \$11 million to fund the Company's ongoing defense-related programs. The Company's NEUGENE® technology will be used to continue developing therapeutic agents against Ebola, Marburg and dengue viruses, as well as to continue developing countermeasures for anthrax exposure and antidotes for ricin toxin. The Company continues to work with the government to define the scope of the work to be performed on these programs. This additional funding for 2006 has not been received and has not been reflected in the financial statements

The Company's cash, cash equivalents and short-term securities were \$44,473,487 at June 30, 2006, compared with \$47,051,082 at December 31, 2005. The decrease of \$2,577,595 was due primarily to \$9,896,698 used in operations and \$759,865 used for purchases of property and equipment and patent related costs, offset by the receipt of \$4,955,623 in net proceeds from a stock purchase agreement with Cook Group Inc. and \$3,119,113 from the exercise of warrants and options and sales under the Company's

employee stock purchase plan during the first half of 2006. The Company sold 692,003 shares of common stock at \$7.23 per share to Cook, as described in Note 5.

The Company's short-term securities include certificates of deposit, commercial paper and other highly liquid investments with original maturities in excess of 90 days at the time of purchase and less than one year from the balance sheet date. The Company classifies its investment securities as available-for-sale and, accordingly, such investment securities are stated on the balance sheet at their fair market value with unrealized gains (losses) recorded as a separate component of shareholders' equity and comprehensive income (loss).

The Company's future expenditures and capital requirements depend on numerous factors, most of which are difficult to project beyond the short term, including without limitation, the progress of its research and development programs, the progress of its pre-clinical and clinical trials, the time and costs involved in obtaining regulatory approvals, the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, competing technological and market developments, its ability to establish collaborative arrangements and the terms of any such arrangements, and the costs associated with commercialization of its products. The Company's cash requirements are expected to continue to increase each year as the Company expands its activities and operations. There can be no assurance, however, that the Company will ever be able to generate product revenues or achieve or sustain profitability.

The Company expects to continue to incur losses as it expands its research and development activities and related regulatory work and increases its collaborative efforts. For 2006, the Company expects expenditures for operations, including collaborative efforts and GMP facilities to be approximately \$22 to \$25 million. Expenditures for 2006 could increase if the Company undertakes additional collaborative efforts. If necessary, however, the Company's management has the ability to significantly curtail certain expenditures because a significant amount of the Company's costs are variable.

Critical Accounting Policies and Estimates

The discussion and analysis of the Company's financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Company's critical accounting policies and estimates are consistent with the disclosure in the Company's Form 10-K, except for the adoption of SFAS 123R in 2006.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There has been no material change in the Company's market risk exposure since the filing of our 2005 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of June 30, 2006, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer, its President and its Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on this review of its disclosure controls and procedures, the Chief Executive Officer, the President and the Chief Financial Officer have concluded that its disclosure controls and procedures are effective in timely alerting them to material information relating to the Company that is required to be included in our periodic SEC filings.

Internal Controls and Procedures

There were no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

There has been no substantial changes in the Company's "Risk Factors" contained in our Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2005.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On March 13, 2006, the Company sold 692,003 shares of common stock at \$7.23 per share to Cook, for gross proceeds of \$5,000,000. The net proceeds of \$4,955,623 will be used for working capital purposes. The shares were issued in connection with the execution of license and supply agreements. The shares were issued directly to the purchaser, without the use of an underwriter in a transaction exempt from registration under Sections 4(2) and 4(6) of the Securities Act of 1933, as amended and Rule 506 of Regulation D promulgated thereunder. The shares were subsequently registered for resale on Form S-3, (Registration No. 333-133211), which was declared effective by the Securities and Exchange Commission on April 24, 2006.

Item 3. Defaults Upon Senior Securities.

None

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Item 4. Submission of Matters to a Vote of Security Holders

On May 24, 2006, at the Annual Meeting of the Company's Shareholders ("Annual Meeting"), the shareholders approved each of the proposals set forth in the Company's Proxy Statement dated April 18, 2006, briefly described below:

- (i) The shareholders were requested to elect and elected to the Board of Directors the following four individuals who received the most votes:

Nominees

Jack L. Bowman
Michael D. Casey
James B. Hicks, Ph.D.
Alan P. Timmins

Besides the foregoing directors, the following directors with terms expiring in 2007 continued as directors following the Annual Meeting: Denis R. Burger, Ph.D., John C. Hodgman, John W. Fara, Ph.D., and K. Michael Forrest.

