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

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# FORM 10-QSB

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(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____ to _____

Commission file number 0-22613

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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

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

Yes X No

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

| Common stock without par value | 13,351,206 |
|---|---|
| (Class) | (Outstanding at May 3, 1999) |

Transitional Small Business Disclosure Format (check one): Yes ____ No X

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

| | March 31, 1999 | December 31, 1998 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 6,691,194 | $ 8,510,020 |
| Other current assets | 43,313 | 509,428 |
| Total Current Assets | 6,734,507 | 9,019,448 |
| Property and Equipment, net of accumulated depreciation and amortization of $ 2,420,122 and $2,386,310 | 479,723 | 411,828 |
| Patent Costs, net of accumulated amortization of $341,310 and $305,310 | 745,479 | 730,960 |
| Other Assets | 29,847 | 29,847 |
| Total Assets | $ 7,989,556 | $ 10,192,083 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | $ 462,415 | $ 891,928 |
| Accrued liabilities | 245,916 | 294,471 |
| Total Current Liabilities | 708,331 | 1,186,399 |
| Shareholders' Equity: | | |
| Preferred Stock, $.0001 par value, 2,000,000 shares authorized; none issued and outstanding | - | - |
| Common stock, $.0001 par value, 50,000,000 shares authorized; 13,351,206 and 13,346,166 issued and outstanding | 1,335 | 1,335 |
| Additional paid-in capital | 51,794,785 | 51,779,785 |
| Deficit accumulated during the development stage | (44,514,895) | (42,775,436) |
| Total Shareholders' Equity | 7,281,225 | 9,005,684 |
| Total Liabilities and Shareholders' Equity | $ 7,989,556 | $ 10,192,083 |

The accompanying notes are an integral part of these balance sheets.

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

| | Three months ended March 31, 1999 | Three months ended March 31, 1998 | July 22, 1980 (Inception) to March 31, 1999 |
|---|---|---|---|
| Revenues, from grants and research contracts | $ 4,115 | $ 5,650 | $ 828,308 |
| Operating expenses: | | | |
| Research and development | 1,342,650 | 1,294,264 | 19,398,256 |
| General and administrative | 417,624 | 306,965 | 7,870,801 |
| Acquired in-process research and development | 59,839 | - | 19,532,993 |
| | 1,820,113 | 1,601,229 | 46,802,050 |
| Other Income: | | | |
| Interest income, net | 76,539 | 170,721 | 1,362,097 |
| Realized gain on sale of short-term investments | - | - | 96,750 |
| | 76,539 | 170,721 | 1,458,847 |
| Net loss | $ (1,739,459) | $ (1,424,858) | $ (44,514,895) |
| Net loss per share - basic and diluted | $ (0.13) | $ (0.13) | |
| Weighted average number of common shares outstanding for computing basic and diluted loss per share | 13,349,358 | 11,147,840 | |

The accompanying notes are an integral part of these statements.

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

| | Three months ended March 31, | | For the Period July 22, 1980 (Inception) to |
|---|---|---|---|
| | 1999 | 1998 | March 31, 1999 |
| Cash flows from operating activities: | | | |
| Net loss | $ (1,739,459) | $ (1,424,858) | $ (44,514,895) |
| Adjustments to reconcile net loss to net cash flows used in operating activities: | | | |
| Depreciation and amortization | 69,812 | 56,673 | 2,810,105 |
| Realized gain on sale of short-term investments - available for sale | - | - | (96,750) |
| Compensation expense on issuance of common stock and partnership units | - | - | 251,992 |
| Compensation expense on issuance of options and warrants to purchase common stock or partnership units | - | - | 562,353 |
| Conversion of interest accrued to common stock | - | - | 7,860 |
| Acquired in-process research and development | 59,839 | - | 19,532,993 |
| (Increase) decrease in: | | | |
| Other current assets | 466,115 | (530,218) | (43,313) |
| Other assets | - | - | (29,847) |
| Net increase (decrease) in accounts payable and accrued liabilities | (478,068) | 16,984 | 708,331 |
| Net cash used in operating activities | (1,621,761) | (1,881,419) | (20,811,171) |
| Cash flows from investing activities: | | | |
| Proceeds from sale or redemption of short-term investments | - | - | 247,750 |
| Purchase of property and equipment | (101,707) | (6,513) | (2,948,518) |
| Patent costs | (50,519) | (22,762) | (1,086,789) |
| Acquisition costs | (59,839) | (89,695) | (2,365,581) |
| Net cash used in investing activities | (212,065) | (118,970) | (6,153,138) |
| Cash flows from financing activities: | | | |
| Proceeds from sale of common stock, warrants, and partnership units, net of offering costs, and exercise of options | 15,000 | 152,003 | 34,040,940 |
| 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 | 15,000 | 152,003 | 33,655,503 |
| Increase (decrease) in cash and cash equivalents | (1,818,826) | (1,848,386) | 6,691,194 |
| Cash and cash equivalents: | | | |
| Beginning of period | 8,510,020 | 17,638,936 | - |
| End of period | $ 6,691,194 | $ 15,790,550 | $ 6,691,194 |

The accompanying notes are an integral part of these statements.

