UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

o TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-14895

AVI BioPharma, Inc.

(Name of small business issuer in its charter)

Oregon	**93-0797222**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One SW Columbia Street, Suite 1105, Portland, Oregon	**97258**
(Address of principal executive offices)	(Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act: **None**
Securities registered under Section 12(g) of the Exchange Act:
Common Stock with $.0001 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes o No x.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes o No x.

Indicate by check mark whether the Registrant (1) has 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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant (based on the closing sale price of the Common Stock as reported on the Nasdaq Capital Market on March 12, 2008) was approximately $89,141,913 as of March 12, 2008. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the Registrant's Common Stock as of the close of business on March 12, 2008 was 64,782,094.

Documents Incorporated by Reference

The issuer has incorporated into Part III of this annual report on Form 10-K, by reference, portions of its definitive Proxy Statement for its 2008 annual meeting.

AVI BioPharma, Inc.
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PART I

Item 1. Description of Business

General Overview

AVI BioPharma, Inc. is a biopharmaceutical company developing therapeutic products principally based on third-generation NeuGene antisense technology (in this report, "we," "our," "us," "AVI," and "Company" refers to AVI BioPharma, Inc.). Our principal products in development target life-threatening diseases, including cardiovascular, infectious, and genetic diseases. Currently approved drugs or other therapies for these diseases often prove to be ineffective or produce undesirable side effects. Our pre-clinical and clinical studies indicate that our technology may lead to development of drugs that we believe offer more effective treatment options with fewer side effects than currently approved products. A patent estate including 186 patents (foreign and domestic) issued or licensed to us and 192 pending patent applications (domestic and foreign) protects our technologies. Our lead product candidate, Resten-NG®, which is targeted at cardiovascular disease, addresses a market we believe may exceed $3 billion worldwide.

Our net loss in 2007 was $27.2 million, or $0.50 per share. Total expenses were $44.1 million and revenues were $11.0 million. See Item 7 "Management's Discussion and Analysis or Plan of Operation" and Item 8 "Financial Statements."

We have developed third-generation antisense technology that we believe produces drugs that may be more stable, specific, efficacious, and cost effective than other gene-targeting technologies, including second-generation antisense, ribozyme, and siRNA (short interfering RNA) compounds as well as biologics such as monoclonal antibodies. NeuGene drugs are synthetic polymers that block the function of selected genetic sequences involved in disease processes. Targeting specific genetic sequences could provide for greater selectivity than that available through conventional drugs for the range of disease we are researching. NeuGene drugs are distinguished by a novel chemistry that replaces the modified backbones of competing technologies with a synthetic backbone designed to improve pharmaceutical parameters. Four NeuGenes have been the subject of nineteen clinical trials; 405 subjects received a NeuGene drug. In each study, the drug was well-tolerated, and no definite drug related serious adverse events were reported.

We believe that our NeuGene chemistry can also be used in a way that is novel from conventional antisense approaches to target splice-joining sites in the pre-RNA. This forces the cellular machinery to skip over targeted exons and creates an altered mRNA template. The process, which we call ESPRIT, for Exon

Skipping Pre-RNA Interference Technology, allows the production of altered proteins. We believe that when the skipped exon contains a disease-causing mutation, for example, the resulting altered protein may have its function restored, or partially restored. This approach may be used to overcome the devastating consequences of certain disease-causing mutations.

We have completed pre-clinical and some clinical studies using our NeuGene drugs in the treatment of cardiovascular disease, infectious disease, cancer, polycystic kidney disease (PKD), in regulating drug metabolism via the P450 cytochrome system. We filed our first antisense Investigational New Drug application (IND) with the FDA for Resten-NG for cardiovascular restenosis in 1999 and have completed a Phase I and a Phase II clinical trial with this product. We have completed four Phase I trials in our drug metabolism program and two Phase Ib trials in our cancer and polycystic kidney disease programs. We filed an IND and conducted a Phase Ib trial in 2003 for our NeuGene antisense drug for West Nile

virus infection. We filed an IND and conducted an exploratory clinical trial (Phase I/Ib) for Hepatitis C virus (HCV) infection. We are currently conducting a Phase Ib/II clinical trial for coronary artery bypass grafting in eastern Europe. We are also conducting a proof of concept study in boys with Duchenne Muscular Dystrophy (DMD) in the U.K., in collaboration with the MDEX consortium. In addition, we are in preclinical development for antivirals for Ebola Zaire, Marburg Musoke, Dengue virus, and for influenza A, including H5N1 avian influenza.

This annual report includes our trademarks and registered trademarks, including NeuGene®, Avicine®, Resten-NG®, Resten-CP™, and Oncomyc-NG™. Each other trademark, trade name or service mark appearing in this annual report belongs to its holder.

Clinical Development Program

Our therapeutic products are primarily based on NeuGene antisense technology focused on applications in cardiovascular disease, infectious diseases, and genetic diseases. We currently have products at various stages of clinical development as summarized below. We will not have marketable products unless and until our drug candidates complete all required clinical trials and receive FDA approval in the United States or approval by regulatory agencies outside of the United States.

Product Candidate	Type	Pre-Clinical	Phase I/Ib	Phase II	Phase III
Cardiovascular Disease					
Restenosis: Resten-NG	NeuGene Drug	Completed	Completed	Completed	
Restenosis: Resten-MP microparticles	NeuGene Drug	Completed	Completed	Completed (Cook Group)	
CABG: AVI-5126	NeuGene Drug	Completed	In-progress		
Infectious Disease (Viral targets)					
Hepatitis C: AVI-4065	NeuGene Drug	Completed	Completed		
West Nile: AVI-4020	NeuGene Drug	Completed	Completed		
Influenza A/Avian: AVI-6001	NeuGene Drug	In-progress			
SARS: AVI-4179	NeuGene Drug	Completed			
Ebola Zaire	NeuGene Drug	In-progress			
Marburg Musoke	NeuGene Drug	In-progress			
Junin Virus	NeuGene Drug	In-progress			
Cancer					
Cancer: Oncomyc-NG™: AVI-4126	NeuGene Drug	Completed	Completed		
Drug Metabolism					
Cytochrome P450: AVI-4557	NeuGene Drug	Completed	Completed		
Genetic Diseases					
PKD: AVI-4126	NeuGene Drug	Completed	Completed		
DMD: (Intramuscular-local) AVI-4658	NeuGene Drug	Completed	In-progress		
DMD: (Intravenous-systemic) AVI-4658	NeuGene Drug	Completed			

*In this table, “In-progress” refers to studies or trials that have actively begun recruitment after receipt of all regulatory approvals but are not yet complete in terms of recruitment or analyses; and “Completed” refers to studies in which all clinical trial or study activities have ended, the data have substantially been collected and validated, and a full study report is either in progress or complete.

Costs for a clinical trial typically range between $300,000 and $1,500,000 for a Phase I trial, between $600,000 and $4 million for a Phase II trial and could range between $5 million and $50 million for a Phase III trial. Because the scope, timing and issues encountered in each trial vary, we cannot predict the exact costs associated with a particular trial in advance. For the same reasons, we cannot predict the nature, timing, costs and numbers of subsequent clinical studies or trials for a product, or how a product will proceed toward and through Phase III or pivotal clinical trials prior to regulatory license approval. Moreover, we cannot predict whether a product will be successfully commercialized, even if regulatory approval is obtained.

Cardiovascular Disease Program. Resten-NG is a NeuGene antisense drug for treating cardiovascular restenosis, i.e., the re-narrowing of a coronary artery following angioplasty. Resten-NG targets a key regulatory gene involved in the disease process. We believe that by blocking the action of this gene, vessel wall re-narrowing will be reduced or eliminated. At the October 2006 Transcatheter Cardiovascular Therapeutics conference, our licensee and development partner, Cook Group Incorporated (“Cook”) announced interim Phase II clinical trial data treating cardiovascular restenosis by delivering Resten-NG systemically using our proprietary microparticle delivery technology, possibly lessening the need for, or as an adjunct to, drug eluting stents. We initiated this Phase II clinical trial

at three clinical centers in Germany in 2005, and, as part of our license agreement, Cook took responsibility for completion of the study and communication of results, which occurred in July, 2007. Cook has indicated to us that it is planning additional clinical studies with products based on our Resten-NG platform.

Resten-CP is a NeuGene antisense drug for treating coronary artery bypass grafting, i.e., the narrowing and failure of saphenous vein grafts placed around occluded coronary arteries. We believe that the molecular mechanism of vein graft failure is believed to be closely related to the restenosis process and involves the activation of the same regulatory gene. Resten-CP targets that gene in the vessel wall in a thirty minute *ex-vivo* treatment before the vein is engrafted. To enhance delivery of our drug to the target in the vessel wall in the short period of time available prior to bypass surgery, a delivery peptide, called CytoPorter, which enhances drug uptake has been attached to the NeuGene drug.

Resten-CP has entered a human clinical trial in eastern Europe with intended expansion into the European Union. If this clinical study goes to completion, we believe that it will be considered a pivotal study that would enroll 600 patients who undergo Coronary Artery Bypass Graft (CABG) surgery. The study design is a randomized, double blind, placebo controlled trial incorporating Phase Ib through Phase III components. The Phase Ib stage of the trial is underway and we believe a decision on continuation into the pivotal stages (Phase II/III) of the study will probably be made after evaluation of the first 77 enrolled patients. An additional pivotal study in the United States would need to be initiated for market approval of Resten-CP in this country.

Infectious Disease Program. Our infectious disease program is currently focusing on single-stranded RNA viruses using our proprietary NeuGene antisense compounds to target West Nile virus, hepatitis C virus, influenza A virus, dengue virus, the SARS coronavirus, and Ebola Zaire virus, Marburg Musoke virus, and Junin virus, as well as many of the items included on the Department of Homeland Security's list of bioterrorism agents, including anthrax and ricin. In June 2003, we filed an IND with the FDA for our West Nile NeuGene drug candidate, AVI-4020. Our NeuGene drug candidate AVI-4179, designed to combat the SARS coronavirus, has been evaluated at an independent laboratory and found to be efficacious in pre-clinical studies. Due to unpredictable future demand for drugs targeting West Nile virus and the SARS coronavirus, our future efforts toward development and commercialization in viral diseases will focus on government programs in bioterrorism, like Ebola Zaire and Marburg Musoke, as well as avian influenza, H5N1.

Genetic Disease Program. We are conducting an exploratory human clinical trial in boys with Duchenne Muscular Dystrophy (DMD) in conjunction with the MDEX consortium in the United Kingdom. Boys with DMD have a mutation in the genetic information that codes for the production of a critical muscle protein that is localized to the cell membrane (dystrophin). The absence of dystrophin in muscle cells leads to an abnormally permeable cell ultimately causing its death and replacement by scar tissue. Our NeuGene antisense drug, AVI-4658,

targets the most frequent site of this mutation and forces the genetic machinery to skip over the mutation when processing the genetic instructions, thereby, allowing for production of a new, albeit truncated, dystrophin protein. We believe that this could result in the production of the missing dystrophin protein, which might restore or prevent deterioration of muscle function. This is the first clinical application of our Exon Skipping Pre-RNA Interference Technology (ESPRIT) and entails administration of the drug directly into an affected muscle in DMD boys. We are currently pursuing opportunities to conduct a systemic clinical study with this product with a number of regulatory agencies.

Business Strategy

Our strategy is to:

- focus on near-term opportunities in the cardiovascular disease, infectious diseases and genetic disease areas;
- select gene targets with broad or multiple disease applications;
- manage drug discovery, pre-clinical and early to mid-stage clinical development in-house; and
- initially co-develop or license products with, or to, strategic partners generally during, or after, completion of Phase II clinical trials to enhance value and share the costs of late stage clinical trials and commercialization.

Collaborative Agreements

We believe that our NeuGene technology is broadly applicable for the potential development of pharmaceutical products in many therapeutic areas. To exploit this core technology as fully as possible, we plan to enter into collaborative development agreements with pharmaceutical and biotechnology companies for specific molecular targets for our NeuGene antisense technology. We also plan to pursue opportunities to access intellectual property rights through license agreements or other arrangements that complement our portfolio of patents and patent applications.

We anticipate pursuing NeuGene antisense collaborative research agreements to provide us with funding for internal programs aimed at discovering and developing antisense compounds to inhibit the production of additional molecular targets. Partners in these agreements and collaborative efforts may be granted options to obtain licenses to co-develop and to market drug candidates resulting from their collaborative research programs. We intend to retain manufacturing rights to our antisense products. There can be no assurance, however, that we will be able to enter into collaborative research agreements with pharmaceutical companies on terms and conditions satisfactory to us. The agreements described in this "Collaborative Agreements" section are generally only cancelable for nonperformance, including failure to make any payments and, in some cases, failure to commercially exploit the technology. There is no assurance the proposed products will be successfully developed under these collaborative arrangements or we will receive any of the potential payments noted herein.

We plan to market the initial products for which we obtain regulatory approval through co-development and marketing arrangements with strategic partners or other licensing arrangements with larger pharmaceutical companies. Implementation of this strategy will depend on many factors, including the market potential of any products we develop and our

financial resources. We do not expect to establish a direct sales capability for therapeutic compounds for at least the next several years, if at all. The timing of our entry into marketing arrangements or other licensing arrangements will depend on successful product development and regulatory approval within the regulatory framework established by the Federal Food, Drug and Cosmetics Act and/or similar regulatory regimes outside the United States. Although the

implementation of initial aspects of our marketing strategy may be undertaken before this process is completed, the development and approval process typically is not completed in less than three to five years after the filing of an IND application, and our marketing strategy, therefore, may not be implemented for several years.

Chiron Agreement

In January 2006, we entered into an agreement with Chiron Corporation that granted us a nonexclusive license to Chiron's patents and patent applications for research, development, and commercialization of antisense therapeutics against hepatitis C virus (HCV). Chiron scientists were the first to clone HCV and Chiron has been granted more than 100 HCV—related patents.

The license agreement with Chiron further strengthened our patent position on our HCV antisense product candidates, which are already covered by issued U.S. patent claims. In conjunction with the license agreement, AVI issued Chiron shares of AVI common stock as an initial license fee payment.

Cook Group Agreement

In March 2006, we entered into agreements with Cook Group Incorporated ("Cook") for the development and commercialization of products for vascular diseases. Cook is the world's largest privately-held manufacturer of medical devices and is a leading designer, manufacturer and global distributor of minimally invasive medical device technology for diagnostic and therapeutic procedures. Pursuant to our agreements, Cook licensed NeuGene antisense technology for down—regulating c—myc gene expression in the field of cardiovascular disease. Cook has taken over the clinical development of device—related programs for cardiovascular restenosis, including our Resten—NG drug—eluting stent (DES) program, Resten—MP microparticle delivery program, and a program for catheter delivery of Resten—NG.

We expect Cook to fully fund the development, clinical and regulatory costs of licensed programs in the U.S. and Europe leading to commercialization. This funding is expected to result in expenditures by Cook that could reach $100 million. The license and development agreement provides for payment to AVI of a double—digit percentage royalty on worldwide product sales by Cook and a commercialization milestone. Cook also purchased 692,003 shares of AVI common stock for $5 million under a stock purchase agreement. Cook has taken over AVI's facilities and personnel in Colorado that were dedicated to the programs now licensed by Cook. Finally, we also entered into a supply agreement to sell Cook c-myc drugs required to support development, clinical studies, and commercialization of the licensed products.

Ercole Agreement

In December 2006, we entered into a cross—license and collaboration agreement with Ercole Biotech, Inc. ("Ercole") to identify and develop drugs that direct the splicing of messenger RNA (mRNA) to treat a variety of genetic and acquired diseases. Under the terms of the agreement, each company granted the other rights under our respective patents for RNA splice—altering technologies.

AVI and Ercole have each selected a set of specific gene targets and are taking the lead in investigating the potential therapeutic effects of shifting splicing of those genes. The license terms also include an exclusive license to Ercole of AVI's NeuGene antisense chemistry for the specific targets selected by Ercole. In connection with the December 2006 cross - license and collaboration agreement, AVI issued Ercole shares of AVI common stock, and Ercole issued AVI shares of Ercole Series A - 2 Preferred Stock.

In May 2007, we entered into a cross-license and collaboration agreement with Ercole to develop drugs that may prove effective in treating the genetic diseases Duchenne muscular dystrophy and beta thalassemia, and a stock purchase agreement in connection therewith. Under the terms of the stock purchase agreement, Ercole issued AVI shares of Ercole Series A - 2 Preferred Stock, and AVI issued to Ercole shares of AVI's common stock.

On March 13, 2008 AVI announced the execution of a definitive Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Ercole Biotech, Inc. ("Ercole") will become a wholly-owned subsidiary of AVI. Under the terms of the Merger Agreement, subject to adjustment as provided in the Merger Agreement and described below, AVI will issue up to $7.5 million of AVI common stock, valued at $1.3161 per share, in exchange for all outstanding shares of Ercole stock not already owned by AVI. In addition, AVI will assume up to $1.5 million in liabilities of Ercole, to be paid by AVI through a combination of cash and AVI common stock. Liabilities in excess of $1.5 million will be deducted from the $7.5 million in common stock. Certain warrants to purchase shares of Ercole's common stock will be exchanged for warrants exercisable for shares of AVI's common stock. Subject to the satisfaction of customary closing conditions, including approval of Ercole's stockholders, the transaction is expected to close by March 21, 2008.

In addition, in anticipation of the closing of the merger, on March 12, 2008, the Company loaned Ercole approximately $900,000 to be used by Ercole to repay its debt obligation to Isis Pharmaceuticals, Inc. In exchange, Ercole issued a convertible promissory note to the Company. In the event the merger closes, this debt will be forgiven. If the merger does not close, Ercole will either repay the amounts owing or the Company may convert such amounts into shares of Ercole Class A Voting Common Stock.

Eleos Agreement

In January 2007, we announced that we had entered into a cross-license agreement with Eleos Inc. ("Eleos") for the development of antisense drugs targeting p53, a well-studied human protein that controls cellular response to genetic damage. Under the terms of the agreement, AVI granted Eleos an exclusive license to AVI's NeuGene® third-generation antisense chemistry to treat cancer with p53-related drugs. In return, Eleos granted an exclusive license to its patents to AVI for treatment of most viral diseases with drugs that target p53. The companies are sharing rights in other medical fields where targeting p53 may be therapeutically useful. Each company will make milestone payments and royalty payments to the other on development and sales of products that utilize technology licensed under the agreement. In addition, Eleos Inc. made an upfront payment of $500,000 to AVI.

Charley's Fund Agreement

In October 2007, AVI and Charley's Fund, Inc., a nonprofit organization that funds drug development and discovery initiatives specific to Duchenne muscular dystrophy (DMD), announced that AVI had been awarded a $2.45 million research grant from Charley's Fund. This award will support a new product development program using proprietary exon skipping technologies developed by AVI and its partner, Ercole Biotech, Inc., to overcome the effects of certain genetic errors in the dystrophin gene. The award will allow AVI to accelerate its

development of new therapeutics for DMD.

Manufacturing

We believe we have developed proprietary manufacturing techniques that will allow large-scale synthesis and purification of NeuGenes. Because our NeuGene compounds are based upon a well established backbone chemistry, we believe that NeuGene synthesis will be more cost-effective than competing technologies. We have established a Good Manufacturing Practices, or GMP, manufacturing facility at our Corvallis, Oregon site. We believe that our GMP facility should provide sufficient manufacturing capacity to continue to meet our early stage clinical trial requirements for the foreseeable future and allow us to produce products incorporating our technology. Our GMP facility is subject to FDA inspection and regulation.

We currently intend to retain manufacturing rights for all products incorporating our patented antisense technology, whether sold directly by us or through collaborative agreements with industry partners.

In March 1993, we moved to our present laboratory facilities and we have expanded our facilities several times. This facility and the laboratory procedures followed by us have not been formally inspected by the FDA and will have to be approved as products move from the research phase through clinical testing phases and into commercialization. See “Drug Approval Process and Other Governmental Regulations.”

In March 2007, we purchased an additional facility in Corvallis, Oregon. This could provide the Company with future expansion space for the manufacture of potential products and components.

Marketing Strategy

We plan to market initial products, when developed, and for which we obtain regulatory approval, through marketing arrangements or other licensing arrangements with pharmaceutical companies. Implementation of this strategy will depend on many factors, including the market potential of any products we develop, and our financial resources. We do not expect to establish a direct sales capability for therapeutic compounds for at least the next several years, if at all. To market products that will serve a large, geographically diverse patient population, we expect to enter into licensing, distribution, or partnering agreements with pharmaceutical companies that have large, established sales organizations. The timing of our entry into marketing arrangements or other licensing arrangements with large pharmaceutical companies will depend on successful product development and regulatory approval within the regulatory framework established by the Federal Food, Drug and Cosmetics Act, as amended, and regulations promulgated thereunder and, to the extent our products are distributed outside of the United States, within the regulatory framework established in other countries. Although the implementation of initial aspects of our marketing strategy may be undertaken before this process is completed, the development and approval process typically is not completed in less than three to five years after the filing of an IND application and our marketing strategy therefore may not be implemented for several years. See “Drug Approval Process and Other Governmental Regulation.”

Patents and Proprietary Rights

We have developed or acquired a comprehensive body of intellectual property rights. The proprietary nature of, and protection for, our product candidates, processes and know-how are important to our business. We plan to prosecute and aggressively defend our patents

and proprietary technology. Our policy is to patent the technology, inventions, and improvements that we believe are important to the development of our business and are patentable. We also depend upon trade secrets, know-how, and continuing technological innovation to develop and maintain our competitive position.

A patent estate including 186 patents (domestic and foreign) issued or licensed to us, and 192 pending patent applications (domestic and foreign) protects our technologies. We intend to protect our proprietary technology with additional filings as appropriate. Some of our patents on core technologies expire as early as 2008, including that for NeuGenes. Based on patented improvements and additional support to such core patents, however, we believe our patent protection for those products and other products will extend beyond 2020.

We have licensed certain technology from the United States Public Health Service (and others) to supplement and support certain of our core technology. We have certain obligations and minimum royalties under those agreements, which costs are not deemed material to our business.

There can be no assurance that any patents we apply for will be granted or that our patents will be valid or sufficiently broad to protect our technology or provide a significant competitive advantage. Additionally, we cannot provide assurance that our patents or proprietary technology will not infringe third-party patents.

Drug Approval Process and Other Government Regulation

The system of reviewing and approving drugs in the United States is considered to be among the most rigorous in the world. Costs to bring a single product from research through market approval and commercialization range from $800 million (Pharmaceutical Research and Manufacturers Association) to $1.7 billion in 2000 through 2002 (FDA), with the timing to do so typically ranging between 10 and 15 years. The Pharmaceutical Research and Manufacturers Association estimates that of every 5,000 medicines tested, on average, only five are tested in clinical trials, and only 1 of those is approved for human use.

Drug Discovery

In the initial stages of drug discovery, before a compound reaches the laboratory, tens of thousands of potential compounds are randomly screened for activity against an assay assumed to be predictive for particular disease targets. This drug discovery process can take several years. Once a company locates a screening lead, or starting point for drug development, isolation and structural determination may begin. The development process results in numerous chemical modifications to the screening lead in an attempt to improve its drug properties. After a compound emerges from the above process, the next steps are to conduct further preliminary studies on the mechanism of action, further in vitro (test tube) screening against particular disease targets and, finally, limited in vivo

(animal) screening. If the compound passes these barriers, the toxic effects of the compound are analyzed by performing preliminary exploratory animal toxicology. If the results are positive, the compound emerges from the basic research mode and moves into the pre-clinical phase.

Preclinical Testing

During the pre-clinical testing stage, laboratory and animal studies are conducted to show biological activity of the compound against the targeted disease, and the compound is evaluated for safety. These tests typically take approximately three and one-half years to complete.

Investigational New Drug Application

During the pre-clinical testing, an IND is filed with the FDA to begin human testing of the drug. The IND becomes effective if not rejected by the FDA within 30 days. The IND must indicate the results of previous experiments, how, where and by whom the new studies will be conducted, the chemical structure of the compound, the method by which it is believed to work in the human body, any toxic effects of the compound found in the animal studies and how the compound is manufactured. In addition, an Institutional Review Board, comprised of physicians at the hospital or clinic where the proposed studies will be conducted, must review and approve the IND. Progress reports detailing the results of the clinical trials must be submitted at least annually to the FDA.

Phase I Clinical Trials

After an IND becomes effective, Phase I human clinical trials may begin. These tests, involving usually between 20 and 80 patients or healthy volunteers, typically take approximately one year to complete and cost between $300,000 and $1,500,000 per trial. The Phase I clinical studies also determine how a drug is absorbed, distributed, metabolized and excreted by the body, and the duration of its action. Phase I trials are not normally conducted for anticancer product candidates. A Phase Ib study involves patients with the targeted disease and is focused on safety.

Phase II Clinical Trials

In Phase II clinical trials, controlled studies are generally conducted on approximately 100 to 300 volunteer patients with the targeted disease. The preliminary purpose of these tests is to evaluate the effectiveness of the drug on the volunteer patients as well as to determine if there are any side effects. These studies generally take approximately two years and cost between $600,000 and $4 million per trial, and may be conducted concurrently with Phase I clinical trials. In addition, Phase I/II clinical trials may be conducted to evaluate not only the efficacy of the drug on the patient population, but also its safety.

Phase III Clinical Trials

This phase typically lasts about three years, usually involves 1,000 to 3,000 patients and cost between $5 million and $50 million per trial. During the Phase III clinical trials, physicians monitor the patients to determine efficacy and to observe and report any reactions that may result from long-term use of the drug.

New Drug Application

After the completion of the requisite three phases of clinical trials, if the data indicate that the drug has an acceptable benefit to risk assessment and it is found to be safe and effective, a New Drug Application (NDA) is filed with the FDA. The requirements for submitting an NDA are defined by and in conjunction with the FDA. These applications are comprehensive, including all information obtained from each clinical trial as well as all data pertaining to the manufacturing and testing of the product. With the implementation of the Prescription Drug Users Fee Act (PDUFA), review fees are provided at the time of NDA filing. For FY 2006, each NDA with clinical data must be accompanied by a $767,400 review fee. If the NDA is assessed as unacceptable in the initial 30 day review, it is returned to the submitter, with 50% of the fee. The FDA reported the estimated median review time for a New Molecular Entity (NME) was estimated to be 13.8 months, however, a priority review of a NME can and has been approved in as little as six months.

Marketing Approval

If the FDA approves the NDA, the drug becomes available for physicians to prescribe. Periodic reports must be submitted to the FDA, including descriptions of any adverse reactions reported. The FDA may request additional studies (Phase IV) to evaluate long-term effects.

Phase IV Clinical Trials and Post Marketing Studies

In addition to studies requested by the FDA after approval, these trials and studies are conducted to explore new indications. The purpose of these trials and studies and related publications is to broaden the application and use of the drug and its acceptance in the medical community.

Competition

Several companies are pursuing the development of gene silencing technology, including Eli Lilly, Merck, Genta Incorporated, and ISIS Pharmaceuticals. All of these companies have products in development stages, and, in some cases, are in human trials with antisense compounds similar to our NeuGene compounds.

While we believe that none of these companies is likely to introduce an additional antisense compound into the broad commercial market in the immediate future, many pharmaceutical and biotechnology companies, including most of those listed above, have financial and technical resources greater than those currently available to us and have more established collaborative relationships with industry partners than do we.

In 2006, Genta received significant negative press when its antisense drugs failed to meet primary endpoints in Phase III clinical trials in certain cancer applications. Because the underlying chemistry of our antisense is fundamentally different and distinct from the antisense chemistries of Genta, we believe that none of the clinical experiences of Genta are predictive of how an AVI NeuGene antisense compound may fare in similar, or different, clinical trial settings. We believe that the combination of pharmaceutical properties of our NeuGene compounds for restenosis, cancer, and drug metabolism affords us competitive advantages when compared with the antisense compounds of competitors.

We can also expect to compete with other companies exploiting alternative technologies that address the same therapeutic needs as do our technologies. The biopharmaceutical market is subject to rapid technological change, and it can be expected that competing technologies will emerge and will present a competitive challenge to us.

Research and Development

We expensed $34,760,402, $25,345,588 and $17,117,750 on research and development activities during the years ended December 31, 2007, 2006 and 2005, respectively. Research and development (R&D) expenses include related salaries, contractor fees, materials, utilities and allocations of corporate costs. R&D expenses consist of independent R&D costs and costs associated with collaborative development arrangements. In addition, the Company funded R&D at other companies and research institutions under agreements. Research and development costs are expensed as incurred.

Employees

As of December 31, 2007, we had 125 employees, 20 of whom hold advanced degrees. One hundred-eight employees are engaged directly in research and development activities, and seventeen are in administration. None of our employees are covered by collective bargaining agreements and we consider relations with our employees to be good.

Where You Can Find Additional Information

We are a reporting company and file annual, quarterly and current reports, proxy statements and other information with the SEC. For further information with respect to us, you may read and copy our reports, proxy statements and other information, at the SEC's public reference rooms at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, as well as at the SEC's regional offices at 500 West Madison Street, Suite 1400, Chicago, IL 60661 and at 233 Broadway, New York, NY 10279. You can request copies of these documents by writing to the SEC and paying a fee for the copying cost. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the public reference rooms. Our SEC filings are also available at the SEC's web site at "http://www.sec.gov."

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, our proxy statement and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as well as our corporate governance guideline, outline of directorship qualifications, code of business conduct and the charter of our audit committee, compensation committee, and nominations committee are all available on our website (www.avibio.com) or by sending a request for a paper copy to: AVI BioPharma, Inc., One S.W. Columbia Ave., Suite 1105, Portland, Oregon 97258, attn. Investor Relations.

