UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from to

Commission file number 0-22613

AVI BIOPHARMA, INC.
(Exact name of registrant as specified in its charter)

Oregon	**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**

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

Yes x No o

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.

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes o No x

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

Common Stock with $.0001 par value	**53,654,200**
(Class)	(Outstanding at August 3, 2007)

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

	June 30, 2007	December 31, 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 9,263,512	$ 20,159,201
Short-term securities—available-for-sale	10,056,789	12,992,931
Accounts receivable	1,119,780	51,498
Other current assets	775,179	736,283
Total Current Assets	21,215,260	33,939,913
Property and Equipment, net of accumulated depreciation and amortization of $11,034,187 and $10,174,712	7,189,503	4,329,583
Patent Costs, net of accumulated amortization of $1,580,130 and $1,496,699	2,769,042	2,558,541
Other Assets	34,709	34,709
Total Assets	$ 31,208,514	$ 40,862,746
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 2,348,603	$ 1,401,584
Accrued employee compensation	1,132,036	1,371,353
Long-term debt, current portion	69,434	—
Other liabilities	1,336,821	377,908
Total Current Liabilities	4,886,894	3,150,845
Commitments and Contingencies		
Long-term debt, non-current portion	2,106,675	—
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; 53,654,200 and 53,182,841 issued and outstanding	5,365	5,318
Additional paid-in capital	246,190,431	241,409,421
Accumulated other comprehensive income	—	18,418
Deficit accumulated during the development stage	(221,980,851)	(203,721,256)
Total Shareholders' Equity	24,214,945	37,711,901
Total Liabilities and Shareholders' Equity	$ 31,208,514	$ 40,862,746

See accompanying notes to financial statements.

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

	Three months ended June 30,		Six months ended June 30,		July 22, 1980 (inception) through June 30, 2007
	2007	2006	2007	2006	
Revenues from license fees, grants and research contracts	$ 2,351,424	$ 18,558	$ 2,887,466	$ 84,520	$ 12,868,285
Operating expenses:					
Research and development	9,160,816	5,921,929	15,478,457	12,685,174	163,125,672
General and administrative	2,030,796	1,515,711	6,334,681	4,337,437	47,155,209
Acquired in-process research and development	—	—	—	—	19,545,028
	11,191,612	7,437,640	21,813,138	17,022,611	229,825,909
Other income (loss):					
Interest income, net	303,568	517,053	666,077	974,912	8,115,619
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)
	303,568	517,053	666,077	974,912	(5,023,227)
Net loss	$ (8,536,620)	$ (6,902,029)	$ (18,259,595)	$ (15,963,179)	$ (221,980,851)
Net loss per share - basic and diluted	$ (0.16)	$ (0.13)	$ (0.34)	$ (0.31)	
Weighted average number of common shares outstanding for computing basic and diluted loss per share	53,560,360	52,946,054	53,381,256	52,333,952	

See accompanying notes to financial statements.

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

	Six months ended June 30,		For the Period July 22, 1980 (Inception) to June 30, 2007
	2007	2006	
Cash flows from operating activities:			
Net loss	$ (18,259,595)	$ (15,963,179)	$ (221,980,851)
Adjustments to reconcile net loss to net cash flows used in operating activities:			
Depreciation and amortization	968,091	1,037,924	13,788,330
Loss on disposal of assets	58,239	190,989	373,417
Realized gain on sale of short-term securities—available-for-sale	—	—	(3,862,502)
Write-down of short-term securities—available-for-sale	—	—	17,001,348
Issuance of common stock to vendors	500,000	700,000	1,875,000
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	2,955,690
Stock-based compensation	3,154,836	2,943,271	8,036,306
Conversion of interest accrued to common stock	—	—	7,860
Acquired in-process research and development	—	—	19,545,028
(Increase) decrease in:			
Accounts receivable and other current assets	(1,107,178)	974,423	(1,894,959)
Other assets	—	2,900	(34,709)
Net increase (decrease) in accounts payable, accrued employee compensation, and other liabilities	1,642,932	(308,152)	5,088,777
Net cash used in operating activities	(12,730,038)	(9,896,698)	(158,239,610)

Cash flows from investing activities:			
Purchase of property and equipment	(796,960)	(462,752)	(16,095,471)
Patent costs	(349,999)	(297,113)	(4,825,029)
Purchase of marketable securities	(110,417)	(3,205,522)	(112,976,213)
Sale of marketable securities	3,028,141	2,953,998	107,828,578
Acquisition costs	—	—	(2,377,616)
Net cash provided by (used in) investing activities	1,770,765	(1,011,389)	(28,445,751)
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	63,584	8,074,736	196,334,310
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	63,584	8,074,736	195,948,873
Increase (decrease) in cash and cash equivalents	(10,895,689)	(2,833,351)	9,263,512
Cash and cash equivalents:			
Beginning of period	20,159,201	34,597,734	—
End of period	$ 9,263,512	$ 31,764,383	$ 9,263,512
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)	$ 4,232	$ —
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.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The financial information included herein for the three and six-month periods ended June 30, 2007 and 2006 and the financial information as of June 30, 2007 is unaudited; however, such information reflects all adjustments consisting only of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The financial information as of December 31, 2006 is derived from AVI BioPharma, Inc.'s (the "Company's") Form 10-K. The interim financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Form 10-K. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

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 the periods presented were measured on the date of grant using the Black-Scholes option-pricing model, with the following weighted average assumptions:

Three and Six Months Ended June 30,	2007	2006
Risk-free interest rate	4.83%	4.14%
Expected dividend yield	0%	0%
Expected lives	8.0 years	9.3 years
Expected volatility	89%	91%

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

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

A summary of the Company's stock option compensation activity with respect to the six months ended June 30, 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	1,197,548	$ 2.79		
Exercised	(9,537)	$ 2.50		
Canceled or expired	(295,385)	$ 6.13		
Outstanding at June 30, 2007	6,464,096	$ 4.65	5.65	$ (11,634,015)
Vested at June 30, 2007 and expected to vest	6,425,097	$ 4.65	5.63	$ (11,586,764)
Exercisable at June 30, 2007	4,514,151	$ 4.90	4.32	$ (9,271,446)

The weighted average fair value per share of stock-based payments granted to employees during the six months ended June 30, 2007 and June 30, 2006 was $2.26 and $6.09, respectively. During the same periods, the total intrinsic value of stock options exercised were $4,677 and $763,905, and the total fair value of stock options that vested were $2,097,464 and $2,109,771, respectively.

As of June 30, 2007, there was $4,288,506 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. These costs are expected to be recognized over a weighted-average period of 2.1 years.

During the six months ended June 30, 2007, $23,817 was received for the exercise of stock options. The Company is obligated to issue shares from the 2002 Equity Incentive Plan upon the exercise of stock options. The Company does not currently expect to repurchase shares from any source to satisfy its obligations under the Plan.

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

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Research and development	$ 487,648	$ 884,685
General and administrative	306,418	1,212,779
Total	$ 794,066	$ 2,097,464

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

The 2000 Employee Stock Purchase Plan (ESPP) provides that eligible employees may contribute, through payroll, deductions, up to 10% of their earnings toward the purchase of the Company's Common Stock at 85% of the fair market value at specific dates. On January 1, 2006, the Company adopted SFAS 123R, which requires the measurement and recognition of compensation expense for all share based payment awards made to the Company's employees and directors related to the Employee Stock Purchase Plan, based on estimated fair values. During the three and six-month periods ended June 30, 2007 the total compensation expense for participants in the ESPP was $10,865 and $18,714, respectively, using the Black-Scholes option-pricing model with a weighted average estimated fair value per share of $1.12, expected life of six months, risk free interest rate of 4.98%, volatility of 59.53%, and no dividend yield. During the three and six-month periods ended June 30, 2006 the total compensation expense for participants in the ESPP was $17,601 and $32,719, respectively, using the Black-Scholes option-pricing model with a weighted average estimated fair value per share of $1.35, expected life of six months, risk free interest rate of 4.12%, volatility of 84.53%, and no dividend yield. At June 30, 2007, 230,687 shares remain available for purchase through the plan and there were 90 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 three and six-month periods ended June 30, 2007 the total compensation expense for stock-based compensation was $794,066 and $3,154,836, respectively. During the three and six-month periods ended June 30, 2006 the total compensation expense for stock-based compensation was $1,006,000 and $2,943,271, respectively.

The Company records the fair value of stock options granted to non-employees in exchange for services in accordance with EITF 96-18 "*Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*." The fair value of the options granted 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 during the six months ended June 30, 2007 and June 30, 2006 was $312,637 and $525,126, respectively, which was expensed to research and development.

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.

Government Research Contract Revenue. The Company recognizes revenues from federal research contracts during the period in which the related expenditures are incurred. 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*." See Note 2.

Income Taxes. 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 7.

Note 2. Liquidity

The Company is in the development stage. Since its inception in 1980 through June 30, 2007, the Company has incurred losses of approximately $222 million, substantially all of which resulted from expenditures related to research and development, general and administrative expenses, non-cash write-downs in 2002 of $4,478,260 and in 2001 of $12,523,088 on short-

term securities—available-for-sale that had an other than temporary impairment as defined by SEC accounting rules and a one-time charge of $19,545,028 for acquired in-process research and development reflecting the acquisition of ImmunoTherapy Corporation. The Company has not generated any material revenue from product sales to date, and there can be no assurance that revenues from product sales will be achieved. Moreover, even if the Company does achieve revenues from product sales, the Company expects to incur operating losses over the next several years.

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 through 2007. For 2007, the Company expects expenditures for operations, net of government funding, including collaborative efforts and GMP facilities to be approximately $24 to $26 million. Expenditures for 2007 could increase 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. Funding under this contract is expected over two years, with approximately $18.0 million committed in the first year, and the remainder anticipated in the second year. In the first half of 2007, the Company recognized $1,740,157 in research contract revenue from this contract.

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 three of the projects, with government expenditures of $7.1 million. The Company continues to work with the government to define the scope of work to be performed on the fourth project, dengue viruses. The Company expects that funding under these signed contracts will be received over the next 12 months. In the second quarter of 2007, the Company recognized $1,060,028 in research contract revenue from this contract.

The likelihood of the long-term success of the Company must be considered in light of the expenses, difficulties and delays frequently encountered in the development and commercialization of new pharmaceutical products, competitive factors in the marketplace as well as the burdensome regulatory environment in which the Company operates. There can be

no assurance that the Company will ever achieve significant revenues or profitable operations.

Note 3. Earnings Per Share

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

Three Months Ended June 30,	2007	2006
Net loss	$ (8,536,620)	$ (6,902,029)
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	53,560,360	52,946,054
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	53,560,360	52,946,054
Net loss per share - basic and diluted	$ (0.16)	$ (0.13)

Six Months Ended June 30,	2007	2006
Net loss	$ (18,259,595)	$ (15,963,179)
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	53,381,256	52,333,952
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	53,381,256	52,333,952
Net loss per share - basic and diluted	$ (0.34)	$ (0.31)

* Warrants and stock options to purchase 14,972,199 and 14,242,647 shares of common stock as of June 30, 2007 and 2006, respectively, were excluded from the earnings per share calculation as their effect would have been antidilutive.

Note 4. Comprehensive Income and securities available for sale

Comprehensive income (loss) includes charges or credits to equity that did not result from transactions with shareholders. The Company's only component of "other comprehensive income (loss)" is unrealized gain (loss) on cash equivalents and short-term securities—available-for-sale. Accordingly, such investment securities are stated on the balance sheet at their fair market value. The Company classifies its investment securities with an original maturity of three months or less from the date of purchase as cash equivalents. The Company classifies its investment securities with an original maturity of more than three months from the date of purchase as short-term securities—available-for-sale. At June 30, 2007 and December 31, 2006, the Company's investments in marketable securities had gross unrealized gains of $0 and $18,418, respectively. The unrealized difference between the adjusted cost and the fair market value of these securities has been reflected as a separate component of shareholders' equity. The following table sets forth the calculation of comprehensive income for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net loss	$ (8,536,620)	$ (6,902,029)	$ (18,259,595)	$ (15,963,179)
Unrealized gain (loss) on marketable securities	(16,377)	2,342	(18,418)	4,232
Total comprehensive loss	$ (8,552,997)	$ (6,899,687)	$ (18,278,013)	$ (15,958,947)

Note 5. Significant Agreements

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 $62,500 in license fees in the first half of 2007; the remaining $437,500 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.

Note 6. Other current assets

Amounts included in other current assets are as follows:

	June 30, 2007	December 31, 2006
Prepaid expenses	$ 394,499	$ 480,003
Prepaid rents	103,503	100,838
Restricted cash	277,177	155,442
Other current assets	$ 775,179	$ 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 June 30, 2007, restricted cash including accrued interest was $277,177. The remaining components of other current assets include normally occurring prepaid expenses and rents.

Note 7. Income Taxes

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 June 30, 2007 and at December 31, 2006, and has not recognized interest and/or penalties in the statement of operations for the six months ended June 30, 2007.

At January 1, 2007, the Company had net deferred tax assets of $79,398,000. 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.

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

This section should be read in conjunction with the same titled section contained in our Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2006 and the "Risk Factors" contained in such report.

Forward-Looking Information

The discussion in this Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. Forward looking statements are identified by such words as “believe,” “expect,” “anticipate” and words and phrases of similar import. All statements other than historical or current facts, including, without limitation, statements about our business strategy, plans and objectives of management and our future prospects, are forward-looking statements. Such forward-looking statements involve risks and uncertainties, including, but not limited to, the results of research and development efforts, the success of raising funds in the current offering or future offerings under our current shelf registration, the results of pre-clinical and clinical testing, the effect of regulation by FDA and other agencies, the impact of competitive products, product development, commercialization and technological difficulties, and other risks detailed in the Company’s Securities and Exchange Commission filings, that could cause actual results to differ materially from the expected results reflected in such forward looking statements.

Overview

From our inception in 1980, we have devoted our resources primarily to fund our research and development efforts. We have been unprofitable since inception and, other than limited interest, license fees, grants and research contracts, we have had no material revenues from the sale of products or other sources 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 into additional collaborative efforts. As of June 30, 2007, the Company’s accumulated deficit was $221,980,851.

Results of Operations

Revenues, from license fees, grants and research contracts, increased to $2,351,424 in the second quarter of 2007 from $18,558 in the second quarter of 2006, primarily due to increases in research contract revenues of $2,310,013 and license fees of $31,250, partially offset by decreases in grant revenues of $8,397. Revenues, from license fees, grants and research contracts, increased to $2,887,466 in the first half of 2007 from $84,520 in the comparable period in 2006, due to increases in research contracts revenues of $2,795,305 and license fees of $62,500, partially offset by decreases in grants revenues of $54,859.

Operating expenses increased to $11,191,612 in the second quarter of 2007 from $7,437,640 in the second quarter of 2006 and to $21,813,138 for the six months ended June 30, 2007 from $17,022,611 for the comparable period of 2007 primarily due to increases in research and development, which increased to $9,160,816 in the second quarter of 2007 from $5,921,929 in the second quarter of 2006 and to $15,478,457 for the six months ended June 30, 2007 from $12,685,174 in the comparable period in 2006. This research and development increase in the second quarter of 2007 was due primarily to increases in clinical expenses from the expansion of clinical programs of approximately $1,400,000. Also, approximately $1,750,000 was expensed for government research contracts. The research and development increase for the six months ended June 30, 2007 was due primarily to increases in net clinical expenses of approximately $700,000 and approximately $170,000 was due to contracting costs for the production of GMP subunits, which are used by the Company to manufacture compounds for future clinical trials. Approximately $2,100,000 was expensed for government research contracts. In addition, research and development increases in chemical and lab supply costs increased approximately $390,000, professional consultant costs increased approximately $240,000, and leasehold and patent amortization expenses increased approximately $50,000. These research and development increases were partially offset by decreases in employee costs of approximately $980,000, 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 $290,000 and salaries and bonuses of approximately $250,000.

The remaining increase in operating expenses was due to general and administrative costs increasing to $2,030,796 in the second quarter of 2007 from $1,515,711 in the second quarter of 2006 and to $6,334,681 for the six months ended June 30, 2007 from $4,337,437 for the comparable period of 2006. This general and administrative increase in the second quarter of 2007 was due primarily to increases in legal expenses of approximately $315,000 and salaries, bonuses, and other compensation costs of approximately $225,000, partially offset by decreases in SFAS 123R expenses of approximately $75,000. This general and administrative increase for the six months ended June 30, 2007 was due primarily to increases in salaries, bonuses, and other compensation costs of approximately $1,400,000, 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, partially offset by decreases in SFAS 123R expenses of approximately $200,000. General and administrative also includes increases in legal expenses of approximately $545,000 and accounting expenses of approximately $60,000.

Net interest income decreased to $303,568 in the second quarter of 2007 from $517,053 in the second quarter of 2006 and to $666,077 for the six months ended June 30, 2007 from $974,912 for the comparable period in 2006 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.

