
**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 September 30, 2000

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)

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

Check whether the issuer (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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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

21,447,931
(Outstanding at October 31, 2000)

AVI BIOPHARMA, INC.

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AVI BIOPHARMA, INC.

(A Development Stage Company)

BALANCE SHEETS

	<u>September 30, 2000</u>	<u>December 31, 1999</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 29,554,775	\$ 8,683,005
Short-term securities—available-for-sale	8,592,886	2,937,500
Other current assets	121,556	31,242
Total Current Assets	38,269,217	11,651,747
Property and Equipment, net of accumulated depreciation and amortization of \$2,637,250 and \$2,518,494	811,975	403,303
Patent Costs, net of accumulated amortization of \$529,268 and \$418,268	903,721	844,731
Other Assets	29,847	29,847
Total Assets	\$ 40,014,760	\$ 12,929,628
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 1,014,102	\$ 727,673
Accrued liabilities	302,223	312,481
Total Current Liabilities	1,316,325	1,040,154
Shareholders' Equity:		
Preferred Stock, \$.0001 par value, 2,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.0001 par value, 50,000,000 shares authorized; 21,444,132 and 16,236,428 issued and outstanding	2,144	1,624
Additional paid-in capital	105,286,681	62,901,227
Accumulated other comprehensive income (loss)	(9,304,114)	40,500
Deficit accumulated during the development stage	(57,286,276)	(51,053,877)
Total Shareholders' Equity	38,698,435	11,889,474
Total Liabilities and Shareholders' Equity	\$ 40,014,760	\$ 12,929,628

The accompanying notes are an integral part of these balance sheets

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(A Development Stage Company)

STATEMENTS OF OPERATIONS

	Three months ended September 30,		Nine months ended September 30,		July 22, 1980 (Inception) to September 30, 2000
	2000	1999	2000	1999	
Revenues, from license fees, grants and research contracts	\$ 122,215	\$ 3,558	\$ 1,272,338	\$ 7,783	\$ 2,113,555
Operating expenses:					
Research and development	2,155,538	1,739,728	6,575,953	4,709,856	31,303,586
General and administrative	557,911	504,607	1,484,159	1,341,099	10,682,827
Acquired in-process research and development	—	—	—	61,337	19,545,028
	2,713,449	2,244,335	8,060,112	6,112,292	61,531,441
Other Income:					
Interest income, net	339,130	35,696	555,375	162,784	2,034,860
Realized gain on sale of short-term investments	—	—	—	—	96,750
	339,130	35,696	555,375	162,784	2,131,610
Net loss	\$ (2,252,104)	\$ (2,205,081)	\$ (6,232,399)	\$ (5,941,725)	\$ (57,286,276)
Net loss per share—basic and diluted	\$ (0.11)	\$ (0.17)	\$ (0.35)	\$ (0.45)	
Weighted average number of common shares outstanding for computing basic and diluted earnings per share	20,303,112	13,351,206	17,800,160	13,350,597	

The accompanying notes are an integral part of these balance sheets

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AVI BIOPHARMA, INC.

(A Development Stage Company)

STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		For the Period July 22, 1980 (Inception) to September 30, 2000
	2000	1999	
Cash flows from operating activities:			
Net loss	\$ (6,232,399)	\$ (5,941,725)	\$ (57,286,276)
Adjustments to reconcile net loss to net cash flows used in operating activities:			
Depreciation and amortization	235,170	222,802	3,288,701
Realized gain on sale of short-term investments—available for sale	—	—	(96,750)
Compensation expense on issuance of common stock and partnership units	—	—	251,992
Compensation expense on issuance of options and warrants to purchase common stock or partnership units	—	—	562,353
Conversion of interest accrued to common stock	—	—	7,860
Acquired in-process research and development	—	61,337	19,545,028
(Increase) decrease in:			
Other current assets	(90,314)	478,186	(121,556)
Other assets	—	—	(29,847)
Net increase (decrease) in accounts payable and accrued liabilities	276,171	(508,806)	1,316,325
Net cash used in operating activities	(5,811,372)	(5,688,206)	(32,562,170)