Item 1A. Risk Factors

Risks Affecting Future Operating Results

The following factors should be considered in evaluating our business and prospects for the future. If risks described below actually occur, our operating results and financial condition would likely suffer and the trading price of our common stock may fall, causing a loss of some or all of an investment in our common stock.

If we fail to attract significant additional capital, we may be unable to continue to successfully develop our products.

Since we began operations, we have obtained operating funds primarily by selling shares of our common stock. Based on our current plans, we believe that current cash balances will be sufficient to meet our operating needs for the current fiscal year. Furthermore, the actual amount of funds that we will need will be determined by many factors, some of which are beyond our control. These factors include the success of our research and development efforts, the status of our pre-clinical and clinical testing, costs relating to securing regulatory approvals and the costs and timing of obtaining new patent rights, regulatory changes, competition and technological developments in the market. We may need funds sooner than currently anticipated.

If necessary, potential sources of additional funding could include strategic relationships, public or private sales of shares of our stock, or debt, or other arrangements. We may not be able to obtain additional funding when we need it on terms that will be acceptable to us or at all. If we raise funds by selling additional shares of our common stock or securities convertible into our common stock, the ownership interest of our existing shareholders will be diluted. If we are unable to obtain financing when needed, our business and future prospects would be materially adversely affected

Our products are in an early stage of research and development and may not be determined to be safe or effective.

We are only in the early stages of research and clinical development with respect to our NeuGene antisense pharmaceutical products. We have devoted almost all of our resources to research and development of our technology and products, protecting our proprietary rights and establishing strategic alliances. Our potential products are in the pre-clinical or clinical stages of research and development and will require significant further research, development, clinical testing and regulatory clearances. We have no products available for sale and we do not expect to have any products available for sale for several years. Our products could be found to be ineffective or toxic, or could fail to receive necessary regulatory clearances. We have not received any significant revenues from the sale of products and we may not successfully develop marketable products that will increase sales and, given adequate margins, make us profitable. Third parties may develop superior or equivalent, but less expensive, products.

We have incurred net losses since our inception and we may not achieve or sustain profitability.

We incurred a net loss of $28.7 million in 2006 and $27.2 million in 2007. As of December 31, 2007, our accumulated deficit was $226.4 million. Our losses have resulted principally from expenses incurred in research and development of our technology and products and from selling, general and administrative expenses that we have incurred while building our business infrastructure. We expect to continue to incur significant operating losses in the

future as we continue our research and development efforts and seek to obtain regulatory approval of our products. Our ability to achieve profitability depends on our ability to raise additional capital, complete development of our products, obtain regulatory approvals and market our products. It is uncertain when, if ever, we will become profitable. .

If we fail to receive necessary regulatory approvals, we will be unable to commercialize our products.

All of our products are subject to extensive regulation by the United States Food and Drug Administration, or FDA, and by comparable agencies in other countries. The FDA and these agencies require new pharmaceutical products to undergo lengthy and detailed clinical testing procedures and other costly and time-consuming compliance procedures. We do not know when or if we will be able to submit our products for regulatory review. Even if we submit a new drug application, there may be delays in obtaining regulatory approvals, if we obtain them at all. Sales of our products outside the United States will also be subject to regulatory requirements governing clinical trials and product approval. These requirements vary from country to country and could delay introduction of our products in those countries. We cannot assure you that any of our products will receive marketing approval from the FDA or comparable foreign agencies.

We may fail to compete effectively, particularly against larger, more established pharmaceutical companies, causing our business to suffer.

The biotechnology industry is highly competitive. We compete with companies in the United States and abroad that are engaged in the development of pharmaceutical technologies and products. They include biotechnology, pharmaceutical, chemical and other companies; academic and scientific institutions; governmental agencies; and public and private research organizations.

The financial and technical resources and production and marketing capabilities of many of these entities, some of which are our competitors, exceed our resources and capabilities. Our industry is characterized by extensive research and development and rapid technological progress. Competitors may successfully develop and market superior or less expensive products which render our products less valuable or unmarketable.

We have limited operating experience.

We have engaged solely in the research and development of pharmaceutical technology. Although some members of our management team have experience in biotechnology company operations, we have limited experience in manufacturing or selling pharmaceutical products. We also have only limited experience in negotiating and maintaining strategic relationships and in conducting clinical trials and other later-stage phases of the regulatory approval process. We may not successfully engage in some or all of these activities.

We have limited manufacturing capability.

While we believe that we can produce materials for clinical trials and produce products for human use at our existing and potentially expanded manufacturing facility, we may need to expand our commercial manufacturing capabilities for products in the future if we elect not to or cannot contract with others to manufacture our products. This expansion may occur in stages, each of which would require regulatory approval, and product demand could at times exceed supply capacity. We have reviewed sites for expanded facilities and do not know what the construction cost will be for such facilities and whether we will have the financing needed for such construction. We do not know if or when the FDA will determine that such

facilities comply with Good Manufacturing Practices. The projected location and construction of any facilities will depend on regulatory approvals, product development, pharmaceutical partners and capital resources, among other factors. We have not obtained regulatory approvals for any productions facilities for our products, nor can we assure investors that we will be able to do so.

If we lose key personnel or are unable to attract and retain additional, highly skilled personnel required for our activities, our business will suffer.

Our success will depend to a large extent on the abilities and continued service of several key employees, including Drs. Patrick Iversen and Dwight Weller. We maintain key man life insurance in the amount of $500,000 for each of Drs. Iversen and Weller. The loss of any of these key employees could significantly delay the achievement of our goals. Competition for qualified personnel in our industry is intense, and our success will depend on our ability to attract and retain highly skilled personnel. To date, we have been successful in attracting and retaining key personnel. We are not aware of any key personnel who plan to retire or otherwise leave the Company in the near future.

Asserting, defending and maintaining our intellectual property rights could be difficult and costly, and our failure to do so will harm our ability to compete and the results of our operations.

Our success will depend on our existing patents and licenses and our ability to obtain additional patents in the future. A patent estate including 186 patents (domestic and foreign) issued or licensed to us, and 192 pending patent applications (domestic and foreign) protects our technologies. We license the composition, manufacturing and use of Avicine in all fields, except fertility regulation, from The Ohio State University. We license patents from other parties for certain complementary technologies.

Some of our patents on core technologies expire as early as 2008, including for NeuGenes. Based on patented improvements and additions to such core patents, however, we believe our patent protection for those products and other products extend beyond 2020.

We cannot assure you that our pending patent applications will result in patents being issued in the United States or foreign countries. In addition, the patents that have been or will be issued may not afford meaningful protection for our technology and products. Competitors may develop products similar to ours that do not conflict with our patents. Others may challenge our patents and, as a result, our patents could be narrowed or invalidated. The patent position of biotechnology firms generally is highly uncertain, involves complex legal and factual questions, and has recently been the subject of much litigation. No consistent policy has emerged from the United States Patent and Trademark Office (USPTO), or the courts regarding the breadth of claims allowed or the degree of protection afforded under biotechnology patents. In addition, there is a substantial backlog of biotechnology patent applications at the USPTO and the approval or rejection of patents may take several years.

Our success will also depend partly on our ability to operate without infringing upon the proprietary rights of others as well as our ability to prevent others from infringing on our proprietary rights. We may be required at times to take legal action to protect our proprietary rights and, despite our best efforts, we may be sued for infringing on the patent rights of others. We have not received any communications or other indications from owners of related patents or others that such persons believe our products or technology may infringe their patents. Patent litigation is costly and, even if we prevail, the cost of such litigation could adversely affect our financial condition. If we do not prevail, in addition to any damages we might have to pay, we could be required to stop the infringing activity or obtain a license.

Any required license may not be available to us on acceptable terms, or at all. If we fail to obtain a license, our business might be materially adversely affected.

To help protect our proprietary rights in unpatented trade secrets, we require our employees, consultants and advisors to execute confidentiality agreements. However, such agreements may not provide us with adequate protection if confidential information is used or disclosed improperly. In addition, in some situations, these agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants or advisors have prior employment or consulting relationships. Further, others may independently develop substantially equivalent proprietary information and techniques, or otherwise gain access to our trade secrets.

If our strategic relationships are unsuccessful, our business could be harmed.

Our strategic relationships are important to our success. The development, improvement and marketing of many of our key therapeutic products are or will be dependent in large part on the efforts of our strategic partners. The transactions contemplated by our agreements with strategic partners, including the equity purchases and cash payments, are subject to numerous risks and conditions. The occurrence of any of these events could severely harm our business.

Our near-term strategy is to co-develop products with strategic partners or to license the marketing rights for our products to pharmaceutical partners after we complete one or more Phase II clinical trials. In this manner, the extensive costs associated with late-stage clinical development and marketing will be shared with, or become the responsibility of, our strategic partners.

To fully realize the potential of our products, including development, production and marketing, we may need to establish other strategic relationships.

We may be subject to product liability lawsuits and our insurance may not be adequate to cover damages.

We believe we carry adequate insurance for our current product development research. In the future, when we have products available for commercial sale and use, the use of our products will expose us to the risk of product liability claims. Although we intend to obtain product liability insurance coverage, product liability insurance may not continue to be available to us on acceptable terms and our coverage may not be sufficient to cover all claims against us. A product liability claim, even one without merit or for which we have substantial coverage, could result in significant legal defense costs, thereby increasing our expenses, lowering our earnings and, depending on revenues, potentially resulting in additional losses.

If we fail to establish strategic relationships with larger pharmaceutical partners, our business may suffer.

We do not intend to conduct late-stage (Phase III) human clinical trials ourselves. We anticipate entering into relationships with larger pharmaceutical companies to conduct these and later pharmaceutical trials and to market our products. We also plan to continue to use contract manufacturing for late stage clinical and commercial quantities of our products. We may be unable to enter into partnerships or other relationships, which could impede our ability to bring our products to market**.** Any such partnerships, if entered into at all, may be on less than favorable terms and may not result in the successful development or marketing of our products. If we are unsuccessful in establishing advantageous clinical testing,

manufacturing and marketing relationships, we are not likely to generate significant revenues and become profitable.

We use hazardous substances in our research activities

We use organic and inorganic solvents and reagents in our clinical development that are customarily used in pharmaceutical development and synthesis. Some of these chemicals, such as methylene chloride, isopropyl alcohol, ethyl acetate and acetane, may be classified as hazardous substances, are flammable and, if exposed to human skin, can cause anything from irritation to severe burns. We receive, store, use and dispose of such chemicals in compliance with all applicable laws with containment storage facilities and contained handling and disposal safeguards and procedures. We are routinely inspected by federal, state and local governmental and public safety agencies regarding our storage, use and disposal of such chemicals, including the federal Occupational, Safety and Health Agency (“OSHA”), the Oregon Department of Environmental Quality (“DEQ”) and local fire departments, without any material noncompliance issues in such inspections to date. Further, our usage of such chemicals is limited and falls below the reporting thresholds under federal law. Based on our limited use of such chemicals, the nature of such chemicals and the safeguards undertaken by the Company for storage, use and disposal, we believe we do not have any material exposure for toxic tort liability. Further, the cost of such compliance is not a material cost in our operating budget. While we do not have toxic tort liability insurance at this time, we believe our current insurance coverage is adequate to cover most liabilities that may arise from our use of such substances. If we are wrong in any of our beliefs, we could incur a liability in certain circumstances that would be material to our finances and the value of an investment in our securities.

Risks Related to Share Ownership

Our right to issue preferred stock, our classified Board of Directors and Oregon Anti-Takeover laws may delay a takeover attempt and prevent or frustrate any attempt to replace or remove the then current management of the Company by shareholders.

Our authorized capital consists of 200,000,000 shares of common stock and 20,000,000 shares of preferred stock. Our Board of Directors, without any further vote by the shareholders, has the authority to issue preferred shares and to determine the price, preferences, rights and restrictions, including voting and dividend rights, of these shares. The rights of the holders of shares of common stock may be affected by the rights of holders of any preferred shares that our board of

directors may issue in the future. For example, our Board of Directors may allow the issuance of preferred shares with more voting rights, preferential dividend payments or more favorable rights upon dissolution than the shares of common stock or special rights to elect directors.

In addition, we have a "classified" Board of Directors, which means that only one-half of our directors are eligible for election each year. Therefore, if shareholders wish to change the composition of our Board of Directors, it could take at least two years to remove a majority of the existing directors or to change all directors. Having a classified Board of Directors may, in some cases, delay mergers, tender offers or other possible transactions that may be favored by some or a majority of our shareholders and may delay or frustrate action by shareholders to change the then current Board of Directors and management.

The Oregon Control Share Act and Business Combination Act may limit parties that acquire a significant amount of voting shares from exercising control over us for specific periods of time. These acts may lengthen the period for a proxy contest or for a person to vote their shares to elect the majority of our Board and change management.

Our stock price is volatile and may fluctuate due to factors beyond our control.

Historically, the market price of our stock has been highly volatile. The following types of announcements could have a significant impact on the price of our common stock: positive or negative results of testing and clinical trials by ourselves, strategic partners, or competitors; delays in entering into corporate partnerships; technological innovations or commercial product introductions by ourselves or competitors; changes in government regulations; developments concerning proprietary rights, including patents and litigation matters; public concern relating to the commercial value or safety of any of our products; financing or other corporate transactions; or general stock market conditions.

The significant number of our shares of Common Stock eligible for future sale may cause the price of our common stock to fall.

We have outstanding 64,449,094 shares of common stock as of December 31, 2007 and all are eligible for sale under Rule 144 or are otherwise freely tradeable. In addition:

- Our employees and others hold options to buy a total of 6,304,453 shares of common stock of which 4,497,526 shares were exercisable at December 31, 2007. The options outstanding have exercise prices between $1.76 and $7.35 per share. The shares of common stock to be issued upon exercise of these options, have been registered, and, therefore, may be freely sold when issued;

- There are outstanding warrants to buy 13,856,411 shares of common stock at December 31, 2007 with exercise prices ranging from $.0003 to $35.63 per share. All of these shares of common stock are registered for resale and may be freely sold when issued;

- We may issue options to purchase up to an additional 1,834,535 shares of common stock at December 31, 2007 under our stock option plans, which also will be fully saleable when issued except to the extent limited under Rule 144 for resales by our officers and directors;

- We are authorized to sell up to 208,585 shares of common stock under our Employee Stock Purchase Plan to our full-time employees, nearly all of whom are eligible to participate; and

- We have also granted certain contractual rights to purchase (i) an additional 352,113 shares of our common stock at a price of $7.10 per share and (ii) the right to purchase up to $7,500,000 of our common stock based on the average closing sales price for the five days preceding the commitment to purchase. If we meet certain technological milestones, the holder of these rights is obligated to purchase shares of common stock from us. The holder of these rights may require us to register the shares issued upon the exercise of such purchase rights.

Sales of substantial amounts of shares into the public market could lower the market price of our common stock.

We do not expect to pay dividends in the foreseeable future.

We have never paid dividends on our shares of common stock and do not intend to pay dividends in the foreseeable future. Therefore, you should only invest in our common stock with the expectation of realizing a return through capital appreciation on your investment. You should not invest in our common stock if you are seeking dividend income.

Item 1B. Unresolved SEC Comments

None.

Item 2. Description of Property

We occupy 53,000 square feet of leased laboratory and office space at 4575 S.W. Research Way, Suite 200, Corvallis, Oregon 97333. This lease expires in December 2020. Our executive office is located in 4,400 square feet of leased space at One S.W. Columbia, Suite 1105, Portland, Oregon 97258. This lease expires July 2009. In March 2007, we purchased an additional facility, totaling 34,000 square feet, in Corvallis, Oregon which could provide the Company with future expansion space for the manufacture of potential products and components. We believe that our facilities are suitable and adequate for our present operational requirements for the foreseeable future.

Item 3. Legal Proceedings

As of March 16, 2007, there were no material, pending legal proceedings to which we are a party. From time to time, we become involved in ordinary, routine or regulatory legal proceedings incidental to our business.

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

No matters were submitted to a vote of our shareholders during the quarter ended December 31, 2007.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Our Common Stock is quoted on the Nasdaq Capital Market ("Nasdaq") under the symbol "AVII." The following table sets forth the high and low closing sales prices as reported by Nasdaq for each quarterly period in the two most recent fiscal years and quarter-to-date for the next fiscal year:

	High	Low
2006		
Quarter 1	$ 8.65	$ 3.39
Quarter 2	7.55	3.71
Quarter 3	4.28	2.58
Quarter 4	4.82	3.18
2007		
Quarter 1	$ 3.20	$ 2.36
Quarter 2	3.15	2.64
Quarter 3	3.06	2.49
Quarter 4	3.07	1.31
2008		
Quarter 1 to March 12, 2008	$ 1.51	$ 1.07

The closing price of our common stock on the Nasdaq stock market on March 12, 2008 was $1.39 per share. The number of shareholders of record and approximate number of beneficial holders on March 10, 2007 was 590 and 11,036 respectively. There were no cash dividends declared or paid in fiscal years 2007 or 2006. We do not anticipate declaring such dividends in the foreseeable future.

During 2007, we issued 39,559 shares of common stock to employees at approximately $2.27 per share for an aggregate of $89,740, under our Employee Stock Purchase Plan. During 2006, we issued 41,663 shares of common stock to employees at approximately $2.95 per share for an aggregate of $123,005, under our Employee Stock Purchase Plan.

During 2007, we granted 1,263,548 stock options to purchase shares of common stock at approximately $2.80 per share, under our 2002 Equity Incentive Plan. During 2006, we granted 1,172,700 stock options to purchase shares of common stock at approximately $7.13 per share, under our 2002 Equity Incentive Plan.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	4,824,328	$ 4.75	2,043,120
Equity compensation plans not approved by security holders	-0-	—	-0-
Total	4,824,328	$ 4.75	2,043,120

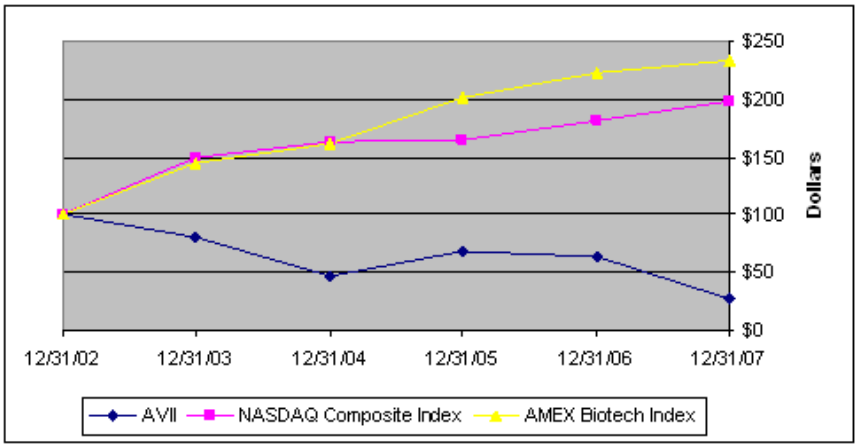
The number of securities remaining available for future issuance under equity compensation plans includes shares from the Company's 2002 Equity Incentive Plan (the "2002 Plan"). The number of shares reserved for issuance is increased by an automatic annual share increase pursuant to which the number of shares available for issuance under the 2002 Plan automatically increases on the first trading day of each fiscal year (the "First Trading Day"), beginning with the 2003 fiscal year and continuing through the fiscal year 2011, by an amount equal to two percent (2%) of the total number of shares outstanding on the last trading day of the immediately preceding fiscal year; such increases being subject to the limitation in the next sentence. The 2002 Plan provides that, following any such adjustment, the number of then outstanding options under the Company's stock option plans and stock purchase plans, together with options in the reserve then available for future grants under the Company's stock option plans, will not exceed twenty percent (20%) of the then outstanding voting shares of capital stock of the Company, and all the actually outstanding stock options under the Company's stock option plans, together with all shares in the reserve then available for future grants under the Company's stock option and stock purchase plans. This automatic share increase feature is designed to assure that a sufficient reserve of Common Stock remains available for the duration of the 2002 Plan to attract and retain the services of key individuals essential to the Company's long-term growth and success. This feature is also designed to eliminate the uncertainty inherent in seeking an individual increase to the reserve each year as to what number of shares will be available in the reserve for option grants. Creating a certain rate of growth under the 2002 Plan assists the Company as it makes strategic personnel decisions in an effort to expand its growth, as the Company will know the approximate number of shares that will become available for issuance under the 2002 Plan. At the same time, the Company has attempted to minimize the dilutive effect that the issuance of Common Stock upon the exercise of options can have on stockholders' percentage of ownership in the Company by adopting

only a 2% growth rate for the 2002 Plan. This rate, while it provides room for growth in the 2002 Plan, is a rate which the Company believes it can reasonably sustain, minimizing the risk to stockholders that the option reserve grows faster than the Company itself. The twenty percent (20%) limitation discussed above further protects shareholders by capping the size of the 2002 Plan in relation to the Company's other securities.

Comparison of Five-Year Cumulative Total Shareholder Return-December 2002 through December 2007:

Performance Graph

The following graph compares the performance of the Company's Common Stock for the periods indicated with the performance of the NASDAQ Composite Index and the Amex Biotech Index. This graph assumes an investment of $100 on December 31, 2002 in each of the Company's common stock, the NASDAQ Composite Index and the Amex Biotech Index, and assumes reinvestment of dividends, if any. The stock price performance shown on the graph below is not necessarily indicative of future stock price performance.



	AVII	NASDAQ Composite Index	Amex Biotech Index
End of Fiscal 2002	$ 100.0	$ 100.0	$ 100.0
End of Fiscal 2003	$ 81.4	$ 150.0	$ 144.9
End of Fiscal 2004	$ 47.0	$ 162.9	$ 160.9
End of Fiscal 2005	$ 69.0	$ 165.1	$ 201.3
End of Fiscal 2006	$ 63.6	$ 180.9	$ 223.0
End of Fiscal 2007	$ 28.2	$ 198.6	$ 232.5

Item 6. Selected Financial Data

The following selected financial data is derived from our audited financial statements and should be read in conjunction with, and is qualified in its entirety by, Item 7. "Management's Discussion and Analysis or Plan of Operation" and Item 8. "Financial Statements."

	YEAR ENDED DECEMBER 31,				
	2007	2006	2005	2004	2003
Operations data:					
Revenues	$ 10,985,191	$ 115,291	$ 4,783,760	$ 430,461	$ 969,866
Research and development	34,760,402	25,345,588	17,117,750	20,738,725	15,284,396
General and administrative	9,332,365	7,752,752	5,182,369	4,735,731	4,558,948
Interest income, net	983,976	1,910,037	840,495	266,301	491,098
Gain (loss) on warrant liability	4,955,875	2,385,502	(1,530,021)	2,840,851	835,094
Realized gain on sale of short-term securities —available-for-sale	—	—	—	—	3,765,752
Write-down of short-term securities— available-for-sale	—	—	—	—	—
Net loss	(27,167,725)	(28,687,510)	(18,205,885)	(21,936,843)	(13,781,534)
Net loss per share - basic and diluted	(0.50)	(0.54)	(0.41)	(0.61)	(0.46)
Balance sheet data:					
Cash and investments	$ 25,074,413	$ 33,152,132	$ 47,051,082	$ 19,515,316	$ 37,599,136
Working capital	18,959,122	25,596,492	38,327,343	17,948,793	34,639,526
Total assets	38,637,930	40,862,746	56,407,982	28,518,631	47,145,023
Shareholders' equity	26,381,748	32,519,325	46,081,931	24,456,708	39,685,852

Item 7. Management's Discussion and Analysis or Plan of Operation

Forward-Looking Information

This report contains forward-looking statements regarding our plans, expectations, estimates and beliefs. Our actual results could differ materially from those discussed in, or implied by, these forward-looking statements. Forward-looking statements are identified by words such as “believe,” “anticipate,” “expect,” “intend,” “plan,” “will,” “may,” and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. We have based these forward-looking statements largely on our expectations. Forward-looking statements in this report include, but are not necessarily limited to, those relating to:

- our intention to introduce new products,
- receipt of any required FDA or other regulatory approval for our products,
- our expectations about the markets for our products,
- acceptance of our products, when introduced, in the marketplace,
- our future capital needs,

- results of our research and development efforts, and
- success of our patent applications.

Forward-looking statements are subject to risks and uncertainties, certain of which are beyond our control. Actual results could differ materially from those anticipated as a result of the factors described in the “Risk Factors” and detailed herein and in our other Securities and Exchange Commission filings, including among others:

- the effect of regulation by the FDA and other governmental agencies,
- delays in obtaining, or our inability to obtain, approval by the FDA or other regulatory authorities for our products,
- research and development efforts, including delays in developing, or the failure to develop, our products,
- the development of competing or more effective products by other parties,
- the results of pre-clinical and clinical testing,
- uncertainty of market acceptance of our products,
- problems that we may face in manufacturing, marketing, and distributing our products,
- our inability to raise additional capital when needed,
- delays in the issuance of, or the failure to obtain, patents for certain of our products and technologies, and
- problems with important suppliers and business partners.

Because of these risks and uncertainties, the forward-looking events and circumstances discussed in this report or incorporated by reference might not occur. Factors that cause actual results or conditions to differ from those anticipated by these and other forward-looking statements include those more fully described in the “Risk Factors” section and elsewhere in this report.

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 and, 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 December 31, 2007, our accumulated deficit was $226,357,555.

Results of Operations

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006.

Revenues, from license fees, grants and research contracts, increased from $115,291 in 2006 to $10,985,191 in 2007, due to increases in research contracts revenues of $10,795,943 and license fees of $125,000, partially offset by decreases in grants revenues of $51,043. Revenues for 2007 were primarily due to the recognition of $10,710,330 in research contract revenue from government funding for work performed on viral disease research projects.

Operating expenses increased from $33,098,340 in 2006 to $44,092,767 in 2007 due to increases in research and development, which increased from $25,345,588 in 2006 to $34,760,402 in 2007, and increases in general and administrative costs, which increased from $7,752,752 in 2006 to $9,332,365 in 2007. This research and development increase for 2007 was due primarily to approximately $4,500,000 expensed for government research contracts and approximately $3,900,000 for contracting costs for the production of GMP subunits, which are used by the Company to manufacture compounds for future clinical trials. In addition, professional consultant costs increased approximately $730,000, government contract related equipment expenses of approximately $735,000,

chemical and lab supply costs increased approximately $655,000, and patent amortization expenses increased approximately $100,000. These research and development increases were partially offset by decreases in employee costs of approximately $1,200,000, of which approximately $430,000 was related to the acceleration of the vesting of certain stock options in the first quarter of 2006 and decreases in SFAS 123R expenses of approximately $530,000 and salary and bonuses of approximately $180,000. The general and administrative increase for 2007 was due primarily to increases in compensation costs of approximately $850,000, of which approximately $1,620,000 (including $562,500 in cash compensation and $1,057,372 in SFAS 123R expenses) was related to the Separation and Release Agreement with the Company's former Chief Executive Officer and $100,000 in non-employee compensation, partially offset by decreases in SFAS 123R expenses of approximately $320,000 and salary and bonuses of approximately $550,000. General and administrative also includes increases in legal expenses of approximately $650,000 and accounting expenses of approximately $185,000, partially offset by decreases in advertising costs of approximately $80,000.

Net interest income decreased from $1,910,037 in 2006 to $983,976 in 2007 due to decreases in average cash, cash equivalents and short-term securities, partially offset by increases in average interest rates of the Company's interest earning investments. Gain on warrant liability increased from $2,385,502 in 2006 to $4,955,875 in 2007. The gain (loss) on warrant liability is a function of the Company's stock price and fluctuates as the market price of the Company's stock fluctuates.

Year Ended December 31, 2006 Compared with Year Ended December 31, 2005.

Revenues, from license fees, grants and research contracts, decreased from $4,783,760 in 2005 to $115,291 in 2006, due to decreases in research contract revenues. Revenues for 2005 were primarily due to the recognition of $4,600,000 in research contract revenue from government funding for work performed on viral disease research projects.

Operating expenses increased from $22,300,119 in 2005 to $33,098,340 in 2006 due to increases in research and development, which increased from $17,117,750 in 2005 to $25,345,588 in 2006, and increases in general and administrative costs, which increased from $5,182,369 in 2005 to $7,752,752 in 2006. This research and development increase for 2006 was due primarily to increases in employee costs of approximately $3,100,000, of which approximately $2,400,000 was recognized in accordance with SFAS 123R and approximately $430,000 related to the acceleration of the vesting of certain stock options. See Note 2 to Notes to Financial Statements included with this report on Form 10-K. Also,

approximately $2,200,000 of this increase in 2006 was due to increases in clinical expenses from the expansion of clinical programs in hepatitis C and coronary artery bypass grafting. Additionally, approximately $1,700,000 of this increase in 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. The increase in 2006 for research and development included $675,000 in AVI common stock issued to Ercole Biotech, Inc. under the terms of a stock purchase agreement and $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. See Note 5 to Notes to Financial Statements included with this report on Form 10-K. The general and administrative increase for 2006 was due primarily to increases in employee costs of approximately $2,400,000, of which approximately $1,600,000 was recognized in accordance with SFAS 123R and approximately $400,000 related to the acceleration of the vesting of certain stock options.

Net interest income increased from $840,495 in 2005 to $1,910,037 in 2006 due to increases in average cash, cash equivalents and short-term securities balances and increases in average interest rates of the Company's interest earning investments. Gain (loss) on warrant liability was a gain of $2,385,502 in 2006 compared to a loss of $1,530,021 in 2005. The gain (loss) on warrant liability is a function of the Company's stock price and fluctuates as the market price of the Company's stock fluctuates.