Liquidity and Capital Resources

The Company does not expect any material revenues in 2007 or 2008 from its business activities other than from potential government grants and research contracts. The Company expects that its cash requirements through 2007 will be satisfied by existing cash resources. To fund its operations beyond 2007, the Company will need to secure additional funds. Such funds could come from technology license fees, government grants and research contracts, and the capital markets.

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. Funding under this contract is expected over two years, with approximately $18.0 million committed in the first year, and the remainder anticipated in the second year. In the first half of 2007, the Company recognized $1,740,157 in research contract revenue from this contract.

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 three of the projects, with government expenditures of $7.1 million. The Company continues to work with the government to define the scope of work to be performed on the fourth project, dengue viruses. The Company expects that funding under these signed contracts will be received over the next 12 months. In the second quarter of 2007, the Company recognized $1,060,028 in research contract revenue from this contract.

The Company's cash, cash equivalents and short-term securities were $19,320,301 at June 30, 2007, compared with $33,152,132 at December 31, 2006. The decrease of $13,831,831 was due primarily to $12,730,038 used in operations and $1,146,959 used for purchases of property and equipment and patent related costs, partially offset by the receipt of $63,584 from the exercise of options and sales under the Company's employee stock purchase plan during the first half of 2007.

The Company's short-term securities include certificates of deposit, commercial paper and other highly liquid investments with original maturities in excess of 90 days at the time of purchase and less than one year from the balance sheet date. The Company classifies its

investment securities as available-for-sale and, accordingly, such investment securities are stated on the balance sheet at their fair market value with unrealized gains (losses) recorded as a separate component of shareholders' equity and comprehensive income (loss).

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

In addition, the Company's Chief Executive Officer recently resigned. There can be no assurance that the Company will be able to find and employ a permanent CEO that will be able to lead the Company successfully in the near term. The failure to secure a permanent replacement may adversely affect the Company's research and development efforts.

The Company expects to continue to incur losses as it expands its research and development activities and related regulatory work and increases its collaborative efforts. For 2007, the Company expects expenditures for operations, net of government funding, including collaborative efforts and GMP facilities to be approximately $24 to $26 million. Expenditures for 2007 could increase 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.

Critical Accounting Policies and Estimates

The discussion and analysis of the Company's financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Company's critical accounting policies and estimates are consistent with the disclosure in the Company's Form 10-K, with the exception of FIN 48, see Note 7.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There has been no material change in the Company's market risk exposure since the filing of our 2006 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of June 30, 2007, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on this review of its disclosure controls and procedures, the Chief Executive Officer and the Chief Financial Officer have concluded that its disclosure controls and procedures are effective in timely alerting them to material information relating to the Company that is required to be included in our periodic SEC filings.

Internal Controls and Procedures

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

The resignation and replacement of the Company's Chief Executive Officer could have adverse impacts on the Company.

In March 2007, the Company's Chief Executive officer resigned and an interim CEO was appointed. The Company has commenced a search for a permanent replacement. There can be no assurance that the Company will be able to find and employ a new permanent CEO that will be able to lead the Company successfully in the near term. The failure to secure a permanent replacement may adversely affect the Company's research and development efforts.

The Company will need additional funds to continue operations at current levels.

The Company's net cash use through the end of 2007 is expected to be approximately $9 to $11 million assuming no material change in the Company's operations, including clinical trials and research and development activities. As of June 30, 2007, the Company has cash, cash equivalents and short-term securities of $19.3 million. Unless the Company is able to secure additional capital, it will need to curtail expenditures on its clinical programs, its research and development efforts and/or its plans to expand its manufacturing capacity. While such curtailments may extend the Company's cash resources, such efforts may adversely affect the Company's prospects to commercialize its existing products and develop its next-generation products, which could adversely affect shareholder value.

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

None

Item 3. Defaults Upon Senior Securities.

None

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

On May 22, 2007, at the Annual Meeting of the Company's Shareholders ("Annual Meeting"), the shareholders approved each of the proposals set forth in the Company's Proxy Statement dated April 17, 2007, briefly described below:

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

Nominees

John C. Hodgman
John W. Fara, Ph.D.
K. Michael Forrest

Besides the foregoing directors, the following directors with terms expiring in 2008 continued as directors following the Annual Meeting: Jack L. Bowman, Michael D. Casey, James B. Hicks, Ph.D., and Alan P. Timmins.

(ii) The shareholders were asked to ratify the selection by the Audit Committee of KPMG LLP as the Company's independent auditors. The proposal was ratified by the shareholders, as 46,425,958 votes were cast for the proposal, 878,817 votes were cast against, 466,582 votes abstained and 5,511,484 votes were not voted.

Item 5. Other Information.

None

Item 6. Exhibits

		Incorporated by Reference to Filings Indicated				
Exhibit No	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
4.1	Third Restated Articles of Incorporation of AntiVirals Inc.	SB-2	333-20513	3.1	5/29/97	
4.2	First Amendment to Third Restated Articles of Incorporation of AntiVirals Inc.	8-K	0-22613	3.3	9/30/98	
4.3	Amendment to Article 2 of the Company's Third Restated Articles of Incorporation	DEF 14A	1-14895	N/A	4/11/02	
4.4	Bylaws of AntiVirals Inc.	SB-2	333-20513	3.2	5/29/97	
10.58+	Cross License Agreement dated January 8, 2007 by and between Eleos, Inc. and AVI BioPharma, Inc.	10-Q	0-22613	10.58	05/10/07	
10.59	Separation and Release Agreement dated March 27, 2007 by and between Denis R. Burger, Ph.D. and AVI BioPharma, Inc.	10-Q	0-22613	10.59	05/10/07	

10.60+	Cross License and Collaboration Agreement by and between Ercole Biotech. Inc. and AVI BioPharma, Inc.	X
10.61	Real estate purchase agreement by and between WKL Investments Airport and AVI BioPharma, Inc.	X
31.1	Certification of the Company's Chief Executive Officer, K. Michael Forrest, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
31.2	Certification of Chief Financial Officer, Mark M. Webber pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
32	Certification of the Company's Chief Executive Officer, K. Michael Forrest, and Chief Financial Officer, Mark M. Webber, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X

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

SIGNATURES

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

Date: August 9, 2007

AVI BIOPHARMA, INC.

By: /s/ K. MICHAEL FORREST
K. Michael Forrest
Chief Executive Officer
(Principal Executive Officer)

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

SECOND COLLABORATION AND LICENSE AGREEMENT
(Muscular Dystrophy and Beta Thalassemia)

This Collaboration and License Agreement (the "Agreement") between AVI BioPharma, Inc. of One S.W. Columbia, Suite 1105, Portland OR 97258 ("AVI") and Ercole Biotech, Inc., of 7030 Kit Creek RD, Suite 150, Morrisville, NC ("Ercole") is entered into and made effective this 1st day of May, 2007 (the "Effective Date").

OVERVIEW

AVI owns or controls certain patents related to morpholino chemistry (the "AVI Patents", as identified on Exhibit 4), including those licensed under that certain Agreement between AVI and Anti-Gene Development Group effective May 19, 1993 and amended March, 2000 (the "AGDG Agreement").

Ercole controls certain patents (the "Isis Splicing Patents", as identified on Exhibit 3) related to RNA splicing licensed under that certain Collaboration and License Agreement between Ercole and Isis Pharmaceuticals effective May 16, 2003 (the "Isis CLA").

Ercole controls certain patents (the "Ercole Splicing Patents") related to RNA splicing licensed under that certain License Agreement between Ercole and The University of North Carolina at Chapel Hill effective October 15, 2001 (the "UNC License").

The parties have entered into a Collaboration and License Agreement dated December 19, 2006 (the "First Collaboration Agreement").

The parties wish to expand their collaboration by engaging in joint activities related to the discovery and development of pharmaceutical products that utilize inventions covered by the AVI Patents, the Isis Splicing Patents and/or the Ercole Splicing Patents to treat Muscular Dystrophy ("MD") and Beta Thalassemia ("BT").

Capitalized terms used in this Agreement have the meanings set forth in Exhibit 1.

In consideration of the premises and the mutual covenants contained herein, the parties hereto agree as follows:

Article 1. Joint Steering Committee and Management of the Collaboration

1.1 Establishment of Joint Steering Committee. The parties shall establish a Joint Steering Committee ("JSC"), which shall have a total of four members, with two members appointed by each party. Members of the JSC may be represented at any meeting by a

designee appointed by such party for such meeting, provided that reasonable advance notice is provided to the other party and such designee, if not an employee of the party, shall be subject to an appropriate confidentiality agreement. Each party shall be free to change its members on prior written notice to the other party. Each party may, in its discretion and upon reasonable notice to the other party, invite non-JSC employees and consultants of such party to attend such meeting, provided that such non-JSC employees and consultants shall be subject to appropriate confidentiality agreements. The JSC shall exist until the expiration or termination of its responsibilities set forth in this Agreement.

1.2 Responsibilities of the Joint Steering Committee. In addition to the responsibilities expressly described elsewhere in this Agreement, the JSC shall:

(a) draft the R&D Plan and present it to the parties for approval;

(b) monitor activities and execution of the R&D Plan;

(c) develop updates or amendments to the R&D Plan including, but not limited to, the annual updates specified in Section 2.4, and recommend such updates or amendments to the parties for approval;

(d) select compounds as candidates for clinical development ("IND Candidates");

(e) develop a plan related to the conduct of clinical trials and commercialization of Products developed under this Agreement;

(f) attempt to settle disputes or disagreements that are unresolved by the Primary Contact Persons; and

(g) perform any other activities related to the R&D Plan as may be requested by the parties from time to time.

In no circumstance shall the JSC (i) have any authority to make any determination that either party is in breach of its obligations under the R&D Plan or this agreement; or (ii) have the authority to amend either this Agreement or the R&D Plan, other than the ability to recommend updates or amendments for approval by the parties.

1.3 Meetings and Minutes of the Joint Steering Committee. The JSC shall meet on such dates and times as the parties shall agree, but no less frequently than once every three months. The meetings shall alternate between the offices of the parties unless the parties agree otherwise. JSC meetings may take place via teleconference, videoconference or similar electronic or virtual media; provided, however, that the JSC shall meet in person at least twice every calendar year during the course of implementing the R&D Plan. In addition to these required meetings, the JSC may also be polled or consulted from time to time by means of telecommunications, video conference or correspondence, as deemed necessary or appropriate to fulfil its obligations under this Agreement. The JSC will be chaired by an-ERCOLE nominated member during odd-numbered years (2007, 2009, etc…) and by an AVI-nominated member during even-numbered years (2008, 2010, etc…). The chairperson shall convene and preside at meetings of the JSC, but the chairperson shall not be entitled to prevent items from being discussed or to cast any tie-breaking vote. Not

later than thirty (30) days after the Effective Date, the JSC shall hold an organizational meeting. Reasonably detailed written minutes will be kept by the chairperson of all JSC meetings and will reflect material decisions made at such meetings. Draft meeting

minutes will be sent to each member of the JSC for review and approval within ten (10) business days after a meeting. Minutes will be deemed approved unless a member of the JSC objects to the accuracy or completeness of such minutes within thirty (30) calendar days of receipt.

1.4 JSC Decision-Making and Dispute Resolution. The representatives of each party shall collectively have one vote on behalf of such party; provided however, that no such vote taken at a meeting shall be valid unless a representative of each party is present and participates in the vote. The JSC may take actions only by unanimous consent. Should the JSC be unable to reach unanimous consent on any matter within the JSC's area of responsibility, the matter shall be resolved in accordance with the following provisions:

(a) The JSC shall initially refer the matter to the senior management of the parties for resolution in accordance with Section 14.6.1. Should the parties' senior managements be unable to resolve the issue, then it shall be resolved as specified in this Section 1.4 (b) through (d).

(b) If the matter relates solely or primarily to the MD program or a MD Product, then AVI shall have the right to resolve the matter in its discretion.

(c) If the matter relates solely or primarily to the BT program or a BT Product, then Ercole shall have the right to resolve the matter in its discretion.

(d) If the matter relates substantially to both a MD Product and a BT Product, then the matter shall be resolved in accordance with Section 14.6.2.

1.5 Primary Contact Persons. Each party shall designate a primary contact person (a "Primary Contact Person") who shall be responsible for the day-to-day interactions between the parties related to activities pursued under the R&D Plan and the oversight of day-to-day operations of these activities. The Primary Contact Persons shall attempt to resolve any disputes that arise during the implementation of the R&D Plan. If the Primary Contact Persons cannot resolve any such dispute within thirty (30) days (or such longer reasonable period of time as they may agree), or if the Primary Contact Persons reasonably believe that they will not be able to resolve any such dispute within such period, the Primary Contact Persons shall refer the dispute to the Joint Steering Committee which shall attempt to resolve the issue in accordance with Section 1.4.

1.6 Expenses. Each party shall bear all travel and related costs and expenses for its members, designees and non-JSC invitees to attend meetings of, and otherwise participate on, the JSC and such expenses shall not be considered Shared Costs.

Article 2. R&D Plan

2.1 General. The parties shall engage in research regarding the development of Products in accordance with the R&D Plan. During the course of implementing the R&D Plan, the parties shall communicate regularly and shall assume certain rights and responsibilities for the development of the Products in accordance with the R&D Plan.

2.2 Creation. AVI shall provide a proposed R&D Plan for the first year to the JSC regarding the research program for MD or an MD Product within sixty (60) days after the Effective Date and Ercole shall provide a proposed R&D Plan to the JSC for the first year regarding the research program for BT or a BT Product within sixty (60) days after the Effective Date. The JSC shall use reasonable efforts to adopt an initial R&D Plan covering both the BT research program, MD research program and any MD Product or BT Product within ninety (90) days after the Effective Date. Upon approval by the JSC, the initial R&D Plan will be attached as Appendix A to this Agreement.

2.3 Contents. The R&D Plan shall set forth a strategy and planned activities for the discovery and development of each product. The R&D Plan shall also include an annual Budget. The Budget shall set forth the budget for the BT and MD research programs and development of each Product during the applicable time period. The Budget shall also specifically allocate the costs to be incurred by ERCOLE and by AVI for the period covered in the Budget. Each Budget shall be prepared on a cash basis and shall provide a level of detail that is reasonably consistent with the initial Budget.

2.4 Updates; Candidate Selection. By September 30 of each year, the JSC shall update the R&D Plan to reflect a strategy, plan and Budget for the next calendar year (or other period agreed upon by the JSC) and shall submit such R&D Plan for approval by the parties. Each party shall use commercially reasonable efforts to approve an updated R&D Plan within thirty (30) days of receipt. In addition, when the JSC designates a compound as a candidate to be the subject of an IND filing as either a BT Product or an MD Product, the responsible party (i.e., Ercole in the case of a BT Product or AVI in the case of an MD Product) shall promptly prepare and submit to the JSC for review and approval a proposed plan for the clinical development of such Product, which will be incorporated into the Budget.

2.5 Amending the Plan. At any time during the course of research or development, the parties may amend the R&D Plan upon mutual written agreement.

2.6 Shared Costs. Unless otherwise set forth in an approved Budget and except as otherwise provided in this Agreement, each party shall be responsible for 50% of the Outside Research Costs and 50% of Direct Development Costs. Within thirty (30) days after the end of each calendar quarter, each party shall report to the other party, through the JSC, the aggregate Outside Research Costs and Direct Development Costs (together sometimes referred to as "Shared Costs") incurred to date, along with such documentation as may be reasonably requested by the other Party to support such expenses. Within forty five (45) days of the end of each calendar quarter, the Party which has incurred a lower aggregate amount of such costs shall reimburse the other Party one-half (1/2) of the difference in the Parties' respective costs (net of prior reimbursement). The parties anticipate that a substantial portion of the costs of performing the R&D Plan will be funded by third parties through grants or other funding arrangements. With respect to third party funding directed to supporting research and development of a MD Product, Ercole agrees to take such

actions as may be reasonably requested to accommodate the requirements of entities providing funding for such MD Product, provided that Ercole shall not be required to amend this

Agreement in a manner that would conflict with any other legal obligations of Ercole. With respect to third party funding directed to supporting research and development of a BT Product, AVI agrees to take such actions as may be reasonably requested to accommodate the requirements of entities providing funding for such BT Product, provided that AVI shall not be required to amend this Agreement in a manner that would conflict with any other legal obligations of Ercole.