- (ii) The shareholders were asked to approve increasing the reserve of shares under the Company's 2000 Employee Stock Purchase Plan from 250,000 to 500,000. The proposal was approved by the shareholders, as 14,460,142 votes were cast for the proposal, 2,843,724 votes were cast against and 164,046 votes abstained.

- (iii) The shareholders were asked to ratify the selection by the Audit Committee of KPMG LLP as the Company's independent auditors. The proposal was ratified by the shareholders, as 47,292,013 votes were cast for the proposal, 475,571 votes were cast against, 127,107 votes abstained and 4,981,271 votes were not voted.

Item 5. Other Information.

None

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Item 6. Exhibits

Exhibit No	Exhibit Description	Incorporated by Reference to Filings Indicated				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.1	Third Restated Articles of Incorporation of AntiVirals Inc.	SB-2	333-20513	3.1	5/29/97	
4.2	First Amendment to Third Restated Articles of Incorporation of AntiVirals Inc.	8-K	0-22613	3.3	9/30/98	
4.3	Amendment to Article 2 of the Company's Third Restated Articles of Incorporation	DEF 14A	1-14895	N/A	4/11/02	
4.4	Bylaws of AntiVirals Inc.	SB-2	333-20513	3.2	5/29/97	
10.50+	Supply Agreement, dated March 10, 2006, by and between Cook Group Incorporated and AVI BioPharma, Inc.	S-3	333-133211	10.50	04/11/06	
10.51+	License and Development Agreement, dated March 10, 2006, by and between Cook Group Incorporated and AVI BioPharma, Inc.	S-3	333-133211	10.51	04/11/06	
10.52+	Investment Agreement, dated March 10, 2006, by and between Cook Group Incorporated and AVI BioPharma, Inc.	S-3	333-133211	10.52	04/11/06	
10.53+	License Agreement dated January 26, 2006 by and between with Chiron Corporation and AVI BioPharma, Inc.	10-Q	0-22613	10.53	05/10/06	
10.54	Stock Purchase Agreement dated January 26, 2006 by and between with Chiron Corporation and AVI BioPharma, Inc.	10-Q	0-22613	10.54	05/10/06	
10.55	Second Lease Extension and Modification Agreement dated January 24, 2006 by and between Research Way Investments and AVI BioPharma, Inc.					X
31.1	Certification of the Company's Chief Executive Officer, Denis R. Burger, Ph.D., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Chief Financial Officer, Mark M. Webber pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32	Certification of the Company's Chief Executive Officer, Denis R. Burger, Ph.D., and Chief Financial Officer, Mark M. Webber, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X

Materials in the exhibit marked with a "+" have been omitted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission. Omitted portions have been filed separately with the Securities and Exchange Commission.

SIGNATURES

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

Date: August 9, 2006

AVI BIOPHARMA, INC.

By: /s/ DENIS R. BURGER, Ph.D.

Denis R. Burger, Ph.D.
Chief Executive Officer
and Chairman of the Board of Directors
(Principal Executive Officer)

By: /s/ MARK M. WEBBER

Mark M. Webber
Chief Financial Officer and Chief Information
Officer
(Principal Financial and Accounting Officer)

SECOND LEASE EXTENSION AND MODIFICATION AGREEMENT

This Second Lease Extension and Modification Agreement (“Second Extension”) is made effective as of the 1ST day of January, 2006 (“Effective Date”) and is entered into as of the 24th day of January, 2006, by and between **RESEARCH WAY INVESTMENTS**, a California limited partnership (“Landlord”) and **AVI BIOPHARMA, INC.**, an Oregon corporation (“Tenant”), for the purpose of amending that certain Commercial Lease entered into on June 18, 1992, by and between Landlord and Tenant’s predecessor in interest, Antiviral, Inc., an Oregon corporation (“Commercial Lease”), as modified by that certain Lease Extension and Modification Agreement dated as of September 1, 1996 (“First Extension”). The Commercial Lease and the First Extension shall hereinafter be collectively referred to as the “Lease”.