Research and Development Expenses

Historically, the Company has maintained a focus internally upon the development of its core platform antisense technology known as Phosphorodiamidate Morpholino Oligomers (PMOs), also known under the registered trademark of NEUGENES. All internal research and development projects have been performed with the goal of defining the uses, breadth of applicability, limitations, and possible modifications surrounding PMOs. Thus, even specific projects had overarching or common impact upon expanding the Company's knowledge base surrounding this technology. Accordingly, essentially all of the Company's research and development resources have been dedicated to this goal. External research projects may tend to be more focused on given disease areas, but also generate results that have a breadth of applicability across the platform. These external research projects are generally performed at low, or no cost to the Company. Thus, the totals shown for research and development in the Statements of Operations for 2006 and 2005 reflect the amounts of the Company's resources being used toward the above stated goal.

In 2007 the Company began allocating costs on a more program-oriented basis. Our research and development costs allocated by program for the year ended December 31, 2007 were as follows:

	2007
Program areas:	
Infectious diseases	$ 8,871,127
Cardiovascular diseases	2,212,434
Genetic diseases	1,854,081
Total programs	12,937,641
Discovery research	21,822,761
Total research and development expense	$ 34,760,402

Direct research and development costs associated with our programs include clinical trial site costs, clinical manufacturing costs, costs incurred for consultants and other outside services, such as data management and statistical analysis support, and materials and supplies used in support of the clinical programs, as well as other direct research. Indirect costs of our clinical program include wages, payroll taxes and other employee-related expenses including rent, restructuring, stock based compensation, utilities and other facilities-related maintenance. The costs in each category may change in the future and new categories may be

added. Costs attributable to our discovery research programs represent our efforts to develop and expand our product pipeline. Due to the number of projects and our ability to utilize resources across several programs, our discovery research costs are not assigned to specific programs.

While we believe our programs are promising, we do not know whether any commercially viable products will result from our research and development efforts. Thus, we believe that the nature, timing, and estimated costs of the efforts necessary to complete the projects and the anticipated completion dates, are not estimable due to many factors, including the following:

- Delivery strategies and potency enhancements of the Company's compounds are still being developed and explored;
- Variability among different disease categories result in successful delivery strategies or potency enhancements not necessarily being applicable across different disease categories;
- Costs of clinical trials, like costs of all forms of medical care, are rapidly changing;
- Variability among different disease categories in terms of dosages, duration of treatment, method of administration, etc. exist;
- Rules surrounding filings and conduct of clinical trials are changing;
- Confidentiality surrounding commercialization is heightening; and
- Clinical endpoints are in a constant state of flux.

Liquidity and Capital Resources

We have financed our operations since inception primarily through sales of common stock and other forms of equity totaling $215,015,674, from grants and contract research funding of $20,966,010 from various sources, and $1,480,432 from shared development funding on Avicine with SuperGen. We expect to continue to incur losses as we continue and expand our research and development activities and related regulatory work and increase our collaborative efforts. For 2008, we expect our expenditures for operations, net of government funding, including our collaborative efforts, and our GMP facilities to be approximately $19 to $22 million. This cost could increase if we undertake additional collaborative efforts. However, if need be in 2008, we believe we can reduce our expenditures because a significant amount of our costs are variable. Those estimated expenditures include amounts necessary to fulfill our obligations under our various collaborative, research and licensing agreements during 2008.

Because of the cost (up to $1.7 billion) and timeframe (up to 15 years) generally associated with developing a potential drug or pharmaceutical product to the point of FDA approval for human use, our business strategy is to develop our products up to Phase II human clinical trials and then look for third parties to fund further development of the product and to market the product through strategic partnerships, license agreements or other relationships. We also look for collaborative and other efforts, such as our relationship with Cook, to utilize other technology to increase the potential variety and reduce the cost of identifying products. We believe that this strategy will reduce the potential costs we would otherwise incur in

developing a product and bringing it to market. Our expected costs under our various contracts and for various drug development products can be estimated for the next year or two, but not much beyond that due to the uncertainty of clinical trial results, research results and the timing of securing one or more partners to develop and market a potential drug.

Because of the various factors noted above and the expectation that, until we establish revenue sources, we will license or jointly develop our prospective products to or with strategic partners, we review, at least annually, each research program and clinical trial, based on results and progress during the prior year and estimate our needs for that program or trial for the coming year, making adjustments based on the progress of the program during the year. We do not set long-term development budgets or development schedules for bringing our products to market or track our research costs on a product basis, other than against the current budgeted amount.

In December 2006, the Company announced the execution of a two-year $28 million research contract with the Defense Threat Reduction Agency (DTRA), an agency of the United States Department of Defense (DoD). In February 2008, the contract was extended into the first five months of 2009. The contract is directed toward funding the Company's development of antisense therapeutics to treat the effects of Ebola, Marburg and Junin hemorrhagic viruses, which are seen by DoD as potential biological warfare and bioterrorism agents. During the year ended December 31, 2007, the Company recognized $8,018,389 in research contract revenue from this contract. Funding of $24.5 million has been committed through 2008, with the reminder of the contract anticipated in 2009.

In January 2006, the Company announced that the final version of the 2006 Defense Appropriations Act had been approved, which included an allocation of $11.0 million to fund the Company's ongoing defense-related programs. Net of government administrative costs, we anticipate that we will receive up to $9.8 million under this allocation. The Company's NEUGENE® technology is expected to 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 has received signed contracts for all four of these projects. The Company expects that funding under these signed contracts will be received over the next 12 months. During the year ended December 31, 2007, the Company recognized $2,691,941 in research contract revenue from these contracts.

Our cash, cash equivalents and short-term securities were $25,074,413 at December 31, 2007, compared with $33,152,132 at December 31, 2006. The decrease of $8,077,719 was due primarily to $24,677,155 used in operations and $2,127,094 used for purchases of property and equipment and patent related costs, offset by the receipt of $18,626,206 in net proceeds from a private equity financing with several institutional investors completed in December 2007 and $118,742 from the exercise of options and sales under the Company's employee stock purchase plan during the year ended December 31, 2007. In the private equity financing, the Company sold units consisting of one share of common stock, and one-half warrant to purchase a share of common stock for $1.90 per unit. A total of 10,696,616 shares of common stock and warrants for the purchase of 5,348,308 common shares at $2.45 per share were sold. These warrants are exercisable starting June 19, 2008 and expire on December 18, 2012.

We do not expect any material revenues in 2008 from our business activities. We expect that our cash requirements for the balance of calendar 2008 will be satisfied by existing cash resources. To fund our operations beyond 2008, we will need to raise additional capital. We will continue to look for opportunities to finance our ongoing activities and operations through accessing corporate partners or the public equity markets, as we currently have no credit

facility, nor do we intend to seek one.

Off-Balance Sheet Arrangements

The Company's off-balance sheet arrangements are limited to operating leases and rents on certain facilities and equipment and license agreements for which it is obligated to pay the licensors a minimum annual royalty. These off-balance sheet arrangements are expensed as incurred. In 2007, these expenses totaled $1,388,000 for operating leases and $125,000 for royalty payments.

Contractual Payment Obligations

A summary of our contractual commitments and obligations as of December 31, 2007 is as follows:

	Payments Due By Period				
Contractual Obligation	**Total**	**2008**	**2009 and 2010**	**2011 and 2012**	**2013 and beyond**
Operating leases	$ 18,100,000	$ 1,222,000	$ 2,387,000	$ 2,566,000	$ 11,925,000
Royalty payments	1,880,000	125,000	250,000	230,000	1,275,000
	$ 19,980,000	$ 1,347,000	$ 2,637,000	$ 2,796,000	$ 13,200,000

Our future expenditures and capital requirements depend on numerous factors, most of which are difficult to project beyond the short term. These requirements include the progress of our research and development programs and our 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, our ability to establish collaborative arrangements and the terms of any such arrangements, and the costs associated with commercialization of our products. Our cash requirements are expected to continue to increase each year as we expand our activities and operations. There can be no assurance, however, that we will ever be able to generate product revenues or achieve or sustain profitability.

New Accounting Pronouncements

See Note 2 of Notes to Financial Statements with this report on Form 10-K included under Part III, Item 15.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to stock-based compensation, valuation of investments, long-lived assets, and revenue recognition. We base our estimates on historical experience and on various other assumptions. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies and the related judgments and estimates affect the preparation of our financial statements.

Valuation of Investments
Investments in marketable securities are classified as available-for-sale under SFAS 115

and recorded at fair value in each period with changes recorded to "other comprehensive income." We periodically evaluate our investments for other than temporary impairments and record an impairment unless the evidence indicating that the carrying amount is recoverable outweighs the negative evidence to the contrary.

Revenue Recognition
Revenue is recorded from research contracts and grants as the services are performed and payment is reasonably assured. In 2007, the Company recognized $10,710,330 in research contracts revenues from government funding for work performed on viral disease projects. In 2005, we recognized $4,600,000 in research contracts revenue from government funding for work performed on viral disease research projects. Upfront, nonrefundable fees and other fees associated with license and development arrangements are recognized as revenue ratably over the performance period. Revenue associated with performance milestones under license and development arrangements is recognized based upon the achievement of the milestones, as defined in the respective agreements. Revenue from license and development arrangements has been insignificant to date.

Long-Lived Asset Impairment
Long-lived assets held and used by us and intangible assets with determinable lives are reviewed for impairment whenever events or circumstances indicate that the carrying amount of assets may not be recoverable in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We evaluate recoverability of assets to be held and used by comparing the carrying amount of an asset to future net undiscounted cash flows to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Such reviews assess the fair value of the assets based upon estimates of future cash flows that the assets are expected to generate.

Stock-based Compensation Expense
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.

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 were measured on the date of grant using the Black-Scholes option-pricing model, with weighted average assumptions for the risk-free interest rate, expected dividend yield, expected lives, and expected 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.

The assumptions used in calculating the fair value of stock-based compensation expense represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, its stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If the Company's actual forfeiture rate is materially different from its estimates, the stock-based compensation expense could be significantly different from what it has recorded in the current period. See Note 2 to Notes to Financial Statements for a further discussion of stock-based compensation.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Due to the short-term nature of our interest-bearing assets we believe that our exposure to interest rate market risk is not significant.

Item 8. Financial Statements

The information required by this Item 8 begins on page F-1 in Item 15 of Part III of this report on Form 10-K and is incorporated into this item by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934 as of December 31, 2007. Based on that review, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities and Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

The Company does not expect that its disclosure controls and procedures will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any,

within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The Company considered these limitations during the development of it disclosure controls and procedures, and will continually reevaluate them to ensure they provide reasonable assurance that such controls and procedures are effective.

Internal Controls and Procedures

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

The management of AVI BioPharma, Inc. (the Company or AVI) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed 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 includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework." Based on management's assessment and those criteria, we believe that, as of December 31, 2007, the Company's internal control over financial reporting is effective.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
AVI BioPharma, Inc.:

We have audited AVI BioPharma, Inc.'s (an Oregon corporation in the development stage) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)". Management of AVI BioPharma, Inc is responsible for maintaining effective internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control over Financial Reporting*, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, AVI BioPharma, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework issued by COSO.*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of AVI BioPharma, Inc. as of December 31, 2007 and 2006, and the related statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2007, and for the period from July 22, 1980 (inception) through December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 21, 2002. Our opinion on the statements of operations, shareholders' equity and comprehensive income (loss), and cash flows, insofar as it relates to the amounts included for the period from July 22nd, 1980 (inception) through December 31, 2001, is based solely on the report of other auditors. Our report dated March 17, 2008 expressed an unqualified opinion on those consolidated financial statements.

(signed) KPMG LLP

Portland, OR
March 17, 2008

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding our directors and executive officers required by this item is included in our definitive proxy statement for our 2008 annual meeting of shareholders to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item is included in our definitive proxy statement for our 2008 annual meeting of shareholders to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is included in our definitive proxy statement for our 2008 annual meeting of shareholders to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information required by this item is included in our definitive proxy statement for our 2008 annual meeting of shareholders to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item is included in our definitive proxy statement for our 2008 annual meeting of shareholders to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report and is incorporated herein by reference.

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Report:

Financial Statements

The following financial statements of the Company and the Report of KPMG LLP, Independent Auditors, are included in Part IV of this Report on the pages indicated:

Financial Statement Schedules

All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

(b) Exhibits

The following exhibits are filed herewith and this list is intended to constitute the exhibit index:

Exhibit No.	Description
1.1	Underwriting Agreement dated November 14, 2005. (15)
1.2	Placement Agency Agreement between AVI BioPharma, Inc. and Citigroup Global Markets Inc., Oppenheimer & Co. Inc., and Maxim Group, LLC, dated December 12, 2007. (22)
3.1	Third Restated Articles of Incorporation of AntiVirals Inc. (1)
3.2	First Restated Bylaws of AVI BioPharma, Inc. (28)
3.3	First Amendment to Third Restated Articles of Incorporation. (4)
3.4	Amendment to Article 2 of the Company's Third Restated Articles of Incorporation. (11)
4.1	Form of Specimen Certificate for Common Stock. (1)
4.2	Warrant to purchase 485,290 shares of the Company's common stock dated November 14, 2005. (16)
4.3	Form of Warrant to Purchase Common Stock, issued in connection with the Placement Agency Agreement dated December 12, 2007. (23)
10.1	1992 Stock Incentive Plan (as amended through May 11, 2000). (1)
10.2	Employment Agreement with Denis R. Burger, Ph.D. dated November 4, 1996. (1)
10.3	Employment Agreement with Alan P. Timmins dated November 4, 1996. (1)
10.4	Employment Agreement with Dwight Weller, Ph.D. dated November 4, 1996. (1)
10.5	Technology Transfer Agreement between Anti-Gene Development Group and AntiVirals Inc., dated February 9, 1992. (1)
10.6	Amendment to Technology Transfer Agreement between Anti-Gene Development Group and AntiVirals Inc. dated January 20, 1996. (1)
10.7	License and Option Agreement between Anti-Gene Development Group and AntiVirals Inc., dated February 9, 1993. (1)
10.8	Commercial Lease between Research Way Investments, Landlord, and AntiVirals Inc., Tenant, dated June 15, 1992. (1)
10.9	Lease between Benjamin Franklin Plaza, Inc., Landlord, and AntiVirals Inc., Tenant, dated June 17, 1992. (1)
10.10	First Amendment to Lease between Benjamin Franklin Plaza, Inc., Landlord, and AntiVirals Inc., Tenant, dated July 24, 1995. (1)
10.11	Employment Agreement with Patrick L. Iversen, Ph.D. dated July 14, 1997. (2)
10.12	ImmunoTherapy Corporation 1997 Stock Option Plan. (3)
10.13	License Agreement between ImmunoTherapy Corporation and Ohio State University, dated March 12, 1996. (3)
10.14	License Agreement between ImmunoTherapy Corporation and Ohio State University, dated December 26, 1996. (3)

10.15	Amendment to License Agreement between ImmunoTherapy Corporation and Ohio State University, dated September 23, 1997. (3)
10.16	Purchase Agreement, dated December 15, 1999, by and between AVI BioPharma, Inc. and certain Investors. (5)
10.17	Registration Rights Agreement, dated December 15, 1999, by and between AVI BioPharma, Inc. and certain Investors. (5)
10.18	Purchase Agreement, dated December 16, 1999, by and between AVI BioPharma, Inc. and certain Investors. (5)
10.19	Registration Rights Agreement, dated December 16, 1999, by and between AVI BioPharma, Inc. and certain Investors. (5)
10.20	Subscription Agreement, dated December 1, 1999, by and between SuperGen, Inc. and AVI BioPharma, Inc. (5)

10.21	2000 Amendment to Technology Transfer Agreement between Anti-Gene Development Group and AVI BioPharma, Inc. (6)
10.22	United States of America Sales, Distribution, and Development Agreement, dated April 4, 2000, between SuperGen, Inc. and AVI BioPharma, Inc. (7)
10.23	Common Stock and Warrant Purchase Agreement, dated April 4, 2000, between SuperGen, Inc. and AVI BioPharma, Inc. (7)
10.24	Registration Rights Agreement, dated April 14, 2000, between SuperGen, Inc. and AVI BioPharma, Inc. (7)
10.25	2000 Employee Share Purchase Plan. (8)
10.26	Employment Agreement with Mark M. Webber dated May 11, 2000. (9)
10.27	Lease Agreement with Spieker Partners, LP dated May 8, 2001. (9)
10.28*	Investment Agreement dated May 22, 2001 between the Company and Medtronic Asset Management, Inc. (9)
10.29	Warrant dated June 20, 2001 issued to Medtronic Asset Management, Inc. (9)
10.30	Registration Rights Agreement dated June 20, 2001 between the Company and Medtronic Asset Management, Inc. (9)
10.31*	License and Development Agreement dated June 20, 2001 between the Company and Medtronic, Inc. (9)
10.32*	Supply Agreement dated June 20, 2001 between the Company and Medtronic, Inc. (9)
10.33	Securities Purchase Agreement dated March 25, 2002 between the Company and certain purchasers (“SPA”). (10)
10.34	Form of Warrant issued by the Company to certain purchasers under the SPA (10)
10.35	Registration Rights Agreement dated March 25, 2002 between the Company and certain purchasers. (10)
10.36	2002 Equity Incentive Plan. (11)
10.37	Securities Purchase Agreement dated January 19, 2005 between the Company and certain purchasers (“SPA”). (12)
10.38	Form of Purchase Warrant issued by the Company to certain purchasers under the SPA. (12)
10.39	Amendment to employment agreement of Denis R. Burger, Ph.D. (14)
10.40	Amendment to employment agreement of Alan P. Timmins. (14)
10.41	Amendment to employment agreement of Patrick L. Iversen, Ph.D. (14)
10.42	Amendment to employment agreement of Dwight D. Weller, Ph.D. (14)
10.43	Amendment to employment agreement of Peter D. O’Hanley, M.D., Ph.D. (14)
10.44	Amendment to employment agreement of Mark M. Webber. (14)
10.45	Securities Purchase Agreement dated November 14, 2005 between the Company and certain purchasers. (16)
10.46*	Supply Agreement, dated March 10, 2006, by and between Cook Group Incorporated and AVI BioPharma, Inc. (17)
10.47*	License and Development Agreement, dated March 10, 2006, by and between Cook Group Incorporated and AVI BioPharma, Inc. (17)
10.48*	Investment Agreement, dated March 10, 2006, by and between Cook Group Incorporated and AVI BioPharma, Inc. (17)
10.49*	License Agreement dated January 26, 2006 by and between with Chiron Corporation and AVI BioPharma, Inc. (18)
10.50	Stock Purchase Agreement dated January 26, 2006 by and between with Chiron Corporation and A VI BioPharma, Inc. (18)
10.51	Second Lease Extension and Modification Agreement dated January 24, 2006 by and between Research Way Investments and AVI BioPharma, Inc. (19)
10.52*	Collaboration and License Agreement, dated December 19, 2006, by and between Ercole Biotech, Inc. and AVI BioPharma, Inc. (20)

10.53	Series A-2 Preferred Stock and Common Stock Purchase Agreement, dated December 19, 2006, by and between Ercole Biotech, Inc. and AVI BioPharma, Inc. (21)
10.54*	Cross License Agreement dated January 8, 2007 by and between Eleos, Inc. and AVI BioPharma, Inc. (24)
10.55	Separation and Release Agreement dated March 27, 2007 by and between Denis R. Burger, Ph.D. and AVI BioPharma, Inc. (25)
10.56*	Second License and Collaboration Agreement dated May 1, 2007 by and between Ercole Biotech. Inc. and AVI BioPharma, Inc. (26)
10.57	Real Property Purchase Agreement, dated April 19, 2007, by and between WKL Investments Airport, LLC and AVI BioPharma, Inc. (27)
10.58*	Sponsored Research Agreement between AVI BioPharma, Inc. and Charley’s Fund, Inc., effective October 12, 2007 (filed herewith).
10.59	Shareholder’s Trust Agreement between and among AVI BioPharma, Inc., AVI Shareholder Advocacy Trust, The Shareholder Advocate LLC, and Richard Macary, dated October 29, 2007 (filed herewith).
10.60	Amended and Restated Employment Agreement between Alan P. Timmins and AVI BioPharma, Inc., dated October 26, 2007 (filed herewith).
10.61	Professional Services Agreement between James B. Hicks Ph.D., LLC and AVI BioPharma, Inc., dated October 26, 2007 (filed herewith).
10.62	Letter Agreement executed by George Haywood, dated October 29, 2007 (filed herewith).
14.0	Code of Business Conduct and Ethics. (13)
23.0	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of the Company’s Chief Executive Officer, Leslie Hudson, Ph.D., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Company’s Chief Financial Officer, Mark M. Webber, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.0	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.

(1) Incorporated by reference to Exhibits to Registrant’s Registration Statement on Form SB-2, as amended and filed with the Securities and Exchange Commission on May 29, 1997 (Commission Registration No. 333-20513).

(2) Incorporated by reference to Exhibits to Registrant’s Annual Report on Form 10-KSB for the fiscal year ended December 31, 1997, and filed with the Securities and Exchange Commission on March 30, 1998.

(3) Incorporated by reference to Exhibits to Registrant's Registration Statement on Form S-4, as amended, and filed with the Securities and Exchange Commission on August 7, 1998 (Commission Registration No. 333-60849).

(4) Incorporated by reference to Exhibits to Registrant's current report on Form 8-K, as filed with the Securities and Exchange Commission on September 30, 1998 (Commission Registration No. 000-22613).

(5) Incorporated by reference to Exhibits to Registrant's Registration Statement on Form S-3, as amended, and filed with the Securities and Exchange Commission on December 21, 1999 (Commission Registration No. 333-93135).

(6) Incorporated by reference to Exhibits to Registrant's Registration Statement on Form S-1 and filed with the Securities and Exchange Commission on June 16, 2000 (Commission Registration No. 333-39542).

(7) Incorporated by reference to Exhibits to Registrant's Registrations Statement on Form S-3, and filed with the Securities and Exchange Commission on September 15, 2000 (Commission Registration No. 333-45888).

(8) Incorporated by reference to Appendix A to Registrant's Definitive Proxy Statement on Form 14-A, as amended, filed with the Securities and Exchange Commission on April 12, 2000.

(9) Incorporated by reference to Exhibits to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001, and filed with the Securities and Exchange Commission on August 14, 2001, as amended on April 23, 2002.

(10) Incorporated by reference to Exhibits to Registrant's current report on Form 8-K, as filed with the Securities and Exchange Commission on April 2, 2002.

(11) Incorporated by reference to appendixes to Registrant's Definitive Proxy Statement on Schedule 14-A, as filed with the Securities and Exchange Commission on April 11, 2002.

(12) Incorporated by reference to registrants current report on Form 8-K, as filed with the Securities and Exchange Commission on January 20, 2005.

(13) Incorporated by reference to Exhibits to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, and filed with the Securities and Exchange Commission on March 15, 2004.

(14) Incorporated by reference to Registrant's current report on Form 8-K, as filed with the Securities and Exchange Commission on February 28, 2005.

(15) Incorporated by reference to Registrant's current report on Form 8-K, as filed with the Securities and Exchange Commission on November 21, 2005.

(16) Incorporated by reference to Exhibits to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and filed with the Securities and Exchange Commission on March 16, 2006.

(17) Incorporated by reference to Exhibits to Registrant's Registrations Statement on Form S-3, and filed with the Securities and Exchange Commission on April 11, 2006 (Commission Registration No. 333-133211).

(18) Incorporated by reference to Exhibits to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, and filed with the Securities and Exchange Commission on May 10, 2006.

(19) Incorporated by reference to Exhibits to Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006, and filed with the Securities and Exchange Commission on August 9, 2006.

(20) Incorporated by reference to Exhibit 10.56 to the Registrant's Form 10-K for the fiscal year ended December 31, 2006, filed with the Securities and Exchange Commission on March 16, 2007.

(21) Incorporated by reference to Exhibit 10.57 to the Registrant's Form 10-K for the fiscal year ended December 31, 2006, filed with the Securities and Exchange Commission on March 16, 2007.

(22) Incorporated by reference to Exhibit 1.01 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 13, 2007.

(23) Incorporated by reference to Exhibit 4.5 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 13, 2007.

(24) Incorporated by reference to Exhibit 10.58 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2007, filed with the Securities and Exchange Commission on May 10, 2007.

(25) Incorporated by reference to Exhibit 10.59 to the Registrant's Form 10-Q for the quarterly period ended March 31, 2007, filed with the Securities and Exchange Commission on May 10, 2007.

(26) Incorporated by reference to Exhibit 10.60 to the Registrant's Form 10-Q for the quarterly period ended June 30, 2007, filed with the Securities and Exchange Commission on August 9, 2007.

(27) Incorporated by reference to Exhibit 10.61 to the Registrant's Form 10-Q for the quarterly period ended June 30, 2007, filed with the Securities and Exchange Commission on August 9, 2007.

(28) Incorporated by reference to Exhibit 3.5 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on February 7, 2008.

(c) Exhibits. See Item 15(a) above.

(d) Financial Statement Schedules. See Item 15(a) above.

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* A Confidential Treatment Request for certain information in this document has been filed with the Securities and Exchange Commission. The information for which treatment has been sought has been deleted from such exhibit and the deleted text replaced by an asterisk (*).

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 17, 2008

AVI BIOPHARMA, INC.

By: /s/ Leslie Hudson, Ph.D.
Leslie Hudson, Ph.D.
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in their capacities indicated on March 17, 2008:

Signature	Title
/s/ LESLIE HUDSON, Ph.D. Leslie Hudson, Ph.D.	Chief Executive Officer and Director (Principal Executive Officer)
/s/ ALAN P. TIMMINS Alan P. Timmins	President and Chief Operating Officer
/s/ MARK M. WEBBER Mark M. Webber	Chief Financial Officer and Chief Information Officer (Principal Financial and Accounting Officer)
/s/ MICHAEL D. CASEY Michael D. Casey	Chairman of the Board
/s/ JOHN W. FARA, Ph.D. John W. Fara, Ph.D.	Director
/s/ K. MICHAEL FORREST K. Michael Forrest	Director
/s/ WILLIAM A. GOOLSBEE William A. Goolsbee	Director
/s/ JOHN C. HODGMAN John C. Hodgman	Director
/s/ GIL PRICE, M.D. Gil Price, M.D.	Director

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
AVI BioPharma, Inc.:

We have audited the accompanying balance sheets of AVI BioPharma, Inc. (an Oregon corporation in the development stage) as of December 31, 2007 and 2006, and the related statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2007 and for the period from July 22, 1980 (inception) through December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of AVI BioPharma, Inc. for the period from July 22, 1980 (inception) through December 31, 2001 were audited by other auditors who have ceased operations. Those

auditors expressed an unqualified opinion on those financial statements in their report dated February 21, 2002. Our opinion on the statements of operations, shareholder' equity, and comprehensive income (loss), and cash flows, insofar as it relates to the amounts included for the period from July 22, 1980 (inception) through December 31, 2001, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of AVI BioPharma, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007 and for the period from July 22, 1980 (inception) through December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment.*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AVI BioPharma's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 17, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Portland, OR (signed) KPMG LLP

March 17, 2008

THIS REPORT IS A CONFORMED COPY OF THE REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP AND HAS NOT BEEN REISSUED BY THAT FIRM.

Report of Independent Public Accountants

To the Board of Directors and Shareholders of
AVI BioPharma, Inc.

We have audited the accompanying balance sheet of AVI BioPharma, Inc. (an Oregon corporation in the development stage) as of December 31, 2001, and the related statements of operations, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2001 and for the period from inception (July 22, 1980) to December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AVI BioPharma, Inc. as of December 31, 2001, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2001 and for the period from inception (July 22, 1980) to December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Portland, Oregon
February 21, 2002

AVI BIOPHARMA, INC.
(A Development Stage Company)
BALANCE SHEETS

	December 31, 2007	December 31, 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 24,802,562	$ 20,159,201
Short-term securities—available-for-sale	271,851	12,992,931
Accounts receivable	2,869,760	51,498
Other current assets	767,278	736,283
Total Current Assets	28,711,451	33,939,913

Property and Equipment, net of accumulated depreciation and amortization of $11,816,549 and $10,174,712	6,825,145	4,329,583
Patent Costs, net of accumulated amortization of $1,725,074 and $1,496,699	3,066,625	2,558,541
Other Assets	34,709	34,709
Total Assets	$ 38,637,930	$ 40,862,746
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 3,026,072	$ 1,401,584
Accrued employee compensation	1,171,666	1,371,353
Long-term debt, current portion	71,099	—
Warrant liability	4,414,657	5,192,576
Deferred revenue	737,500	—
Other liabilities	331,335	377,908
Total Current Liabilities	9,752,329	8,343,421
Commitments and Contingencies		
Long-term debt, non-current portion	2,070,704	—
Other long-term liabilities	433,149	—
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; 64,449,094 and 53,182,841 issued and outstanding	6,445	5,318
Additional paid-in capital	252,732,858	231,685,419
Accumulated other comprehensive income	—	18,418
Deficit accumulated during the development stage	(226,357,555)	(199,189,830)
Total Shareholders' Equity	26,381,748	32,519,325
Total Liabilities and Shareholders' Equity	$ 38,637,930	$ 40,862,746

See accompanying notes to financial statements.