2.7 Disputed Costs and Opting Out.

(a) If the JSC cannot reach agreement over Shared Costs proposed by a party to implement the R&D Plan, the issue shall be referred to senior management as provided for in Section 1.4(a). If the senior management reaches agreement, then the R&D Plan and Budget shall be modified accordingly. If the senior management cannot reach agreement over such proposed costs (the "Disputed Costs"), such dispute shall be resolved as provided for in Section 1.4(b)-(d). If a party exercises its rights to resolve a dispute related to Disputed Costs pursuant to Section 1.4(b) or (c) over the objection of the other party, then the other party may either continue to fund its 50% share of the Shared Costs related to the Product or may elect to reduce its financial support for the Product (referred to as "Opting Out"). If a party elects to Opt Out, then the other party (the "Continuing Party") shall be entitled to receive under Section 5.2(b) an amount that is calculated as follows: the amount of Shared Costs incurred by the Continuing Party related to the Product that is not matched by the party that Opts Out is multiplied by 1.4, and that amount is compounded quarterly at the compounding rate of twenty percent (20%) per annum (the total amount is called the "Compounded Disputed Costs"), for the period commencing on the date the expense is incurred for so long as any portion of the Compounded Disputed Costs remain outstanding. If the dispute related to costs is not resolved under 1.4(a)-(c), such dispute may be resolved through arbitration in accordance with Section 14.6.2. While the matter is in arbitration, the party that proposed the Disputed Costs may, in its sole discretion, incur such costs, in addition to those allocated to such party in the Budget, and the parties otherwise would proceed in accordance with the then existing R&D Plan and Budget until the matter is resolved. If the Disputed Costs, or any portion thereof, are determined through arbitration in accordance with Section 14.6.2 to be Shared Costs that are reasonably necessary to develop a Product and the proposing party has paid such costs, then the proposing party shall be entitled to receive under Section 5.2(b) Compounded Disputed Costs in the manner calculated above. A party may at any time pay to the other party all or any portion of the Compounded Disputed Costs that would otherwise continue to compound at a 20% annual rate. If the Disputed Costs are determined pursuant to Section 14.6.2 not to be Shared Costs that are reasonably necessary to develop the Product, and the proposing party has paid such costs, then the proposing party shall bear such costs and shall not be entitled to recover such costs under Section 5.2. At any time that the cumulative amount of Compounded Disputed Costs that the Continuing Party is entitled to recover related to a Product exceeds * , such party may elect to treat the Opting Out party as having abandoned that Product. The Continuing Party may make this

election by providing written notice to the Opting Out party. If a party makes this election, then the Continuing Party shall thereafter be entitled to retain all proceeds from the sublicensing or other commercial development of the Product, subject only to an obligation to pay amounts described in Section 5.2(a) and an obligation to pay the Opting Out party a royalty equal to * of Net Sales of the Product.

(b) In addition, either party may elect at any time (regardless of whether any Disputed Costs or Compounded Disputed Costs have arisen or accrued) to abandon a Product. The party that elects to abandon a Product (the "Abandoning Party") shall make this election by providing written notice to the other party. If a party makes this election, then the other party shall thereafter be entitled to retain all proceeds from the sublicensing or other commercial development of the Product, subject only to an obligation to pay amounts described in Section 5.2(a) and an obligation to pay the Abandoning Party a royalty equal to * of Net Sales of the Product.

(c) For purposes of this Section, the term "Product" means all Products that involve the use of the active pharmaceutical ingredient(s) tested in experiments that the Opting Out party elected not to fund or, in the case of an Abandoning Party, all Products that involve the use of the active pharmaceutical ingredient(s) identified in the notice of abandonment.

Article 3. License Grants

3.1 AVI License Grants. Subject to the AGDG Agreement, AVI grants Ercole an (i) exclusive worldwide license to the AVI Patents to research, develop, import and export, use, and sell BT Products and (ii) a non-exclusive license to engage in all other research and development activities under the R&D Plan.

3.2 Sublicenses under AVI Patent Rights. Subject to the terms and conditions of this Agreement and during the License Term, Ercole (subject to review by the JSC as described in Section 5.1) will have the right to grant sublicenses under the license from AVI set forth in Section 3.1 to third parties solely for the purposes of enabling such third party to discover, develop and commercialize the BT Products. Any such sublicense shall be subject to and consistent with the terms and conditions of this Agreement. In the event of a material default by any such sublicensee of such AVI Patent Rights, Ercole will (i) inform AVI of such default; (ii) hold AVI harmless; and (iii) take any action reasonably necessary to prevent such default from giving AGDG the right to terminate the AGDG Agreement. Such actions may include, but are not limited to, causing the sublicensee promptly to cure the default and terminating the sublicense.

3.3 Ercole License Grants. Subject to the UNC License and Isis CLA, Ercole grants to AVI (i) an exclusive worldwide license to the Splicing Patents to research, develop,

make and have made, import and export, use and sell MD Products and (ii) a non-exclusive license to engage in all other research and development activities under the R&D Plan.

3.4 Sublicenses Under the Splicing Patents. Subject to the terms and conditions of this Agreement and during the License Term, AVI (subject to review by the JSC as described in Section 5.1) may grant a sublicense to a third party collaborator under the Splicing Patents solely for the purposes of enabling such third party to develop and commercialize the MD Products. Any such sublicense granted by AVI under this Agreement shall be subject to and will be consistent with the terms and conditions of this Agreement, the Isis CLA and the UNC License. Without limiting the generality of the foregoing, as required by the Isis CLA, AVI shall not grant any sublicenses to the MD Products until an IND has been submitted for such Product. In the event of a material default by any sublicense under an AVI sublicense, AVI will (i) notify Ercole of such default; (ii) hold Ercole harmless; and (iii) take any action reasonably necessary to prevent such default from giving UNC or Isis the right to terminate the UNC License or the Isis CLA, as the case may be. Such actions may include, but are not limited to, causing the sublicense promptly to cure the default and terminating the sublicense.

3.5 General Sublicense Terms. The grant of any sublicense under Sections 3.2 or 3.4 will not relieve either party of its obligations under this agreement. Upon the grant of a sublicense, the sublicensing party shall promptly notify the other party of such sublicense, and shall provide contact information for such sublicense to the other party.

3.6 Other Rights. If the sale or use of a Product that bears a royalty payable to the other party under this Agreement or under the First Collaboration Agreement would infringe patent rights owned or controlled by the other party (other than Patents expressly licensed hereunder), the party controlling such patents covenants not to seek an injunction against infringement or otherwise enforce such patents in a manner that would prevent the other party or its affiliates or sublicensees from developing or commercializing the relevant Product and will, upon request, negotiate a commercially reasonable license to such patents.

3.7 License Term. The licenses granted under this Article 3 shall begin on the Effective Date and, unless earlier terminated in accordance with the terms of this Agreement, shall end on the later of (i) the expiration of the last to expire patent included in the Patents, or (ii) if all patents listed in subpart (i) are found to be either invalid or unenforceable, ten (10) years from the Effective Date (this time period being the "License Term").

Article 4. Intellectual Property

4.1 Ownership of Inventions and Patents

4.1.1 Rights to Pre-Existing Inventions. Nothing in this Agreement shall be deemed to grant a license or any other right in any inventions, technology, discoveries or other

proprietary property (collective, "Inventions") that were in existence before the effective date of this Agreement except as specified in Article 3 or this Article 4.

4.1.2 Rights to Non-Mixed Inventions. Ercole shall own all rights to any Inventions made under the R&D Plan which relate solely to the Splicing Patents or are Covered solely by the Splicing Patents (each an "Ercole Invention," any patent claiming such an invention being an "Ercole Invention Patent"). AVI shall own all rights to any Inventions made under the R&D Plan which relate solely to the AVI Patents or are Covered solely by the AVI Patents (each an "AVI Invention," any patent claiming such an invention being an "AVI Invention Patent").

4.1.3 Rights to Mixed Inventions. AVI and Ercole will jointly hold title to all Inventions, whether or not patentable, that are made by either or both parties under the R&D Plan that relate to or are Covered by both the AVI Patents and the Splicing Patents (each a "Jointly Owned Invention"), as well as to any Patents filed thereon (each a "Jointly Owned Invention Patent"). AVI and Ercole will promptly provide each other with notice whenever a Jointly Owned Invention is made or identified. The parties agree and acknowledge that, except insofar as this Agreement provides otherwise, the default rights conferred on joint owners under US patent law as of the Effective Date, including the right of each party to independently practice, license and use a joint patent, will apply in relation to the Jointly Owned Invention Patents throughout the world as though US patent law applied worldwide.

4.1.4 Rights to Compound Inventions. Notwithstanding anything else in this Article 4, any Invention of a Splicing Modulator or an analog thereof or any Invention related to the use of such Splicing Modulator(s) (either being a "Compound Invention") which is related to the treatment of BT and not to MD and that arises from activities under the R&D Plan shall be solely owned by Ercole. All Compound Inventions related to the treatment of MD and not to BT shall be solely owned by AVI.

4.1.5 Cooperation. The parties agree, upon reasonable request, to execute any documents reasonably necessary to effect and perfect each other's ownership of any Invention.

4.2 Various Patent-Related Matters

4.2.1 Filing, Prosecution, Enforcement, Maintenance and Defense of Patents. AVI shall have the sole and exclusive right, in its sole discretion and at its sole expense, to file, prosecute, maintain, enforce and defend the AVI Patents and the AVI Invention Patents. Ercole shall have the sole and exclusive right, in its sole discretion and at its sole expense, to file, prosecute, maintain, enforce and defend the Ercole Patents and the Ercole Invention Patents. Should a party (the "Pursuing party") pursuing such actions reasonably request the other party's assistance in such pursuit, such other party shall provide such assistance at the Pursuing party's expense.

4.2.2 Disposition of Damages and Monetary Awards. In the event of the successful enforcement of patents under Section 4.2.1, then each party shall be entitled first to recover its expenses associated with the enforcement action and the remaining

proceeds shall be treated as proceeds from a sublicense and disbursed in accordance with Section 5.2.

4.2.3 Filing, Prosecution, Enforcement, Maintenance and Defense of Jointly Owned Patents. Ercole and AVI will, in good faith, negotiate an appropriate arrangement for the use, prosecution, maintenance and enforcement of any Jointly Owned Invention Patents. Such arrangement shall address the disposition of any damages or monetary awards resulting from any enforcement of the Jointly Owned Patents.

4.3 Third Party Patents.

4.3.1 Notice and Control. If either party becomes aware of a patent assigned to a third party that includes one or more claims which could potentially be infringed by activities conducted by either party under this Agreement, it will immediately inform the other party, and representatives of AVI and Ercole will meet to discuss whether any action is warranted and, if so, possible courses of action. If the third party patent claim relates primarily to AVI technology, AVI will take the lead in any negotiations or legal actions with the third party, taking into consideration suggestions made by Ercole and Ercole's counsel, and AVI shall have final say in any settlement or business arrangement with the third party. If the third party patent claim relates primarily to Ercole technology, Ercole will take the lead in any negotiations or legal actions with the third party, taking into consideration suggestions made by AVI and AVI's counsel, and Ercole shall have final say in any settlement or business arrangement with the third party. Each party will be responsible for its own legal expenses related to such actions.

4.3.2 New Third Party Royalty Payments. If any license agreement or settlement is entered into pursuant to Section 4.3.1 that establishes a royalty or other payment obligation to a third party on sales of Products, such obligation will be equally shared by the parties as either Shared Costs or, if commercial or sublicense proceeds are available, pursuant to Section 5.2(a).

Article 5. Commercialization and Compensation

5.1 Commercialization. The JSC shall be responsible for developing a commercialization plan for the Products, it being understood that the parties anticipate that a substantial portion of clinical development and commercialization activities for Products will be conducted by one or more third parties under sublicense(s) granted by one or both of the parties. The parties shall cooperate and keep the JSC fully informed regarding potential commercial sublicenses. The JSC shall review any proposed grant to a third party of commercial rights with respect to a Product. In the event that the JSC is unable to reach agreement regarding whether to grant a particular sublicense or the appropriate terms thereof, if the arrangement relates solely or primarily

to an MD Product for which an IND has been filed, then AVI shall have the right to grant the license or sublicense in its discretion and if the arrangement relates solely or primarily to a BT Product for which an IND has been filed then Ercole shall have the right to grant the license or sublicense in its discretion.

5.2 Proceeds. The parties intend for the net proceeds from sublicensing and commercialization of Products to be divided equally between the parties. Accordingly, except as provided in Section 2.7 related to a Product abandoned by a party, the proceeds from any license or sublicense related to a Product shall be disbursed in the following order:

(a) to satisfy any obligations under the AGDG Agreement, the Isis CLA, the UNC License or any other bona fide obligation to a third party related to rights covered by the sublicense;

(b) to a party for Compounded Disputed Costs that have accrued under Section 2.7 related to Product(s) covered by that sublicense; and

(c) to reimburse each party for all Shared Costs incurred under this Agreement related to Product(s) covered by that sublicense to the extent such costs have not previously been reimbursed; and

(d) 50% of the remaining proceeds shall be paid to each party.

5.3 Production. If Ercole desires to make or have made any BT Product that involves the use of one or more chemical compounds Covered by the AVI Patents, Ercole will so notify AVI, and Ercole and AVI will negotiate and execute a supply agreement covering the manufacture of that particular compound to support Ercole's development and commercial needs ("Supply Plan"). The supply agreement will provide for either: a) the supply of material to Ercole by AVI (with financial terms for cost recovery but no manufacturing margins); or b) the transfer of the manufacturing process to a third-party reasonably acceptable to Ercole and AVI.

5.4 Compensation Waiver. The parties acknowledge that the joint activities contemplated by this Agreement involve substantial sharing of risk and that the collaboration contemplated by this Agreement requires mutual trust and cooperation. The parties further acknowledge that an essential element of the collaboration is an agreement to respect the intellectual property rights of the other party. Accordingly, each party agrees that if it directly or through a third party contests the validity, scope or enforceability of any patent rights licensed or sublicensed to it by the other party under this Agreement or assists any third party in doing so, the party that engages in or assists in the conduct of such contest or challenge (the "Challenging Party"): (i) irrevocably waives all rights to any payment from the other party under this Agreement; (ii) agrees that the other party may immediately terminate any and all licenses granted to the Challenging Party under this Agreement or under any other agreement; (iii) agrees to disburse all proceeds from any license or sublicense related to a Product to the other party, after satisfying any third party obligations pursuant to Section 5.2(a); and (iv) agrees to reimburse the other party for all costs incurred in connection with the applicable legal proceedings. In the event that all or any portion of this Section 5.4 is

invalid, illegal or unenforceable, then the parties will use their best efforts to replace the invalid, illegal or unenforceable provision(s) with valid, legal and enforceable provision(s) which, insofar as practical, gives effect to the intent of this Section 5.4.

Article 6. Limited Exclusivity

From the Effective Date until the termination of the R&D Plan, neither party shall engage in research regarding or undertake development of a Product except in accordance with this Agreement. Except as specified in this Article 6 and as provided for in the licenses granted under Article 3, nothing in this Agreement shall be construed to prevent either party from developing or commercializing any treatment for either MD or BT alone or in collaboration with any third party.

Article 7. Confidentiality

7.1 Nondisclosure Obligation. All Confidential Information disclosed by one party to the other party hereunder will be maintained in confidence by the receiving party and will not be disclosed to a third party or Affiliate or used for any purpose except as set forth below.

7.2 Permitted Disclosures. Except as otherwise provided herein, a party may disclose Confidential Information received from the other party:

(a) to governmental or other regulatory agencies in order to obtain Patents or approval to conduct clinical trials, or to gain marketing approval; provided that such disclosure may be made only to the extent reasonably necessary to obtain such patents or approvals;

(b) to Affiliates, sublicensees, agents, consultants, and/or other third parties for the development, manufacturing and/or marketing of the Product (or for such parties to determine their interest in performing such activities) in accordance with this Agreement on the condition that such Affiliates, sublicensees and third parties agree to be bound by confidentiality obligations substantially similar to those contained in this Agreement; or

(c) if such disclosure is required by law or court order.

7.3 Disclosure of This Agreement. Either party may disclose (i) a copy of this Agreement on a confidential basis to prospective investors or sublicensees and (ii) a mutually agreed upon redacted copy of this Agreement on a confidential basis to prospective collaborators.

Article 8. Publication and Publicity

8.1 Publication of Clinical Trials and other Studies. Each party may publish such results obtained from clinical trials and other studies of a Product as is customary in the industry.

8.2 Publication of Results of the R&D Plan and Product Details. Except as provided otherwise herein, the parties will be entitled to publish or present on the results of the R&D Plan hereunder and any Product, provided that the party seeking to publish will deliver to the other party for its review a copy of any proposed publication, poster or an abstract of any oral presentation at scientific meetings involving any Product hereunder, or the Confidential Information of the other party, at least 45 days prior to submission of scientific publications or abstracts of oral presentations. The reviewing party will have the right to request that any of its Confidential Information be deleted from such publication or presentation, and the disclosing party will comply with that request. If the disclosing party does not receive any feedback from the reviewing party within that 45-day period, the disclosing party will be free to proceed with the publication or presentation except that neither party may publish on the other party's Products without the prior written approval of the other party, which may be given at that party's sole discretion.