RECITALS

- A. Pursuant to the Commercial Lease, Landlord leased to Tenant approximately thirteen thousand one hundred eighty (13,180) square feet of Net Rentable Area in that certain building owned by Landlord and located at 4575 S.W. Research Way, Corvallis, Benton County, Oregon, more particularly described in the Lease (“Building”).
- B. Pursuant to the First Extension, Tenant increased the Net Rentable Area of the Premises to eighteen thousand four hundred seven (18,407) square feet, extended the Lease termination date through December 15, 2004, and Landlord and Tenant made certain other amendments to the Lease.
- C. Tenant is the successor in interest to Antivirals, Inc. and has assumed the obligations of Tenant under the Lease.
- D. Landlord and Tenant now desire to further extend and modify the Lease to add additional square footage of Net Rentable Area to the Premises, to define Tenant’s Percentage Share of Operating Costs and Taxes, to define the Fixed Rent for the Premises, to extend the Lease through and including December 31, 2020, and to make certain other modifications on the terms and conditions contained herein.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and conditions set forth herein, Landlord and Tenant agree as follows:

- Lease Term.** The Expiration Date of the Lease for the Premises is hereby changed from December 15, 2004, to December 31, 2020. The options granted to Tenant pursuant to the First Extension are hereby deleted in their entirety. Tenant shall now have two (2) options to extend the Lease for five (5) years each, provided Tenant gives to Landlord not more than eighteen (18) and not less than six (6) months prior written notice of its intent to extend the Lease. Tenant shall not be allowed to exercise either of its options to extend the Lease term if it is in default at the time of exercise. References to the “Extension Term” means the period from December 16, 2004 to December 31, 2020.
- Confirmation of Additional Net Rentable Area.** During the Extension Term, the Premises as defined in Section 1 of the Lease shall now consist of approximately 52,756 rentable square feet. Landlord and Tenant agree that the Net Rentable Area of the Premises is depicted on the floor plan attached hereto as Exhibit “A” and incorporated herein by reference. A schedule of how much space Tenant expanded into and as of what date said expansion took place shall be attached hereto as Exhibit A-1 and incorporated herein by reference.
- Condition of Premises.** Tenant shall take the Premises in “as is—where is” condition and with

all faults and deficiencies, except that Landlord agrees to perform the work listed on Exhibit “B” attached hereto by June 30, 2006 (“Landlord’s Work”). Landlord and Tenant shall cooperate to schedule a mutually acceptable time for the Landlord’s Work to be completed, so as to not disrupt Tenant’s business.

- Fixed Rent.** During the Extension Term, monthly Fixed Rent for the Premises shall be as set forth on the table below. Landlord and Tenant further agree that beginning on January 1, 2006, and continuing on the first day of January of each year thereafter, including any extended term if Tenant exercises its options to extend the Lease, Fixed Rent shall increase by three percent (3%) of the Fixed Rent for the immediately preceding year

Lease Year	Monthly Base Rent / Sq. Ft.	Sq. Ft. Leased	Monthly Base Rent	Annual Base Rent
1/1/06-12/31/06	\$ 1.1691	52,756	\$ 61,677.04	\$ 740,124.48
1/1/07-12/31/07	\$ 1.2041	52,756	\$ 63,523.50	\$ 762,282.00
1/1/08-12/31/08	\$ 1.2402	52,756	\$ 65,427.99	\$ 785,135.88
1/1/09-12/31/09	\$ 1.2774	52,756	\$ 67,390.51	\$ 808,686.12
1/1/10-12/31/10	\$ 1.316	52,756	\$ 69,426.90	\$ 833,122.80
1/1/11-12/31/11	\$ 1.355	52,756	\$ 71,484.38	\$ 857,812.56
1/1/12-12/31/12	\$ 1.396	52,756	\$ 73,647.38	\$ 883,768.56
1/1/13-12/31/13	\$ 1.438	52,756	\$ 75,863.13	\$ 910,357.54
1/1/14-12/31/14	\$ 1.481	52,756	\$ 78,131.64	\$ 937,579.68
1/1/15-12/31/15	\$ 1.525	52,756	\$ 80,452.90	\$ 965,434.80
1/1/16-12/31/16	\$ 1.571	52,756	\$ 82,879.68	\$ 994,556.16
1/1/17-12/31/17	\$ 1.618	52,756	\$ 85,359.21	\$ 1,024,310.52
1/1/18-12/31/18	\$ 1.667	52,756	\$ 87,944.25	\$ 1,055,331.00
1/1/19-12/31/19	\$ 1.717	52,756	\$ 90,582.05	\$ 1,086,984.60
1/1/20-12/31/20	\$ 1.769	52,756	\$ 93,325.36	\$ 1,119,904.32