Cash flows from investing activities:			
Proceeds from sale or redemption of short-term investments	—	—	247,750
Purchase of property and equipment	(532,842)	(133,686)	(3,514,728)
Patent costs	(169,990)	(197,651)	(1,489,669)
Acquisition costs	—	(61,337)	(2,377,616)
Net cash used in investing activities	(702,832)	(392,674)	(7,134,263)
Cash flows from financing activities:			
Proceeds from sale of common stock, warrants, and partnership units, net of offering costs, and exercise of options	27,385,974	15,000	69,636,645
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	27,385,974	15,000	69,251,208
Increase (decrease) in cash and cash equivalents	20,871,770	(6,065,880)	29,554,775
Cash and cash equivalents:			
Beginning of period	8,683,005	8,510,020	—
End of period	\$ 29,554,775	\$ 2,444,140	\$ 29,554,775

**SUPPLEMENTAL SCHEDULE OF
NONCASH INVESTING ACTIVITIES
AND FINANCING ACTIVITIES:**

Short-term securities—available-for-sale received in connection with the private offering	\$ 15,000,000	\$ —	\$ 17,897,000
Unrealized loss on short-term securities—available-for-sale	\$ (9,344,614)	\$ —	\$ (9,304,114)

The accompanying notes are an integral part of these statements

AVI BIOPHARMA, Inc.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The financial information included herein for the three and nine-month periods ended September 30, 2000 and 1999 and the financial information as of September 30, 2000 is unaudited; however, such information reflects all adjustments consisting only of normal recurring adjustments which are, in the opinion of management, 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, 1999 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.

Note 2. 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 September 30,	2000	1999
Net loss	\$ (2,252,104)	\$ (2,205,081)
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	20,303,112	13,351,206
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	20,303,112	13,351,206

Net loss per share—basic and diluted	\$	(0.11)	\$	(0.17)
Nine Months Ended September 30,		2000		1999
Net loss	\$	(6,232,399)	\$	(5,941,725)
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		17,800,160		13,350,597
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		17,800,160		13,350,597
Net loss per share—basic and diluted	\$	(0.35)	\$	(0.45)

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* The following common stock equivalents are excluded from earnings per share calculation as their effect would have been antidilutive:

Three Months Ended September 30,	2000	1999
Warrants and stock options	10,298,111	7,077,082
Nine Months Ended September 30,	2000	1999
Warrants and stock options	10,298,111	7,077,082

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Item 2. Management's Discussion and Analysis

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 that involve risks and uncertainties, including, but not limited to, the results of research and development efforts, 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.

Overview

From its inception in July 1980, the Company has devoted its resources primarily to fund its research and development efforts. The Company has been unprofitable since inception and, other than limited interest, license fees and grants, has had no material revenues from the sale of products or other sources, and does not expect material revenues for at least the next 12 months. The Company expects to continue to incur losses for the foreseeable future as it expands its research and development efforts. As of September 30, 2000, the Company's accumulated deficit was \$57,286,276.

Results of Operations

Revenues, from license fees, grants and research contracts, increased to \$122,215 in the third quarter of 2000 from \$3,558 in the third quarter of 1999. Revenues, from license fees, grants and research contracts, increased to \$1,272,338 for the nine months ended September 30, 2000 from \$7,783 for the comparable period of 1999 due primarily to the receipt of a \$1,000,000 fee for expansion of a license for diagnostic applications.

Operating expenses increased to \$2,713,449 in the third quarter of 2000 from \$2,244,335 in the third quarter of 1999 and to \$8,060,112 for the nine months ended September 30, 2000 from \$6,112,292 for the comparable period of 1999 due to increases in research and development staffing and increased expenses associated with outside collaborations and pre-clinical and clinical testing of the Company's technologies. Additionally, increased general and administrative costs were incurred to support the research expansion, and to continue to broaden the Company's investor and public relations efforts. Net interest income increased to \$339,130 in the third quarter of 2000 from \$35,696 in the third quarter of 1999 and to \$555,375 for the nine months ended September 30, 2000 from \$162,784 for the comparable period in 1999 due to earnings on increased cash balances.

Liquidity and Capital Resources

The Company's cash and cash equivalents were \$29,554,775 at September 30, 2000, compared with \$8,683,005 at December 31, 1999. The increase of \$20,871,770 was primarily due to net proceeds of \$19,886,619 from the Company's secondary offering completed August 1, 2000, net proceeds of \$4,744,720

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