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

	Year ended December 31,			July 22, 1980 (Inception) through
	2007	2006	2005	December 31, 2007
Revenues from license fees, grants and research contracts	$ 10,985,191	$ 115,291	$ 4,783,760	$ 20,966,010
Operating expenses:				
Research and development	34,760,402	25,345,588	17,117,750	182,407,617
General and administrative	9,332,365	7,752,752	5,182,369	50,152,893
Acquired in-process research and development	—	—	—	19,545,028
	44,092,767	33,098,340	22,300,119	252,105,538
Other income (loss):				
Interest income, net	983,976	1,910,037	840,495	8,433,518
Gain (loss) on warrant liability	4,955,875	2,385,502	(1,530,021)	9,487,301
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)
	5,939,851	4,295,539	(689,526)	4,781,973
Net loss	$ (27,167,725)	$ (28,687,510)	$ (18,205,885)	$ (226,357,555)
Net loss per share - basic and diluted	$ (0.50)	$ (0.54)	$ (0.41)	
Weighted average number of common shares outstanding for computing basic and diluted loss per share	53,942,015	52,660,711	44,655,008	

See accompanying notes to financial statements.

AVI BIOPHARMA, INC.
(A Development Stage Company)
STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Additional	Accumulated Other Comprehensive	Deficit Accumulated During the	Total

	Partnership Units	Common Stock Shares	Common Stock Amount	Paid-In Capital	Income (Loss)	Development Stage	Shareholders' Equity
BALANCE AT JULY 22, 1980 (Inception)	—	—	$ —	$ —	$ —	$ —	$ —
Issuance of partnership units, warrants and common stock	3,615	8,272,916	828	33,732,654	—	—	33,733,482
Compensation expense related to issuance of warrants for common stock and partnership units	—	—	—	537,353	—	—	537,353
Exercise of warrants for partnership units and common stock	42	1,530,858	152	1,809,165	—	—	1,809,317
Exercise of options for common stock	—	734,668	73	3,168,373	—	—	3,168,446
Issuance of common stock for ESPP	—	149,339	15	576,037	—	—	576,052
Issuance of common stock and warrants for cash and securities, net of offering costs	—	21,551,397	2,155	118,308,532	—	—	118,310,687
Issuance of common stock and warrants for the acquisition of ImmunoTherapy Corporation	—	2,132,592	213	17,167,199	—	—	17,167,412
Issuance of common stock and warrants for services	—	192,848	20	919,243	—	—	919,263
Compensation expense related to issuance of options for common stock	—	—	—	1,041,349	—	—	1,041,349
Conversion of debt into common stock and partnership units	9	9,634	1	87,859	—	—	87,860
Issuance of common stock in exchange for partnership units	(1,810)	1,632,950	163	(163)	—	—	—
Withdrawal of partnership net assets upon conveyance of technology	(1,856)	—	—	(176,642)	—	—	(176,642)
Common stock subject to rescission, net	—	(64,049)	(6)	(288,789)	—	—	(288,795)
Comprehensive income (loss):							
Write-down of short-term securities—available-for-sale	—	—	—	—	17,001,348	—	17,001,348
Realized gain on sale of short-term securities—available-for-sale	—	—	—	—	(3,765,752)	—	(3,765,752)
Unrealized loss on short-term securities—available-for-sale	—	—	—	—	(13,368,237)	—	(13,368,237)
Net loss	—	—	—	—	—	(152,296,435)	(152,296,435)
Comprehensive loss							(152,429,076)
BALANCE AT DECEMBER 31, 2004	—	36,143,153	$ 3,614	$ 176,882,170	$ (132,641)	$ (152,296,435)	$ 24,456,708
Exercise of options for common stock	—	37,029	4	94,950	—	—	94,954
Issuance of common stock for ESPP	—	60,854	6	110,724	—	—	110,730
Compensation expense related to issuance of options for common stock	—	—	—	394,225	—	—	394,225
Issuance of common stock and warrants for cash, net of offering costs	—	14,941,715	1,494	39,084,096	—	—	39,085,590
Comprehensive income (loss):							
Unrealized gain on short-term securities—available-for-sale, net	—	—	—	—	145,609	—	145,609
Net loss	—	—	—	—	—	(18,205,885)	(18,205,885)
Comprehensive loss							(18,060,276)
BALANCE AT DECEMBER 31, 2005	—	51,182,751	$ 5,118	$ 216,566,165	$ 12,968	$ (170,502,320)	$ 46,081,931
Exercise of warrants for common stock	—	705,048	71	2,342,346	—	—	2,342,417
Exercise of options for common stock	—	218,353	22	741,791	—	—	741,813
Issuance of common stock for ESPP	—	41,663	4	123,001	—	—	123,005
Issuance of common stock to vendors	—	343,023	34	1,549,966	—	—	1,550,000
Compensation expense related to issuance of options for common stock	—	—	—	525,126	—	—	525,126
Issuance of common stock for cash and securities, net of offering costs	—	692,003	69	4,955,554	—	—	4,955,623
Stock-based compensation	—	—	—	4,881,470	—	—	4,881,470
Comprehensive income (loss):							
Unrealized gain on short-term securities—available-for-sale, net	—	—	—	—	5,450	—	5,450
Net loss	—	—	—	—	—	(28,687,510)	(28,687,510)
Comprehensive loss							(28,682,060)
BALANCE AT DECEMBER 31, 2006	—	53,182,841	$ 5,318	$ 231,685,419	$ 18,418	$ (199,189,830)	$ 32,519,325
Exercise of options for common stock	—	11,639	1	29,001	—	—	29,002
Issuance of common stock for ESPP	—	39,559	4	89,736	—	—	89,740
Issuance of common stock to vendors	—	518,439	52	1,449,948	—	—	1,450,000
Compensation expense related to issuance of options for common stock	—	—	—	312,637	—	—	312,637
Issuance of common stock for cash and securities, net of offering costs	—	10,696,616	1,070	14,447,180	—	—	14,448,250
Stock-based compensation	—	—	—	4,718,937	—	—	4,718,937
Comprehensive income (loss):							
Unrealized gain on short-term securities—available-for-sale, net	—	—	—	—	(18,418)	—	(18,418)
Net loss	—	—	—	—	—	(27,167,725)	(27,167,725)
Comprehensive loss							(27,186,143)
BALANCE AT DECEMBER 31, 2007	—	64,449,094	$ 6,445	$ 252,732,858	$ —	$ (226,357,555)	$ 26,381,748

See accompanying notes to financial statements.

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

	Year ended December 31, 2007	2006	2005	For the Period July 22, 1980 (Inception) through December 31, 2007
Cash flows from operating activities:				
Net loss	$ (27,167,725)	$ (28,687,510)	$ (18,205,885)	$ (226,357,555)
Adjustments to reconcile net loss to net cash flows used in operating activities:				
Depreciation and amortization	2,013,859	2,090,375	1,997,672	14,834,098
Loss on disposal of assets	59,381	192,369	35,862	374,559
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	1,375,000	—	2,075,000
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	312,637	525,126	394,225	2,955,690
Stock-based compensation	4,718,937	4,881,470	—	9,600,407
Conversion of interest accrued to common stock	—	—	—	7,860
Acquired in-process research and development	—	—	—	19,545,028
(Gain) loss on warrant liability	(4,955,875)	(2,385,502)	1,530,021	(9,487,301)
(Increase) decrease in:				
Accounts receivable and other current assets	(2,849,257)	814,531	(919,237)	(3,637,038)
Other assets	—	2,900	—	(34,709)
Net increase in accounts payable, accrued employee compensation, long-term debt, deferred revenue, and other liabilities	2,490,888	577,872	498,375	5,936,733
Net cash used in operating activities	(24,677,155)	(20,613,369)	(14,668,967)	(170,186,727)

Cash flows from investing activities:				
Purchase of property and equipment	(1,269,880)	(767,282)	(1,070,801)	(16,568,391)
Patent costs	(857,214)	(686,607)	(397,081)	(5,332,244)
Purchase of marketable securities	(110,417)	(14,969,926)	(13,140,581)	(112,976,213)
Sale of marketable securities	12,813,079	14,435,793	3,693,329	117,613,516
Acquisition costs	—	—	—	(2,377,616)
Net cash provided by (used in) investing activities	10,575,568	(1,988,022)	(10,915,134)	(19,640,948)
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	18,744,948	8,162,858	43,527,006	215,015,674
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	18,744,948	8,162,858	43,527,006	214,630,237
Increase (decrease) in cash and cash equivalents	4,643,361	(14,438,533)	17,942,905	24,802,562
Cash and cash equivalents:				
Beginning of period	20,159,201	34,597,734	16,654,829	—
End of period	$ 24,802,562	$ 20,159,201	$ 34,597,734	$ 24,802,562
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 (loss) on short-term securities—available-for-sale	$ (18,418)	$ 5,450	$ 145,609	$ —
Issuance of common stock and warrants in satisfaction of liabilities	$ —	$ 175,000	$ —	$ 545,000
Issuance of common stock for building purchase	$ 750,000	$ —	$ —	$ 750,000
Assumption of long-term debt for building purchase	$ 2,199,792	$ —	$ —	$ 2,199,792

See accompanying notes to financial statements.

AVI BioPharma, Inc.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF BUSINESS:

AVI BioPharma, Inc. (the Company or AVI) was incorporated in the State of Oregon on July 22, 1980. The mission of the Company is to develop and commercialize improved therapeutic products based upon antisense and cancer immunotherapy technology.

Through May 1993, the financial statements included the combined accounts of the Company and ANTI-GENE DEVELOPMENT GROUP, a limited partnership (AGDG or the Partnership) founded in 1981 and registered in the State of Oregon. Substantially all income generated and proceeds from the Partnership unit sales through that date have been paid to the Company under the terms of research and development contracts entered into by the Partnership and the Company. Significant transactions between the Company and the Partnership through that date have been eliminated.

In March 1993, the Company offered to all partners in the Partnership the opportunity to exchange their partnership units or warrants to purchase partnership units (unit warrants) for common stock or warrants to purchase common stock. Under the terms of the offer, which was completed May 1, 1993, each partner could elect to exchange each unit held or unit warrant held for 1,100 shares of common stock or warrants to purchase 1,100 shares of common stock of the Company, respectively. Total shares and warrants to purchase shares issued in the exchange offer were 1,632,950 and 381,700, respectively.

Effective May 19, 1993, the Company and the Partnership entered into a Technology Transfer Agreement wherein the Partnership conveyed all intellectual property then in its control to the Company. As part of the conveyance, the Company tendered to the Partnership for liquidation all partnership units received pursuant to the exchange offer and received a 49.37 percent undivided interest in the intellectual property. The Company then purchased the remaining undivided interest in the intellectual property for rights to payments of 4.05 percent of gross revenues in excess of $200 million, from sales of products, which would, in the absence of the Technology Transfer Agreement, infringe a valid claim under any patent transferred to the Company. The Company also granted to the Partnership a royalty-bearing license to make, use and sell small quantities of product derived from the intellectual property for research purposes only.

In March 2000, the Company and AGDG amended the Technology Transfer Agreement to give to AGDG and Gene Tools LLC, related organizations, exclusive, non royalty-bearing rights to in vitro diagnostic applications of the intellectual property. In consideration for this amendment, Gene Tools paid the Company $1 million and reduced the royalty that the Company would pay to AGDG under the Technology Transfer Agreement on future sales of therapeutic products from 4.05% to 3.00%.

The remaining net assets of the Partnership, $176,642 of cash, were no longer combined with those of the Company in May 1993. Under the terms of the Technology Transfer Agreement, the Partnership ceased active sales of partnership units and income generating activities and no longer will enter into research and development contracts with the Company. The Partnership currently exists primarily for the purpose of collecting potential future payments from the Company as called for in the Technology Transfer Agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the valuation of investments, long-lived asset impairment, and revenue recognition.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents. The Company held cash and cash equivalents of $24,802,562 and $20,159,201 as of December 31, 2007 and 2006, respectively which consist primarily of money market funds.

Short-Term Securities—Available-For-Sale

The Company accounts for its short-term securities in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). 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 investments in marketable securities had gross unrealized gains of $0 and $18,418 as of December 31, 2007 and 2006, respectively.

Accounts Receivable

Accounts receivable is stated at invoiced amount and do not bear interest. An allowance for doubtful accounts receivable is not necessary since the collectability of individual accounts receivable is known by the company. Amounts included in accounts receivable are as follows:

As of December 31,	2007	2006
Research contract	$ 2,837,615	$ 45,846
Grant	11,899	5,652
Miscellaneous	20,246	—
Accounts receivable	$ 2,869,760	$ 51,498

Property and Equipment

Property and equipment is stated at cost and depreciated over the estimated useful lives of the assets, generally five years, using the straight-line method. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the asset, generally five years, using the straight-line method. Expenditures for repairs and maintenance are expensed as incurred. Expenditures that increase the useful life or value are capitalized.

Amounts included in property and equipment are as follows:

As of December 31,	2007	2006
Property	$ 3,300,000	$ —
Lab equipment	5,501,883	4,770,021
Office equipment	702,969	676,323
Leasehold improvements	9,136,842	8,804,831
Construction in process	—	253,120
	18,641,694	14,504,295
Less accumulated depreciation	(11,816,549)	(10,174,712)
Property and equipment, net	$ 6,825,145	$ 4,329,583

Depreciation expense was $1,718,227, $1,844,599 and $1,749,314 for the years ended December 31, 2007, 2006 and 2005, respectively.

Patent Costs

Patent costs consist primarily of legal and filing fees incurred to file patents on proprietary technology developed by the Company. Patent costs are amortized on a straight-line basis over the shorter of the estimated economic lives or the legal lives of the patents, generally 17 years. Patent amortization was $295,632, $245,776 and $248,385 for the years ended December 31, 2007, 2006 and 2005, respectively. Estimated aggregate amortization expense over the five succeeding fiscal years is expected to be $1,500,000.

Revenue Recognition

The Company records revenue from research contracts and grants as the services are performed and payment is reasonably assured. In 2007, the Company recognized $10,710,330 in research contracts revenues from government funding for work performed on viral disease projects. In 2005, the Company recognized $4,600,000 in research contracts revenue from government funding for work performed on viral disease research projects. Upfront, nonrefundable fees and other fees associated with license and development arrangements are recognized as revenue ratably over the performance period. Revenue associated with performance milestones under license and development arrangements is recognized based upon the achievement of the milestones, as defined in the respective agreements. To date revenue from license and development arrangements has not been significant.

Research and Development

Research and development (R&D) expenses include related salaries, contractor fees, materials, utilities and allocations of corporate costs. R&D expenses also consist of independent R&D costs and costs associated with collaborative development arrangements. In addition, the Company funds R&D at other companies and research institutions under agreements. Research and development costs are expensed as incurred.

Other Current Assets

Amounts included in other current assets are as follows:

As of December 31,	2007	2006
Prepaid expenses	$ 388,371	$ 480,003
Prepaid rents	96,077	100,838
Restricted cash	282,830	155,442
Other current assets	$ 767,278	$ 736,283

Starting in April 2006, the Company was required to pledge $150,000 as collateral for company credit cards issued to certain employees. Starting in April 2007, the Company was required to pledge $125,000 as collateral for payments on long-term debt. The Company classifies these amounts as restricted cash. As of December 31, 2007, restricted cash including accrued interest was $282,830. The remaining components of other current assets include normally occurring prepaid expenses and rents.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered and settled. A valuation allowance is recorded to reduce the net deferred tax asset to zero because it is more likely than not the deferred tax asset will not be realized.

In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for the Company as of January 1, 2007, with cumulative effect, if any, of applying FIN 48 recorded as an adjustment to opening retained earnings in the year of adoption. The Company adopted FIN 48 on January 1, 2007, which did not have a material impact on the consolidated financial statements. See Note 6.

Net Loss 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.

Year Ended December 31,	2007	2006	2005
Net loss	$ (27,167,725)	$ (28,687,510)	$ (18,205,885)
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	53,942,015	52,660,711	44,655,008
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	53,942,015	52,660,711	44,655,008
Net loss per share - basic and diluted	$ (0.50)	$ (0. 54)	$ (0. 41)

* Warrants and stock options to purchase 20,160,864, 14,079,573 and 17,025,547 shares of common stock as of December 31, 2007, 2006 and 2005, respectively, were excluded from earnings per share calculation as their effect would have been antidilutive.

Stock-based Compensation

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 is amortized as compensation expense on a straight-line basis over the vesting period of the grants. Stock options granted to employees are service-based and typically vest over four years.

The fair market values of stock options granted during 2007, 2006 and 2005 were measured on the date of grant using the Black-Scholes option-pricing model, with the following weighted average assumptions:

Year Ended December 31,	2007	2006	2005
Risk-free interest rate	4.81%	4.14%	3.38%
Expected dividend yield	0%	0%	0%
Expected lives	8.1 Years	9.3 Years	9.1 Years
Expected volatility	89%	91%	93%

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 is 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 are recognized through a cumulative catch-up in the period of change and impact the amount of stock compensation expense to be recognized in future periods.

A summary of the Company's stock option compensation activity with respect to the year ended December 31, 2007 follows:

Stock Options	Shares	Weighted Average Exercisable Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2007	5,571,470	$ 5.12		
Granted	1,263,548	$ 2.80		
Exercised	(11,639)	$ 2.49		
Canceled or expired	(518,926)	$ 5.88		
Outstanding at December 31, 2007	6,304,453	$ 4.60	5.38	$ (11,990,260)
Vested at December 31, 2007 and expected to vest	6,268,314	$ 4.60	5.36	$ (11,936,459)
Exercisable at December 31, 2007	4,497,526	$ 4.76	4.23	$ (9,300,172)

The weighted average fair value per share of stock-based payments granted to employees during 2007, 2006 and 2005 was $2.27, $6.09 and $2.12, respectively. During 2007, 2006 and 2005, the total intrinsic value of stock options exercised were $4,937, $779,563 and $36,344, and the total fair value of stock options that vested were $3,661,565, $4,047,970 and $2,219,446, respectively.

As of December 31, 2007, there was $2,901,838 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 1.7 years.

During the year ended December 31, 2007, $29,002 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:

	Year Ended December 31, 2007	Year Ended December 31, 2006
Research and development	$ 1,877,743	$ 2,408,132
General and administrative	2,841,194	1,639,838
Total	$ 4,718,937	$ 4,047,970

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 year ended December 31, 2007 the total compensation expense for participants in the ESPP was $39,359 using the Black-Scholes option-pricing model with a weighted average estimated fair value per share of $1.02, expected life of six months, risk free interest rate of 4.52%, volatility of 52.79%, and no dividend yield. At December 31, 2007, 208,585 shares remain available for purchase through the plan and there were 110 employees eligible to participate in the plan, of which 30 were participants. During the year ended December 31, 2006 the total compensation expense for participants in the ESPP was $56,475 using the Black-Scholes option-pricing model with a weighted average estimated fair value per share of $1.40, expected life of six months, risk free interest rate of 4.51%, volatility of 84.33%, and no dividend yield. At December 31, 2006, 248,144 shares remain available for purchase through the plan and there were 87 employees eligible to participate in the plan, of which 32 were participants.

On March 27, 2007, in connection with his resignation, the Company entered into a Separation and Release Agreement with AVI's former Chairman and Chief Executive Officer. Pursuant to this agreement, he may exercise his previously granted options until the earlier of the termination date specified in the respective stock option grant agreements or March 28, 2010. This modification of these stock options in the first quarter of 2007 increased compensation costs by $1,057,372.

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. The acceleration of these stock options in the first quarter of 2006 increased compensation costs by $833,500.

During the year ended December 31, 2006 the total compensation expense for stock-based compensation was $4,881,470.

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 is 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 in 2007, 2006 and 2005 was $312,637, $525,126 and $394,225, respectively, which was expensed to research and development.

Warrants

Certain of the Company's warrants issued in connection with financing arrangements are classified as liabilities in accordance with EITF 00-19, "*Accounting for derivative financial instruments indexed to, and potentially settled in, a Company's own stock*."

The fair market value of these warrants is recorded on the balance sheet at issuance and marked to market at each financial reporting period. The change in the fair value of the warrants is recorded in the Statement of Operations as a non-cash gain (loss) and is estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

Year Ended December 31,	2007	2006	2005
Risk-free interest rate	3.1%-3.5%	4.6%-4.7%	4.3%
Expected dividend yield	0%	0%	0%
Expected lives	.9-5.0 Years	1.9-3.4 Years	2.9-4.4 Years
Expected volatility	58.2%-80.7%	76.1%-87.2%	83.2%-86.1%

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 based on the remaining contractual lives of the related warrants. The expected volatility is estimated using historical calculated volatility and considers factors such as future events or circumstances that could impact volatility.

For warrants classified as permanent equity in accordance with EITF 00-19, the fair value of the warrants is recorded in shareholders' equity and no further adjustments are made.

Comprehensive Income (Loss)

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.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), which defines fair value of certain assets and liabilities, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but may change current practice for certain entities. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those years. The application of SFAS No. 157 is not expected to have a material impact on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for the Company beginning in the first quarter of fiscal year 2008, although earlier adoption is permitted. The application of SFAS No. 159 is not expected to have a material impact on the Company's financial statements.

In December 2007, the FASB ratified EITF Issue No. 07-01, "Accounting for Collaborative Arrangements" ("EITF 07-01"). EITF 07-01 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-01 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-01 is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of adopting EITF 07-01 on our financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" (SFAS 141(R)), and SFAS No. 160, "Non-Controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51" (SFAS 160). These new standards will significantly change the accounting for and reporting for business combination transactions and non-controlling interests in consolidated financial statements. SFAS 141(R) and SFAS 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. We are currently evaluating the impact of adopting SFAS 141(R) and SFAS 160 on our financial statements.

Commitments and Contingencies.

In the normal course of business, the Company may be named as a party to various legal claims, actions and complaints, including matters involving employment, intellectual property, effects from the use of drugs utilizing our technology, or others. It is impossible to predict with certainty whether any resulting liability would have a material adverse effect on the Company's financial position, results of operations or cash flows.

Financial Instruments.

The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable, and other current monetary assets and liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments.

License Arrangements.

License arrangements may consist of non-refundable upfront license fees, data transfer fees, research reimbursement payments, exclusive licensed rights to patented or patent pending compounds, technology access fees, various performance or sales milestones and future product royalty payments. Some of these arrangements are multiple element arrangements.

The Company defers recognition of non-refundable upfront fees if it has continuing performance obligations without which the technology, right, product or service conveyed in conjunction with the non-refundable fee has no utility to the licensee that is separate and independent of Company performance under the other elements of the arrangement. In addition, if the Company has continuing involvement through research and development services that are required because its know-how and expertise related to the technology is proprietary to the Company, or can only be performed by the Company, then such up-front fees are deferred and recognized over the period of continuing involvement.

Payments related to substantive, performance-based milestones in a research and development arrangement are recognized as revenue upon the achievement of the milestones as specified in the underlying agreements when they represent the culmination of the earnings process.

Long-Lived Asset Impairment

Long-lived assets held and used by us and intangible assets with determinable lives are reviewed for impairment whenever events or circumstances indicate that the carrying amount of assets may not be recoverable in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We evaluate recoverability of assets to be held and used by comparing the carrying amount of an asset to future net undiscounted cash flows to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Such reviews assess the fair value of the assets based upon estimates of future cash flows that the assets are expected to generate.

Government Research Contract Revenue.

The Company recognizes revenues from federal research contracts during the period in which the related expenditures are incurred. The Company receives reimbursement of costs incurred, overhead and, in some cases, a fixed fee. The Company presents these revenues and related expenses at gross in the consolidated financial statements in accordance with EITF 99-19 "*Reporting Revenue Gross as a Principal versus Net as an Agent*."

3. LIQUIDITY:

Since its inception in 1980 through December 31, 2007, the Company has incurred losses of approximately $226 million, and is still in the development stage. 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.

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. The Company believes it has sufficient cash to fund operations at least through the first quarter of 2009, inclusive of future receipts from billings on existing government contracts, as described below. For 2008, the Company expects expenditures for operations, net of government funding, including collaborative efforts and GMP facilities to be approximately $19 to $22 million. Expenditures for 2008 could exceed this level if the Company undertakes additional collaborative efforts. If necessary, however, the Company's management has the ability to curtail certain expenditures because a significant amount of the Company's costs are variable.

In December 2006, the Company announced the execution of a two-year $28 million research contract with the Defense Threat Reduction Agency (DTRA), an agency of the United States Department of Defense (DoD). The contract is directed toward funding the Company's development of antisense therapeutics to treat the effects of Ebola, Marburg and Junin hemorrhagic viruses, which are seen by DoD as potential biological warfare and bioterrorism agents. During the year ended December 31, 2007, the Company recognized $8,018,389 in research contract revenue from this contract. Funding of $24.5 million has been committed through 2008, with the reminder of the contract anticipated in 2009.

In January 2006, the Company announced that the final version of the 2006 defense appropriations act had been approved, which included an allocation of $11.0 million to fund the Company's ongoing defense-related programs. Net of government administrative costs, it is anticipated that the Company will receive up to $9.8 million under this allocation. The Company's NeuGene® technology is expected to 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 has received signed contracts for all four of these projects. The Company expects that funding under these signed contracts will be completed over the next 12 months. During the year ended December 31, 2007, the Company recognized $2,691,941 in research contract revenue from these contracts.

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 complex regulatory environment in which the Company operates. There can be no assurance that the Company will ever achieve significant revenues or profitable operations.

4. SHAREHOLDERS' EQUITY AND WARRANT LIABILITY:

In December 2003, the Company closed a private equity financing for net proceeds of $13,899,007 with several institutional investors. The Company sold 3,246,753 shares of common stock at $4.62 per share. These investors received a warrant for the purchase of 1,623,377 common shares for $4.62 per share. These warrants were immediately exercisable and were exercised on January 22, 2004. These investors also received a warrant for the purchase of 974,026 common shares for $5.50 per share. These warrants are immediately exercisable and expire in December 2008. In connection with the equity financing, the placement agent received a warrant for the purchase of 340,909 common shares for $5.50 per share. These warrants are immediately exercisable and expire in December 2008.

In January 2004, the institutional investors above exercised warrants for the purchase of 1,623,377 shares of the Company's common stock at $4.62 per share, for net proceeds of $6,964,356. Investors also received new five-year warrants to purchase 389,611 common shares for $5.50 per share. These warrants are exercisable starting July 28, 2004 and expire on December 8, 2008.

In January 2005, the Company closed a private equity financing for net proceeds of $22,300,338 with several institutional investors. The Company sold 8,000,000 shares of common stock at $3.00 per share. These investors also received warrants for the purchase of 1,600,001 common shares at $5.00 per share. These warrants are exercisable starting July 19, 2005 and expire on July 19, 2009. In connection with the equity financing, the placement agent received a warrant for the purchase of an additional 560,000 common shares at $5.00 per share. These warrants also are exercisable starting July 19, 2005 and expire on July 19, 2009.

In November 2005, the Company closed a private equity financing for net proceeds of $21,020,984 with several institutional investors. The Company sold 6,941,715 shares of common stock at $3.26 per share. In connection with the equity financing, the placement agent received a warrant for the purchase of 485,920 common shares at $5.00 per share. These warrants are exercisable commencing on May 14, 2006 and expire on May 14, 2010.

In March 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.

In December 2007, the Company closed a private equity financing for net proceeds of $18,626,206 with several institutional investors. In the private equity financing, the Company sold units consisting of one share of common stock, and one-half warrant to purchase a share of common stock for $1.90 per unit. A total of 10,696,616 shares of common stock and warrants for the purchase of 5,348,308 common shares at $2.45 per share were sold. These warrants are exercisable starting June 19, 2008 and expire on December 18, 2012.

In 2000, the Board of Directors and the Company's shareholders approved the Employee Stock Purchase Plan under which the Company is authorized to sell up to 250,000 shares of common stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the Plan, employees may elect every six months to have up to 10% of their compensation withheld to purchase the Company's common stock. The purchase price of the stock is 85% of the lower of the beginning-of-plan period or end-of-plan period market price of the Company's common stock. During 2007, employees elected to purchase a total of 39,559 shares of the Company's common stock at $2.27 per share. During 2006, employees elected to purchase a total of 41,663 shares of the Company's common stock at $2.95 per share. During 2005, employees elected to purchase a total of 60,854 shares of the Company's common stock at $1.82 per share. During 2004, employees elected to purchase a total of 49,918 shares of the Company's common stock at $1.89 per share. At December 31, 2007, 208,585 shares remained available to purchase.

The Company has two stock option plans, the 2002 Equity Incentive Plan and the 1997 Stock Option Plan (the Plans). The 2002 Plan provides for the issuance of incentive stock options to employees and nonqualified stock options, stock appreciation rights and bonus rights to employees, directors of the Company and consultants. The 1997 Plan provides for the assumption of the ImmunoTherapy Options under the Merger Agreement. The Company has reserved 8,138,988 shares of common stock for issuance under the Plans. Options issued under the Plans generally vest ratably over four years and expire five to ten years from the date of grant. At December 31, 2007, 4,824,328 options are outstanding at a weighted-average exercise price of $4.75 under equity compensations plans approved by security holders. At December 31, 2007, 2,043,120 shares were available to issue under equity compensation plans approved by security holders.

A summary of the status of the Company's stock option plans and changes are presented in the following table:

	2007		2006		2005	
For the Year Ended December 31,	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	5,571,470	$ 5.12	4,812,396	$ 4.55	3,803,278	$ 5.22
Granted	1,263,548	2.80	1,172,700	7.13	1,245,937	2.47
Exercised	(11,639)	2.49	(218,353)	3.40	(37,029)	2.56
Canceled	(518,926)	5.88	(195,273)	5.03	(199,790)	4.73
Options outstanding at end of year	6,304,453	4.60	5,571,470	5.12	4,812,396	4.55
Exercisable at end of year	4,497,526	$ 4.76	3,660,483	$ 5.10	3,308,714	$ 5.40

At December 31, 2007, 1,834,535 shares were available for future grant.