- Tenant’s Responsibilities and Obligations.** The following sentences are hereby inserted after the fourth sentence of Section 9 of the Commercial Lease:

“Tenant shall supply Landlord actual “as built” drawings of all Alterations done, copies of all permits, and copies of Certificates of Occupancy within sixty (60) days of Tenant’s receipt of each Certificate of Occupancy. Tenant is required to obtain any and all permits required by state, county, city or any other regulatory body having jurisdiction over Premises and/or Tenant’s business. All work done on the Premises shall be done in accordance with all local, state and federal applicable laws and regulations.”

6. Tenant's Percentage Share of Operating Costs and Taxes; Utilities.

A. Landlord and Tenant agree that for the purpose of computing Tenant's Percentage Share of Operating Costs and Taxes, the Premises shall be deemed to be fifty-two thousand seven hundred fifty-six (52,756) square feet of Net Rentable Area, and the Building shall be deemed to have a Net Rentable Area of ninety one thousand six hundred eighty-two (91,682) square feet. Tenant understands that the Net Rentable Area of the building can and will change from time to time due to potential changes in the use of building space. As of the Effective Date, Tenant's Percentage Share of Operating Costs and Taxes shall be 57.542%.

B. For purposes of more accurately computing Tenant's Percentage Share of Operating Costs and Taxes, including Tenant's share of electricity, natural gas, and trash from January 1, 1999 and on, the electrical, gas, and trash use by each tenant specifically shall be computed by dividing net square footage of the Tenant's Premises by the amount of net rented square footage instead of the net rentable square footage.

C. Landlord hereby reaffirms that Landlord will comply with the terms of Section 5.2 of the Lease which specifically provides that a) on December 1 of each calendar year or as soon thereafter as practicable, Landlord shall give Tenant notice of its adjusted estimate of Tenant's Percentage Share of Operating Costs and Taxes for the succeeding calendar year; and b) within one hundred twenty (120) days after the close of each calendar year or as soon after such one hundred twenty (120) day period as practicable, Landlord shall deliver to Tenant a statement of Tenant's Percentage Share of Operating Costs and Taxes for such calendar year. The notice referenced in subsection a) above shall be referred to herein as "Notice" and the statement referenced in subsection b) above shall be referred to herein as "Statement." Landlord hereby agrees that in the event that Landlord fails to send a Statement each year for the preceding calendar year, Tenant shall only be obligated to pay Tenant's Percentage Share of Operating Costs and Taxes for the preceding calendar year which is equal to the amounts actually paid; provided however, if Tenant discovers pursuant to its audit rights that Tenant has made an overpayment, Tenant shall have the right to a refund of such overpayment. In the event Landlord fails to send a Statement each year for the preceding calendar year, Landlord shall waive its rights to recompute or reassess any prior year's Operating Costs owed by Tenant.

7. Operating Costs.

A. The cleaning of the men's and women's restrooms/locker rooms on the first floor adjacent to the "L" shaped hallway and the supplies, e.g. paper towels, toilet paper, soap, etc., for said bathrooms will be the responsibility of the Landlord. As of the Effective Date, the expenses for the above-mentioned rest room/locker room cleaning and supplies will be included in the Operating Costs.

8. Security Deposit. Tenant shall not be required to provide Landlord with an additional security deposit due to the increase of the Net Rentable Area of the Premises or due to the options granted in this Second Extension.

9. Lease and Commissions. Paragraph 9 of Addendum 1 of the Commercial Lease is hereby deleted in its entirety. Landlord agrees to compensate Jacobsma & Associates ("Broker") per a separate agreement for any lease extensions and/or modifications to any agreements made between Landlord and Tenant from the date of this Second Extension through and including January 1, 2025. Landlord and Tenant each warrant and represent to the other that, except for the Broker, they have not communicated with nor incurred any obligations to pay a fee or commission to any broker in connection with this Second Extension. Landlord agrees to indemnify and hold harmless Tenant against and from any claims for any brokerage commissions and all costs, expenses and liabilities in connection therewith, including, without limitation, reasonable attorneys' fees and expenses, arising out of any conversations or negotiations had by Landlord with any broker other than the Broker.