8.3 Publicity. Except as otherwise provided herein or required by law, neither party will originate any publication, news release or other public announcement, written or oral, whether in the public press, or stockholders' reports, or otherwise, relating to this Agreement or activities conducted as part of the R&D Plan, and neither party will use the name, trademark, trade name, logo or likeness of the other party or its employees in any publicity, news release or disclosure relating to this Agreement, or its subject matter, without the prior permission of the other party. Notwithstanding the foregoing, a Continuing Party may make such public disclosures as it deems appropriate related to the Product without consent of the party that Opts Out with respect to that Product, so long as such disclosure does not involve the trademark, trade name, logo or likeness of the party that Opts Out.

8.4 Quiet Period. In the event that either party (the "Registering Party") seeks to register any of its securities with the Securities and Exchange Commission, then upon the request of the Registering Party, the other party shall refrain from identifying the Registering Party in any press release, advertisement, speech or any other communication which might be deemed a prospectus under Section 5(b) of the Securities Act of 1933 until such time that the Registering party communicates to the other party that it has registered such securities.

Article 9. Indemnification

9.1 Indemnification by Ercole. Ercole will indemnify, defend and hold AVI and its agents, employees, officers and directors (the "AVI Indemnitees") harmless from and against any and all liability, damage, loss, cost or expense (including reasonable attorneys' fees) arising out of third party claims or suits related to (a) Ercole's performance of its obligations under this Agreement; or (b) breach by Ercole of its representations and warranties set forth in Article 11; provided, however, that Ercole's obligations pursuant to this Section 9.1 will not apply to the extent such claims or suits result from (y) the gross negligence or willful misconduct of any of the AVI Indemnitees or (z) a

breach by AVI of its representations and warranties set forth in Article 11. Ercole shall also indemnify AGDG to the extent required by the AGDG Agreement.

9.2 Indemnification by AVI. AVI will indemnify, defend and hold Ercole and its agents, employees, officers and directors (the "Ercole Indemnitees") harmless from and against any and all liability, damage, loss, cost or expense (including reasonable attorney's fees) arising out of third party claims or suits related to (a) AVI's performance of its obligations under this Agreement; or (b) breach by AVI of its representations and warranties set forth in Article 11; provided however, that AVI's obligations pursuant to this Section 9.2 will not apply to the extent that such claims or suits result from (y) the gross negligence or willful misconduct of any of the Ercole Indemnitees or (z) a breach by Ercole of its representations and warranties set forth in Article 11. AVI shall also indemnify UNC and Isis to the extent required by the UNC License or the Isis CLA, as the case may be.

9.3 Notification of Claims; Conditions to Indemnification Obligations. As a condition to a party's right to receive indemnification under this Article 9, it will (i) promptly notify the other party as soon as it becomes aware of a claim or action for which indemnification may be sought pursuant to this Article, (ii) cooperate with the indemnifying party in the defense of such claim or suit, and (iii) permit the indemnifying party to control the defense of such claim or suit, including without limitation the right to select defense counsel. In no event, however, may the indemnifying party compromise or settle any claim or suit in a manner which admits fault or negligence on the part of the indemnified party without the prior written consent of the indemnified party. The indemnifying party will have no liability under this Article 9 with respect to claims or suits settled or compromised without its prior written consent.

Article 10. Term and Termination

10.1 Termination of Agreement. This Agreement shall continue in full force and effect for the License Term unless terminated as set forth in this Article 10.

10.2 Termination upon Breach. If one party is in breach of this Agreement and has not cured such breach within ninety (90) days after receipt of written notice requesting cure of the breach, then the non-breaching party may upon written notice to the breaching party terminate the rights and licenses granted hereunder to the breaching party. In such event, if Ercole is the terminating party, the rights and licenses granted to Ercole with respect to BT Products shall remain exclusive, such that AVI upon such termination grants to Ercole an exclusive, royalty-free (as to AVI), worldwide license, with the right to sublicense, to practice AVI's Patents as described under Sections 3.1 and 3.2. In such event, if AVI is the terminating party, the rights and licenses granted to AVI with respect to MD Products shall remain exclusive, such that Ercole upon such termination grants to AVI an exclusive, royalty-free (as to Ercole), worldwide license, with the right to sublicense, to practice Ercole's Patents as described under Sections 3.3 and 3.4. Any royalty, milestone or other payment obligations of the non-breaching party to the breaching party shall cease as of the date of such termination except to the

extent such payments are required under a third party license agreement (e.g., the AGDG Agreement, the UNC License, the Isis CLA or a license entered into pursuant to Section 4.3). Alternatively, if one party breaches this Agreement and such breach jeopardizes the rights of the other party under a third party license agreement (e.g., the AGDG Agreement, the UNC License, the Isis CLA or a license entered into pursuant to Section 4.3), then the non-breaching party may, at its sole discretion, elect in writing to terminate only those third party rights granted to the other party hereunder, without terminating the remainder of this Agreement. In such instance, the breaching party shall have only such cure rights as are expressly provided for in the applicable third party license agreement. For clarification, failure to pay undisputed Shared Costs constitutes a breach of this Agreement, but Opting Out or otherwise electing not to fund Shared Costs that are proposed but are not agreed upon does not constitute a breach.

10.3 Termination upon Bankruptcy; Rights in Bankruptcy. This Agreement may be terminated with written notice by either party at any time during the License Term upon the filing or institution of bankruptcy, reorganization, liquidation or receivership proceedings by the other party or upon an assignment of a substantial portion of the assets for the benefit of creditors by the other party; provided, however, in the case of any involuntary bankruptcy proceeding such right to terminate will only become effective if the party consents to the involuntary bankruptcy or such proceeding is not dismissed within 90 days of the filing thereof.

All rights and licenses granted under or pursuant to this Agreement by AVI or Ercole are, and will otherwise be deemed to be, for purposes of Section 365(n) of the U.S. Bankruptcy Code, licenses of right to "intellectual property" as defined under Section 101 of the U.S. Bankruptcy Code. The parties agree that the parties, as licensees of such rights under this Agreement, will retain and may fully exercise all of their rights and elections under the U.S. Bankruptcy Code.

10.4 Accrued Rights and Surviving Obligations.

10.4.1 Surviving Obligations. Expiration or termination of the Agreement will not relieve the parties of any obligation accruing prior to such expiration or termination, including, but not limited to, Sections 1.6, 2.6 (relating to Shared Costs incurred prior to termination), 2.7, 4.1, and Articles 7-14

10.4.2 Sublicenses. The rights of any sublicensee under any permitted sublicense granted pursuant to Section 3.2 or 3.4 will survive the termination of this Agreement to the extent provided in the sublicense, and the licensor therein agrees to assign all such sublicenses to the other party hereto. All payments then or thereafter due to such licensor from each surviving sublicense shall become owed directly to the other party hereto; provided that such party shall remit to the other party the amount by which any such payments exceed the corresponding amount that would have been payable hereunder.

Article 11. Representations and Warranties; Disclaimer

11.1 Representations and Warranties of Both parties. Each party represents and warrants to the other party that, as of the Effective Date:

(a) Such party is duly organized and validly existing under the laws of the state of its incorporation and has full corporate power and authority to enter into this Agreement and to carry out the provisions hereof;

(b) Such party has taken all corporate action necessary to authorize the execution and delivery of this Agreement and the performance of its obligations under this Agreement;

(c) This Agreement is a legal and valid obligation of such party, binding upon such party and enforceable against such party in accordance with the terms of this Agreement. The execution, delivery and performance of this Agreement by such party does not conflict with any agreement, instrument or understanding, oral or written, to which such party is a party or by which such party may be bound, and does not violate any law or regulation of any court, governmental body or administrative or other agency having authority over such party. All consents, approvals and authorizations from all governmental authorities or other third parties required to be obtained by such party in connection with this Agreement have been obtained;

(d) Such party has the full and exclusive right, power and authority to enter into this Agreement, to perform its obligations under this Agreement (including the R&D Plan) and to grant the licenses granted hereunder;

11.2 Representations and Warranties of Ercole. Ercole represents and warrants that, as of the date of this Agreement:

(a) Other than the Isis CLA and that UNC License, there are no agreements between Ercole and any third parties which would preclude or otherwise limit its ability to conduct its tasks and obligations under the R&D Plan or otherwise fulfill its obligations under this Agreement;

(b) The Isis CLA and the UNC License are in full force and effect, and the copies attached in the First Collaboration Agreement are accurate and complete.

(c) Ercole shall not amend the Isis CLA or UNC License in a way that would adversely affect the rights of AVI hereunder to practice the sublicensed technology without AVI's express written consent.

11.3 Representations and Warranties of AVI. AVI represents and warrants that, as of the date of this Agreement:

(a) Other than the AGDG Agreement, there are no agreements between AVI and any third parties which would preclude or otherwise limit AVI's ability to conduct its tasks and obligations under the R&D Plan or otherwise fulfill its obligations under this Agreement;

(b) The AGDG Agreement is in full force and effect, and the copy attached in the First Collaboration Agreement is accurate and complete. AVI may not amend the AGDG Agreement in a way that would adversely affect the rights of Ercole hereunder to practice the sublicensed technology without Ercole's express written consent.

(c) AVI expressly acknowledges the limitations and restrictions that apply to sublicensees under the UNC License and Isis CLA and warrants that it will adhere to such limitations and restrictions.

11.4 Disclaimers.

THE SPLICING MODULATORS AND SERVICES PROVIED UNDER THE R&D PLAN ARE PROVIDED "AS IS" AND WITHOUT ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTY OF MERCHANTABILITY OR OF FITNESS FOR ANY PARTICULAR PURPOSE OR ANY WARRANTY THAT THE USE OF THE MATERIALS WILL NOT INFRINGE OR VIOLATE ANY PATENT OR OTHER PROPRIETARY RIGHTS OF ANY THIRD PARTY.

THE PARTIES EXPRESSLY DISCLAIM ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR NON-INFRINGEMENT OF THIRD PARTY RIGHTS, UNLESS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT.

Article 12. Notice

All notices which are required or permitted hereunder will be in writing and sufficient if delivered personally, sent by facsimile (and promptly confirmed by personal delivery, registered or certified mail or overnight courier), sent by nationally-recognized overnight courier or sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

if to AVI, to:

One S.W. Columbia, Suite 1105
Portland OR 97258
Attention: President
Fax No: 503-227-0751

if to Ercole, to:

PO Box 12295
Research Triangle Park, NC 27709
Attention: CEO
Fax No: 617-245-9757

with a copy to:

Hutchison Law Group PLLC
5410 Trinity Road, Suite 400
Raleigh, North Carolina 27607
Attn: William N. Wofford
Fax No: 1 (919) 829 9696

or to such other address as the party to whom notice is to be given may have furnished to the other party in writing in accordance herewith. Any such notice will be deemed to have been given when delivered if personally delivered or sent by facsimile on a business day,

on the business day after dispatch if sent by nationally-recognized overnight courier and on the third business day following the date of mailing if sent by mail.

Article 13. Records

Each party will maintain records, in sufficient detail and in good scientific manner, which will fully and properly reflect all work done and results achieved in the performance of its responsibilities under the R&D Plan hereunder. Each party will have the right, during normal business hours and upon reasonable prior notice, to inspect and copy those records of the other party referred to herein that are necessary or useful to the inspecting party for the purposes of making any required filings with Regulatory Authorities in order to obtain manufacturing approvals and/or marketing approvals. Each party will maintain such records and the information disclosed therein in confidence in accordance with Article 7.

Article 14. Miscellaneous Provisions

14.1 Relationship of the parties. It is expressly agreed that AVI and Ercole will be independent contractors and that the relationship between the two parties will not constitute a partnership, joint venture or agency. Neither AVI nor Ercole will have the authority to make any statements, representations or commitments of any kind, or to take any action, which will be binding on the other, without the prior consent of the other party.

14.2 Successors and Assigns. Neither this Agreement nor any interest hereunder may be assigned or otherwise transferred, nor, except as expressly provided hereunder, may any right or obligations hereunder be assigned or transferred by either party without the prior written consent of the other party; provided, however, that either party may, without such consent, assign the Agreement and its rights and obligations hereunder to an Affiliate or in connection with the transfer or sale of all or substantially all of its business to which this Agreement relates (whether by sale of stock, sale of assets or merger). Any permitted assignee will assume all obligations of its assignor under the Agreement. This Agreement will be binding upon the successors and permitted assigns of the parties. Any attempted assignment not in accordance with this Section 14.2 will be void. For clarification, in no event will any proper assignment or other transfer of this Agreement cause an increase in the obligations of the assigning party or its successor or assign (e.g., no intellectual property rights owned or controlled by such successor or assign shall be licensed or assigned under this Agreement except as expressly provided for in Section3.6).

14.3 Entire Agreement; Amendments. This Agreement contains the entire understanding of the parties with respect to the license and development of Products hereunder. All express or implied agreements and understandings, either oral or written, heretofore made by the parties on the same subject matter are expressly superseded by this Agreement. The Agreement may be amended, or any term hereof modified, only by a written instrument duly executed by both parties hereto. This Agreement shall not be

deemed to amend or terminate the First Collaboration Agreement, but in the event of any conflict related to a MD Product or a BT Product between this Agreement and the First Collaboration Agreement, this Agreement shall prevail.

14.4 Force Majeure. Neither party will be held liable or responsible to the other party nor be deemed to have defaulted under or breached the Agreement for failure or delay in fulfilling or performing any term of the Agreement when such failure or delay is caused by or results from causes beyond the reasonable control of the affected party including, without limitation, embargoes, acts of war (whether war be declared or not), insurrections, riots, civil commotions, strikes, lockouts or other labor disturbances, or acts of nature. The affected party will notify the other party of such force majeure circumstances as soon as reasonably practical and will make every reasonable effort to mitigate the effects of such force majeure circumstances.

14.5 Applicable Law. The Agreement will be governed by and construed in accordance with the laws of the State of Delaware without regard to its conflicts of law principles.

14.6 Dispute Resolution.

14.6.1 The parties recognize that disputes may from time to time arise between the parties during the term of this Agreement. The parties agree to follow the dispute resolution mechanisms provided for in Sections 1.1 and 1.4. In the event that such procedures do not resolve the dispute, either party, by written notice to the other party, may refer such dispute to the parties' respective executive officers designated below, for attempted resolution by good faith negotiations within 30 days after such notice is received. Said executive officers are as follows:

For AVI:	President
For Ercole:	Chief Executive Officer

14.6.2 If the executives are not able to resolve the dispute within thirty (30) days of their first meeting or within such extended period as they agree upon, either party may submit the matter to binding arbitration in accordance with this Section 14.6.2. Except as specified below, the arbitration shall be conducted in accordance with the rules of, and under the auspices of, the American Arbitration Association (the "AAA"). The arbitration will be conducted by a single independent arbitrator with relevant technical expertise who is selected by the AAA administrator. If Ercole is the claimant, the location of the arbitration shall be in Portland, Oregon and if AVI is the claimant, the location of the arbitration shall be in Raleigh, North Carolina. This Agreement shall remain in effect pending completion of the proceedings brought under this Section. Within ten (10) business days after the arbitrator is selected, each party shall submit to the arbitrator that party's proposed resolution of the dispute and justification therefor. All arbitration proceedings must be completed within 30 days after the arbitration is convened. The parties hereby agree that the arbitrator has authority to issue rulings and orders regarding all procedural and evidentiary matters that the arbitrator deems reasonable and necessary with or without petition therefor by the parties as well as the final ruling and judgment. Rulings shall be issued by written

order summarizing the arbitration proceedings. Any judgment or award by the arbitrator in any dispute shall have the same force and effect as the final judgment of a court of competent jurisdiction. Nothing in this arbitration clause shall prevent either party from seeking a pre-award attachment of assets or preliminary relief to enforce its rights in intellectual property or confidentiality obligations under this Agreement, or to enjoin any event that might cause irreparable injury, in a court of competent jurisdiction prior to an award on the merits by the arbitrator.

14.7 No Consequential Damages.

IN NO EVENT WILL EITHER PARTY OR ANY OF ITS RESPECTIVE AFFILIATES BE LIABLE TO THE OTHER PARTY OR ANY OF ITS AFFILIATES FOR SPECIAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES, WHETHER IN CONTRACT, WARRANTY, TORT, NEGLIGENCE, STRICT LIABILITY OR OTHERWISE, INCLUDING, BUT NOT LIMITED TO, LOSS OF PROFITS OR REVENUE, OR CLAIMS OF CUSTOMERS OF ANY OF THEM OR OTHER THIRD PARTIES FOR SUCH OR OTHER DAMAGES.

Notwithstanding the foregoing, if Ercole materially breaches its obligations with respect to the AGDG Agreement, then Ercole may be liable for damages arising as a consequence of such breach and if AVI materially breaches its obligations with respect to the UNC License or the Isis CLA, then AVI may be liable for damages arising as a consequence of such breach.

14.8 Captions. The underlined captions to the various Articles, Sections and Subsections hereof are not a part of the Agreement, but are provided as a convenience to assist in locating and reading parts of the Agreement.