The following table summarizes information about stock options outstanding at December 31, 2007:

Exercise Price	Outstanding Shares at December 31, 2007	Weighted Average Remaining Contractual Life (Years)	Exercisable Options
$ 1.76	20,000	1.62	20,000
2.00	100,000	7.03	100,000
2.06	20,000	6.75	20,000
2.20	60,000	5.78	53,334
2.24	50,000	7.38	50,000
2.26	2,500	7.72	2,500
2.29	23,333	7.36	13,334
2.43	3,333	2.36	2,001
2.45	450,000	9.24	225,000
2.53	828,921	6.70	623,897
2.55	63,000	6.48	54,750
2.60	5,000	7.21	2,500

2.64	33,000	7.17	16,500
2.83	66,000	9.83	—
2.89	100,000	6.24	75,000
2.92	183,334	6.22	137,501
3.00	663,709	8.14	103,626
3.02	33,334	6.23	25,001
3.03	60,000	9.39	34,998
3.25	20,000	7.88	13,334
3.29	10,000	1.28	10,000
3.31	25,000	1.76	25,000
3.45	100,000	6.25	75,000
3.69	28,000	1.05	28,000
3.81	15,000	0.64	15,000
4.16	20,000	5.28	20,000
4.25	20,000	0.98	20,000
4.34	49,031	3.10	49,031
4.55	30,000	0.62	30,000
4.64	83,000	8.39	58,250
4.87	20,000	5.01	20,000
4.89	10,000	5.01	10,000
5.35	745,800	4.93	745,800
5.53	40,000	2.92	40,000
5.75	503,000	2.00	503,000
5.88	45,000	5.38	45,000
6.63	510,000	0.11	510,000
6.65	40,000	4.37	40,000
6.88	132,000	2.62	132,000
6.98	100,000	8.22	33,334
7.19	33,334	2.58	33,334
7.35	959,824	7.54	481,501
	6,304,453		4,497,526

The Company has also issued warrants for the purchase of common stock in conjunction with financing and compensation arrangements. A summary of the status of the Company's warrants and changes are presented in the following table:

	2007		2006		2005	
For the Year Ended December 31,	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Warrants outstanding at beginning of year	8,508,103	$ 11.68	12,213,151	$ 10.79	10,014,330	$ 12.34
Granted	5,348,308	2.45	—	—	2,645,921	5.00
Exercised	—	—	(705,048)	3.32	—	—
Expired	—	—	(3,000,000)	10.00	(447,100)	9.14
Warrants outstanding at end of year	13,856,411	8.12	8,508,103	11.68	12,213,151	10.79
Exercisable at end of year	6,842,225	$ 5.85	6,842,225	$ 5.85	10,061,353	$ 6.95

The following table summarizes information about warrants outstanding at December 31, 2007:

Exercise Price	Outstanding Warrants at December 31, 2007	Weighted Average Remaining Contractual Life (Years)	Exercisable Warrants
$ 0.0003	16,667	No expiration date	16,667
1.14	1,000	No expiration date	1,000
2.45	5,348,308	4.96	—
5.00	2,645,921	1.70	2,645,921
5.50	1,613,637	0.94	1,613,637
7.00	2,565,000	0.34	2,565,000
35.63	1,665,878	2.25	—
	13,856,411		6,842,225

The warrants issued in 2005 and 2007 do not require net cash settlement, however, as the warrants require settlement in registered shares, the Company has recorded the warrants as liabilities on the accompanying balance sheet. There is no effect on cash flows from these warrants as the mark to market adjustment is reflected as a non-cash charge within the Company's Statements of Operations. There were 9,607,866, 4,259,558, and 4,350,467 liability classified warrants outstanding at December 31, 2007, 2006, and 2005, respectively.

5. 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.

On March 13, 2006, the Company announced that it had entered into agreements with Cook Group Incorporated ("Cook") for Cook's development and commercialization of products for vascular and cardiovascular diseases. See Note 4.

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 with a market value of $175,000, 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.

In December 2006, the Company entered into a cross-license and collaboration agreement with Ercole Biotech, Inc. ("Ercole") to identify and develop drugs that direct the splicing of messenger RNA (mRNA) to treat a variety of genetic and acquired diseases and a stock purchase agreement in connection therewith. Under the terms of the stock purchase agreement, Ercole issued AVI shares of Ercole Series A-2 Preferred Stock, and the Company issued to Ercole 192,857 shares of the Company's common stock with a market value of $675,000 and which was expensed to research and development.

On January 8, 2007, the Company announced that it had entered into a cross-license agreement with Eleos Inc. for the development of antisense drugs targeting p53, a well-studied human protein that controls cellular response to genetic damage. Under the terms of the agreement, the Company granted Eleos Inc. an exclusive license to the Company's NeuGene® third-generation antisense chemistry to treat cancer with p53-related drugs. In return, Eleos Inc. granted an exclusive license to its patents to the Company for treatment of most viral diseases with drugs that target p53. The companies are sharing rights in other medical fields where targeting p53 may be therapeutically useful. Each company will make milestone payments and royalty payments to the other on development and sales of products that utilize technology licensed under the agreement. In addition, Eleos Inc. made an upfront payment of $500,000 to the Company. The Company recognized $125,000 in license fees in the year ended December 31, 2007; the remaining $375,000 has been classified as deferred revenue.

In February 2007, the Company issued 100,000 shares of the Company's common stock with a market value of $300,000 for consulting services, which was expensed as a component of research and development.

On March 27, 2007, the Board of Directors appointed K.Michael Forrest as interim Chief Executive Officer and set his compensation as follows: (a) annual salary - $385,000 and (b) options to acquire 300,000 shares of the Company's common stock. The stock options granted to Mr. Forrest become exercisable starting one month after the grant date, with one-twelfth of the options becoming exercisable at that time and an additional one-twelfth of the options becoming exercisable each month thereafter. The exercise price is $2.45 per share.

On March 27, 2007, in connection with the resignation of AVI's Chairman and Chief Executive Officer, the Company entered into a Separation and Release Agreement, pursuant to which the former Chairman and CEO is entitled to receive his base compensation for 18 months ($562,500 in the aggregate) and medical insurance for the same 18 month period and may exercise his previously granted options until the earlier of the termination date of the respective stock option grant agreements or March 28, 2010. The Company recognized $1,619,872 in total compensation expense to general and administrative in the first quarter of 2007, including $562,500 in cash compensation and $1,057,372 in SFAS 123R expenses.

On April 19, 2007, the Company entered into a real property purchase agreement with WKL Investments Airport, LLC ("WKL") to purchase a parcel of real property, including improvements situated on the land and intangibles related to the land, for $3,300,000. The Company paid the purchase price as follows: $350,208 in cash, assumption of two loans secured by the property in the amount of $2,199,792, and issuance of 270,758 shares of AVI common stock (at $2.77 per share or $750,000 in the aggregate).

On May 2, 2007, the Company entered into a cross-license and collaboration agreement with Ercole Biotech, Inc. ("Ercole") to develop drugs that may prove effective in treating the genetic diseases Duchenne muscular dystrophy and beta thalassemia and a stock purchase agreement in connection therewith. Under the terms of the stock purchase agreement, Ercole issued AVI shares of Ercole Series A-2 Preferred Stock, and the Company issued to Ercole 73,607 shares of the Company's common stock with a market value of $200,000 and which was expensed to research and development.

In August 2007, the Company issued 74,074 shares of the Company's common stock with a market value of $200,000 for consulting services, which was expensed as a component of research and development.

On October 15, 2007, the Company and Charley's Fund, Inc. announced that the Company has been awarded a $2.45 million research grant from Charley's Fund, a nonprofit organization that funds drug development and discovery initiatives specific to Duchenne muscular dystrophy (DMD). This award will support a new product development program using proprietary exon skipping technologies developed by the Company and its partner, Ercole Biotech, Inc., to overcome the effects of certain genetic errors in the dystrophin gene. T he award will allow the Company to accelerate its development of new therapeutics for DMD. In the fourth quarter of 2007 the Company received $400,000 from Charley's Fund. The Company recognized $37,500 in research contract revenue in the year ended December 31, 2007; the remaining $362,500 has been classified as deferred revenue.

On October 30, 2007, the Company obtained a loan for $4,500,000 from a lending institution with a $7,500 loan fee at a fixed interest rate of 7.2%. This loan was paid when due on December 7, 2007.

6. INCOME TAXES:

As of December 31, 2007 the Company has net operating loss carryforwards of approximately $170,938,000, available to reduce future taxable income, which expire 2008 through 2027. Of this $170,938,000, approximately $2,600,000 relates to net operating losses assumed as part of the ImmunoTherapy Corporation acquisition. Utilization of these ImmunoTherapy Corporation net operating losses is limited to approximately $1,200,000 per year. In addition, the Internal Revenue Code rules under Section 382 could limit the future use of the remaining $168,338,000 in losses based on ownership changes and the value of the Company's stock. Approximately $3,927,000 of the Company's carryforwards were generated as a result of deductions related to exercises of stock options. When utilized, this portion of the Company's carryforwards, as tax effected, will be accounted for as a direct increase to contributed capital rather than as a reduction of that year's provision for income taxes. The principal differences between net operating loss carryforwards for tax purposes and the accumulated deficit result from depreciation, amortization, investment write-downs, treatment of research and development costs, limitations on the length of time that net operating losses may be carried forward, and differences in the recognition of stock-based compensation.

The Company had net deferred tax assets of $94,631,000 and $79,398,000 at December 31, 2007 and 2006, primarily from net operating loss carryforwards. A valuation allowance was recorded to reduce the net deferred tax asset to zero because it is more likely than not the deferred tax asset will not be realized. The net change in the valuation allowance for deferred tax assets was an increase of approximately $15,233,000, $11,769,000 and $9,056,000 for the years ended December 31, 2007, 2006 and 2005, respectively, mainly due to the increase in the net operating loss carryforwards, research and development tax credits and write-down of short-term securities.

An analysis of the deferred tax assets (liabilities) are as follows:

December 31,	2007	2006
Net operating loss carryforwards	$ 66,666,000	$ 58,688,000
Difference in depreciation and amortization	1,786,000	1,413,000
Capital loss carryforward	5,007,000	5,007,000
Research and development tax credits	17,850,000	12,575,000
FAS 123R stock compensation	2,268,000	946,000
Stock options for consulting services	887,000	765,000
Deferred Rent	147,000	0
Other	20,000	4,000
	94,631,000	79,398,000
Valuation allowance	(94,631,000)	(79,398,000)
	$ —	$ —

The Company adopted the provisions of FIN 48 on January 1, 2007, which did not materially impact its consolidated financial statements. No unrecognized tax benefits were recorded as of the date of adoption. As a result of the implementation of FIN 48, the Company did not recognize any liability for unrecognized tax benefits. There are no unrecognized tax benefits included in the balance sheet that would, if recognized, affect the effective tax rate.

The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties on its balance sheet at December 31, 2007 and at December 31, 2006, and has not recognized interest and/or penalties in the statement of operations for the year ended December 31, 2007.

At December 31, 2007, the Company had net deferred tax assets of $94,631,000. The deferred tax assets are primarily composed of federal and state tax net operating loss carryforwards, federal and state R&D credit carryforwards, share-based compensation expense and intangibles. Due to uncertainties surrounding its ability to generate future taxable income to realize these assets, a full valuation allowance has been established to offset its net deferred tax asset. Additionally, the Internal Revenue Code rules under Section 382 could limit the future use of its net operating loss and R&D credit carryforwards to offset future taxable income based on ownership changes and the value of the Company's stock.

7. COMMITMENTS:

Lease Obligations

The Company leases office and laboratory facilities under various noncancelable operating leases through December 2020. Rent expense under these leases was $1,388,000, $1,333,000 and $1,160,000 for the years ended December 31, 2007, 2006 and 2005, respectively, and $9,931,000 for the period from July 22, 1980 through December 31, 2007.

At December 31, 2007, the aggregate noncancelable future minimum payments under these leases are as follows:

Year ending December 31,	
2008	$ 1,222,000
2009	1,210,000
2010	1,177,000
2011	1,264,000
2012	1,302,000
Thereafter	11,925,000
Total minimum lease payments	$ 18,100,000

Royalty Obligations

The Company has license agreements for which it is obligated to pay the licensors a minimum annual royalty. Royalty payments under these agreements were $125,000, $125,000 and $125,000 for the years ended December 31, 2007, 2006 and 2005, respectively, and $1,108,750 for the period from July 22, 1980 through December 31, 2007.

At December 31, 2007, the aggregate future minimum royalty payments under these agreements are as follows:

Year ending December 31,	
2008	$ 125,000
2009	125,000
2010	125,000
2011	125,000
2012	105,000
Thereafter	1,275,000
Total minimum royalty payments	$ 1,880,000

8. FINANCIAL INFORMATION BY QUARTER (UNAUDITED):

2007 for quarter ended	December 31	September 30	June 30	March 31
Revenues from license fees, grants and research contracts	$ 5,186,319	$ 2,911,406	$ 2,351,424	$ 536,042
Operating expenses:				
Research and development	9,401,465	9,880,480	9,160,816	6,317,641
General and administrative	1,453,172	1,544,512	2,030,796	4,303,885
	10,854,637	11,424,992	11,191,612	10,621,526
Other income (loss):				
Interest income, net	135,579	182,320	303,568	362,509
Gain (loss) on warrant liability	1,405,545	1,296,322	755,317	1,498,691
Net income (loss)	$ (4,127,194)	$ (7,034,944)	$ (7,781,303)	$ (8,224,284)
Net income (loss) per share — basic	$ (0.07)	$ (0.13)	$ (0.15)	$ (0.15)
Net income (loss) per share — diluted	$ (0.07)	$ (0.13)	$ (0.15)	$ (0.15)
Shares used in per share calculations — basic	55,252,905	53,693,693	53,560,360	53,241,730
Shares used in per share calculations — diluted	55,252,905	53,693,693	53,560,360	53,241,730

2006 for quarter ended	December 31	September 30	June 30	March 31
Revenues from license fees, grants and research contracts	$ 17,519	$ 13,252	$ 18,558	$ 65,962
Operating expenses:				
Research and development	6,721,547	5,938,867	5,921,929	6,763,245
General and administrative	2,068,201	1,347,114	1,515,711	2,821,726
	8,789,748	7,285,981	7,437,640	9,584,971
Other income (loss):				
Interest income, net	443,042	492,083	517,053	457,859
Gain (loss) on warrant liability	2,250,049	529,136	13,801,693	(14,195,376)
Net income (loss)	$ (6,079,138)	$ (6,251,510)	$ 6,899,664	$ (23,256,526)
Net income (loss) per share — basic	$ (0.11)	$ (0.12)	$ 0.13	$ (0.45)
Net income (loss) per share — diluted	$ (0.11)	$ (0.12)	$ 0.13	$ (0.45)
Shares used in per share calculations — basic	53,000,236	52,964,049	52,946,054	51,715,050
Shares used in per share calculations — diluted	53,000,236	52,964,049	54,060,830	51,715,050

9. SUBSEQUENT EVENTS:

On February 11, 2008, AVI BioPharma, Inc. (the “Company”) announced that its Board of Directors had appointed Leslie Hudson, Ph.D. as the Company’s Chief Executive Officer, effective as of February 8, 2008. As of that date, Dr. Hudson assumed the responsibilities of the Company’s Chief Executive Officer from K. Michael Forrest, who had served as the Company’s interim Chief Executive Officer since March 2007, pending the appointment of a new chief executive officer for the Company. Effective with Dr. Hudson’s appointment as the Company’s Chief Executive Officer, Mr. Forrest ceased to serve as an officer

of the Company. Mr. Forrest will continue as a member of the Board of Directors. Also effective February 8, 2008, Dr. Hudson was appointed as a member of the Company's Board of Directors.

On March 13, 2008, the Company announced the execution of a definitive Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Ercole Biotech, Inc. ("Ercole") will become a wholly-owned subsidiary of the Company. Under the terms of the Merger Agreement, subject to adjustment as provided in the Merger Agreement and described below, the Company will issue up to $7.5 million of the Company's common stock, valued at $1.3161 per share, in exchange for all outstanding shares of Ercole stock not already owned by the Company. In addition, the Company will assume up to $1.5 million in liabilities of Ercole, to be paid by the Company through a combination of cash and the Company's common stock. Liabilities in excess of $1.5 million will be deducted from the $7.5 million in common stock. Certain warrants to purchase shares of Ercole's common stock will be exchanged for warrants exercisable for shares of the Company's common stock. Subject to the satisfaction of customary closing conditions, including approval of Ercole's stockholders, the transaction is expected to close by March 21, 2008.

In addition, in anticipation of the closing of the merger, on March 12, 2008, the Company loaned Ercole approximately $900,000 to be used by Ercole to repay its debt obligation to Isis Pharmaceuticals, Inc. In exchange, Ercole issued a convertible promissory note to the Company. In the event the merger closes, this debt will be forgiven. If the merger does not close, Ercole will either repay the amounts owing or the Company may convert such amounts into shares of Ercole Class A Voting Common Stock.

Portions of this document have been redacted and filed separately with the Securities and Exchange Commission.
Redacted sections marked with "*****."

SPONSORED RESEARCH AGREEMENT

THIS SPONSORED RESEARCH AGREEMENT (this "Agreement"), effective the 12th day of October, 2007 (the "Effective Date"), is entered into by and between AVI BIOPHARMA, INC., an Oregon Corporation, with principal offices located at One SW Columbia, Suite 1105, Portland, Oregon 97258 ("Company"), and CHARLEY'S FUND, INC., a 501(c)(3) tax-exempt public non-profit organization with a mailing address of P.O. Box 297, South Egremont, MA, 01258 (the "Sponsor").

WITNESSETH:

WHEREAS, the Sponsor wishes to promote scientific research leading to exon skipping therapeutics related to Duchenne muscular dystrophy; and

WHEREAS, the Company has developed a proprietary antisense chemistry and has certain employees who possess knowledge, know-how and experience in substantive fields relating to such research and commercialization efforts;

WHEREAS, the Company has a cooperative development and license agreement with Ercole Biotech, Inc., and cross licensing rights to intellectual property important for the freedom to operate;

WHEREAS, the Sponsor is willing to fund such research by the Company, with the objective, as set forth herein, leading to an Investigational New Drug (IND) filing with the Food and Drug Administration; and

WHEREAS, it is the intent of the Sponsor and the Company to complete the research to identify a viable candidate and to demonstrate the safety and efficacy of the putative therapeutic used for exon skipping, sufficiently to file an IND and proceed to human clinical trials required for regulatory approval of said therapeutic,

NOW, THEREFORE, in consideration of the premises herein contained, and for other good and valuable consideration, the parties agree as follows:

1. Definitions

For purposes of this Agreement, the following definitions apply:

1.1 "Affiliates" shall mean any corporation or other entity that controls, is controlled by, or is under common control with, a party. A corporation or other entity shall be regarded as in control of another corporation or entity if it owns or directly or indirectly controls more than 50% of the voting securities or other ownership interest of the other corporation or entity, or if it

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possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the corporation or other entity.

1.2 "Agreement Period" shall mean the period commencing on the Effective Date of this Agreement and ending upon completion of the Research Project.

1.3 "Company Inventions" shall have the meaning provided in Section 8.1 hereof.

1.4 "Confidential Information" shall have the meaning provided in Section 6.1 hereof.

1.5 "FDA" shall mean the United States Food and Drug Administration.

1.6 "Field" shall mean the treatment or prevention of Duchenne Muscular Dystrophy or any other muscular dystrophy.

1.7 "Invention" shall have the meaning provided in Section 8.1 hereof.

1.8 "Investigators" shall have the meaning provided in section 2.1 hereof.

1.9 "Joint Inventions" shall have the meaning provided in Section 8.1 hereof.

1.10 "Major Market" shall mean any one of the following:

(a) The United States;

(b) Japan; or

(c) Any of the following five (5) European countries: Germany, The United Kingdom, France, Italy, or Netherlands.

1.11 "Net Sales" means the gross amount invoiced for sales of Research Products by Sponsor, its affiliates, and sublicensees, to an independent third party in an arms-length transaction, less:

(a) Trade, quantity and cash discounts allowed;

(b) Discounts, refunds, rebates, chargebacks, retroactive price adjustments, and any other allowances which effectively reduce the net selling price;

(c) Credits for actual Research Product returns;

(d) Any tax imposed on the production, sale, delivery or use of the Research Product, including, without limitation, sales, use, excise or value added taxes.

1.12 "Option" shall have the meaning provided in Section 9.2 hereof.

1.13 "Option Term" shall have the meaning provided in Section 9.2 hereof.

1.14 "Project Funds" shall have the meaning provided in Section 4.1 hereof.

1.15 "Project Team" shall have the meaning provided in Section 2.1 hereof.

1.16 "Research Product" shall have the meaning provided for in Section 4.3.6 hereof

1.17 "Research Project" shall mean the research described in the Study Protocol hereof.

1.18 "Results" shall have the meaning provided in Section 3.4 hereof.

1.19 "Sponsor Inventions" shall have the meaning provided in Section 8.1 hereof.

1.20 "Study Protocol" shall mean the protocol set forth in Appendix A with attached Gantt chart hereto, which is incorporated herein by reference and made a part hereof as if fully set forth herein, as such protocol may be modified from time to time by mutual written agreement of the Company and the Sponsor.

2. **Research**

2.1 The Principal Investigator for the Research Project shall be Dr. Patrick Iversen. The Principal Investigator shall be responsible for directing and overseeing the conduct of the Research Project using appropriately qualified collaborating investigators, including Dr. Ryszard Kole, CSO, Ercole Biotech, Dr. Stephen Wilton, University of Western Australia, and Dr. Qi Lu, Carolina's Healthcare Foundation, and scientists and research technicians who are under the Principal Investigator's direction and control and are employed by the Company (collectively, the Principal Investigator, the collaborating investigators, and the Company employees working on the Research Project constitute the "Project Team").

2.2 Subject to the terms and conditions of this Agreement, the Company and the Principal Investigator shall perform the Research Project in accordance with the Study Protocol. No change to the Study Protocol shall be effective without the prior written consent of the Sponsor. The Company and the Principal Investigator shall use reasonable efforts to distinguish the research performed under this Agreement from all other work the Principal Investigator performs for other purposes and shall keep records pertaining to such other work separately from the records to be maintained pursuant to Section 2.7 to the extent practicable.

2.3 The Company shall provide the Sponsor with written evidence of approval of the Research Project by the responsible body within the Company, if such approval is necessary, and with copies of any documents used in the conduct of the Research Project, including, but not limited to, all documentation required by the Study Protocol.

2.4 The Company shall provide the support necessary for the Project Team to complete the Research Project, which support shall include, but is not limited to, human resources, space, dedicated research time, and computing, laboratory, and all other equipment, all in accordance with the Study Protocol attached as Appendix A.

2.5 The Company shall also accept and administer the Project Funds. The Company's use of the Project Funds shall be strictly for purposes of the Research Project and shall be subject to the terms and conditions set forth in APPENDIX B, which is incorporated herein by reference and made part of this Agreement. NO PART OF THE PROJECT FUNDS

SHALL BE USED FOR INDIRECT EXPENSES OF THE PROJECT TEAM OR THE Company. Except as specified in the Study Protocol relating to work to be conducted by collaborating investigators, no part of the Project Funds shall be transferred to another organization, whether or not the Principal Investigator or any other member of the Project Team becomes associated with that other organization unless the prior written consent of the Sponsor is obtained by the Company. The Company shall be required to repay to the Sponsor any part of the Project Funds used in contravention of the express terms of this Agreement.

2.6 The Company shall ensure that the Research Project shall be conducted in strict compliance with any applicable federal, state, or local laws, regulations, or guidelines pertaining to good research practices and/or good laboratory practices.

2.7 The Company shall keep accurate and complete financial and scientific records relating to the Research Project and will make such records reasonably available to the Sponsor for review and/or copying during normal business hours.

2.8 The Company shall promptly advise the Sponsor of any changes in the senior personnel comprising the Project Team. If, for any reason, the Principal Investigator (i) ceases to be associated with the Company, (ii) becomes debarred or receives notice of an action or threat of an action with respect to debarment under the provisions of the Generic Drug Enforcement Act of 1992, 21 U.S.C. Section 306(a) and (b), or (iii) otherwise becomes unavailable to work on the Research Project, the Company shall promptly so notify the Sponsor in writing and will propose a qualified replacement scientist at the Company whose appointment as Principal Investigator shall be subject to the approval of Sponsor. The Company shall consult with and reasonably consider and take into account the Sponsor's view with respect to the replacement of the Principal Investigator, provided that, in the case of a proposed replacement chosen by the Company and who is on the Advisory Committee, the Sponsor agrees that it will give its approval to such replacement for the Principal Investigator.

3. Reports to the Sponsor

3.1 During the Agreement Period, the Sponsor may meet with the Principal Investigator from time to time to discuss the planning and progress of the Research Project. An Advisory Committee made up of three members or advisors from the Company, three members or advisors from the Sponsor, a member from Ercole Biotech and an external collaborator will meet once per quarter to review progress of the Research Project. The Company will have final decision-making authority on all drug development, strategic, and other decisions.

3.2 During the Agreement Period and for three (3) years thereafter, the Company shall make available to the Sponsor copies of all data and other information generated pursuant to this Agreement including, without limitation, all raw data obtained as a result of studies conducted in the course of the Research Project and all experimental procedures developed under the Research Project.

3.3 At least every three (3) months during the conduct of the Research Project, the Company, in coordination with the Principal Investigator, shall provide the Sponsor with an interim written progress report concerning the Research Project.

3.4 A final written report setting forth the results achieved under and pursuant to the Research Project and recommendations for next actions shall be submitted by the Company to the Sponsor within ninety (90) days of completion or earlier termination of the research that is the subject of this Agreement. Such final report shall include a complete summary of the research carried out and detailed experimental results of the research protocols performed in the course of the Research Project (collectively, the "Results").

3.5 Each written progress report to the Sponsor, including the final report, shall be accompanied by a financial statement from the Company describing in reasonable detail the disposition to date of the Project Funds.

3.6 During the Agreement Period and for five (5) years thereafter, authorized employees and agents of the Sponsor or of the FDA shall have access to the Company and its personnel and records relating to the Research Project for the purpose of determining compliance with this Agreement and the Study Protocol and federal, state, and local laws and regulations and any applicable guidelines for the conduct of research. Such access by employees and agents of the Sponsor shall be on reasonable notice and during normal business hours, and individuals conducting such visits shall be bound by appropriate confidentiality agreements with the Company.

4. <u>Payments and Repayment Rights</u>

4.1 Subject to the terms and conditions of this Agreement including the repayment rights provided for in Section 4.3, the Sponsor shall pay the Company a total amount of Two Million Four Hundred and Fifty-two Thousand Dollars ($2,452,000.00) which amount is inclusive of all direct costs of Research Project activities (the "Project Funds") as follows:

***** ($*****) shall be paid within ten (10) days of the parties' execution of this Agreement; ***** ($*****) shall be paid three (3) months from the Effective Date of this Agreement subject to Sponsor's receipt of the first progress report demonstrating completion of that research component of the Research Project; ***** ($*****) shall be paid six (6) months from the Effective Date of this Agreement subject to the Sponsor's receipt of the second progress report demonstrating completion of that research component of the Research Project; and ***** ($*****) shall be paid nine (9) months from the Effective Date of this Agreement subject to the Sponsor's receipt of the third progress report demonstrating completion of that research component of the Research Project. The Sponsor shall not be obligated to make any payments to the Company in addition to those set forth in this Section 4.1 unless the parties otherwise mutually agree in writing.

4.2 The Company shall provide to the Sponsor all information necessary to make the payments described above, including, but not limited to, the name of the payee, its tax identification number, and the name and address of the contact person to whom payments should be sent.

4.3 The Company and the Sponsor agree to the following commercial terms with regard to the development and commercialization of a Research Product:

4.3.1 The Company shall make a lump sum payment to the Sponsor of ***** ($*****) (the "First Payment") within thirty (30) days after the end of the fiscal quarter during which the first commercial sale into a Major Market of the Research Product occurs.

4.3.2 The Company shall make a lump sum payment to the Sponsor of ***** ($*****) (the "Second Payment") within thirty days (30) after the end of the fiscal quarter during which the first anniversary of the first commercial sale into a Major Market of the Research Product occurs.

4.3.3 The Company shall make a lump sum payment to the Sponsor of ***** ($*****) (the "Third Payment") within thirty days (30) after the end of the fiscal quarter during which the second anniversary of the first commercial sale into a Major Market of the Research Product occurs.

4.3.4 In the event the Company or one of its Affiliates enters into any sort of partnership (a license agreement, research and development agreement, collaboration or similar arrangement) with a corporate partner that includes the right to sell, distribute promote or market the Research Product or any of the underlying intellectual property and

(i) if, prior to the second anniversary of the first commercial sale of a Research Product in a Major Market country, the corporate partner agrees to pay an upfront cash license fee or similar payment which is earned upon signing, the Company or its Affiliates shall pay to the Sponsor, within thirty (30) days of Company's receipt of such payment from the corporate partner, *****% of the cash received as an upfront fee or the total Project Funds, less any amount already repaid to the Sponsor by the Company, whichever is less.

(ii) and if, thereunder, the Company is entitled to development milestone payments, the Company or its Affiliates shall, within thirty (30) days of receipt of any such payments, make repayments to the Sponsor in the amount of *****% of each individual milestone payment specifically related to the progress for the development of a Research Product, limited to *****% of the Project Funds at each of such milestone payment, until the Project Funds amount is repaid in full.

4.3.5 Without limiting the foregoing, in the event that the full amount of the Project Funds have not been repaid to the Sponsor at first commercial sale into a Major Market of the Research Product via the payment mechanisms of Section 4.3.4, the Company shall make payments to the Sponsor as provided for in Sections 4.3.1, 4.3.2, and 4.3.3..