10. Relocation of the Premises. Section 20.11 of the Lease is hereby deleted in its entirety.

11. Accrued Rent and Tenant's Share of Operating Expenses, Taxes, Utilities. Landlord and Tenant agree that as of the December 31, 2005, the outstanding balance of accrued rent and Tenant's share of operating expenses, taxes and utilities is as shown on Exhibit "C" attached. Landlord and Tenant have agreed as per a separate payment plan as to how and when that amount shall be repaid to Landlord. A default on that payment plan constitutes a default in the lease.

12. Effect of Amendment. Except as modified by the terms of this Second Extension, the Lease

shall continue in full force and effect. In the event of any conflict between the terms of this Second Extension and the terms of the Lease, the terms of this Second Extension shall control.

IN WITNESS WHEREOF, the parties have executed this Second Extension in duplicate to be effective as of January 1, 2006.

Research Way Investments,
a California Limited Partnership

AVI BioPharma, Inc.,
an Oregon corporation

By: Rex Jacobsma
Its: General Partner

By: _____
Its: _____

Exhibit "A-1"
Schedule and Dates of Expansion

Begin Period	Rent Sq. Feet	CAM Sq. Feet	Change
4/14/93	13,180	13,341	
9/1/96	18,407	18,568	5,227
6/15/00	28,804	28,804	10,397*
9/15/00	32,460	32,460	3,656
7/1/01	36,460	36,460	4,000
1/1/02	49,620	49,620	13,160
3/1/02	49,740	49,740	120
2/1/04	52,756	52,756	3,016**

* 10,397 square feet of space taken on 6/15/05 is comprised of 9,669 square feet of new space taken on 1st floor, 338 square feet at north end of shipping/receiving area which was taken years before but not charged for, 128 square feet of AVI's stairwell (previously not charged for as it was only for emergency use), 262 square feet (40% of downstairs restroom space adjacent to "L" shaped hallway.)

** 3,016 square feet includes 2,700 square feet of expansion space and 312 square feet (40%) of square footage of "L" shaped corridor in front of the above-mentioned locker rooms on first floor of building as per SIGA's expansion.

Exhibit "B"

Landlord's Construction Responsibilities

Landlord agrees to perform the following work at Landlord's sole expense:

1. Repair of damage caused by screws which Landlord's representative put in the electrical conduit, which occurred when the roof was replaced.
2. Provide an alternative access route to the roof which is acceptable to Tenant and which shall replace the existing ladder.
3. Provide a set of steps to the trash dumpster which is acceptable to Tenant and to OSHA.
4. Repair/replacement of the existing building fire alarm system as previously discussed by Mr. Jim Patton of the Corvallis fire department.

The cost of all of the above items will be included in the building operating expenses. Landlord shall reimburse Tenant as per separate agreement towards Tenant's existing fire alarm system.

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Denis R. Burger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AVI BioPharma, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15 (f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

By: /s/ Denis R. Burger
Denis R. Burger,
Chief Executive Officer and Chairman
of the Board
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark M. Webber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AVI BioPharma, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15 (f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

By: /s/ Mark M. Webber
Mark M. Webber,
Chief Financial Officer and Chief Information
Officer
(Principal Financial and Accounting Officer)

CERTIFICATION OF CEO AND CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AVI BioPharma, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Denis R. Burger, as Chief Executive Officer of the Company, and Mark M. Webber, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge,:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Denis R. Burger

Denis R. Burger
Chairman and Chief Executive Officer
AVI BioPharma, Inc.
August 9, 2006

/s/ Mark M. Webber

Mark M. Webber
Chief Financial Officer and Chief Information Officer
AVI BioPharma, Inc.
August 9, 2006

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

See also the certification pursuant to Sec. 302 of the Sarbanes-Oxley Act of 2002, which is also attached to this Report.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to AVI BioPharma, Inc. and will be retained by AVI BioPharma, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.