14.9 Waiver. The waiver by either party of any right under this Agreement, or the failure to perform, or a breach by the other party will not be deemed a waiver of any other right under this Agreement or of any other breach or failure by said other party whether of a similar nature or otherwise.

14.10 Compliance with Law. Nothing in this Agreement will be deemed to permit a party to export, re-export or otherwise transfer any Product sold under this Agreement without compliance with applicable laws.

14.11 Severability. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein will not in any way be affected or impaired thereby, unless the absence of the invalidated provision(s) adversely affect the substantive rights of the parties. The parties will in such an instance use their best efforts to replace the invalid, illegal or unenforceable provision(s) with valid, legal and enforceable provision(s) which, insofar as practical, maintains the balance of the rights and obligations of the parties under this Agreement.

14.12 Construction. Each party has had the opportunity to consult with counsel in connection with the review, drafting and negotiation of this Agreement. Accordingly, the rule of construction that any ambiguity in this Agreement will be construed against the drafting party will not apply.

14.13 Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

In witness whereof, the parties have executed this Agreement as of the Effective Date.

Ercole Biotech, Inc.	**AVI BioPharma, Inc.**
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

Exhibit 1. Definitions

AGDG Agreement means that certain agreement between AVI and Anti-Gene Development Group effective May 19, 1993 and amended in March, 2000.

Affiliate with respect to either party means any person, organization, corporation or other business entity (collectively, "Person") controlling, controlled by, or under common control with such party. For purposes of this definition, "control" refers to the possession, directly or indirectly, of the power to direct the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise, of a Person.

AVI Invention has the meaning set forth in Section 4.1.2.

AVI Invention Patent has the meaning set forth in Section 4.1.2.

AVI Patents means the Patents listed in Exhibit 4.

BT Product means (I) a product that includes a Compound Invention owned by Ercole under Section 4.1.4 or (II) any product that meets all of the following criteria: (a) it is designed, intended or labeled for the treatment of thalassemia in humans; (b) it is discovered or developed with the use of any of the inventions Covered by claims in the Splicing Patent; and (c) it involves the use of one or more chemical compounds Covered by the AVI Patents.

Confidential Information means information which is (a) of a confidential and proprietary nature; and (b) not readily available to that party's competitors and which, if known by a competitor of that party, might lessen any competitive advantage of that party or give such competitor a competitive advantage.

For the purposes of this Agreement, "Confidential Information" includes, without limitation, (a) information that is proprietary or confidential or which is treated by that party as confidential and which relates either directly or indirectly to the business of that party regardless of the form in which that information is constituted, and which is not lawfully in the public domain; and (b) any confidential information in relation to Patents, technology, know-how, or any improvements owned or controlled by a party hereto.

"Confidential Information" will not include any information that the receiving party can establish by written records: (i) was known by it prior to the receipt of Confidential Information from the disclosing party; (ii) was disclosed to the receiving party by a third party having the right to do so; (iii) was, or subsequently became, in the public domain through no fault of the receiving party, its officers, directors, employees or agents; (iv) was concurrently or subsequently developed by personnel of the receiving party without having had access to the disclosing party's Confidential Information; (v) was disclosed with the prior written consent of the disclosing party; or (vi) was disclosed by the receiving party pursuant to any judicial or governmental request, requirement or order.

Covered, ***Covering*** or ***Cover*** mean any process, method, organism or part thereof, composition of matter, biological compound or part thereof which when made, used, practiced or

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sold would, but for the applicable license granted pursuant to this Agreement constitute an infringement of any Valid Claim, or Claims, in the referenced Patent.

Direct Development Costs means, on a cash basis, the following costs incurred by either party with respect to an MD Product or a BT Product after such Product has been designated as an IND Candidate: (a) direct costs of labor (including only salaries, wages and current period employee benefits (but specifically excluding expenses associated with stock options or other equity-based or deferred compensation)), raw materials, supplies, services, fees, and other resources, directly and exclusively consumed or used in the conduct of the applicable activity, (b) payments required to be made by either party under a third party license agreement (e.g., the AGDG Agreement, the UNC License, the Isis CLA or a license entered into pursuant to Section 4.3); provided, however, that the following costs shall not be deemed Direct Development Costs: (i) corporate overhead expenses, including, but not limited to, general administration, business development, travel, entertainment, executive management, facilities, finance, information system and data management services, investor relations, human resources, legal, payroll, purchasing, and corporate supervisory services; (ii) amortization and depreciation expenses, interest expenses, taxes, extraordinary or nonrecurring losses customarily deducted by a party in calculating and reporting consolidated net income and capital expenditures (including, but not limited to, purchases of facilities, property or equipment), and inventory write-offs (to the extent not attributable to a Product); (iii) consulting (including legal) fees unless set forth in a mutually approved budget; (iv) costs to prosecute or maintain patent rights; and (v) payments made to any related party or Affiliates unless set forth in a mutually approved budget. For clarification, if a party incurs costs that are reimbursed or otherwise paid for by a third party (e.g., by a governmental grant), such costs shall not constitute Direct Development Costs.

Ercole Invention has the meaning set forth in Section 4.1.2.

Ercole Invention Patent has the meaning set forth in Section 4.1.2.

Ercole Splicing Patents means the Patents listed in Exhibit 2.

Invention has the meaning set forth in Section 4.1.1 herein.

Isis CLA means that certain Collaboration and License Agreement between Ercole and Isis Pharmaceuticals effective May 16, 2003, as amended.

Isis Splicing Patents shall mean the Patents listed in Exhibit 3.

Jointly Owned Invention has the meaning set forth in Section4.1.3.

Jointly Owned Invention Patent has the meaning set forth in Section **Error! Reference source not found.**4.1.3.

License Term has the meaning set forth in Section 3.7.

MD Product means (I) a product that includes a Compound Invention owned by AVI under Section 4.1.4 or (II) any product that meets all of the following criteria: (a) it is designed, intended or labeled for the treatment of muscular dystrophy in humans; (b) it is discovered or developed with the use of any of the inventions Covered by claims

in the Splicing Patent; and (c) it involves the use of one or more chemical compounds Covered by the AVI Patents.

Net Sales means the gross amount invoiced for sales, leases and other dispositions of Products by a Party, 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 Product returns; (d) any tax imposed on the production, sale, delivery or use of the Product, including, without limitation, sales, use, excise or value added taxes; (e) allowance for bad debt expense that are more than ninety (90) days old and that the party reasonably believes are uncollectible.

"Net Sales" excludes: (i) the transfer of reasonable and customary quantities of free samples of Product(s) and the transfer of Product(s) as clinical trial materials, other than for subsequent resale; (ii) sales or transfers of Product(s) among Ercole or AVI and their respective Affiliates, unless the receiving Party is the consumer or user of the Product; and (iii) use by Ercole or AVI or their respective Affiliates or sublicensees of Product for any use connected with the securing of regulatory approval or validating of a manufacturing process or the obtaining of other necessary approvals for Product (unless such Product is subsequently sold).

Notwithstanding the foregoing, if (i) royalties are payable by AVI or Ercole under a third party license agreement (e.g., the AGDG Agreement, the UNC License, the Isis CLA or a license entered into pursuant to Section 4.3)_and (ii) Net Sales are required to be calculated differently under such agreement, then, the Parties will use the definition described in the third party license for the calculation of royalties hereunder.

Outside Research Costs means, on a cash basis, the following costs incurred by either party with respect to an MD Product or a BT Product after the Effective Date and before such Product has been designated as an IND Candidate: (a) payments made to third parties to engage in pre-clinical research or regulatory consulting related to such Product, and (b) payments required to be made by either party under a third party license agreement (e.g., the AGDG Agreement, the UNC License, the Isis CLA or a license entered into pursuant to Section 4.3); provided, however, that the following costs shall <u>not</u> be deemed Outside Research Costs: (i) consulting (including legal) fees unless set forth in a mutually approved budget; and (ii) payments made to any related party or Affiliates unless set forth in a mutually approved budget. For clarification, if a party incurs costs that are reimbursed or otherwise paid for by a third party (e.g., by a governmental grant), such costs shall not constitute Outside Research Costs.

Patent or ***Patents*** means the AVI Patents, Isis Patents, UNC Patents, AVI Invention Patents, and Ercole Invention Patents, together with any (a) patent applications (including provisional applications) included therein; (b) any patents issuing from such patent applications; (c) any continuations-in-part, but only to the extent that they Cover the same invention claimed in the foregoing, (d) all patents and patent applications

worldwide based on, corresponding to, or claiming the priority date(s) of any of the foregoing; (e) any reissues, substitutions, confirmations, registrations, validations, re-examinations, additions, continuations, continued prosecution applications, requests for continued examination, or divisions of or to any of the foregoing; and (f) term extension or other governmental action which provide exclusive rights to a Product beyond the original patent expiration date.

Product means the BT Product or the MD Product, or both.

Splicing Modulator means an oligonucleotide or analog thereof that selectively modulates RNA Splicing or polyadenylation by a non-Rnase dependent mechanism at the nucleic acid level by specifically binding to the sequence of a selected messenger or viral ribonucleic acid (RNA) by base-pairing, thus causing a selective pattern of gene expression.

Splicing Patents means the Isis Splicing Patents and the Ercole Splicing Patents.

UNC License means that certain License Agreement between Ercole and The University of North Carolina at Chapel Hill effective October 15, 2001, as amended.

Valid Claim means a claim of an issued patent or pending patent application included within the Patents, which claim has not (a) lapsed, been canceled or become abandoned, (b) been declared invalid or unenforceable by a non-appealable decision or judgment of a court or other appropriate body or authority of competent jurisdiction, or (c) been admitted to be invalid or unenforceable through reissue, disclaimer or otherwise.

Exhibit 2. Ercole Splicing Patents

[Redacted]

Exhibit 3. Isis Splicing Patents

Isis Splicing Patents

[Redacted]

Exhibit 4. AVI Patents

[Redacted]

EXHIBIT 10.61

REAL PROPERTY PURCHASE AGREEMENT

THIS REAL PROPERTY PURCHASE AGREEMENT (this "Agreement") is made and entered into as of the Effective Date (as this term is defined in Paragraph 13(k), below), by and between WKL INVESTMENTS AIRPORT, LLC, an Oregon limited liability company ("Seller") and AVI BIOPHARMA, INC., an Oregon corporation ("Purchaser").

WITNESSETH:

WHEREAS, Purchaser agrees to purchase from Seller, and Seller agrees to transfer, sell, assign, deliver and convey to Purchaser, on the terms and conditions set forth in this Agreement (a) Seller's interest as lessee in that certain lease agreement identified on Exhibit "A" attached hereto (the "Lease") whereby Seller is leasing that certain parcel of real property commonly known as 1749 SW Airport Avenue, Corvallis, Oregon 97330 and more particularly described on Exhibit "B" attached hereto (the "Land"), (b) Seller's interest in any and all buildings, fixtures and other improvements situated on the Land (the "Improvements"), (c) all service contracts, licenses, authorizations, permits, certificates, warranties, plans, specifications and studies related thereto, if any (the "Intangibles"). The Improvements include all equipment and machinery considered to be part of the building systems for the Improvements, including, but not limited to, any gas heaters, central ventilating, air conditioning and air filtration, heating, lighting, electrical and plumbing equipment, and related electrical panels and conduits. The Land, Improvements and Intangibles are hereinafter sometimes referred to, collectively, as the "Property."

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are all hereby acknowledged by each of the parties hereto, the parties hereto agree as follows:

1. Purchase Price. Seller shall sell and transfer the Property to Purchaser and Purchaser shall purchase the Property from Seller for the sum of THREE MILLION THREE HUNDRED THOUSAND AND 00/100 DOLLARS ($3,300,000.00) (hereinafter sometimes referred to as the "Purchase Price"), payable as follows:

(a) Within two (2) business days (calendar days, exclusive of Saturdays, Sundays and legal holidays in the State of Oregon), Purchaser shall deposit with Chicago Title Insurance Company, 888 SW Fifth Avenue, Suite 930, Portland, Oregon 97204, Attention: Jennifer Lyke (the "Title Company"), an earnest money deposit of TWO HUNDRED FIFTY THOUSAND AND 00/100 DOLLARS ($250,000.00) (the "Deposit"), which Deposit shall be held by the Title Company in an interest bearing escrow account and released or disbursed . pursuant to the terms of this Agreement, and credited against the Purchase Price if the Closing (as defined in Paragraph 5 below) occurs. Any interest which accrues on the Deposit shall be part of the Deposit.

(b) In the event that Purchaser has not terminated this Agreement on or before March 15,2007, Purchaser shall deliver to the Title Company an additional earnest money deposit of ONE HUNDRED THOUSAND AND 00/100 DOLLARS ($100,000.00), which shall

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be considered part of the Deposit hereunder. At Closing, the Deposit shall be delivered by the Title Company to Seller.

(c) At Closing, Purchaser shall deliver to Seller the balance of the Purchase Price of TWO MILLION NINE HUNDRED FIFTY THOUSAND AND 00/100 DOLLARS ($2,950,000.00) in the manner described below:

(i) SEVEN HUNDRED FIFTY THOUSAND AND 00/100 DOLLARS ($750,000.00) in shares of freely tradable and listed on the NASDAQ Global Market common stock of Purchaser with a par value $.0001 per share (the "Common Stock"), which Common Stock has been registered in a shelf offering registration on a Form S-3 registration statement declared effective by the Securities and Exchange Commission ("SEC") and currently in effect (SEC No. 333-109015). The number of shares of Common Stock delivered to Seller at Closing shall be determined by dividing Seven Hundred Fifty Thousand and 00/1 00 Dollars ($750,000.00) by the average daily closing share price of the Common Stock, as reported by the NASDAQ Global Market for the ten (10) consecutive trading days ending three (3) trading days prior to the date of Closing, rounded to the nearest whole share.

(ii) Assumption of two (2) loans secured by the Property in the projected aggregate principal amount of approximately TWO MILLION ONE HUNDRED NINETY SIX THOUSAND TWO HUNDRED EIGHT AND 04/1 00 DOLLARS ($2,196,208.04) as of the date of Closing, owed by Seller to Cowlitz Bank ("Lender") and identified as Loan Numbers 4102983-USDA 54-51 and 4106423-USDA 54-53 (the "Loans").

(iii) THREE THOUSAND SEVEN HUNDRED NINETY ONE AND 96/100 DOLLARS ($3,791.96) in immediately available funds, or such other amount as is required to pay the balance of the Purchase Price when taking into account the actual principal balances of the Loans on the Closing Date, subject to adjustment for closing costs and prorations as provided herein.

2. Access to Property. Purchaser and its employees, agents, contractors, consultants and representatives (collectively, the "Authorized Parties") shall at all reasonable times prior to Closing (as defined in Paragraph 5 below), and subject to reasonable advance notice to Seller, have the right, privilege and opportunity to enter upon the Land and the Improvements to investigate the physical and environmental condition of the Land and the Improvements. Seller shall have the right to accompany Purchaser and the Authorized Parties during their investigations on the Land and the Improvements. Purchaser agrees to promptly restore the Land and the Improvements to substantially the condition existing prior to entry thereon by Purchaser and/or the Authorized Parties. Purchaser also agrees to indemnify, defend and hold Seller, the Land and the Improvements harmless from and against any and all claims, liens, liabilities, costs and expenses (including reasonable attorney fees and costs) arising out of the activities of Purchaser and/or the Authorized Parties while on or related to the Property: Notwithstanding any language to the contrary contained in this Agreement, or language providing that this Agreement is "null and void" following a termination, this indemnity shall survive the Closing or termination of this Agreement.

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3. Purchaser's Conditions Precedent. Purchaser's obligations hereunder are conditioned upon the satisfaction of each of the following conditions during the time periods specified below (any of which conditions may be waived by Purchaser upon giving notice thereof to Seller):

(a) Seller, at its expense, has caused the Title Company to deliver to Purchaser a preliminary title report covering the Land and Improvements, including all documents identified as exceptions in the Title Report (collectively, the "Title Report"), and a Uniform Commercial Code search

naming Seller and Electoglas, Inc. (the "UCC Search"). Purchaser shall notify Seller in writing ("Purchaser's Title Objection Notice") of any objections Purchaser may have to title exceptions contained in the Title Report or UCC Search prior to the expiration often (10) days following the Effective Date. Purchaser's failure to deliver Purchaser's Title Objection Notice on or before the expiration of the ten (10) day period referenced above shall be conclusively deemed Purchaser's approval of the Title Report and the UCC Search. Seller shall have a period of seven (7) days after receipt of Purchaser's Title Objection Notice in which to deliver written notice to Purchaser ("Seller's Title Notice") of Seller's election to either (a) agree to remove the objectionable items at or prior to the Close of Escrow, or (b) decline to remove any such title exceptions and terminate this Agreement. The failure of Seller to issue a Seller's Title Notice shall be deemed an election by Seller of subsection (b) immediately above. If Seller notifies Purchaser of its election not to remove such title exceptions and to terminate this Agreement rather than remove the objectionable items, or Seller fails to issue a Seller's Title Notice, Purchaser shall have the right, by written notice delivered to Seller within five (5) days after Purchaser's receipt of Seller's Title Notice, or five (5) days after the seven (7) day period referenced above, to agree to accept the Property subject to the objectionable items, in which event Seller's election to terminate this Agreement shall be of no effect, and Purchaser shall take title to the Property subject to such objectionable items. Absent such written notice to Seller from Purchaser, this Agreement shall terminate and the Deposit shall be promptly returned to Purchaser. Notwithstanding anything to the contrary contained herein, all recorded documents relating to the Loans shall be "Permitted Exceptions." Any matters appearing in or on the Title Report, DCC Search or Survey (only if obtained by Purchaser) to which Purchaser does not object within the time frame set forth above or any title exceptions as to which Purchaser waives its objection in writing are referred to herein as "Permitted Exceptions."