4.3.6 "Research Product" shall mean any product containing any molecular candidate arising or derived from the research funded hereunder which is developed as a human therapeutic agent for skipping exon 50 in the indication Duchenne Muscular Dystrophy.

4.3.7 Repayments to the Sponsor under all mechanisms in this Article 4 shall not exceed the total Project Funds as provided for in Section 4.1.

5. Right of the Company to Seek Additional Funding

5.1 The Sponsor strongly encourages the Company, through the efforts of the Principal Investigator, to seek additional funding for the laboratories of the Investigators from the Federal government or other sponsors of research and acknowledges that such additional sponsors may retain rights in and to such funded research.

6. Confidentiality

6.1 The Sponsor and the Company acknowledge that each party may receive confidential technical and business information of the other party ("Confidential Information") during the Agreement Period. Each party hereto agrees that, during the Agreement Period and for a five (5) year period thereafter, that it will maintain in strict confidence, and will not disclose to any third party, any Confidential Information of the other party, whether in oral, written, graphic or electronic form. Each party hereto agrees (i) not to use Confidential Information of the other party except for purpose of conducting Research Project activities in accordance with the Study Protocol or for such other purposes consistent with the intent and terms of this Agreement and (ii) not to disclose Confidential Information of the other party to third parties without the express written permission of the other party, except that (a) each party shall not be prevented from disclosing Confidential Information to its employees, officers, independent contractors and Affiliates requiring access thereto for the purposes of this Agreement provided each such employee, officer, independent contractor or Affiliate is bound by an agreement regarding confidentiality and non-use at least as restrictive as the obligations in this Article 6, and (b) such information may be disclosed insofar as such disclosure is necessary to allow either the Company or the Sponsor, as the case may be, (A) to defend itself against litigation, (B) to file and prosecute patent applications on any Invention in accordance with Article 8 hereof, or (C) to comply with judicial decree, government action or applicable law or regulation, provided that the party shall give prior written notice to the other party so that the other party may attempt to obtain a protective order requiring that the Confidential Information be disclosed only to the extent required by such order, law or regulation, and that it be used only for the purposes for which the decree, action, law or regulation requires such disclosure to be made. The parties agree that no advance notice to the Sponsor is required for AVI's compliance with its reporting requirements to the Securities and Exchange Commission (SEC) . The parties will take all steps necessary to ensure that its employees, officers, independent contractors, and Affiliates comply with the terms and conditions of this Agreement. Notwithstanding the foregoing, such obligation of confidentiality shall not apply to information that the receiving party can establish by competent evidence:

(i) at the time of disclosure is in the public domain;

(ii) has come into the public domain through no fault of the receiving party or its employees and agents;

(iii) was known to the receiving party prior to its disclosure by the disclosing party, as evidenced by the receiving party's written records; or

(iv) is disclosed to the receiving party, without restriction on disclosure, by a third party that is not under an obligation of non-disclosure to the disclosing party.

6.2 The Company (including, for purposes of this Section 6.2, the Principal Investigator) shall have the right, and is encouraged, to publish or present the Results of the Research Project, provided the Sponsor has the opportunity to review and comment on any proposed manuscripts or the substance of any presentations describing said Research Project or Results at least thirty (30) days prior to their submission to a third party for publication or review. In the event that the rights to the Research Product have been licensed to Sponsor pursuant to Article 9, then the positions of the Parties with respect to the provisions of this Section 6.2 shall be reversed. The reviewing party shall review any draft and give its comments to the publishing party promptly. The publishing party shall comply with the reviewing party's request to delete references to the reviewing party's Confidential Information in any such publication and the publishing party agrees to withhold publication an additional thirty (30) days to permit the reviewing party to obtain patent or other intellectual property protection, if the reviewing party deems it necessary.

7. Use of the Other Party's Name; Public Statements

Each party agrees that it will not at any time during or following expiration or termination of this Agreement use the name of the other party or its employees or any other names, insignia, symbol(s), or logotypes associated with the other party or any variant or variants thereof orally or in any literature, advertising, or other materials without the prior written consent of the other party except for right to publish set forth in Section 6.2 and Company's compliance with its reporting requirements to the SEC, which consent may be withheld at the other party's sole discretion. Notwithstanding the foregoing, the Company agrees that the Sponsor may use the names of the Company, the Principal Investigator and his collaborators in connection with generally publicizing on its website, in press releases or in other publications of the Sponsor provided that such usages are limited to identifying the Company and/or the Principal Investigators and briefly describing the nature of the Research Project and the Sponsor agrees that Company may use Sponsor's name in connection with any board or investor presentation, or press release related thereto, or as may be requested by any funding entity, governmental entity, or academic publisher, or as required by law. Prior to publicizing, both parties agree to give the other party an opportunity to review press releases using the other's name and discussing the work involved in the project.

8. Ownership and Patents

8.1 Company shall own all data obtained in the Research Project, research protocols related to the Research Project, and Results, and shall have the right to submit all such information to support regulatory filings related to the Research Product and other products that may be developed by the Company.

8.2 Ownership of any discovery, invention, method, process or other know-how made, conceived or first reduced to practice in the performance of the Research Project during the project period by the Company and its affiliates, the Principal Investigator and/or the Sponsor and all intellectual property arising therefrom (collectively, "Inventions") shall be determined as follows: All Inventions conceived or reduced to practice during the project period solely by employees, agents or consultants of the Company, including, without limitation, the Principal Investigator ("Company Inventions") shall be owned solely by the Company. All Inventions conceived or reduced to practice during the project period solely by employees, agents or consultants of the Sponsor ("Sponsor Inventions") shall be owned solely by the Sponsor. All Inventions conceived or reduced to practice jointly during the project period by employees, agents or consultants of the Company, on the one hand, and employees, agents or consultants of the Sponsor, on the other hand ("Joint Inventions"), shall vest according to U.S. patent law. The Company represents and warrants that all Company employees and other individuals or entities performing any part of the Research Project are obligated to assign to the Company all inventions and intellectual property rights that are necessary to enable the Company to grant the Sponsor all rights the Company purports to grant under this Agreement.

8.3 As soon as the Company reasonably believes a Company Invention or Joint Invention has been conceived or reduced to practice hereunder (and in any event within a reasonable time after its disclosure to the Company Technology Office), the Company shall disclose such invention in writing to the Sponsor in sufficient detail to allow the Sponsor to evaluate its significance.

8.4 The Company shall have the first right to prosecute any patent application(s) covering any Company Inventions. Within a reasonable time after disclosure of any such Company Invention to the Sponsor, the Company shall notify the Sponsor in writing if it intends to pursue patent protection for such Company Invention. If the Company elects to pursue patent protection, it shall promptly prepare, file and prosecute any U.S. or foreign application(s) to protect such Company Invention. The Company shall bear all expenses in connection with such preparation, filing, prosecution and maintenance of U.S. and foreign patent applications. For such Company elected patent applications, the Company shall be responsible for making decisions regarding the scope and content of such patent application(s) and the prosecution thereof. The Sponsor shall be responsible for the costs of patent filing and prosecution for Sponsor Inventions or if the Sponsor requests that the Company files a patent application. The Company and Sponsor shall each make reasonable efforts to keep the other advised as to all developments with respect to such application(s).

8.5 For Joint Inventions, the Company and Sponsor will negotiate in good faith, at the time of disclosure, the management and prosecution of the invention including any cost related thereto.

8.6 Sponsor grants Company an exclusive, worldwide, fully paid-up, royalty-free license under Sponsor's interest in any Joint Inventions and to Sponsor Inventions to make, use and sell Research Products.

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9. Granting of Exclusive License

9.1 The parties acknowledge and agree that they intend to use their reasonable best efforts to complete the Research Project as described in the Study Protocol. In the event the Company and its Affiliates and partners elect to discontinue to pursue the development and/or commercialization of a Research Product for reasons other than safety and efficacy, the Company and its Affiliates, at the request of the Sponsor, hereby grants the Sponsor the exclusive royalty-bearing, fully paid up, worldwide license or sublicense as the case may be, with the right to sublicense, to the Research Product, on terms consistent with the requirements of the Ercole Biotech-Isis Pharmaceuticals collaboration agreement and Ercole Biotech-AVI BioPharma collaboration agreement, under patents owned or licensed by the Company or its Affiliates to research , to develop, to use, to sell, to offer for sale, to distribute Research Products, to import, to export and to employ methods covered by any such patents or by Company Inventions or Company's interest in Joint Inventions relating to the Research Product. In consideration for the exclusive license to use and sell the Research Product

9.1.1 if the Sponsor obtains a license to the Research Product while the Research Product is in the research or preclinical phase of the Research Project, a total royalty of *****% of Net Sales of Research Product shall be paid to the Company and its Affiliates by the Sponsor and i ts licensees.

9.1.2 If the Sponsor obtains a license to Research Product during or at the conclusion of Phase I clinical testing, a total royalty of *****% of Net Sales of Research Product shall be paid to the Company and its Affiliates by the Sponsor and its licensees.

9.1.3 If the Sponsor obt ains a license to Research Product after the initiation of a Phase II clinical trial, a total royalty of *****% of Net Sales of Research Product shall be paid to the Company and its Affiliates by the Sponsor and its licensees.

9.2 The Company shall have the right of first refusal to manufacture research, clinical and commercial quantities of Research Product for the Sponsor or the Sponsor's commercial partner. Should the Company not exercise its first right to manufacture, the exclusive license granted to the Sponsor shall be expanded to include the right to develop to make, and to have made, Research Product and to employ methods covered by or incorporating Company Inventions or Company's interest in Joint Inventions which permit the commercialization of the Research Product to the worldwide market. The Company shall transfer the Research Product production process to a mutually agreeable third party contract manufacturer under an agreement that contains appropriate provisions for recovery of technology transfer costs and for limiting disclosure or other use of the Company's technology.

9.3 Except as expressly provided herein and including Article 9, nothing in this Agreement shall restrict either party's use, license or exploitation in any way of its interest in its own or any Joint Inventions.

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10. Termination

10.1 This Agreement shall remain in effect for the Agreement Period unless extended by written agreement of the parties, or earlier terminated in accordance with this Article 10.

10.2 Either party may terminate this Agreement for any material breach of this Agreement by the other party if such breach is not cured within thirty (30) days after the breaching party receives written notice of such breach by the non-breaching party. Such termination shall be effective upon expiration of such thirty (30) day period.

10.3 Termination of this Agreement shall not affect the rights and obligations of the parties that shall have accrued prior to termination, including, without limitation, the confidentiality obligations set forth in this Agreement. In the event of any termination of this Agreement prior to expiration of the Agreement Period (other than termination by the Sponsor pursuant to Section 10.2), the Sponsor shall pay the reasonable costs incurred by the Company in winding down and terminating the Research Project, including the costs of the Research Project during the wind-down period and all costs and non-cancelable commitments made prior to termination. After termination, the Company will submit a final report of all costs incurred and all funds received under this Agreement as set forth in Section 3.4. The report shall be accompanied with a check for any funds remaining which were paid to the Company under Section 4.1, if any. The provisions of Sections 2.7, 3.2, 3.4, 3.5, 3.6, 4.3 and 10.3 and Articles 6, 7, 8, 9, 12, 13, 16, 17, 18, 19, 20 and 21 shall survive termination or expiration of this Agreement.

11. Force Majeure

Neither party shall be responsible to the other for any failure or delay in performing any of its obligations under this Agreement if such delay or nonperformance is caused by strike, stoppage of labor, lockout or other labor trouble, fire, flood or other weather event, earthquake, accident, explosion, war, act of terrorism, act of God or act of the government of any country or of any local government or any other cause beyond the reasonable control of the defaulting party.

12. Liability and Warranty

Each party to this agreement agrees to indemnify the other party from damage to persons or property resulting from the negligence on the part of itself, its employees, its agents, or its officers. Neither party assumes any responsibility to the other party for the consequences of any act or omission of any person, firm or corporation not a party to this agreement.

The research results are preliminary in nature. Company makes no representations and extends no warranties of any kind, either expressed or implied, with regards to research results.

13. Independent Contractors

The Sponsor and the Company shall at all times act as independent parties, and nothing contained in this Agreement shall be construed or implied to create an agency or partnership. Neither party shall have the authority to contract or incur expenses on behalf of the other except

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as may be expressly authorized by separate written agreement between the parties. The Principal Investigator and members of the Project Team shall not be deemed to be employees of the Sponsor.

14. Other Employment

The Company warrants that the Principal Investigator is permitted to enter into this Agreement (but not to bind the Company) and that the terms and conditions hereof are consistent with the Principal Investigators' obligations to the Company.

15. Tax Status

The Company represents and certifies to the Sponsor that it is a publicly traded company.

16. Choice of Law

This Agreement shall be governed by and shall be construed in accordance with the laws of the Commonwealth of Massachusetts without regard to the conflicts of laws provisions thereof.

17. Severability

If any one or more of the provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality or enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

18. Waiver

The failure of any party hereto to insist upon strict performance of any provisions of this Agreement or to exercise any right hereunder will not constitute a waiver of that provision or right.

19. Notices

Any notice or communication required or permitted to be given or made under this Agreement by one of the parties to the other shall be in writing and shall be deemed to have been sufficiently given or made for all purposes if such notice or communication is either emailed and its receipt is acknowledged by the recipient, or mailed by certified mail, postage prepaid, addressed to such other party at its respective address as follows:

If to the Sponsor: Attn: Benjamin D. Seckler, MD, President
Charley's Fund, Inc.
P.O. Box 297
South Egremont, MA 01258
Email: bseckler@gmail.com

If to the Company: Attn: Chief Executive Officer

20. Assignment

This Agreement may not be assigned by the Company without prior notice to Sponsor, except in connection with a merger, recapitalization, reorganization, consolidation, sale of securities, sale of assets or any transaction to an affiliate of the Company; provided, however, no such transaction shall relieve Company of its obligations or adversely affect Sponsor's rights hereunder. The Sponsor may assign this Agreement without the Company's consent (i) in connection with a merger, consolidation or sale of all or substantially all of Sponsor's assets or stock, or (ii) to an affiliate of the Sponsor. In addition, the Sponsor may assign all or any part of its rights under Articles 8 and 9 to any third party upon written notice to the Company.

21. Entirety

This Agreement represents the entire agreement of the parties, and it expressly supersedes all previous written and oral communications between the parties. Except as otherwise expressly provided in this Agreement, no amendment, alteration, or modification of this Agreement or any Appendix attached hereto shall be valid unless executed in writing by authorized signatories of both parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives to be effective as of the Effective Date.

CHARLEY'S FUND, INC.

By: _____
Name: Benjamin D. Seckler, MD
Title: President

AVI BIOPHARMA, INC.

By: _____
Name: K. Michael Forrest
Title: Chief Executive Officer

APPENDIX A

Preclinical Proposal for Skipping Exon 50 for Duchenne Muscular Dystrophy

*****

I. Background:

*****

II. Applicable Work in Progress

A. Objective: *****

*****

B. Objective: *****

*****

C. Objective: *****

*****

D. Objective: *****

*****

E. Objective: *****

*****

III. Specific Aims of Future Studies *****

Aim 1: *****

*****

Aim 2: *****

*****

Aim 3: *****

*****

Aim 4. *****

*****

Aim 5: *****

*****

Aim 6: *****

*****

Aim 7: *****

*****

APPENDIX B

Project Cost Estimates

Aim 1: *****

Materials:	$	*****
Labor:	$	*****
Total:	$	*****

Aim 2: *****

Materials:		*****
Labor:	$	*****
Total:	$	*****

Aim 3: *****

Materials:	$	*****
*****:	$	*****
Labor:	$	*****
	$	*****

Aim 4: *****

Materials:	$	*****
*****:	$	*****
Labor:	$	*****
Total:	$	*****

Aim 5: *****

Materials:	$	*****
Labor:	$	*****
Total	$	*****

Aim 6: *****

Materials:	$	*****
*****	$	*****
*****	$	*****
Labor:	$	*****
Total:	$	*****

Aim 7: *****

Labor:	$	*****

Total Estimated Cost, All Aims:	**$**	**2,452,000.00**

AGREEMENT

dated as of October 29, 2007

by and among

AVI BioPharma, Inc.,

AVI Shareholder Advocacy Trust,

The Shareholder Advocate LLC, and

Richard Macary

This SHAREHOLDER'S TRUST AGREEMENT dated as of October 29, 2007 (this "**Agreement**") is made and entered into by and among AVI BioPharma, Inc., an Oregon corporation (the "**Company**"), the AVI Shareholder Advocacy Trust, a Delaware trust ("**Trust**"), The Shareholder Advocate LLC, a Delaware limited liability company, ("**Managing Trustee**") and Richard Macary ("**Macary**") (each a "**Party**" and, collectively, the "**Parties**").

WHEREAS, the Trust was formed with its central goal to improve the quality of the Company's management;

WHEREAS, the Managing Trustee is the trustee in charge of the management of the Trust;

WHEREAS, Macary is the sole manager and a member of the Managing Trustee;

and

WHEREAS, the Parties wish to provide for representation on the Board of Directors of the Company (the "**Board of Directors**") for two (2) directors nominated by the Trust; all as hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto agree as follows:

1. DEFINITIONS

1.1 Definitions.

(a) Except as otherwise specifically indicated, the following terms have the following meanings for all purposes of this Agreement:

"Affiliate" has the meaning assigned thereto in Rule 12b-2 promulgated under the Exchange Act.

"Bylaws" means the Amended and Restated Bylaws of the Company, as the same may be amended and restated from time to time.

"Articles of Incorporation" means the Articles of Incorporation of the Company, as the same may be amended and restated from time to time.

"Commission" means the Securities and Exchange Commission.

"Director Termination Date" means the earliest of: (i) the first date on which (x) any member of the Restricted Group engages in any of the activities prohibited by Article IV if such violation is not wholly cured within three (3) business days following written notice thereof by the Company, (y) any member of the Restricted Group engages in a Schedule 13D Transaction, or (z) the filing of an amendment to the Schedule 13D previously filed by certain of the Restricted Group with the Commission indicating that any member of the Restricted Group has a plan or proposal to engage in, or that it has engaged in, a Schedule 13D Transaction (other than an

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amendment filed following the execution and delivery of this Agreement announcing such execution and delivery or subsequent filings necessitated by the terms of this Agreement and actions by the parties hereunder); or (ii) the first date on which there shall be no Restricted Group Directors then in office as members of the Board of Directors and the Restricted Group Designee shall not have named a successor to any of the Restricted Group Directors in accordance with Section 2.1 hereof.

"Equity Securities" means Voting Securities, Convertible Securities and Rights to Purchase Voting Securities.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Governmental or Regulatory Authority" means any court, tribunal, arbitrator, authority, agency, commission, official or other instrumentality of the United States, any foreign country or any domestic or foreign state, county, city or other political subdivision, or any stock exchange or market in which the Common Stock is listed for trading or traded.

"Independent Director" means any member of the Board of Directors who is an independent director as defined in Rule 4200(15) of the Nasdaq Marketplace Rules (as currently in effect and as may be amended from time to time) and as defined in any other applicable securities laws, rules or regulations.

"Person" means any individual, corporation, limited liability company, partnership, trust, other entity or group (within the meaning of Section 13(d)(3) of the Exchange Act).

"Representatives" of any Person means such Person's managers, trustees, directors, officers, employees, legal, investment banking and financial advisors, accountants and any other agents and representatives of such entity.

"Restricted Group" means, collectively, (i) the Trust, (ii) the Managing Trustee, (iii) Macary, (iv) any and all Affiliates of any of the Persons described in clauses (i) through (iii), (v) any Person as to which voting power over Voting Securities, directly or indirectly, is controlled or shared by any of the Persons described in clauses (i) through (iii), (vi) the then current trustee, managers, officers, directors, or employees of any Person described in clauses (i) through (iii) above, (vii) with respect to any Person described in clauses (i) through (vi) above who is an individual, (a) any and all immediate family members of such Person, (b) the heirs, executors, personal representatives and administrators of any of the foregoing Persons, (c) any and all trusts established for the benefit of any of the foregoing Persons, and (d) any and all charitable foundations the investment decisions of which are controlled by any of the foregoing Persons, and (vii) the other members of any and all groups (within the meaning of Section 13(d)(3) of the Exchange Act) of which any Person described in clauses (i) through (vi) above is a member.

"Restricted Group Designee(s)" means Macary and any other individuals subsequently designated from time to time by the Restricted Group; *provided, however*, that no individual who is an officer, director, partner or shareholder of any competitor of the Company or any of its subsidiaries (other than a shareholder which owns less than 5% of the voting stock or power of a competitor which is a publicly-traded company) shall serve as a Restricted Group Designee.

"Restricted Group Directors" means the individuals named to the Board of Directors in accordance with Section 2.1 below.

"Schedule 13D Transaction" means any action or transaction described in any of paragraphs (a) through (j) of Item 4 of Schedule 13D promulgated by the Commission. "Schedule 13D Transaction" shall not include any transaction described in paragraph (a) of Item 4 of Schedule 13D if, after taking into account all such contemporaneous transactions, the aggregate beneficial ownership of the Restricted Group shall not have changed.

"Standstill Termination Date" means the earlier of the Director Termination Date or the close of the 2010 annual meeting of the Company's shareholders; *provided, however,* the Standstill Termination Date shall be extended to the close of the 2012 annual meeting of the Company's shareholders if, at the discretion of the Board of Directors, the Restricted Group Directors are nominated and are elected by the shareholders to terms ending at such 2012 annual meeting.

"Voting Securities" means the Common Stock and any other securities of the Company of any kind or class having the power generally to vote for the election of directors; "Convertible Securities" means securities of the Company which are convertible or exchangeable (whether presently convertible or exchangeable or not) into Voting Securities; "Rights to Purchase Voting Securities" means options and rights issued by the Company (whether presently exercisable or not) to purchase Voting Securities or Convertible Voting Securities (but not including the Rights); and "Outstanding Voting Securities" means at any time the then issued and outstanding Voting Securities (not including shares issuable upon the conversion of any Convertible Securities or upon the exercise of any Rights to Purchase Voting Securities).

(b) In addition, the following terms are defined in the Sections set forth below:

"Board of Directors"	— Preamble
"Common Stock"	— Preamble
"Company"	— Preamble
"Managing Trustee"	—Preamble
"Macary"	—Preamble
"Trust"	—Preamble

(c) Unless the context of this Agreement otherwise requires, (i) words of any gender include each other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; (iii) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement; (iv) the terms "Article" or "Section" refer to the specified Article or Section of this Agreement and (v) all references to statutes, rules and regulations are to the enumerated statutes, rules and regulations and any successor statute, rule or regulation. Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless business or trading days are specified.

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2. BOARD OF DIRECTORS

2.1 Composition of Board of Directors.

(a) No later than October 31, 2007, pursuant to the powers granted to it under the Bylaws the Board of Directors shall accept the resignation of Alan P. Timmins and James B. Hicks, PhD, and appoint Dr. Gil Price and Mr. William Goolsbee as the Restricted Group Directors to fill the vacancies on the Board of Directors created by such resignations. If such resignations and appointments have not been received, accepted or made effective as of such date, the Company shall be deemed to be in breach of this Agreement, and each member of the Restricted Group shall be relieved of all obligations under this Agreement, without prejudice to any remedies against the Company that each may have under this Agreement, at law or in equity.

(b) Until the Standstill Termination Date, at each meeting of shareholders of the Company at which the terms of the Restricted Group Directors are scheduled to expire, subject to approval of such Restricted Group Directors by the Nominating and Corporate Governance Committee of the Board of Directors (such approval not to be withheld unless required by the fiduciary duties of the directors serving on such committees), the Board of Directors shall

nominate the Restricted Group Directors to stand for election as directors of the Company for a succeeding term in accordance with the Company's procedures for nomination of directors as provided for in its Bylaws and the charter of the Nominating and Corporate Governance Committee, recommend such election and solicit proxies in respect thereof and vote the shares of Common Stock represented by all proxies granted by shareholders in connection with the solicitation of proxies by the Board of Directors in connection with such meeting in favor of the Restricted Group Directors, except for such proxies that specifically indicate a vote to withhold authority with respect to the Restricted Group Directors.

(c) Until the Standstill Termination Date, including the Standstill Termination Date, the Board of Directors shall cause any vacancy created on the Board of Directors by reason of the death, resignation or removal of a then serving Restricted Group Director to be filled promptly by a successor Restricted Group Director selected from a list of nominees with high personal integrity and ethics, relevant expertise and professional experience and such other reasonable qualifications, as determined by the Nominating and Corporate Governance Committee of the Board of Directors (such other qualifications to be communicated to the Restricted Group Designee by the Company in the same notice from the Company described in the following sentence) (collectively, "**Qualified Nominees**"), which shall include not less than two (2) Qualified Nominees for each vacant Restricted Group Director position and the information required by Section 2.2. Such list shall be submitted by the Restricted Group Designee not more than thirty (30) days following notice from the Company of the effective date of such vacancy in accordance with Section 6.3. In the event the Restricted Group Designee shall not deliver the list of Qualified Nominees within such 30-day period, the Board of Directors may replace such Restricted Group Director in its sole discretion.

(d) While serving on the Board of Directors and any committee thereof, each Restricted Group Director shall be entitled to all the rights and privileges of the other directors and committee members, including, without limitation, access to the Company's outside advisors; *provided, however,* that each Restricted Group Director shall not be entitled to participate in or

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observe, and shall upon the good faith request of the Board of Directors or any such committee recuse himself or herself from, any meeting or portion thereof at which the Board of Directors or any such committee is evaluating and/or taking action with respect to (x) the ownership of Voting Securities specifically by any member of the Restricted Group, (y) the exercise of any of the Company's rights or enforcement of any of the obligations of any member of the Restricted Group under this Agreement or (z) any transaction proposed by, or with, any member of the Restricted Group. The Board of Directors or any such committee shall be entitled to take such actions as it shall deem reasonably necessary or appropriate to carry out the provisions of the preceding sentence.

2.2 Information About Restricted Group Directors.

Notwithstanding anything to the contrary herein, each Restricted Group Director shall be an Independent Director and, in furtherance of this requirement, each Restricted Group Director shall promptly provide to the Company, as the Company may from time to time reasonably request, information regarding such Restricted Group Director for purposes of determining whether the Restricted Group Director is an Independent Director or for inclusion in any form, report, schedule, registration statement, definitive proxy statement or other documents required to be filed by the Company with the Commission or any other Governmental or Regulatory Authority. In the event that it is determined that a Restricted Group Director is not an Independent Director, the Board of Directors shall notify the Restricted Group Designee of such determination and, not less than 30 days following such notification, the Restricted Group Designee shall provide a list of Qualified Nominees in accordance with Section 2.1. The Board of Directors shall select a Qualified Nominee for election by the Board of Directors or shareholders of the Company as the case may be. In no event shall a Restricted Group Director who is not an Independent Director be nominated or elected by the Board of Directors. A Restricted Group Director who is no longer independent shall resign as a director not more than 30 days following the request from the Board of Directors.

2.3 Board and Company Policies.

It shall be a precondition to the right of the initial Restricted Group Directors, and their respective successors, to attend any meeting of the Board of Directors or committee thereof that each such individual shall have agreed, in the same manner as each other member of the Board of Directors, to abide by the written policies of the Board of Directors and the committees thereof (including, without limitation, the Code of Business Conduct and Ethics), as amended from time to time, and written policies of the Company applicable to members of the Board of Directors (including, without limitation, the Insider Trading Policy, as amended from time to time).