(b) Purchaser shall have from the Effective Date through and including March 15, 2007 (such period being referred to herein as the "Investigation Period") in which to investigate the physical and environmental condition of the Land and Improvements; the. availability and sufficiency of utilities servicing the Land and Improvements; the zoning, land use, building requirements and restrictions applicable to the Land and Improvements; and the desirability and feasibility of acquiring and utilizing the Property as contemplated by Purchaser. Seller agrees to cooperate, at no cost and expense to Seller, with Purchaser's efforts to obtain any approvals required for Purchaser to operate its research and manufacturing business on the Land and Improvements including, but not limited to, executing any applications or other documents required to be signed by the Seller, as the lessee under the Lease. If Purchaser is dissatisfied with the results of its investigations (in Purchaser's sole discretion), then Purchaser may terminate this Agreement by providing written notice thereof to Seller prior to the expiration of the Investigation Period, in which event this Agreement shall be null and void.

(c) Before March 15,2007, Seller utilizing its good faith efforts to negotiate and deliver to Purchaser a valid and binding lease termination agreement (the "Lease Termination Agreement") in respect to that certain Lease Agreement dated March 20, 2002 (as amended, the "Tenant Lease"), by and between Seller, as landlord and Electroglas, Inc. ("Electroglas"), as tenant. The Lease Termination Agreement shall, at a minimum, terminate the Tenant Lease (with the exception of any indemnities related to hazardous substances and other provisions intended to survive the expiration or termination of the Tenant Lease) prior to April 15, 2007~ require Electoglas to vacate and surrender the Land and Improvements prior to April 15, 2007 in the condition required by the terms of the Tenant Lease (except as otherwise reasonably approved in writing by Purchaser)~ require Electroglas to convey to Seller or Purchaser (at Seller's election) all of its right, title and interest in and to the personal property described on Exhibit "c" attached hereto (the "Personal Property"), free and clear of all liens and encumbrances~ and permit Seller to assign its interest in the Tenant Lease and Lease Termination Agreement to Purchaser. If Seller has not delivered the Lease Termination Agreement to Purchaser by March 14, 2007, or if Purchaser is dissatisfied with the terms of the Lease Termination Agreement (in Purchaser's reasonable discretion), then Purchaser may terminate this Agreement by providing written notice thereof to Seller on or before March 15,2007, in which event the Deposit shall be returned to Purchaser and this Agreement shall be null and void. In the event that Seller elects to transfer the Personal Property to Purchaser, such conveyance shall be without any warranty or representation of any kind, type or nature, and Purchaser shall accept such conveyance of the Personal Property "AS IS" and with all faults, in its then present condition. Electroglas has advised that it will transfer the "Forklift" to Seller or Purchaser for the sum of $4,000.00. Purchaser agrees that it will pay to Electroglas or Seller said sum in consideration of the transfer of the Forklift to Purchaser.

(d) Before March 15,2007, Seller utilizing its good faith efforts to negotiate and deliver to Purchaser (i) a valid and binding commitment from the City of Corvallis (the "City'') to consent to the assignment (the "Consent") of the lessee's interest in the Lease, in a form reasonably acceptable to Purchaser~ and (ii) a valid and binding estoppel certificate from the City in respect to the Ground Lease substantially in the form attached hereto as Exhibit "D" (the "Estoppel Certificate"). If Seller has not delivered the Consent and Estoppel Certificate to Purchaser by March 14,2007, or if Purchaser is dissatisfied with the terms of the Consent or Estoppel Certificate (in Purchaser's reasonable discretion, provided that Purchaser may not object to the terms of the estoppel certificate actually delivered unless the terms materially differ from those contained on the Estoppel Certificate), then Purchaser may terminate this Agreement by providing written notice thereof to Seller on or before March 15,2007, in which event the Deposit shall be returned to Purchaser and this Agreement shall be null and void.

(e) Before March 15,2007, Purchaser negotiating and obtaining a valid and binding commitment from Lender to permit Purchaser to assume the Loans at Closing without change to the financial terms thereof (i.e., principal amount, interest rate, amortization period and maturity date), with a loan assumption fee not to exceed one percent (1 %) of the outstanding principal balance of the Loans, and otherwise containing terms and conditions acceptable to Purchaser in its sole discretion (the "Loan Commitment"). If Purchaser has not obtained the Loan Commitment, or if Purchaser is dissatisfied with the terms of the Loan Commitment (in Purchaser's sole discretion), then Purchaser may terminate this Agreement by providing written

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notice thereof to Seller on or before March 15,2007, in which event the Deposit shall be returned to Purchaser and this Agreement shall be null and void.

(f) The obligation of Purchaser under this Agreement to purchase the Property from Seller is subject to the satisfaction, as of Closing, of each of the following conditions:

(i) The representations and warranties made by Seller in this Agreement shall be true, accurate and complete in all material respects as of the Closing Date.

(ii) Seller performing all of the covenants and obligations required by this Agreement to be performed by Seller on or before the Closing Date.

(iii) Seller conveying its interest in the Property to Purchaser in accordance with the terms of this Agreement.

(iv) Seller delivering exclusive possession of the Land and Improvements to Purchaser at Closing in substantially the same condition as existed on the Effective Date, reasonable wear and tear excepted.

(v) Seller executing and delivering all documents necessary for Purchaser to assume the Loans in accordance with the terms of the Loan Commitment and Loan Release; provided, Seller's only obligation shall be to execute and deliver such documents, it being understood that it is the obligation of Purchaser to take all action necessary to assume the Loans and the preparation of the loan assumption documents.

(vi) City executing and delivering all documents necessary to consent to assignment of the Ground Lease to Purchaser in accordance with the terms of the Consent.

(vii) Lender executing and delivering all documents necessary for Purchaser to assume the Loans in accordance with the terms of the Loan Commitment.

If any of the conditions set forth in clauses (i) through (v) above are not satisfied on or before Closing and Purchaser fails to waive such conditions, then Purchaser may, at its election, by written notice to Seller (A) declare Seller to be in default under this Agreement, in which event the parties shall have the rights, benefits, obligations and liabilities described in Paragraph 12 below, or (B) extend the time for Closing hereunder for a period of time not to exceed thirty (30) days until all of these contingencies are satisfied and/or until Purchaser waives such contingencies, such waiver to occur, if at all, within the thirty (30) day period referenced above. If Purchaser elects to proceed pursuant to clause (B), Purchaser may still elect clause (A) subsequently, at any time, upon written notice to Seller.

If any of the conditions set forth in clauses (vi) and (vii) above are not satisfied on or before Closing through no fault of Purchaser, then this Agreement shall terminate, in which event the Deposit shall be returned to Purchaser and this Agreement shall be null and void.

4. Seller's Conditions Precedent. Seller's obligation to convey the Property to Purchaser at Closing is conditioned upon the satisfaction of each of the following conditions

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during the time periods specified below (any of which conditions may be waived by Seller upon giving notice thereof to Purchaser):

(a) On or before March 15,2007, (i) Seller utilizing its good faith efforts to negotiate and obtain a valid and binding commitment from the City to release Seller at Closing from its obligations under the Ground Lease from and after the date of Closing (the "Ground Lease Release"), on terms and conditions reasonably acceptable to Seller; (ii) Seller utilizing its good faith efforts to negotiate and obtain a valid and binding commitment from Lender to release Seller and all guarantors of the Loans at Closing from all obligations under all documents evidencing or securing the Loans (the "Loan Release"), on terms and conditions reasonably acceptable to Seller; and (iii) Seller obtaining the Lease Termination Agreement, on terms and conditions reasonably acceptable to Seller. If Seller has not obtained the Ground Lease Release, Loan Release and the Lease Termination Agreement, or if Seller is dissatisfied with the terms of the Ground Lease Release, Loan Release or Lease Termination Agreement (in Seller's sole and absolute discretion), then Seller may terminate this Agreement by providing written notice thereof to Purchaser on or before March 15, 2007, in which event the Deposit shall be returned to Purchaser and this Agreement shall be null and void.

(b) The obligation of Seller under this Agreement to sell the Property to Purchaser is subject to the satisfaction, as of Closing, of each of the following conditions:

(i) The representations and warranties made by Purchaser in this Agreement shall be true, accurate and complete in all material respects as of the Closing Date.

(ii) Purchaser performing all of the covenants and obligations required by this Agreement to be performed by Purchaser on the Closing Date.

(iii) City executing and delivering all documents necessary to allow Seller to assign its interest in the Lease to Purchaser and release Seller from its obligations under the Ground Lease pursuant to the terms of the Lease Release.

(iv) Lender executing and delivering all documents necessary to allow Purchaser to assume the Loans and to release Seller and guarantors from all obligations under all documents evidencing or securing the Loans pursuant to the terms of the Loan Release.

(v) Electroglas, Inc. executing and delivering to Seller the Lease Termination Agreement.

If any of the conditions set forth in clauses (i) and (ii) above are not satisfied on or pefore Closing and Seller fails to waive such conditions, the~ Seller may, at its election, by written notice to Purchaser (A) declare Purchaser to be in default under this Agreement, in which event the parties shall have the rights, benefits, obligations and liabilities described in Paragraph 12 below, or (B) extend the time for Closing hereunder for a period of time not to exceed thirty (30) days until all of these contingencies are satisfied and/or until Seller waives such contingencies. If Seller elects to proceed pursuant to clause (B), Seller may still elect clause (A) subsequently, at any time, upon written notice to Purchaser.

If any of the conditions set forth in clauses (iii), (iv) and (v) above are not satisfied on or before Closing through no fault of Seller, then this Agreement shall terminate, in which event the Deposit shall be returned to Purchaser and this Agreement shall be null and void.

5. Closing. The consummation of the purchase and sale of the Property pursuant to this Agreement (the "Closing") shall be held on or before April 16,2007, or on an earlier date (the "Closing Date") and time mutually agreed upon in writing by both Purchaser and Seller. Closing shall be held in escrow at the office of the Title Company.

(a) Deliveries by Seller. At Closing, Seller shall deliver, or cause to be delivered, to Purchaser the following documents (all duly and fully executed, acknowledged and notarized as appropriate):

(i) Two (2) originals of an assignment of Seller's interest in the Lease in recordable form (the "Lease Assignment''), requiring Seller to indemnify Purchaser for all matters arising out of or under the Lease prior to the Closing.

(ii) A deed in recordable form (the "Deed''), conveying Seller's interest in and to the Improvements to Purchaser.

(iii) A bill of sale without warranties conveying seller's interest in all Personal Property. Alternatively, Seller may deliver a bill of sale from Electroglas, Inc. conveying the Personal Property to Purchaser.

(iv) An assignment of Seller's right, title and interest in and to the Lease Termination Agreement.

(v) All documents necessary for the assignment and assumption of Seller's rights and obligations under all documents evidencing or securing the Loans (the parties agree that it is the obligation of Purchaser to obtain the right to assume the Loans, and Seller's obligation relating thereto is solely to sign the assignment and assumption documents).

(vi) A certificate that Seller is not a "foreign person" as that term is defined in the Internal Revenue Code, Section 1445(F)(3) and the sale of the Property is not subject to any withholding requirements imposed by the Internal Revenue Code.

(vii) An agreement wherein Seller and its members covenant not to sell or transfer more than Fifty Thousand (50,000) shares of the Common Stock on any individual trading day (the "Common Stock Resale Restriction'"), attached hereto as Exhibit "E".

(viii) Any other documents and/or affidavits reasonably requested by Title Company to consummate the transactions contemplated by this Agreement.

As soon as reasonably practicable after Closing, Seller shall cause the Title Company to deliver to Purchaser a Standard ALT A Leasehold Owner's Policy of title insurance in the amount of the Purchase Price, containing no exceptions other than the Permitted Exceptions and the standard preprinted exceptions in such title insurance policy; provided, however, that standard (aka general) exceptions numbered 3 and 5 shown in the Title Report shall not appear in

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the final policy of title insurance issued to Purchaser at the Closing in the event that Purchaser pays the additional premium for extended title insurance coverage (the "Title Policy").

(b) Deliveries by Purchaser. At Closing, Purchaser shall deliver, or cause to be delivered, to Seller, the following:

(i) Two (2) originals of items 5(a)(i), (v) and (vii).

(ii) Any other documents and/or affidavits reasonably requested by the Title Company to consummate the transaction contemplated by this Agreement.

6. Closing Costs. Seller's attorneys' fees, the premium for the Title Policy, one-half (1/2) of any escrow fees or closing costs charged by the Title Company, and the fee required to record the Lease Termination Agreement shall be paid by Seller at the Closing. Purchaser shall be responsible for the payment of its own attorneys' fees, the cost to obtain the Survey (if desired by Purchaser), the additional premium required for extended title insurance coverage or for any endorsements to the Title Policy (if desired by Purchaser), one-half (1/2) of any escrow fees or closing costs charged by the Title Company, and the fees required to record the Ground Lease Assignment, Deed and any instruments required to effect the assumption of the Loans. Additionally, Purchaser shall pay all of the costs and expenses of the lender, including the lender's attorney fees, relating to the assumption of the Loans.

7. Prorations and Credits. All real property taxes and assessment, water and sewer charges, and rent (if applicable) shall be prorated and adjusted between Seller and Purchaser as of the Closing Date.

8. Notices. All notices, requests, demands or other communications hereunder (individually, a "Notice"; collectively, ''Notices'') shall be in writing and deemed given (a) when delivered personally, (b) three (3) days after the date the Notice is deposited in the U.S. mail, by registered or certified mail, return receipt requested, postage prepaid, (c) on the day the Notice is sent by facsimile, with receipt mechanically confirmed, or (d) one (1) day after the date the Notice is deposited for next day overnight delivery with a nationally recognized overnight courier service, addressed and/or sent by facsimile, as the case may be, as follows:

If to Seller:

WKL Investments Airport, LLC
1800 Blankenship Road, Suite 195
West Linn, Oregon 97068
Attention: Michael Kelley
Fax: (503) 656-7022

With a copy to:

Schwabe, Williamson & Wyatt, P.C.
1211 SW Fifth Avenue, Suite 1600
Portland, Oregon 97204

If to Purchaser:

AVI BioPharma, Inc.
One SW Columbia, Suite 1105
Portland, Oregon 97258
Attention: Alan P. Timmins
Fax: (503) 227-0751

With a copy to:

Davis Wright Tremaine LLP
1300 SW Fifth Avenue, Suite 2300
Portland, Oregon 97201

Attention: Terry C. Hauck

Attention: Michael C. Phillips

Fax No.: (503) 796-2900 Fax No.: (503) 778-5299

If to the Title Company:

Chicago Title Insurance Company
888 SW Fifth Avenue, Suite 1600
Portland, Oregon 97204
Attention Jennifer Lyke
Fax No.: (503) 248-0324

or to any other address as the parties may from time to time designate by a Notice in writing to the other parties.

9. Seller's Representations and Warranties. Seller represents and warrants to Purchaser that the following are true, accurate and complete as of the Effective Date and will be true, accurate and complete as of Closing:

(a) Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the state of Oregon.

(b) Seller, and any individual executing this Agreement on Seller's behalf, has the power to execute, deliver and perform this Agreement and has taken all actions required to authorize the due execution and delivery of this Agreement. The execution, delivery and performance of this Agreement does not, and the consummation of the transactions contemplated hereby will not, violate any provision of the Articles of Organization or Operating Agreement of Seller, or any provision of any agreement, instrument, order judgment or decree to which either Seller is a party or by which it or any of its assets are bowd. This Agreement has been, and the documents contemplated hereby will be, duly executed and delivered by Seller and constitute Seller's legal, valid and binding obligations.

(c) There are no actions, suits, claims or other proceedings pending or, to Seller's actual knowledge, threatened against the Property or Seller that could affect Seller's ability to perform its obligations under this Agreement in a timely manner or that could affect any portion of the Property or Seller's interest in the Property.

(d) The copies of the Lease and the Tenant Lease provided by Seller to Purchaser is a true and complete copy of the Lease and the Tenant Lease, and all amendments thereto, and the Lease and the Tenant Lease are in full force and effect with all rents paid currently and no current events of default thereunder.

(e) Seller is the owner of the Improvements.

Seller will indemnify and hold Purchaser and its directors, officers, shareholders, employees and agents, each person who controls such Purchaser (within the meaning of the federal securities laws) and the directors, officers, shareholders, agents, or employees of such, controlling persons (each, a "Purchaser Party") harmless from any and all losses, liabilities,

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obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlement, court costs and reasonable attorneys' fees and costs of investigation asserted by any third party unrelated to a Purchaser Party that any such Purchaser Party may suffer or incur as a result of or relating to any breach of any of the representations, warranties, covenants, or agreements made by Seller in this Agreement.

The representations and warranties of Seller set forth in clauses (c) and (d) above are limited to the actual knowledge of Michael L. Kelley, a member of Seller. Seller further represents and warrants to Purchaser that Michael L. Kelley is the member, officer or employee of Seller with the most knowledge concerning the subject matter of these representations and warranties. In the event of a breach of any of Seller's representations and warranties, Purchaser may not pursue any remedies against Michael L. Kelley individually.

10. Purchaser's Representations. Warranties and Covenants. Purchaser represents, warrants and covenants to Seller, as applicable, that (Purchaser's representations and warranties shall be true, accurate and complete as of the Effective Date and will be true, accurate and complete as of Closing):

(a) Purchaser is a corporation duly organized, validly existing, and in good standing under the laws of the state of Oregon.

(b) Purchaser and any individual executing this Agreement on Purchaser's behalf, has the power to execute, deliver and perform this Agreement and has taken all actions required to authorize the due execution and delivery of this Agreement. The execution, delivery and performance of this Agreement does not, and the consummation of the transactions contemplated hereby will not, violate any provision of the Articles of Incorporation or Bylaws of Purchaser, or any provision of any agreement, instrument, order, judgment or decree to which either Purchaser is a party or by which it or any of its assets are bound. This Agreement has been, and the documents contemplated hereby will be, duly executed and delivered by Purchaser and constitute Purchaser's legal, valid and binding obligations.

(c) The Common Stock issued in Paragraph l(i) above is duly authorized and reserved for issuance and, upon issuance in accordance with the terms of this Agreement, the Common Stock will be validly issued, fully paid and non-assessable, free and clear of any and all liens, claims and encumbrances, and the holder of such Common Stock shall be entitled to all rights and preferences then accorded to a holder of common stock. At Closing, the Common Stock will be freely tradeable and listed on the NASDAQ Global Market, subject only to the Stock Transfer Restriction Agreement.

(d) Since January 1,2005, all reports, schedules, forms, statements and other documents filed by Purchaser with the SEC under either the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended (all of the foregoing filed prior to the date hereof or amended after the date hereof and all exhibits included therein and. financial statement and schedules thereto and documents incorporated by reference therein) do not include any untrue statements of material fact, nor do they omit to state any material fact required to be stated therein necessary to make the statements made, in light of the circumstances under which they were made, not misleading.

(e) As long as Seller owns shares of the Common Stock, Purchaser covenants to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by Purchaser after the date hereof pursuant to the securities laws and the applicable NASDAQ rules to insure that the shares of the Common Stock remain freely tradable and listed on the NASDAQ Global Market

(f) If Seller becomes involved in any capacity in any proceeding by or against any person who is a shareholder of Purchaser (except as a result of sales, pledges, margin sales and similar transitions by Seller to or with any other shareholder), solely as a result of Seller's acquisition of the Common Stock under this Agreement, Purchaser will reimburse Seller for its reasonable legal and other expense (including the cost of any investigation preparation and travel in connection therewith) incurred in connection therewith, as such expenses are incurred. The reimbursement obligation of Purchaser under this paragraph shall be in addition to any liability which Purchaser may otherwise have, shall extend upon the same terms and conditions to any affiliates of Seller who are actually named in such action, proceeding or investigation, and directors, officers, shareholders, agents, employees and controlling persons (if any), as the case may be, of Seller and any such affiliate, and shall be binding upon and inure upon to the benefit of any successors, assigns, heirs and personal representatives of.the Purchaser, Seller and any such affiliate and any such person. Purchaser also agrees that neither Seller nor any of its affiliates, directors, agents, employees and control1ing persons shall have any liability to Purchaser or any person asserting claims on behalf of or in right of Purchaser solely as a result of acquiring the Common Stock under this Agreement, except if such claim arises from a breach of Seller's representations, warranties or covenants under this Agreement or any violations by the Seller of state of federal securities laws or any conduct by such Seller which constitutes fraud, gross. negligence, willful misconduct or malfeasance.

Purchaser will indemnify and hold Seller and its directors, officers, shareholders, employees and agents, each person who controls such Seller (within the meaning of the federal securities laws) and the directors, officers, shareholders, agents, or employees of such control1ing persons (each, a "Seller Party") harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlement, court costs and reasonable attorneys' fees and costs of investigation that any such Seller Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants, or agreements made by Purchaser in this Agreement or (b) any action instituted against a Seller Party, or any of them or their respective affiliates, by any shareholder of Purchaser who is not an affiliate of Seller, with respect to any of the transactions contemplated by this Agreement (unless such action is based primarily from a breach of Seller's representations, warranties or covenants under this Agreement or any violations by the Seller of state of federal securities laws or any conduct by such Seller which constitutes fraud, gross negligence, willful misconduct or malfeasance).

11. Casualty or Condemnation. If prior to Closing any part of the Property is damaged by fire or other casualty, or condemned by any legally constituted authority for any public use or purpose, then not later than ten (l0) days after the date upon which Purchaser receives notice from Seller of the casualty or condemnation, Purchaser shall give to Seller written notice that Purchaser has elected to (a) terminate this Agreement, in which event this Agreement shall be null and void and the Deposit shall be returned to Purchaser, or (b) take an assignment from

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Seller at the Closing of the right to receive any insurance proceeds or condemnation awards in respect to the Property and the terms of this Agreement shall remain in full force and effect and binding on the parties hereto. If Purchaser does not give this notice to Seller within said ten (10) day period, then Purchaser shall be deemed to have elected to proceed pursuant to clause (b), above. If the Property is damaged or condemned and this Agreement is not terminated pursuant to the foregoing terms, then the "Property" shall thereafter mean the Property less and except any portion thereof damaged by casualty or taken by condemnation.

12. Default.

(a) In the event of a default by Seller hereunder, Purchaser shall be entitled to either terminate this Agreement, in which event the Title Company shall promptly deliver the Deposit to Purchaser and this Agreement shall be null and void; or seek any and all remedies available at law or in equity including, but not limited to, specific performance of this Agreement; provided, however, that Purchaser shall not have the right to obtain any recovery for consequential, special or punitive damages.

(b) In the event of a default by Purchaser hereunder following the satisfaction or waiver of all contingencies and conditions herein, Seller shall be entitled to retain the Deposit as liquidated damages as its sole and exclusive remedy against Purchaser, in which event this Agreement shall be null and void and the Title Company shall promptly deliver the Deposit to Seller. Seller and Purchaser agree that actual damages resulting to Seller from Purchaser's breach of this Agreement would be difficult or impossible to measure because of the uncertainties of the real estate market and fluctuations of property values and differences with respect thereto, and that the Deposit is a reasonable estimate of those damages. Notwithstanding the foregoing, the limitation of remedies set forth above shall not be applicable in the event that the representations and warranties set forth in Section IO(e) and/or (d) are false, in any material respect, or Purchaser violates Section IO(e) and/or (t), and, in such event, Seller shall have any and all remedies available to it.

13. Miscellaneous.

(a) Seller will not further sell, encumber, convey, or assign, or contract to sell, encumber, convey, assign, pledge, or lease all or any part of the Property or restrict the use of all or any part of the Property or take or cause to be taken any action in conflict with this Agreement at any time between the Effective Date and (i) Closing or (ii) the earlier termination of this Agreement pursuant to its terms.

(b) This Agreement may not be assigned by Purchaser without the prior written consent of Seller, which consent may be withheld in Seller's sole and absolute discretion. Notwithstanding the foregoing to the contrary, Purchaser may assign this Agreement without the prior consent of Seller to any entity owned or controlled by Purchaser.

(c) Neither this Agreement nor any provision hereof may be changed, amended, modified, waived or discharged orally or by any course of dealing, but only by an instrument in writing signed by the party against which enforcement of the change, amendment, modification, waiver or discharge is sought.

(d) Each party represents and warrants to the other that no real estate broker or agent has been instrumental in procuring this Agreement Each party shall indemnify and save the other party wholly harmless from and against any loss, cost, or other expense, including reasonable attorneys' fees, which may be incurred by such other party by reason of any breach of the foregoing warranties.

(e) Time is of the essence of this Agreement. This Agreement shall be governed by and construed and enforced in accordance with the laws of the state of Oregon.

(f) In the event that any party to this Agreement institutes a suit, action, arbitration, or other legal proceeding of any nature whatsoever, relating to this Agreement or to the rights or obligations of the parties with respect thereto, the prevailing party shall be entitled to recover from the losing party its reasonable attorney, paralegal, accountant, expert witness (whether or not called to testify at trial or other proceeding) and other professional fees and all other fees, costs, and expenses actually incurred and reasonably necessary in connection therewith, including but not limited to deposition transcript and court reporter costs, as determined by the judge or arbitrator at trial or other proceeding, and including such fees, costs and expenses incurred in any appellate or review proceeding, or in collecting any judgment or award, or in enforcing any decree rendered with respect thereto, in addition to all other amounts provided for by law. This cost and attorneys fee provision shall apply with respect to any litigation or other proceedings in bankruptcy court, including litigation or proceedings related to issues unique to bankruptcy law.

(g) This Agreement may be executed in several counterparts, each of which may be deemed an original, and all of such counterparts together shall constitute one and the same Agreement. A facsimile signature on this Agreement shall be deemed to be an original signature.

(h) The invalidity or unenforceability of a particular provision of this Agreement shall not affect the other provisions hereof: and this Agreement shall be construed in all respects as if such invalid or unenforceable provision were omitted.

(i) This Agreement (and the Exhibits attached hereto which are by reference incorporated herein and made a part hereof) constitutes the sole and entire agreement of the parties and is binding upon Seller and Purchaser, their heirs, successors, legal representatives and assigns.

(j) Any period of time described in this Agreement by reference to a number of days includes Saturdays, Sundays, and any state or national holidays. If the date or last date to perform any act or to give any Notice is a Saturday, Sunday, or state or national holiday, that act or Notice may be timely performed or given on the next succeeding day which is not a Saturday, Sunday, or state or national holiday.

(k) If this Agreement is not signed simultaneously by Seller and Purchaser it shall be considered to be an offer made by the party first executing it to the other party. In this event that offer shall expire at midnight on the fifth (5th) day following signature by the offering party, unless by that time one copy signed by the party to whom the offer has been made shall

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have been placed in the mail or personally delivered to the party making the offer. “Effective Date” means the date upon which this Agreement is accepted by the party to whom the offer is made.

(l) The Title Company agrees to hold and to disburse the Deposit in accordance with the terms of this Agreement. In performing its duties as escrow agent, the Title Company shall not incur any liability to anyone for any damages, losses or expenses, except for willful default or breach of trust, and it shall accordingly not incur any such liability with respect (i) to any action taken or omitted in good faith upon advice of its counsel, or (ii) to any action taken or omitted in reliance upon any instrument, including written notice or instruction provided for in this Agreement, not only as to its due execution and the validity and effectiveness of its provisions, but also as to the truth and accuracy of any information contained therein, which Title Company shall in good faith believe to be genuine, to have been signed or presented by a proper person or persons, and to conform with the provisions of this Agreement. Seller and Purchaser (one-half each) will reimburse and indemnify Title Company for and hold it harmless against any loss, liability, or expense including, but not limited to, reasonable attorneys’ fees, arising out of or in connection with its acceptance of or performance of its duties and obligations under this Agreement and the reasonable costs and expenses of defending any claim or liability arising out of or relating to, this Agreement. The Title Company shall not be liable for any loss or impairment of the Deposit while same is deposited in the escrow account.

14. Seller’s Exchange. Seller reserves the right to locate or cause to be located property of a like-kind suitable to Seller for the purpose of effectuating one or more exchange transactions solely by the transfer of this Agreement (but not title to the Property) by Seller to a “qualified intermediary” selected by Seller (the “Accommodator’’) in connection with a tax-deferred exchange as contemplated by Section 1031 of the Internal Revenue Code of 1986, as amended. Purchaser agrees to execute an assignment of this Agreement to the Accommodator but no deeds. Purchaser agrees to cooperate, at no cost or expense to Purchaser, with Seller in connection with such tax-deferred exchange, including the execution of such documents as may’ be reasonably necessary to effectuate the same; provided that (a) the Closing Date shall not be delayed as the result of such exchange; (b) all additional costs in connection with such exchange shall be borne by Seller; (c) such exchange is effectuated through an Accommodator; (d) Seller conveys title to the property directly to Purchaser (or its permitted assignee) by direct deeding; (e) Seller shall indemnity Purchaser and hold Purchaser harmless from and against any and all claims, demands, liabilities, costs, expenses, penalties, damages and losses, including, without limitation, reasonable attorney fees relating to Purchaser’s participation in such exchange; and (f) Seller agrees, in writing, to remain bound by all of its warranties, representations and obligations under this Agreement. This Agreement and Seller’s obligations hereunder are not subject to or conditioned upon Seller’s ability to consummate an exchange. Purchaser’s responsibility for reviewing exchange documents shall be limited to determining whether the terms and conditions of such exchange documents are such that they are in compliance with the foregoing provisions. Seller shall be responsible for making all determinations as to the legal sufficiency or other consideration, including but not limited to tax considerations, relating to such exchange documents. Purchaser, in so cooperating in any exchange transaction arranged by . Seller, shall in no event be responsible for, or in any way warrant, the tax consequences of the exchange transaction.

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15. Disclosure. THE PROPERTY DESCRIBED IN THIS INSTRUMENT MAY NOT BE WITHIN A FIRE PROTECTION DISTRICT PROTECTING STRUCTURES. THE PROPERTY IS SUBJECT TO LAND USE LAWS AND REGULATIONS THAT, IN FARM OR FOREST ZONES, MAY NOT AUTHORIZE CONSTRUCTION OR SITING OF A RESIDENCE AND THAT LIMIT LAWSUITS AGAINST FARMING OR FOREST PRACTICES AS DEFINED IN ORS 30.930 IN ALL ZONES. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON TRANSFERRING FEE TITLE SHOULD INQUIRE ABOUT THE PERSON’S RIGHTS, IF ANY, UNDER ORS 197.352. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON ACQUIRING FEE TITLE TO THE PROPERTY SHOULD CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY APPROVED USES, THE EXISTENCE OF FIRE PROTECTION FOR STRUCTURES AND THE RIGHTS OF NEIGHBORING PROPERTY OWNERS, IF ANY, UNDER ORS 197.352.

IN WITNESS WHEREOF, Seller and Purchaser have each caused this Agreement to be executed as of the Effective Date.

[SIGNATURES ARE ON FOLLOWING PAGE]

SELLER:

WKL Investments Airport, LLC,
an Oregon limited liability company

By: _____
Name: Mike Kelley
Title: _____

FEIN: 260053163

Dated: March 1, 2007

BUYER:

AVI BioPharma, Inc.
an Oregon corporation

By: _____
Name: Alan P. Timmins
Title: President and COO

FEIN: 93-0797222

Dated: March 1, 2007

TITLE COMPANY ACKNOWLEDGMENT:

The Title Company acknowledges and agrees to abide by the relevant terms of this Agreement, including, without limitation, the terms of Paragraph 13(l) of the Agreement. The execution or non-execution of this acknowledgment by the Title Company shall have no effect on the validity or effectiveness of the Agreement.

CHICAGO TITLE INSURANCE COMPANY

By: _____
Name: Jennifer Lyke
Title: Certified Escrow Officer

March 2, 2007

DESCRIPTION OF THE LEASE

Lease Agreement dated August 22, 1996 between the City of Corvallis, Oregon, as Landlord, and Riverside Investments & Development Co., and First Amendment to Lease Agreement dated March 26, 2002

LEGAL DESCRIPTION

Beginning at a point on the North right of way of SW Airport Ave., a 60' right of way, said point being North 50°East 1879.06 feet from the Southeast corner of the Alfred Rhinehart Donation Land Claim No. 73, in Township 12 South, Range 5 West, Willamette Meridian, Benton County, Oregon; thence North 00°05'00" East, 320.00 feet; thence West 270.00 feet; thence North 00°05'36" East, 631.00 feet; thence North 89°59'00" East, 270.53 feet; thence South 00°05'00" West, 354.50 feet; thence North 89°59'00" East, 431.73 feet to a point on the West right of way of SW Plumley Street, a 70 foot right of way; thence along said West right of way South 00°05'00" West, 7.16 feet; thence South 05°19'30" West, 290.92 feet; thence South, 299.80 feet to the North right of way of said SW Airport Ave; thence West, 406.12 feet to the point of beginning.