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3. STANDSTILL AND OTHER AGREEMENTS

3.1 Standstill.

From the date hereof through the Standstill Termination Date, no member of the Restricted Group will, directly or indirectly, (i) engage in any "solicitation" of "proxies" (as such terms are used in the proxy rules promulgated under the Exchange Act, but disregarding the exclusion in clause (iv) of Rule 14a-1(l)(2) but including any exempt solicitation pursuant to Rule 14a-2(b)(1) or (2)), submit any proposal (including nominations of director candidates, except as provided in Section 2.1) for consideration at any annual or special meeting of the shareholders of the Company (including pursuant to Rule 14a-8 promulgated under the Exchange Act), (ii) form, join or in any way participate in a "group" (as defined in Section 13(d)(3) of the Exchange Act) with respect to any Equity Securities which proposes to take any action or enter into any transaction that is prohibited by this Section, nor will they provide any financing or other material assistance to any such group for any such purpose, (iii) engage in any Schedule 13D Transaction or file any amendment to the Schedule 13D previously filed by any member of the Restricted Group with the Commission indicating that any member of the Restricted Group has a plan or proposal to engage in, or that it has engaged in, a Schedule 13D Transaction (other than an amendment filed following the execution and delivery of this Agreement announcing such execution and delivery or subsequent filings necessitated by the terms of this Agreement and actions by the parties thereunder); *provided, however,* that the foregoing prohibition shall not prohibit filings believed in good faith, after consultation with counsel, to be required by law as a consequence thereof; and *provided further* that, to the extent practicable, any such filings shall be provided to the Company in advance of filing and the Company shall be permitted a reasonable opportunity to comment thereon (it being understood that such filings may be required to be filed with the Commission promptly); (iv) subject to the proviso below, publish (in print or otherwise, whether in connection with an interview, website publication or otherwise) any comments, remarks, articles or online postings (including listings in the form of blogs, chat rooms or otherwise) that are objectively viewed as materially disparaging or denigrating in any way of the Company or, other than in the context of statements not involving the Company, any of its officers, directors, employees (including any calls or suggestions for the resignation or termination of any of the foregoing and including in their capacities as officers, directors or employees of the Company or otherwise), plans, intellectual property or other intangible rights, operating methods, products, product candidates, research and development, results of operation, press releases, articles, publications or papers, the purpose of this subparagraph being that, subject to the proviso below, all members of the Restricted Group will either be supportive of the Company and its officers, directors, employees, plans, results, research, etc., or will be silent with respect

thereto**;** *provided, however,* notwithstanding the aforesaid, Macary, either directly or through any organization that employs or contracts with him for stock, investment or market analysis, may publish and distribute analyst reports in Macary's customary form and manner to his or its clients with respect to whether such clients should buy, sell or hold shares of Company Common Stock so long as such reports do not contain any material non-public information or breach any confidentiality obligation by Macary to the Company**.**

3.2 Termination of Trust.

Upon the appointment of the Restricted Group Directors as provided above in Section 2.1, Macary shall take all actions necessary to terminate the existence and operation of the Trust, subject to the provisions of this Section. Without limiting the foregoing, Macary shall post as the Trust's final posting on the Trust's website a statement in support of the Company's actions as described in Section 2.1 above and indicating that the objectives of the Trust have been achieved and, as a result, the Trust is being terminated and all funds previously contributed to the Trust and not expended as of the date of termination will be returned (such posting, at Macary's discretion, may remain posted of up to 90 days following the date of appointment of the Restricted Group Directors)

4. REPRESENTATIONS AND WARRANTIES OF THE RESTRICTED GROUP

Subject to any information set forth on the attached Disclosure Schedule, each of the Trust, the Managing Trustee and Macary hereby represents and warrants to the Company as follows:

4.1 Authority.

This Agreement has been duly and validly executed and delivered by each such party and constitutes a legal, valid and binding obligation of such party enforceable against such party in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

4.2 No Conflicts.

The execution and delivery by each such Party of this Agreement does not, and the performance by such Party's obligations under this Agreement and the consummation of the transactions contemplated hereby will not:

(a) conflict with or result in a violation or breach of any term or provision of any law, statute, rule or regulation or any order, judgment or decree of any Governmental or Regulatory Authority applicable to such Party or any of such Party's properties or assets; or

(b) (i) conflict with or result in a violation or breach of, (ii) constitute (with or without notice or lapse of time or both) a default under, (iii) require such Party to obtain any consent, approval or action of, make any filing with or give any notice to any Person as a result or under the terms of, or (iv) result in the creation or imposition of any lien upon any of such Party's properties or assets under, any contract, agreement, plan, permit or license to which such Party is a party.

4.3 Governmental Approvals and Filings.

No consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority on the part of any such Party is required in connection with the execution and delivery of this Agreement, any filing with the Commission required in connection with the execution and/or delivery of this Agreement or the joint press release referred to in Section 6.1.

4.4 Restricted Group Shares.

Except as set forth on Section 4.4 of the Disclosure Schedule, the members of the Restricted Group do not beneficially own any shares of Common Stock.

5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to the other Parties to this Agreement as follows:

5.1 Incorporation.

The Company is a corporation duly incorporated and validly exists under the laws of the State of Oregon. The Company has the requisite corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby.

5.2 Authority.

The execution and delivery by the Company of this Agreement, and the performance by the Company of its obligations hereunder, have been duly and validly authorized by the Board of Directors, no other corporate action on the part of the Company or its shareholders being necessary. This Agreement has been duly and validly executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

5.3 No Conflicts.

The execution and delivery by the Company of this Agreement do not, and the performance by the Company of its obligations under this Agreement and the consummation of the transactions contemplated hereby will not:

(a) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the Articles of Incorporation or Bylaws;

(b) conflict with or result in a violation or breach of any term or provision of any law, statute, rule or regulation or any order, judgment or decree of any Governmental or Regulatory Authority applicable to the Company or any of its properties or asset; or

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(c) (i) conflict with or result in a violation or breach of, (ii) constitute (with or without notice or lapse of time or both) a default under, (iii) require the Company to obtain any consent, approval or action of, make any filing with or give any notice to any Person as a result or under the terms of or (iv) result in the creation or imposition of any lien upon the Company or any of its properties or assets under, any contract, agreement, plan, permit or license to which the Company is a party.

5.4 Governmental Approvals and Filings.

No consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority on the part of the Company is required in connection with the execution and delivery of this Agreement, other than any filing with the Commission required in connection with the execution and/or delivery of this Agreement or the joint press release referred to in Section 6.1.

6. GENERAL PROVISIONS

6.1 Publicity.

The Restricted Group Designee and the Company will cooperate with each other in the development and distribution of a joint press release announcing the execution and delivery of this Agreement. Subject to the Company's duties and obligations under applicable federal and state securities laws, such press release to be in form and substance reasonably satisfactory to each of the Restricted Group Designee, each Restricted Group Director, and the Company.

6.2 Amendment and Waiver.

(a) This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each party hereto.

(b) Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving such term or condition. No waiver by any party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by law or otherwise afforded, will be cumulative and not alternative.

6.3 Notices.

(a) For all purposes of this Agreement, the Company shall not be required to recognize any notice purportedly delivered by or on behalf of any other member of the Restricted Group unless such notice is delivered to the Company by or on behalf of the Restricted Group Designee.

(b) All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally or by facsimile transmission or by reputable overnight courier (postage prepaid) to the parties at the following addresses or facsimile numbers:

If to any member of the Restricted Group, to:

AVI Shareholder Advocacy Trust
The Shareholder Advocate, LLC
Attn: Richard Macary
330 Madison Avenue, 6th Flr.
New York, NY 10017
Fax: 212-922-0363
Tel: 646-240-8787

with a copy (which shall not constitute notice) to:

Kirkpatrick & Lockhart Preston Gates Ellis LLP
925 Fourth Avenue, Suite 2900
Seattle, WA 98104-1158
Facsimile: 206-622-7022
Attention: Eric Simonson

If to the Company, to:

AVI BioPharma, Inc.
Suite 1110
One S.W. Columbia Ave.
Portland, Oregon 97258
Facsimile No.: (503) 227-0751
Attn: Chief Executive Officer

with a copy (which shall not constitute notice) to:

Davis Wright Tremaine LLP
23rd Floor
1300 S.W. Fifth Avenue
Portland, Oregon 97201
Facsimile: 503-778-5299
Attention: Michael C. Phillips. Esq.

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this Section, be deemed given upon delivery, (ii) if delivered by facsimile transmission to the facsimile number as provided in this Section, be deemed given upon receipt, and (iii) if delivered by overnight courier in the manner described above to the address as provided in this Section, be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

6.4 Entire Agreement.

This Agreement, including all schedules hereto supersede all prior discussions and agreements among the parties hereto with respect to the subject matter hereof, and contains the sole and entire agreement among the parties hereto with respect to the subject matter hereof. Notwithstanding anything to the contrary herein, the terms, conditions and provisions of those respective Non-Disclosure Agreements dated as of September 1, 2007 by and between the Company on the one hand and Macary on the other shall remain in full force and effect and nothing herein shall be deemed to modify or effect the enforceability or applicability of such agreements.

6.5 No Third Party Beneficiary.

The terms and provisions of this Agreement are intended solely for the benefit of each Party hereto and the other members of the Restricted Group, and it is not the intention of the Parties to confer third-party beneficiary rights upon any other Person.

6.6 No Assignment; Binding Effect.

Neither this Agreement nor any right, interest or obligation hereunder may be assigned by any Parties hereto without the prior written consent of the other Parties hereto and any attempt to do so will be void. Subject to the preceding sentence, this Agreement is binding upon, inures to the benefit of and is enforceable by the Parties hereto and their respective successors and assigns and legal representatives.

6.7 SPECIFIC PERFORMANCE.

The Parties acknowledge that money damages are not an adequate remedy for violations of any provision of this Agreement and that any Party may, in such Party's sole discretion, apply to a court of competent jurisdiction for specific performance for injunctive or such other relief as such court may deem just and proper in order to enforce any such provision or prevent any violation hereof and, to the extent permitted by applicable law, each Party waives any objection to the imposition of such relief.

6.8 Headings.

The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

6.9 Invalid Provisions.

If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law, and if the intended rights of any party hereto under this Agreement will not be forfeited in any material respect as a result thereof, (i) such provision will be fully severable, (ii) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof and (iii) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom.

6.10 Governing Law.

This Agreement shall be governed by and construed in accordance with the laws of the State of Oregon applicable to a contract executed and performed in such State, without giving effect to the conflicts of laws principles thereof.

6.11 Consent to Jurisdiction and Service of Process.

Each party hereby irrevocably submits to the exclusive jurisdiction of the United States District Court for the District of Oregon or the Circuit Court for Multnomah County, State of Oregon in any action, suit or proceeding arising in connection with this Agreement, agrees that any such action, suit or proceeding shall be brought only in such court (and waives any objection based on *forum non conveniens* or any other objection to venue therein to the extent permitted by law), and agrees to delivery of service of process by any of the methods by which notices may be given pursuant to Section 6.3, with such service being deemed given as provided in such Section; *provided, however,* that such consent to jurisdiction is solely for the purpose referred to in this Section 6.11 and shall not be deemed to be a general submission to the jurisdiction of said courts or in the State of Oregon other than for such purpose. Nothing herein shall affect the right of any party to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against the other in any other jurisdiction.

6.12 Counterparts.

This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

SIGNATURE PAGE TO THAT CERTAIN SHAREHOLDER'S TRUST AGREEMENT DATED AS OF OCTOBER 29, 2007

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representatives and to be effective on the Effective Date.

COMPANY

AVI BioPharma, Inc.

By: /s/ K. Michael Forrest
Name: K. Michael Forrest
Title: Chief Executive Officer

TRUST

AVI Shareholder Advocacy Trust
The Shareholder Advocate LLC
Managing Trustee

By: /s/ Richard Macary
Name: Richard Macary
Title: Manager

MANAGING TRUSTEE
The Shareholder Advocate LLC

By: /s/ Richard Macary
Name: Richard Macary
Title: Manager

MACARY

/s/ Richard Macary
Richard Macary

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement"), made on this 26 day of October, 2007, by and between **AVI BioPharma, Inc.** an Oregon corporation, with its principal office at 1 SW Columbia Street, Suite 1105, Portland, OR 97258 ("Company"), and Alan P. Timmins ("Employee").

RECITALS:

A. Employee has been a valued employee of the Company since September 1992 and currently serves in the capacities of President and Chief Operating Officer.

B. The terms of Employee's employment with the Company have been as set forth in an Employment Contract entered into by and between Employee and Company in September 1992 and modified in November 1996 ("Prior Agreements").

C. The Company desires to continue Employee's employment with the Company as President and Chief Operating Officer under the terms stated in this Agreement.

AGREEMENT:

NOW, THEREFORE, in consideration of the mutual benefits contained herein, the sufficiency of which the parties acknowledge, the parties hereby agree as follows:

1. Employment Term. The term of employment ("Term") shall commence on the date written above and shall continue until terminated in accordance with Section 12.

2. Duties. Employee shall be responsible to perform such duties as assigned to him from time to time by the Board of Directors of the Company ("Board"). Employee shall be employed by the Company and shall devote his best efforts to the service of the Company throughout the Term. Employee shall devote at least forty (40) hours per week to the affairs of the Company. Employee and Company acknowledge and agree that (i) Employee may hold certain offices within certain entities as set forth on Exhibit A to this Agreement, (ii) Employee's devotion of reasonable amounts of time in such capacities, so long as it does not interfere with his performance of services hereunder, shall not conflict with the terms of this Agreement, and (iii) Exhibit A may be amended from time to time by agreement of the parties.

3. Compensation. During the Term the Company shall compensate Employee at an initial annual salary of $310,000, payable in accordance with Company's payroll practices in effect from time to time, and less amounts required to be withheld under

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applicable law and requested to be withheld by Employee. Employee's annual salary shall be subject to review on an annual basis. The Company may but shall not be required to pay bonus compensation to Employee. Except as otherwise provided in this Agreement, the base salary shall be prorated for any period of service less than a full month.

4. Expenses. The Company will reimburse Employee for all expenses reasonably incurred by him in discharging his duties for the Company, conditioned upon Employee's submission of written documentation in support of claimed reimbursement of such expenses, and consistent with the Company's expense reimbursement policies in effect from time to time.

5. Benefits. Subject to eligibility requirements, Employee shall be entitled to participate in such benefits plans and programs as adopted by the Company from time to time.

6. Confidentiality.

(a) In the course of his employment with the Company, it is anticipated that Employee may acquire knowledge (both orally and in writing) regarding confidential affairs of the Company and confidential or proprietary information including: (i) matters of a technical nature, such as know-how, inventions, processes, products, designs, chemicals, compounds, materials, drawings, concepts, formulas, trade secrets, secret processes or machines, inventions or research projects; (ii)matters of a business nature, such as information about costs, profits and pricing policies; (iii) markets, sales, suppliers, customers, plans for future development, plans for future products, marketing plans or strategies; and (iv) other information of a similar nature which is not generally disclosed by the Company to the public, referred to collectively hereafter as "Confidential Information." "Confidential Information" shall not include information generally available to the public. Employee agrees that during the term of this Agreement and thereafter, he (1) will keep secret and retain in the strictest confidence all Confidential Information, (2) not disclose Confidential Information to anyone except employees of the Company authorized to receive it and third parties to whom such disclosure is specifically authorized, and (3) not use any Confidential Information for any purpose other than performance of services under this Agreement without prior written permission from the Company.

(b) If Employee is served with any subpoena or other compulsory judicial or administrative process calling for production or disclosure of Confidential Information or if Employee is otherwise required by law or regulation to disclose Confidential Information, Employee will immediately, and prior to production or disclosure, notify the Company and provide it with such information as may be necessary in order that the Company may take such action as it deems necessary to protect its interest.

(c) The provisions of this Section 6 shall survive termination of this Agreement.

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7. Non-competition.

(a) Employee agrees that for a two-year period from the effective date of the termination of Employee's employment with the Company, Employee shall not directly or indirectly engage in or have any ownership interest in, or participate in the financing, operation, management or control of, any person, firm, corporation or business that engages in any activity customarily associated with the Company's ordinary course of business at the time of such termination anywhere in the world; *provided, however,* that this provision shall not prohibit Employee from owning up to five percent (5%) of any class of outstanding bonds, preferred stock or shares of common stock of any such entity.

(b) For a period of two (2) years following termination of employment with the Company for any reason, except with the express written consent of the Company, Employee agrees to refrain from directly or indirectly recruiting, hiring or assisting anyone else to hire, or otherwise counseling to discontinue employment with the Company, any person then employed by the Company or its subsidiaries or affiliates.

(c) In the event that the provisions of this Section 7 should ever be deemed to exceed the duration or geographic limitations or scope permitted by applicable law, then such provisions shall be reformed to the maximum time or geographic limitations or scope, as the case may be, permitted by applicable laws.

(d) The provisions of this Section 7 shall survive termination of this Agreement and the term of employment.

8. Covered Work.

(a) All rights, title and interest to any Covered Work that Employee makes or conceives (whether alone or with others) while employed by the Company, belong to the Company. This Agreement operates as an actual assignment of all rights in Covered Work to the Company. "Covered Work" means products and Inventions that relate to the actual or anticipated business of the Company or any of its subsidiaries or affiliates, or that result from or are suggested by a task assigned to Employee or work performed by Employee on behalf of the Company or any of its subsidiaries or affiliates, or that were developed in whole or in part on the Company time or using the Company's equipment, supplies or facilities. "Inventions" mean ideas, improvements, designs, computer software, technologies, techniques, processes, products, chemicals, compounds, materials, concepts, drawings, authored works or discoveries, whether or not patentable or copyrightable, as well as other newly discovered or newly applied information or concepts. Attached hereto as Exhibit B is a description of any product or Invention in which Employee had or has any right, title or interest, which is not included within the definition of "Covered Work."

(b) Employee shall promptly reveal all information relating to Covered Work and Confidential Information to an appropriate officer of the Company and shall cooperate with the Company, and execute such documents as may be necessary, in the event that the Company desires to seek copyright, patent or trademark protection thereafter relating to same.

(c) In the event that the Company requests that Employee assist in efforts to defend any legal claims to patents or other right, the Company agrees to reimburse Employee for an reasonable expenses Employee may incur in connection with such assistance. This obligation to reimburse shall survive termination of this Agreement and the term of employment.

(d) The provisions of this Section 8 shall survive termination of this Agreement and the term of employment.

9. Return of Inventions, Products and Documents. Employee acknowledges and agrees that all Inventions, all products of the Company and all originals and copies of records, reports, documents, lists, drawings, memoranda, notes, proposals, contracts and other documentation related to the business of the Company or containing any information described in this Section 9 shall be the sole and exclusive property of the Company and shall be returned to the Company immediately upon termination of Employee's employment with the Company or upon the written request of the Company.

10. Injunction. Employee agrees that it would be difficult to measure damages to the Company from any breach by Employee of Sections 6, 7, 8 and/or 9 of this Agreement, and that monetary damages would be an inadequate remedy for any such breach. Accordingly, Employee agrees that if Employee shall breach Sections 6, 7, 8 and/or 9 of this Agreement, the Company shall be entitled, in addition to all other remedies it may have at law or in equity, to an injunction or other appropriate orders to restrain any such breach without showing or proving any actual damage sustained by the Company.

11. Obligations to Others. Except for items fully disclosed in writing to the Company, Employee represents and warrants to the Company that (i) Employee's employment by the Company does not violate any agreement with any prior employer or other person or entity, and (ii) Employee is not subject to any existing confidentiality or non-competition agreement or obligation, or any agreement relating to the assignment of Inventions except as has been fully disclosed in writing to the Company.

12. Termination.

(a) Employee may voluntarily terminate his employment with the Company upon giving the Company sixty (60) days written notice.

(b) The Company may terminate Employee's employment without Cause (as defined below) upon giving Employee thirty (30) days written notice of termination.

(c) Employee's employment with the Company shall terminate upon the occurrence of any one of the following:

(i) Employee's death;

(ii) The effective date of a notice sent to Employee stating the Board's determination made in good faith and after consultation with a qualified physician selected by the Board, that Employee is incapable of performing his duties under this Agreement, with or without reasonable accommodation, because of a physical or mental incapacity that has prevented Employee from performing such full-time duties for a period of ninety (90) consecutive calendar days and the determination that such incapacity is likely to continue for at least another ninety (90) days; and

(iii) The effective date of a notice sent to Employee terminating Employee's employment for Cause.

(d) "Cause" means the occurrence of one or more of the following events:

(i) Employee's willful and repeated failure or refusal to comply in any material respect with the reasonable lawful policies, standards or regulations from time to time established by the Company, or to perform his duties in accordance with this Agreement after notice to Employee of such failure; and

(ii) Employee engages in criminal conduct or engages in conduct with respect to the Company that is dishonest, fraudulent or materially detrimental to the reputation, character or standing of the Company.

13. Termination Compensation.

(a) Upon Employee's voluntary termination of employment (other than voluntary termination with Good Reason (as defined below), or termination of Employee's employment for Cause) the Company shall pay to Employee all compensation due to the date of termination, but shall have no further obligation to Employee hereunder in respect of any period following termination.

(b) Upon the death of Employee, the Company shall pay to Employee's estate or such other party who shall be legally entitled thereto, all compensation due at the date of death, and an additional amount equal to compensation at the rate set forth in this Agreement or then current annual salary rate, whichever is greater, from the date of death to the final day of the month following the month in which the death occurs.

(c) Upon termination of Employee's employment by the Company other than for Cause, or upon Employee's voluntary termination of employment for Good Reason the Company shall (1) pay to Employee $630,000,without interest, payable as follows: 1/3 paid on the effective date of termination with the balance to be paid in equal installments over the 12 months following such effective date in accordance with the Company's standard payroll procedures; (2) all outstanding options granted to Employee pursuant to the Company's 1992 Stock Incentive Plan, or successor plan, which vest with the passage of time (and are not performance related) shall be immediately fully vested and (3) the exercise period of all such options shall be extended to the earlier of their original expiration date or eighteen (18) months from the date of termination.

(d) Amounts payable under this Section shall be net of amounts required to be withheld under applicable law and amounts requested to be withheld by Employee.

(e) As used herein, "Good Reason" shall mean the termination by Employee upon the occurrence of any of the following events:

(i) The assignment of a different title or change that results in a material reduction in Employees duties or responsibilities;

(ii) A reduction by the Company in Employee's Base Salary, other than a salary reduction that is part of a general salary reduction affecting employees generally and provided the reduction is not greater, percentage-wise, than the reduction affecting other employees generally or failure to provide an annual increase in Base Salary commensurate with other Executives; *provided, however*, in determining whether to provide an annual increase in Base Salary commensurate with an annual increase provided to other Executives, the Company may take into account factors such as market levels of compensation, Employee's overall performance, and other factors reasonably considered by the Company's compensation committee and/or Board of Directors, so long as such determination is not made in bad faith with the intent to discriminate against Employee;

(iii) Failure to pay Employee a Bonus that is commensurate to any Bonus paid other Executives; *provided, however,* in determining whether any such Bonus paid to Employee is commensurate with any Bonus paid to other Executives, the Company may take into account factors such as market levels of compensation, Bonuses paid in recognition of outstanding performance, hiring incentives and other factors reasonably considered by the Company's compensation committee and/or Board of Directors, so long as any such determination is not made in bad faith with the intent to discriminate against Employee;

(iv) Relocation of Employee's principal place of business of greater than 30 miles from the Employee's principal place of business or

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Employee is required to spend more than 50% of his professional time at the Company's facilities in Corvallis, Oregon; or

(v) A significant reduction by the Company in total benefits available to Employee under cash incentive, stock incentive, or other employee benefit plans or the failure to pay benefits commensurate with other Executives; *provided, however*, in determining whether to pay benefits commensurate with benefits provided to other Executives, the Company may take into account factors such as benefits reasonably available to other Executives, Employee's overall performance, other compensation paid or payable to Employee, and other factors reasonably considered by the Company's compensation committee and/or Board of Directors, so long as such determination is not made in bad faith with the intent to discriminate against Employee.

As a condition of payment of the amounts set forth in this Section 13, if requested by Company Employee agrees to enter into a Separation and Release Agreement substantially in the form attached hereto as Exhibit C.

14. Notice. Unless otherwise provided herein, any notice, request, certificate or instrument required or permitted under this Agreement shall be in writing and shall be deemed "given" upon personal delivery to the party to be notified or three business days after deposit with the United States Service, by registered or certified mail, addressed to the party to receive notice at the address set forth above, postage prepaid. Either party may change its address by notice to the other party given in the manner set forth in this Section.

15. Entire Agreement. This Agreement constitutes the entire agreement between the parties and contains all the agreements between them with respect to the subject matter hereof. It also supersedes any and all other agreements or contracts, either oral or written, between the parties with respect

to the subject matter hereof; *provided, however,* in the event any of Sections 6, 7, 8, 9, or 10 of this Agreement is found enforceable in any way, then the comparable section found in the November 1996 Prior Agreement shall be deemed to be in full force and effect.

16. Modification. Except as otherwise specifically provided, the terms and conditions of this Agreement may be amended at any time by mutual agreement of the parties, provided that before any amendment shall be valid or effective, it shall have been reduced to writing and signed by an authorized representative of the Company and Employee.

17. No Waiver. The failure of any party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by any other party hereto with its obligations, shall

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not be a waiver by such party of its right to exercise any such or other right, power or remedy or to demand compliance.

18. Severability. In the event that any section or provision of this Agreement shall be held to be illegal or unenforceable, such section or provision shall be severed from this Agreement and the entire Agreement shall not fail as a result, but shall otherwise remain in full force and effect.

19. Assignment. This Agreement shall be binding upon and inure to the benefit of the Company and its successors and assigns, and shall be binding upon Employee, his administrators, executors, legatees, and heirs. In that this Agreement is a personal services contract, it shall not be assigned by Employee.

20. Dispute Resolution. Except as otherwise provided in Section 10, the Company and Employee agree that any dispute between Employee and the Company or its officers, directors, employees, or agents in their individual or Company capacity of this Agreement, shall be submitted to a mediator for nonbinding, confidential mediation. If the matter cannot be resolved with the aid of the mediator, the Company and Employee mutually agree to arbitration of the dispute. The arbitration shall be in accordance with the then-current Employment Dispute Resolution Rules of the American Arbitration Association ("AAA") before an arbitrator who is licensed to practice law in the State of Oregon. The arbitration shall take place in or near Portland, Oregon. Employee and the Company will share the cost of the arbitration equally, but each will bear their own costs and legal fees associated with the arbitration. However, if any party prevails on a statutory claim, which affords the prevailing party attorneys' fees, or if there is a written agreement providing for attorneys' fees, the arbitrator may award reasonable attorneys' fees.

The Company and Employee agree that the procedures outlined in this provision are the exclusive method of dispute resolution.

21. Attorneys' Fees. In the event suit or action is instituted pursuant to Section 10 of this Agreement, the prevailing party in such proceeding, including any appeals thereon, shall be awarded reasonable attorneys' fees and costs.

22. Applicable Law. This Agreement shall be construed and enforced under and in accordance with the laws of the State of Oregon.

23. Counterparts. This Agreement may be signed in two counterparts, each of which shall be deemed an original and both of which shall together constitute one agreement.

IN WITNESS WHEREOF, AVI BioPharma, Inc. has caused this Agreement to be signed by its duly authorized representative, and Employee has hereunder set his name as of the date of this Agreement.

COMPANY: **AVI BioPharma, Inc.**

By: /s/ K. Michael Forrest 10/26/07
K. Michael Forrest, Interim Chief Executive Officer

EMPLOYEE: /s/ Alan P. Timmins 10/26/07

Alan P. Timmins

Exhibit A

List of Offices Held

President and Chief Operating Officer of AVI BioPharma, Inc.

Exhibit B

Inventions Excluded from Covered Works

Exhibit C
Form of Separation and Release Agreement

SEPARATION AND RELEASE AGREEMENT

THIS SEPARATION AND RELEASE AGREEMENT ("Agreement") is between [Name of Employee] D ("Employee") and AVI BioPharma, Inc. ("Employer"), and is effective eight (8) days after Employee signs this Agreement ("Effective Date").

The parties agree as follows:

1. **Resignation.** Employee resigned his position as Employer's [Title] effective [effective date of termination] (the "Resignation Date"). Employee has been paid his salary and other compensation through the Resignation Date, less all lawful or required deductions.

2. **Consideration.** In consideration of Employee's agreements hereunder, Employer shall pay to Employee the amounts set forth and described in that certain Amended and Restated Employment Agreement dated effective the day of October, 2007.

3. **Return of Company Property.** Employee represents that he has returned all Employer property in his possession or under his control, including but not limited to keys, credit cards, files, laptop computer and any and all Company documents.

4. **Confidentiality.** The parties will use reasonable efforts to keep the terms of this Agreement confidential. Employee may disclose the terms of this Agreement to his immediate family. Employer may disclose the terms of this Agreement to its officers and managers. Either party may disclose the terms of this Agreement to their respective attorneys, accountants, financial advisers, auditors, or similar advisors, or in response to government requests. Third persons informed of the terms of this Agreement shall in turn be advised of this confidentiality provision and requested to maintain such confidentiality.

5. **Release.**

5.1 In exchange for the consideration paid to Employee as set forth in this Agreement, Employee forever releases and discharges Employer, any of Employer-sponsored employee benefit plans in which Employee participates, or was participating in, (collectively the "Plans") and all of their respective officers, members, managers, partners, directors, trustees, agents, employees, and all of their successors and assigns (collectively "Releasees") from any and all claims, actions, causes of action, rights, or damages, including costs and attorneys' fees (collectively "Claims") which Employee may have arising out of his employment (including Claims that may arise out of Employee's employment agreement), on behalf of himself, known, unknown, or later discovered which arose prior to the date Employee signs this Agreement. This release includes but is not limited to, any Claims under any local, state, or federal laws prohibiting discrimination in employment, including without limitation the Civil Rights Acts, or the

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Oregon State Law Against Discrimination, the Americans with Disabilities Act, the Age Discrimination in Employment Act, or Claims under the Employee Retirement Income Security Act, or Claims alleging any legal restriction on Employer's right to terminate its employees, any Claims Employee has relating to his rights to or against any of the Plans, or personal injury Claims, including without limitation wrongful discharge, breach of contract, defamation, tortious interference with business expectancy, constructive discharge, or infliction of emotional distress. Employee represents that he has not filed any Claim against Employer or its Releasees, he has no knowledge of any facts that would support any Claim by Employee against Employer or by a third party against Employer, and that he will file a Claim at any time in the future concerning Claims released in this Agreement; provided, however, that this will not limit Employee from filing a Claim to enforce the terms of this Agreement.

5.2 In consideration of the promises of Employee as set forth herein, Employer does hereby, and for its successors and assigns, release, acquit and forever discharge Employee from any and all actions, causes of action, obligations, costs, expenses, damages, losses, claims, liabilities, suits, debts, and demands (including attorneys' fees and costs actually incurred), of whatever character in law or in equity known or unknown, suspected or unsuspected, from the beginning of time to the date of execution hereof.

6. **Non-disparagement.** Employee and Employer each agree not to make disparaging statements about each other, except in the case of Employer statements that are required under applicable federal or state securities laws or applicable rules and regulations of any exchange on which Employer's stock is traded.

7. **Consideration and Revocation Periods.** Employee understands and acknowledges the significance and consequences of this Agreement, that it is voluntary, that it has not been given as a result of any coercion, and expressly confirms that it is to be given full force and effect according to all of its terms, including those relating to unknown Claims. Employee was hereby advised of his right to seek the advice of an attorney prior to signing this Agreement. Employee acknowledges that he has signed this Agreement only after full reflection and analysis. Although he is free to sign this Agreement before then, Employee acknowledges he was given at least 21 days after receipt of this document in which to consider it (the "Consideration Period"). If Employee executes this Agreement prior to the end of the Consideration Period, Employee hereby waives any rights associated therewith. Employee may revoke this Agreement seven (7) days after signing it and forfeit all benefits described in Section 2 of this Agreement. Employee and Employer agree that any changes made to this Agreement during the Consideration Period as a result of negotiations between the parties do not restart the running of the Consideration Period.