PERSONAL PROPERTY

Any and all personal property owned by Seller or Electroglas and locate din or on the Improvements, with he exception of any documents and records and any personal property that is proprietary to Electroglas. Such personal property shall include, but is not limited to, the following:

1. Clean room
2. Rooftop mounted McQuay air filtration system.

FIRST AMENDMENT TO REAL PROPERTY PURCHASE AGREEMENT

THIS FIRST AMENDMENT is made and entered into this 15th day of March, 2007, by and between WKL Investments Airport, LLC, an Oregon limited liability company ("Seller") and AVI BioPharma, Inc., an Oregon corporation ("Purchaser").

RECITALS:

A. By Real Property Purchase Agreement dated March 1,2007 (the "Purchase Agreement"), Seller agreed to sell and Purchaser agreed to buy the Property, as defined and described in the Purchase Agreement.

B. Certain of the contingencies of Seller and Buyer were required to be satisfied by March 15, 2007, but they will not be satisfied by such date. The parties desire to extend the date, as set forth herein, for the satisfaction of certain of the contingencies in favor of Seller and Purchaser as set forth in the Purchase Agreement.

NOW, THEREFORE, it is agreed as follows:

1. Defined Terms.

All defined terms used herein shall have the meanings set forth in the Purchase Agreement.

2. Waiver/Satisfaction of Purchaser's Conditions Precedent.

Purchaser's conditions precedent set forth in Section 3(b) and 3(c) of the Purchase Agreement are hereby satisfied and waived.

3. Extension of Time With Respect to Purchaser's Conditions Precedent.

3.1 The time period within which to obtain the Consent and the Estoppel Certificate referenced in Section 3(d) of the Purchase Agreement is hereby extended through 5 p.m. Pacific Time, on March 20, 2007.

3.2 The time period within which to satisfy the condition set forth in Section 3(e) of the Purchase Agreement is hereby extended until 5 p.m. Pacific Time, on March 30, 2007.

4. Satisfaction and Waiver of Seller's Conditions Precedent.

Seller's condition precedent set forth in Section 4(a)(iii) of the Purchase Agreement is satisfied and waived.

5. Extension of Time With Respect to Seller's Conditions Precedent.

5.1 The period of time for Seller to satisfy the conditions precedent set forth in Section 4(a)(i) of the Purchase Agreement is hereby extended through 5 p.m. Pacific Time, on March 20, 2007.

5.2 The time period to satisfy the contingency set forth in Section 4(a)(ii) of the Purchase Agreement is hereby extended until 5 p.m. Pacific Time, on March 30, 2007.

6. Additional Deposit.

The obligation of Purchaser to deliver the additional earnest money deposit as set forth in Section I (b) of the Purchase Agreement shall be delayed until Purchaser has satisfied or waived all of the conditions precedent extended in Section 3 above.

7. Counter Parts.

This Agreement may be executed in any number of counterparts, provided each of the parties hereto executes at least one counterpart; each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one Agreement.

8. Facsimile and PDF Signatures.

In order to expedite the transaction contemplated herein, telecopied and PDF signatures may be used in place of original signatures on this Agreement or any document delivered pursuant hereto. The parties intend to be bound by the signatures on the telecopied document or such PDF copies, and are aware that the other parties will rely on the telecopied or PDF signatures, and hereby waive any defenses to the enforcement of the terms of this Agreement based on such telecopied or PDF signature.

9. Status of Agreement.

The Purchase Agreement, as amended hereby, shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

SELLER:

WKL Investments Airport, LLC,
an Oregon limited liability company

By: _____
Michael L. Kelley
Its: Authorized Representative

PURCHASER:

AVI BioPharma, Inc.,
an Oregon corporation

By: _____
Alan P. Timmins
Its: President and COO

SECOND AMENDMENT TO REAL PROPERTY PURCHASE AGREEMENT

THIS SECOND AMENDMENT ("Second Amendment") is made and entered into this 19th day of April, 2007, by and between WKL Investments Airport, L.L.C., an Oregon limitedliabi1ity company ("Seller") and A VI BioPharma, Inc., an Oregon corporation ("Purchaser").

RECITALS:

A. By Real Property Purchase Agreement dated March 1,2007, and amended by First Amendment to Real Estate Purchase Agreement (collectively the "Purchase Agreement"), Seller agreed to sell and Purchaser agreed to buy the Property, as defined and described in the Purchase Agreement.

B. Certain of the contingencies of Seller and Buyer which were required to be satisfied no later than April 3, 2007, have not been satisfied by such date. .The parties desire to extend the date, as set forth herein, for the satisfaction of certain of the contingencies in favor of Seller arid Purchaser, as set forth in the Purchase Agreement.

NOW, THEREFORE, it is agreed as follows:

1. Defined Terms.

All defined terms used herein shall have the meanings set forth in the Purchase Agreement, except as set forth herein.

2. Confirmation of Waiver/Satisfaction of Purchaser's Conditions Precedent.

Purchaser confirms and agrees that Purchaser's conditions precedent set forth in Section 3(a), 3(b), 3(c) and 3(d) of the Purchase Agreement are satisfied and/or waived.

3. Confirmation of Waiver/Satisfaction of Seller's Conditions Precedent.

Seller confirms and agrees that Seller's conditions precedent set forth in Sections 4(a)(i) and (iii) are satisfied and/or waived.

4. The Loans.

Lender has refused to allow Purchaser to assume the Loans and to release Seller and all guarantors ("Guarantors") from all future liability with respect to the Loans. The Lender is requiring an assignment of the Loans and Loan Documents (without an assumption) from Seller to Purchaser, without allowing Purchaser to assume the Loans as a condition of Lender consenting to the assignment of the lessee's interest in the Lease. In 1ieu of Seller obtaining a Loan Release, and Purchaser obtaining the Loan Commitment, Seller and Purchaser agree to the following:

4.1 Seller and Guarantors shall remain liable for the performance of the terms and conditions contained in the documents and agreements relating to and evidencing the Loans

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(the "Loan Documents"). The Lender has refused to give any notice of default to Purchaser of a default under the Loan Documents (a "Loan Default"). In the event that Seller receives a notice of a Loan Default, Seller shall immediately send a copy of such notice to Purchaser.

4.2 Lender shall consent to the assignment of the Ground Lease to Purchaser and acknowledge that such assignment will not violate the terms of the Loan Documents (the "Consent"), all on terms and conditions acceptable to Seller and Purchaser. Purchaser shall be responsible for all costs and expenses charged by the Lender relating to the Consent, including, without limitation, title insurance policy fees and attorney fees and out-of-pocket costs charged by the Lender.

4.3 The satisfaction of the matters set forth in Sections 4.1 and 4.2 (collectively the "Remaining Contingencies") are, and shall be, conditions precedent to the obligation of both Seller and Purchaser to consummate the transaction that is the subject of the Purchase Agreement. Upon the satisfaction of the Remaining Contingencies, the Purchaser's condition precedent set forth in Section 3(e) of the Purchase Agreement and the Seller's condition precedent set forth in. Section 4(a)(ii) of the Purchase Agreement shall be deemed satisfied. Seller and Purchaser shall use their commercially reasonable efforts to satisfy the Remaining Contingencies as soon as reasonably possible. The .Remaining Contingencies shall be satisfied, if at all, on or before April 19, 2007. If the Remaining Contingencies are not satisfied by April 19, 2007, this Agreement shall automatically terminate, the Deposit shall be returned to Purchaser and neither party shall have any further obligation to the other, except as expressly provided otherwise in the Purchase Agreement.

5. Performance of Obligation Relating: to the Loan.

5.1 Payments. Inasmuch as Lender has refused to accept monthly payments of principal and interest on the Loan directly from Purchaser, Purchaser shall pay to Seller, monthly, the monthly payments of principal and interest due under the Loan Documents, on or before three (3) Business Days (calendar days, exclusive of Saturdays, Sundays and State of Oregon and federal holidays) prior to the date that principal and interest is due under the Loan Documents. Upon receipt of such payments, Seller shall make the principal and interest payments then due under the Loan Documents.

5.2 Seller's Obligations. In addition to the principal and interest payments referenced in Section 5.1, Seller agrees that it will provide (and cause the Guarantors to provide) any and all financial statements and reports required to be provided by Seller and the Guarantors pursuant to the Loan Documents, together with any other information required by Lender, in a timely manner, and Seller covenants and agrees to maintain Seller's entity status and financial covenants as set forth in the Loan Documents. Seller's obligations referenced in this Section 5.2 and its conditional obligations to make the monthly payments of principal and interest as set forth in Section 5.1 are referred to herein collectively as the "Retained Obligations."

5.3 Purchaser's Obligations. Except as set forth herein, Purchaser shall, on behalf of Seller, perform all of the other provisions required to be performed by Seller under the provisions of the Loan Documents, including, without limitation, the payment of real property taxes and providing insurance coverages.

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6. Performance of Lease Obligations.

As part of the sale of the Property by Seller to Purchaser, Seller is assigning to Purchaser the lessee's interest in the Lease. Purchaser has agreed to perform all of the terms and provisions of the Lease incumbent upon the lessee thereunder to perform from and after the Closing Date. If Purchaser shall fail to perform the obligations of the lessee under the Lease, Seller shall have the right, but not the obligation, to perform the obligations of the lessee under the Lease for and on behalf of Purchaser. In such event, Purchaser shall immediately repay, upon demand by Seller, all amounts paid by Seller with respect to the performance by Seller of the lessee's obligations under the Lease.

7. Additional Deposit.

The obligation of Purchaser to deliver the additional earnest money deposit as set forth in Section 1(b) of the Purchase Agreement is hereby deleted.

8. Extension of the Closing Date.

The Closing Date shall occur as soon as possible, but not later than April 20, 2007.

9. Indemnity by Purchaser.

In consideration of Seller and Guarantors remaining liable on the Loans as set forth in Section 4.1 of this Second Amendment, Purchaser hereby agrees to defend, indemnify and hold harmless Seller and Guarantors from and against any and all losses, claims, damages and expenses, including attorney fees incurred by Seller and/or Guarantors asserted by Lender arising out of or related to the Loans from and after the Date of Closing, except for any and all losses, claims, damages and expenses relating to the failure of Seller and Guarantors to perform the Retained Obligations. It is agreed by Seller and Purchaser that between them Purchaser shall be primarily responsible for the performance of all of the provisions of the Loan Documents, except for the Retained Obligations, and that Seller is being required to remain liable for the performance of the provisions of the Loan Documents as a requirement of the Lender.

10. Security for Indemnity.

As security for the indemnity obligations of Purchaser set forth in Section 9 of this Second Amendment, and the performance of the obligations of Purchaser as set forth in Sections 5 and 6 of this Second Amendment, Purchaser shall:

10.1 Control Account. Deposit with Seller the sum of$125,000.00 (the "Security Deposit") to be placed in an interest-bearing account (with the type of account selected by Purchaser with Seller's reasonable consent) (the "Account") with Pacific West Bank ("Pacific West"). Purchaser hereby pledges to Seller the Account (and all interest earned on the Account) as security to Seller for the performance of Purchaser's indemnity obligations set forth in Section 9 as security for the performance by Purchaser of the terms and provisions of the Loan Documents as set forth in Sections 5.1and 5.3and the performance by Purchaser of the lessee's obligations under the Lease as set forth in Section 6 of this Second Amendment. All interest earned on the Account shall be added to the Account and become part of the Account. Purchaser

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shall be responsible for the payment of all federal and state income taxes relating to the Account. The interest earned on the Account shall be reported to Purchaser's identification number.

At Closing, Purchaser shall execute and deliver to Seller, and Seller shall have the right to file, any and all documents reasonably requested by Seller to perfect Seller's security interest in the Account. Without limiting the generality of the foregoing, Purchaser and Pacific West shall execute an Account Control Agreement in favor of Seller, in the form set forth in Exhibit A attached hereto.

10.2 Additional Security. Purchaser shall collaterally assign and grant to Seller as additional security for the performance of its obligations to perform the terms and provisions of the Loan Documents as set forth in Sections 5.1 and 5.3 and as additional security for the indemnity obligations set forth in Section 9 of this Second Amendment, and as additional security for the performance of the obligations set forth in Section 6 of this Second Amendment,. a-security interest in the lessee's interest in the Lease, such assignment to be approved by the Lender, said approval to such collateral assignment being a condition precedent to Seller's obligation to consummate the transaction which is the subject of the Purchase Agreement. Seller acknowledges that such collateral assignment is subject to Lender's prior security interest in the Lessee's Interest in the. Ground Lease. At Closing, Purchaser shall execute and deliver to Seller, and Seller shall have the right to file, any and all documents reasonably requested by Seller, to perfect Seller's security interest in and to the lessee's interest in and to the Lease. Seller acknowledges and agrees that it shall not have the right to take possession of the premises which is the subject of the Ground Lease unless there exists an uncured default under the Loan Documents attributable to Purchaser or an uncured default under the Lease or Purchaser defaults in the performance of its indemnity obligation set forth herein. At Closing, Purchaser, at its cost and expense, shall cause the Title Company to issue to Seller a standard Lender's title insurance policy in the unpaid principal balance of the Loans insuring the lessee's interest in the Lease vested in Purchaser.

11. Modification to Section 3 and Section 4 of the Purchase Agreement.

11.1 Sections 3(f) and 4(b). For purposes of Section 3(f) of the Purchase Agreement and Section 4(b) of the Purchase Agreement, reference therein to the "Loan Commitment" and to "Loan Release" shall mean and refer to the Remaining Contingencies and the execution and delivery of the documents relating thereto.

11.2 Section 4(b). Section 4(b) of the Purchase Agreement is amended by adding thereto as a condition of Seller's obligation to consummate the transaction which is the subject of the Purchase Agreement that Purchaser execute and deliver to Seller, and to allow Seller to file, any and all documents reasonably requested by Seller to perfect its security interest in the Account and the lessee's interest in the Lease. The failure of Purchaser to execute and deliver to Seller any such documents, or to allow Seller to file any such documents, shall constitute a default under the provisions of the Purchase Agreement by Purchaser.

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12. Amendment to Section 6 of the Purchase Agreement.

Purchaser shall be responsible for all costs and expenses associated with perfecting the security interest granted to Seller in this Second Amendment. Additionally, Purchaser shall pay for the title premium costs associated with Seller obtaining a lender's title insurance policy insuring Seller's security interest in the lessee's interest in the Lease.

13. Determination of Number of Shares.

The Purchase Agreement required the Closing to occur on or before April 16, 2007 and contemplated that Seller and Guarantors would be released at the Closing from their respective obligations under the Loan Documents. As partial consideration for Seller agreeing to extend the Date of Closing and for Seller and Guarantors agreeing to remain obligated to Lender under the . Loan Documents, Purchaser has agreed to base the period on which the average daily closing share price of the Common Stock is determined pursuant to the terms of Section. l(c)(i} of the Purchase Agreement on the originally agreed to outside Closing Date of April 16, 2007. Accordingly, Seller and Purchaser agree that Purchaser will deliver 270,758 shares of Common Stock at the. Closing.

14. Counterparts.

This Agreement may be executed in any number of counterparts, provided each of the parties hereto executes at least one counterpart; each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one Agreement.

15. Facsimile and PDF Signatures.

In order to expedite the transaction contemplated herein, telecopied and PDF signatures may be used in place of original signatures on this Agreement or any document delivered pursuant hereto. The parties intend to be bound by the signatures on the telecopied document or such PDF copies, and are aware that the other parties will rely on the telecopied or PDF signatures, and hereby waive any defenses to the enforcement of the terms of this Agreement based on such telecopied or POF signature.

16. Status of Agreement.

The Purchase Agreement, as amended hereby, shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the date first above written.

[SIGNATURES ARE ON FOLLOWING PAGE]

SELLER:

WKL Investments Airport, LLC
an Oregon limited liability company

By: _____
Michael L. Kelley
Its: Authorized Representative

PURCHASER:

AVI BioPharma, Inc.
an Oregon corporation

By: _____
Alan P. Timmins
Its: President and COO

Exhibits:
A - Account Control Agreement

EXHIBIT 31.1

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

I, K. Michael Forrest, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AVI BioPharma, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15 (f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2007

By: /s/ K. Michael Forrest

K. Michael Forrest,
Chief Executive Officer
(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-Q of AVI BioPharma, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15 (f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2007

By: /s/ Mark M. Webber

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

EXHIBIT 32

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

In connection with the Quarterly Report of AVI BioPharma, Inc. (the “Company& #148;) on Form 10-Q for the period ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, K. Michael Forrest, 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 op erations of the Company.

/s/ K. Michael Forrest
K. Michael Forrest
Chief Executive Officer
AVI BioPharma, Inc.
August 9, 2007

/s/ Mark M. Webber
Mark M. Webber
Chief Financial Officer and Chief Information Officer
AVI BioPharma, Inc.
August 9, 2007

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

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

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