8. **No Liability.** This Agreement shall not be construed as an admission by either party that it acted wrongfully with respect to the other.

9 **Severability.** If any of the provisions of this Agreement are held to be invalid or unenforceable, the remaining provisions will nevertheless continue to be valid and enforceable.

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10. **Entire Agreement.** This Agreement represents and contains the entire understanding between the parties in connection with its subject matter. All other prior written or oral agreements or understandings are merged into and superseded by this Agreement. Employee acknowledges that in signing this Agreement, he has not relied upon any representation or statement not set forth in this Agreement made by Employer or any of its representatives.

11. **Attorney Fees.** If any suit or action is filed by either party to enforce this Agreement or otherwise with respect to the subject matter hereof, the prevailing party shall be entitled to recover reasonable attorney fees incurred in preparation or in prosecution or defense of such suit or action as fixed by the trial court, and if any appeal is taken from the decision of the trial court, reasonable attorney fees as fixed by the appellate court.

12. **Choice of Law.** This Agreement is made and shall be construed and performed under the laws of the State of Oregon.

PLEASE READ CAREFULLY. THIS AGREEMENT INCLUDES A RELEASE OF CERTAIN KNOWN OR UNKNOWN CLAIMS.

DATED this day of , 200X.

AVI BioPharma, Inc

By: _____
Name:
Title:

DATED this day of , 200X.

_____
[Name of Employee]

PROFESSIONAL SERVICES AGREEMENT

THIS PROFESSIONAL SERVICES AGREEMENT ("**Agreement**") is entered into effective the 26 day of October 2007, by and between AVI BioPharma, Inc., an Oregon corporation ("**Company**"), with its principal place of business at One SW Columbia, Suite 1105, Portland OR 97258, and James B. Hicks PhD, LLC, an Oregon limited liability company ("**Contractor**"), with its principal place of business at 3 Great Meadow, Locust Valley, NY 11560. Company and Contractor sometimes are collectively referred to herein as the "**Parties**" and individually as a "**Party**".

Company and Contractor agree as follows:

1. Services. Contractor agrees to provide the services ("**Services**") set forth on Schedule A attached hereto and incorporated herein and in successive schedules that are agreed to between the parties (collectively referred to herein as Schedule A). Contractor represents and warrants that: (a) he is in the business of providing services similar to the Services for companies operating in the bioscience industry, (b) he will perform the Services utilizing reasonable care and skill in accordance and consistent with customary industry standards, and (c) without the consent of the Company, which may be withheld in the sole discretion of the Company, he shall not assign to any third party the obligation to provide any Services hereunder.

2. Fees. Company agrees to pay Contractor for the Services, fees ("**Fees**") in accordance with the provisions set forth on Schedule A. During the term of the Agreement, the Fees and any of the elements constituting the Fees shall not change without the prior written approval of Company. Unless otherwise provided for in Schedule A, the following payment terms will apply. Each month, Contractor will submit an invoice to Company for Fees payable for Services during the preceding thirty (30) days and Company will remit all properly payable amounts within thirty (30) days after Company's receipt of any such invoice. Each invoice or report accompanying an invoice will describe in reasonable detail and with respect to the relevant invoice period (a) the number of hours expended performing Services, itemized by task, (b) a description of the excess Services provided, and (c) any work product created. Unless otherwise provided for in Schedule A, Contractor shall be responsible for paying all costs associated with the Services and its business, including without limitation, costs for meals, lodging, transportation, insurance, equipment, and liability insurance. The Fees shall be the exclusive compensation paid by Company to Contractor for the Services.

3. Term and Termination.

(a) Term. This Agreement is effective on the date stated above, and, unless otherwise terminated pursuant to this Section 3, shall remain in effect for a period of two years. This Agreement shall automatically renew for successive one-year periods unless either party gives written notice of termination during the sixty (60) day period immediately prior to expiration of the term or any renewal term.

(b) Termination. Notwithstanding anything to the contrary herein, this Agreement may be terminated prior to term end as follows:

(i) Consultant may voluntarily terminate this Agreement upon giving the Company sixty (60) days written notice;

(ii) Company may terminate this Agreement without Cause (as defined below) upon giving Consultant not less than sixty (60) days written notice of termination;

(iii) upon the occurrence of any one of the following:

(A) Consultant's death;

(B) the effective date of a notice sent to Consultant stating the Board's determination made in good faith and after consultation with a qualified physician selected by the Board, that Consultant is incapable of performing his duties under this Agreement, with or without reasonable accommodation, because of a physical or mental incapacity that has prevented Consultant from performing such full-time duties for a period of ninety (90) consecutive calendar days and the determination that such incapacity is likely to continue for at least another ninety (90) days; and

(C) the effective date of a notice sent to Consultant terminating this Agreement for Cause.

"Cause" means the occurrence of one or more of the following events:

(i) Consultant's willful and repeated failure or refusal to comply in any material respect with the reasonable lawful policies, standards or regulations from time to time established by the Company, or to perform his duties in accordance with this Agreement after notice to Consultant of such failure; or

(ii) Consultant engages in criminal conduct or engages in conduct with respect to the Company that is dishonest, fraudulent or materially detrimental to the reputation, character or standing of the Company.

Upon termination, Consultant shall be paid the Fees as set forth on Schedule A.

(c) Survival. Upon such termination, Company shall have no further obligations to Contractor other than payment of unpaid Fees in an amount equal to the percentage of Services completed as of the date of termination. Any termination of this Agreement shall not relieve Contractor of its obligations under Sections 4, 5, 6, 7, 9, 10, 13 and 15, this Section 3(c) (Survival) and any other provision that may reasonably be interpreted to survive termination, nor shall any such termination relieve Contractor or Company from any liability arising from any breach of this Agreement.

(d) Impact on Stock Options. Notwithstanding anything to the contrary in this Agreement, and for purposes of clarity, Company and Contractor acknowledge and agree that options to purchase the Company's common stock granted to Contractor pursuant to a separate agreement and owned by Contractor as of the date of this Agreement shall not terminate or expire by reason of the execution of this Agreement, and shall continue in full force and effect from and

after the effective date of this Agreement in accordance with their terms, except and to the extent amended by this Section 4(d). Notwithstanding the foregoing, Company and Contractor agree that as of the effective date of this Agreement the vesting schedule of such options to purchase the Company's common stock shall be amended such that the vesting of such options shall cease as of the date of termination of this Agreement for any reason. Further, notwithstanding anything to the contrary set forth in the separate agreement granting Contractor options to purchase the Company's common stock, such options shall expire upon the earlier of (a) the date of expiry set forth in the separate agreement granting the options or (b) the date that is eighteen (18) months following termination of Contractor as an independent contractor under this Agreement.

5. Independent Contractor Status. Contractor is an independent contractor. This Agreement shall not create the relationship of employer and employee, a partnership or a joint venture. Company shall not control or direct the details and means by which Contractor performs the Services. Contractor shall determine the number of days and hours of work. Contractor acknowledges that it has no authority to enter into contracts on behalf of Company or to otherwise obligate Company in any respect.

6. Responsibilities of Contractor.

(a) Taxes. Contractor shall be responsible for payment of all taxes with respect to its business and the Services, including, without limitation, income taxes, sales taxes and business and occupation taxes. Company will not be responsible for any of the foregoing payments and Contractor agrees to indemnify, defend and hold Company harmless from any loss or damage that may be sustained as a result of, or in connection with, Contractor's failure to satisfy the requirements set forth in this Section 5(a).

(b) Compliance with Laws. Contractor shall comply with all federal, state and local laws, ordinances, regulations and codes governing Services performed under this Agreement. Contractor agrees to indemnify, defend and hold Company harmless for any loss or damage that may be sustained as a result of, or in connection with, Contractor's failure to satisfy the requirements set forth in this Section 5(b).

(c) Conflict of Interest. During the term of this Agreement, Contractor represents and warrants that he will not perform services for others in a manner that creates a conflict of interest with respect to the Services to be performed for Company pursuant to this Agreement.

7. Contractor Warranties. Contractor represents and warrants that:

(a) Contractor is under no contractual restriction that would prohibit him from performing the Services;

(b) Contractor's execution, delivery and performance of this Agreement will not violate any other employment, nondisclosure, confidentiality, consulting or other agreement to which Contractor is a party or by which he may be bound; and

(c) Contractor will not use, in the performance of the Services or the creation of any Proprietary Materials (as such term is defined below in Section 10), or disclose to Company any confidential or proprietary information of any other person if such use or disclosure would violate any obligation or duty that Contractor owes to such other person. Contractor's compliance with this Section will not prohibit, restrict or impair Contractor's performance of the Services and his other obligations and duties to Company.

8. Indemnification. Contractor agrees to defend, hold harmless and indemnify Company, its affiliates, and their respective directors, officers, employees, successors and assigns from and against any and all losses, damages, claims, demands, suits, liabilities, and expenses, including reasonable attorneys' fees and expenses associated therewith or with successfully establishing the right to indemnification hereunder, which arise out of, in connection with, or result from any claim, action or other proceeding that is based on Contractor's breach of any of the warranties or obligations contained in this Agreement. Contractor agrees to defend Company, at Company's request, against any claim, demand or suit for which Contractor has agreed to indemnify Company. Company may, at its option, conduct the defense in any such claim, demand or suit, and Contractor agrees to cooperate fully with such defense. Company agrees to notify Contractor within a reasonable time of any written claims or demands against Company for which Contractor is responsible under this Section.

9. Non-Exclusive. Subject to Section 6(c) and Section 14, this Agreement shall not limit Contractor's right to provide services for others. Notwithstanding anything to the contrary in this Agreement, this Agreement does not grant to Contractor an exclusive right or privilege to provide the Services. Company may require or obtain the Services, or services similar to the Services, from any other provider of its choice. Company has no obligation to hire Contractor for any work in addition to the Services described on Schedule A.

10. Confidential Information. As a condition to Company's obligations under this Agreement, Contractor agrees to enter into and abide by all the terms and conditions of a nondisclosure agreement substantially in the form attached hereto as

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Exhibit A, which upon execution by the Parties shall be incorporated herein by this reference.

11. Ownership and Use of Proprietary Materials.

(a) Proprietary Materials. As used in this Agreement, "**Proprietary Materials**" means all products, devices, computer programs, techniques, know-how, algorithms, procedures, discoveries or inventions, whether patentable or copyrightable and whether reduced to practice, and all materials, texts, drawings, specifications, source code, data and other recorded information, in preliminary or final form and on any media whatsoever, that is within the scope of Company's business, research or investigations or results from or is suggested by Contractor performance of the Services. It is specifically agreed that all discoveries and improvements, designs and trademarks made or conceived by the Consultant prior to the commencement of this Agreement or otherwise identified on Schedule B attached hereto (the "**Excluded Proprietary Materials**") shall be excluded from the definition of Proprietary Materials. The parties will not jointly develop an intellectual property. If the parties wish to jointly develop intellectual property, ownership of and agreements concerning such development shall be detailed in a separate written agreement entered into by the parties prior to the start of any such joint development.

(b) Ownership. Company will be the exclusive owner of all Proprietary Materials. To the extent permitted under the U.S. Copyright Act (17 U.S.C. § 101 et seq., and any successor statute thereto), the Proprietary Materials will constitute "works made for hire," and the ownership of such Proprietary Materials will vest in Company at the time they are created. To the extent the Proprietary Materials are not "works made for hire" under applicable copyright

laws, Contractor hereby assigns and transfers to Company all right, title and interest that Contractor may now or hereafter have in the Proprietary Materials, subject to the limitations set forth in Section 10(d), below.

(c) Further Acts. Contractor will take such action (including, but not limited to, the execution, acknowledgment, delivery and assistance in preparation of documents or the giving of testimony) as may be requested by Company to evidence, transfer, vest or confirm Company's right, title and interest in the Proprietary Materials.

(d) Limitation. Notwithstanding any other provision of this Agreement to the contrary, this Section 10 will not obligate Contractor to assign or offer to assign to Company any of Contractor's rights in an invention for which no equipment, supplies, facilities or trade secret information of Company was used and which was developed entirely on Contractor's own time, unless the invention results from any work performed by Contractor for Company.

12. Identification. Contractor shall not, without Company's prior written consent, engage in advertising, promotion or publicity making public use of any Identification in any circumstances related to this Agreement. "**Identification**" means any copy or semblance of any trade name, trademark, service mark, insignia, symbol or logo of Company or its affiliates.

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13. Remedies. The Parties agree that damages may be inadequate to compensate for the unique losses to be suffered in the event of a breach hereof, and that the damaged party will be entitled, in addition to any other remedy it may have under this Agreement or at law, to seek and obtain injunctive and other equitable relief, including specific performance of the terms of this Agreement without the necessity of posting bond.

14. Noncompetition. Contractor shall not during the term of this Agreement, and for twelve (12) months thereafter, be employed by, consult with, or otherwise perform services for, participate in the ownership, management, operation or control of, any Competitor of the Company. Contractor shall not during the term of this Agreement, and for twelve (12) months thereafter, be employed by, consult with, or otherwise perform services for, participate in the ownership, management, operation or control of, any Competitor of Company. "**Competitor**" means any entity that directly or indirectly engages in research and development of drugs or products that rely upon or utilize antisense, exon skipping or other technologies that are utilized by the Company as part of its drug development activities.

15. Notices. Any notice or demand which under the terms of this Agreement or under any statute must be given or made by Contractor or Company shall be in writing and shall be given and effective upon receipt if delivered in person, by cable, telegram, or facsimile; one day after deposit prepaid with a national overnight express delivery service; or, three days after deposit in the United States mail (registered or certified mail, postage prepaid, return receipt requested). Each Party shall be responsible for notifying the other of any change in address for purposes of this paragraph. Notices shall be provided the following representatives at the addresses below listed:

Company:	To:	AVI BioPharma, Inc. One SW Columbia Suite 1105 Portland OR 97258 Fax: (503) 227-0751 Attention: Chief Executive Officer
Contractor:	To:	James B. Hicks PhD, LLC 3 Great Meadow Locust Valley, NY 11560 Fax: (516) 367-8382 Attention: Mr. James B. Hicks

The above addresses may be changed at any time by giving prior written notice as above provided.

16. Miscellaneous.

(a) Any delay or failure of either Party to this Agreement to enforce at any time any of its provisions or terms shall not be construed to be a waiver of such provision or term, nor of the right of either Party to later enforce such term or provision. The express waiver by a Party

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hereto of any right or remedy in a particular instance will not constitute a waiver thereof in any other instance. All rights and remedies will be cumulative and not exclusive of any other rights or remedies.

(b) This Agreement shall be governed by the laws of the State of Oregon without regard to any rules governing conflict of laws. Venue for any action arising out of or related to this Agreement shall be in Multnomah County, Oregon.

(c) If any provision of this Agreement is held to be unenforceable, the remaining provisions will nevertheless continue to be valid and enforceable.

(d) Each Party's obligations hereunder are in addition to, and not exclusive of, any and all of its other obligations and duties to the other Party, whether express, implied, in fact or in law.

(e) This Agreement represents and contains the entire understanding between the Parties in connection with its subject matter, and all prior or contemporaneous oral or written communications, understandings or agreements between Company and Contractor with respect to such subject matters are hereby superseded in their entireties. The Parties acknowledge that they have not relied upon any representation or statement not set forth in this Agreement made by the other Party or that Party's agent. This Agreement will not be amended, modified, altered or varied except in a written document signed by both Parties.

(f) This Agreement may be executed in any number of counterparts, all of which when taken together shall constitute one agreement binding on each Party, notwithstanding that each Party is not a signatory to the same counterpart.

(g) This Agreement shall not be assigned or transferred by Contractor without the prior written consent of Company.

[Remainder of page intentionally left blank. Signature page follows.]

The Parties have signed this Agreement as of the date first set forth above.

COMPANY:	CONTRACTOR:
AVI BIOPHARMA, INC.	James B. Hicks PhD, LLC
By: /s/ K. Michael Forrest	By: /s/ James B. Hicks
Name: K. Michael Forrest	Name: James B. Hicks
Title: Chief Executive Officer	Title: Member
10/26/07	10/26/07

SCHEDULE A

SERVICES AND FEES

This Statement of Work ("**SOW**") is entered into between AVI BioPharma, Inc. ("**Company**") and James B. Hicks PhD, LLC ("**Contractor**"). Reference is made to the Professional Services Agreement between Company and Contractor dated as of the day of October 2007 (the "**Agreement**"), which this SOW is subject to and made a part of.

Table 1: Consulting Scope of Work, Fees

ACTIVITY	KEY DELIVERABLES	Fees
1. Retainer	· Services as requested up to 8 hours per month.	· $2,500 per month plus options each year of the Agreement to purchase 10,000 shares of the Company's common stock. Such options shall have an exercise price not less than fair market value on the grant date and shall vest ratably on each monthly anniversary date of the grant over twelve months of continued service as a Consultant.
2. As requested	· Services in excess of 8 hours per month	· $312.50/hour

Additional Expenses: Reasonable travel and other expenses in connection with Services, including attendance at Board meetings as requested.

Payment of Fees in the Event of Termination:

- Voluntary Termination by Consultant: Fees earned through the effective date of termination; vesting of options ceases as of effective date of termination and options remain exercisable for 18 months or the expiry date of the option, whichever earlier.
- Termination by Company without Cause: Fees earned through effective date of termination/end of current term; vesting of options accelerates and options remain exercisable for 18 months or the expiry date of the option, whichever earlier.
- Termination by Company upon Consultant's Death or Disability: Fees earned through effective date of termination/end of current term; vesting of options accelerates and options remain exercisable for 18 months or the expiry date of the option, whichever earlier.
- Termination by Company With Cause: Fees earned through effective date of termination; termination of all unvested options on effective date of termination, vesting of options ceases as of effective date of termination and options remain exercisable for 90 days or the expiry date of the option, whichever earlier.

SCHEDULE B

EXCLUDED PROPRIETARY MATERIALS

EXHIBIT A

NON-DISCLOSURE AGREEMENT

This Non-Disclosure Agreement (this "**Agreement**") is entered into as of October , 2007 (the "**Effective Date**"), by and between AVI BioPharma, Inc., an Oregon corporation (the "**Company**") and (the "**Recipient**") (each, a "**Party**" and, collectively, the "**Parties**").

RECITALS

A. The Recipient is a consultant to the Company and will be providing professional services to the Company in accordance with that certain Professional Services Agreement dated as of the day of October 2007 (the "**Consulting Agreement**").

B. In connection with the Consulting Agreement, the Company will disclose to the Recipient certain material, non-public information about the Company. As a condition precedent to providing such information to the Recipient, the Parties have agreed to enter into this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants expressed herein and other valuable consideration, the receipt and sufficiency of which are acknowledged, the Parties agree as follow

I. DEFINITIONS. FOR THE PURPOSES OF THIS AGREEMENT:

A. **"Affiliate"** of a Party means any entity that a Party directly or indirectly controls, or is controlled by, including but not limited to employees, agents, and entities**.**

B. **"Confidential Information"** means any business, marketing, technical, or other information in tangible or intangible form, disclosed by the Company to the Recipient that, at the time of disclosure, is designated as confidential (or like designation), is disclosed in circumstances of confidence, or would be understood by the Parties (or their Affiliates), exercising reasonable business judgment, to be confidential, specifically including Company business plans, product concepts, technical know-how, methods of and other information relating to operations, development strategies, distribution arrangements, financial data, marketing plans, and business practices, policies, or objectives.

II. DISCLOSURE, USE RESTRICTIONS AND PROPRIETARY RIGHTS.

A. Disclosure and Use.

1. Any Confidential Information received by the Recipient shall be retained in confidence, disclosed only to Affiliates solely on a need to know basis, and used only in accordance with this Agreement. The Recipient shall use

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at least the same degree of care as it uses to protect his/its own confidential information of a similar nature, but no less than reasonable care, to prevent the unauthorized use or disclosure of the Confidential Information. The obligations of confidence set forth in this Agreement shall extend to any of the Recipient's Affiliates, including the Recipient's attorneys, advisors, directors, executive officers and employees that may receive Confidential Information. The Recipient shall notify its attorney(s), advisors, directors, officers and Affiliates of the requirements of this Agreement and require that such persons comply with the requirements of this Agreement.

2. In accordance with Section 2.4 below, the Recipient shall notify the Company immediately upon discovery of any unauthorized use or disclosure of Confidential Information or any other breach of this Agreement by the Recipient, its officers, directors, advisors, attorneys, employees, or Affiliates, and will cooperate with the Company to assist the Company to regain possession of the Confidential Information and prevent its further unauthorized use or disclosure.

B. **Exemptions.** The Recipient shall not be bound by the obligations restricting disclosure and use set forth in this Agreement with respect to Confidential Information, or any part thereof, which: (i) was known by the Recipient prior to disclosure, except if such Confidential Information, or any part thereof, became known to Recipient as a result of or in connection with prior positions or roles Recipient had with the Company that allowed Recipient to know or become exposed to or aware of such Confidential Information or any part thereof, in which case such Confidential Information or such part thereof shall be deemed to be Confidential Information subject to subparagraphs (ii), (iii), (iv) and (v) herein; (ii) was lawfully in the public domain prior to its disclosure, or becomes publicly available other than through a breach of this Agreement; (iii) was disclosed to the Recipient by a third party, provided such third party is not in breach of any confidentiality obligation in respect of such information; (iv) is independently developed by the Recipient, where the burden is on the Recipient to prove independent development; or (v) is disclosed when such disclosure is compelled pursuant to legal, judicial or administrative proceedings, or otherwise required by law, subject to the Recipient giving reasonable prior notice to the Company Party to allow the Company to seek protective court orders. The foregoing exemptions shall extend to any Affiliates that receive or have received Confidential Information.

C. **Proprietary Rights.** The Recipient (including its Affiliates) shall not acquire any rights, express or implied, in the Confidential Information of the Company (including its Affiliates), except for the limited use specified in this Agreement. The Confidential Information, including all right, title and interest therein, remain the sole and exclusive property of the Company (and its Affiliates).

D. **Compulsory Disclosure.** If the Recipient is legally compelled to disclose any of the Confidential Information, the Recipient shall promptly provide written notice to the Company to enable the Company (at its sole cost and expense) to seek a protective order or other appropriate remedy to avoid public or third-party disclosure of its Confidential Information. If such protective order or other remedy is not obtained, the Recipient shall furnish only so much of the Confidential Information that it is legally compelled to disclose, and shall exercise its commercially reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the Confidential Information. The Recipient shall cooperate with and assist the Company, at the Company's expense, in seeking any protective order or other relief requested pursuant to this Section 2.4.

III. REMEDIES. THE RECIPIENT AGREES THAT ANY VIOLATION OR THREATENED VIOLATION OF THIS AGREEMENT WILL CAUSE IRREPARABLE HARM TO THE COMPANY, ENTITLING THE COMPANY TO SEEK INJUNCTIVE RELIEF IN ADDITION TO ALL

OTHER LEGAL REMEDIES.

IV. TERM OF OBLIGATION.

A. Term. The confidentiality obligations set forth in this Agreement shall continue with regard to an item of information as long as that information continues to meet the definition of "Confidential Information" and is not exempt under Section 2.2.

B. Return of Confidential Information. At any time upon written request by the Company, the Recipient shall return or destroy all documents or other materials embodying Confidential Information, shall retain no copies thereof, and shall certify in writing that such destruction or return has been accomplished. The confidentiality obligations set forth in this Agreement shall survive any termination of the Agreement.

V. SECURITIES LAWS. THE RECIPIENT HEREBY ACKNOWLEDGES THAT THE COMPANY IS A PUBLICLY TRADED COMPANY. THE RECIPIENT HEREBY ACKNOWLEDGES THAT HE IS AWARE THAT FEDERAL AND STATE SECURITIES LAWS PROHIBIT ANY PERSON WHO HAS RECEIVED MATERIAL, NON-PUBLIC INFORMATION (INFORMATION ABOUT THE COMPANY OR ITS BUSINESS THAT IS NOT GENERALLY AVAILABLE TO THE PUBLIC) CONCERNING THE COMPANY, INCLUDING, WITHOUT LIMITATION, THE MATTERS THAT ARE THE SUBJECT OF THIS AGREEMENT, FROM PURCHASING OR SELLING SECURITIES OF THE COMPANY WHILE IN POSSESSION OF SUCH NON-PUBLIC INFORMATION, AND FROM COMMUNICATING THAT INFORMATION TO ANY OTHER PERSON WHO MAY PURCHASE OR SELL SECURITIES OF THE COMPANY OR OTHERWISE VIOLATE SUCH LAWS. THE RECIPIENT SPECIFICALLY ACKNOWLEDGE THESE OBLIGATIONS AND AGREES TO BE BOUND BY THEM.

VI. GENERAL.

A. Waiver. The failure of the Company to claim a breach of any term of this Agreement shall not constitute a waiver of such breach or the right of the Company to enforce any subsequent breach of such term.

B. Assignment. This Agreement shall be binding on and inure to the benefit of each Party and their respective successors and assigns.

C. Severability. In the event that any provision of this Agreement is found to be invalid, void or unenforceable, the Parties agree that unless such provision materially affects the intent and purpose of this Agreement, such invalidity, void ability or unenforceability shall not affect the validity of this Agreement nor the remaining provisions herein.

D. Governing Law. This Agreement shall be governed by the laws of the State of Oregon, without regard to its conflict of law principles. The jurisdiction for any legal action shall be exclusively a state or federal court in Multnomah County, Oregon.

E. Entire Agreement. This Agreement constitutes the entire agreement between the parties on the subject matter hereof and supersedes all prior agreements, communications and understandings of any nature whatsoever, oral or written. This Agreement may not be modified or waived orally and may be modified only in a writing signed by a duly authorized representative of both parties.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representatives and to be effective on the Effective Date.

Company AVI BioPharma, Inc.	Recipient
By: _____	_____
Print Name: K. Michael Forrest	Print Name: _____
Title: Interim CEO	Date _____
Date: _____	

Exhibit 10.62

[GH LETTERHEAD]

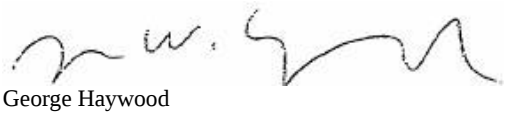
K. Michael Forrest
Interim Chief Executive officer
AVI BioPharma, Inc.
One SW Columbia
Suite 1105
Portland OR 97258

Dear Michael;

As the largest individual shareholder of AVI BioPharma, Inc. (the "Company"), I am obviously quite interested in the direction that the Company is heading. As you know, since I became a more than 5% shareholder in March 2005, as reflected in my Schedule 13G filings under the Securities Exchange Act of 1934, I have not had any intention or taken any actions to change the management or control of the Company. My position has not changed.

In recent months, the Company has made several changes in management and focus, which I have supported and continue to support.
I also understand that you are contemplating certain additional changes and certain transactions, and you have requested that I execute this letter in connection therewith. Accordingly, as show of support and to better enable the Company to effect these changes and transactions without undue interference or disruption, I agree that for 120 days following the date of any agreement you reach with AVI BioPharma Shareholder Advocacy Trust on or prior to October 29, 2007, 1 will not change my position as a passive shareholder and will not actively support any action of any other shareholder, including the AVI BioPharma Shareholder Advocacy Trust, that may call for additional changes in the Company's management, Board structure or Board composition, or any transaction that would, if successful, result in a change of control of the Company.

Sincerely,



George Haywood

EXHIBIT 23.0

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
AVI BioPharma, Inc.

We consent to the incorporation by reference in the registration statement Nos. 333-138299, 333-133211, 333-86778, 333-105412, 333-109015, 333-68502, 333-45888, 333-93135 and 333-86039 on Forms S-3 and Nos. 333-101826, 333-49996, 333-49994 and 333-34047 on Forms S-8 of AVI BioPharma, Inc. (an Oregon Corporation in the development stage) of our reports dated March 17, 2008, with respect to the balance sheets of AVI BioPharma, Inc. as of December 31, 2007 and 2006 and the related statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2007 and the effectiveness of internal control over financial reporting as of December 31, 2007, which reports appear in the December 31, 2007 annual report on Form 10-K of AVI BioPharma, Inc.

As discussed in Note 2 to the financial statements, effective January 1, 2006, the AVI BioPharma, Inc. adopted the provisions of Statement of Financial Accounting Standards No. 123 (R), *Share-Based Payment*.

/s/ KPMG LLP

Portland, Oregon,
March 17, 2008

EXHIBIT 31.1

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

I, Leslie Hudson, Ph.D., certify that:

1. I have reviewed this quarterly report on Form 10-K 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: March 17, 2008

By: /s/ Leslie Hudson, Ph.D.
Leslie Hudson, Ph.D.
Chief Executive Officer and Director
(Principal Executive Officer)

EXHIBIT 31.2

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-K 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: March 17, 2008

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

EXHIBIT 32.0

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 Annual Report of AVI BioPharma, Inc. (the "Company") on Form 10-K for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leslie Hudson, Ph.D., 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/ Leslie Hudson, Ph.D.
Leslie Hudson, Ph.D.
Chief Executive Officer and Director
AVI BioPharma, Inc.
March 17, 2008

/s/ Mark M. Webber
Mark M. Webber
Chief Financial Officer and Chief Information Officer
AVI BioPharma, Inc.
March 17, 2008

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.