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

NOTE 1. BASIS OF PRESENTATION

The financial information included herein for the three-month periods ended March 31, 1999 and 1998 and the financial information as of March 31, 1999 is unaudited; however, such information reflects all adjustments consisting only of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The financial information as of December 31, 1998 is derived from AVI BioPharma, Inc.'s (the Company's) Form 10-KSB. The interim financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Form 10-KSB. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

NOTE 2. EARNINGS PER SHARE

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

| Three Months Ended March 31, | 1999 | 1998 |
|---|---|---|
| Net loss | $(1,739,459) | $(1,424,858) |
| 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 | 13,349,358 | 11,147,840 |
| 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 | 13,349,358 | 11,147,840 |
| Net loss per share - basic and diluted | $(0.13) | $(0.13) |

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

| Three Months Ended March 31, | 1999 | 1998 |
|---|---|---|
| Warrants and stock options | 7,078,051 | 4,593,497 |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD-LOOKING INFORMATION

The Financial Statements and Notes thereto should be read in conjunction with the following discussion. The discussion in this Form 10-QSB contains certain forward-looking statements that involve risks and uncertainties, including, but not limited to, the results of research and development efforts, the results of pre-clinical and clinical testing, the effect of regulation by FDA and other agencies, the impact of competitive products, product development, commercialization and technological difficulties, and other risks detailed in the Company's Securities and Exchange Commission filings.

OVERVIEW

From its inception in July 1980, the Company has devoted its resources primarily to fund its research and development efforts. The Company has been unprofitable since inception and, other than limited interest and grant revenue, has had no material revenues from the sale of products or other sources, and does not expect material revenues for at least the next 12 months. The Company expects to continue to incur losses for the foreseeable future as it expands its research and development efforts. As of March 31, 1999, the Company's accumulated deficit was $44,514,895.

RESULTS OF OPERATIONS

Operating expenses increased to $1,820,113 in the first quarter of 1999 from $1,601,229 in the first quarter of 1998 due to increases in research and development staffing and increased expenses associated with outside collaborations and pre-clinical testing of the Company's technologies. Additionally, increased general and administrative costs were incurred to support the research expansion, and to broaden the Company's investor and public relations efforts. Net interest income decreased to $76,539 in the first quarter of 1999 from $170,721 in the first quarter of 1998 due to earnings on decreased cash balances, which consisted of proceeds from the initial public offering.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents were $6,691,194 at March 31, 1999, compared with $8,510,020 at December 31, 1998. The decrease of $1,818,826 was primarily due to increases in research and development staffing and increased expenses associated with clinical programs, outside collaborations, and pre-clinical testing of the Company's technologies. Additionally, increased general and administrative costs were incurred to support internal research expansion in the Company's core technology areas.

The Company's future expenditures and capital requirements will depend on numerous factors, 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, the ability of the Company 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 significantly each year as it expands its activities and operations. There can be no assurance, however, that the Company will ever be able to generate product revenues or achieve or sustain profitability.

The Company expects that its cash requirements over the next twelve months will be satisfied by existing cash resources.

YEAR 2000

The Year 2000 issue results from computer programs operating incorrectly when the calendar year changes to January 1, 2000. Computer programs that have date-sensitive software may recognize a two-digit date using "00" as calendar year 1900 rather than the year 2000. This could result in system failure or miscalculations and could cause disruptions of operations, including, among other things, a temporary inability to engage in normal business activities.

The Company has evaluated its technology and data, including imbedded non-informational technology, used in the creation and development of its products and services and in its internal operations and has identified no significant Year 2000 issues. The core business systems are compliant, or a migration path to a compliant version will be in place by the year 2000. The Company has not incurred material costs and believes that future costs associated with addressing the Year 2000 issue will have an immaterial effect on the Company's financial results.

Although the Company has inquired of certain of its significant vendors as to the status of their Year 2000 compliance initiatives, no binding assurances have been received. The Company believes that parts and services used in normal operations can be obtained from multiple sources and therefore is not overly reliant on any single vendor. Failure of telephone service providers or other monopolistic utilities could have a significant detrimental effect on the Company's operations. There can be no assurances that such third parties will successfully address their own Year 2000 issues over which the Company has no control.

## PART II - OTHER INFORMATION

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The exhibit filed as a part of this report is listed below and this list constitutes the exhibit index.

| Exhibit No. | |
|---|---|
| 27 | Financial Data Schedule |

(b) Reports on Form 8-K

The Company did not file any Reports on Form 8-K during the quarter ended March 31, 1999.

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: May 3, 1999 AVI BIOPHARMA, INC.

By: /s/ DENIS R. BURGER, Ph.D.
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Denis R. Burger, Ph.D.
President, Chief Executive Officer
and Chairman (of the Board of Directors)
(Principal Executive Officer)

By: /s/ ALAN P. TIMMINS
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Alan P. Timmins
Chief Operating Officer,
Chief Financial Officer and Director
(Principal Financial and Accounting Officer)

| | |
|---|---|
| 3-MOS | |
| DEC-31-1999 | |
| JAN-01-1999 | |
| MAR-31-1999 | |
| | 6,691,194 |
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| | 0 |
| | 0 |
| | 0 |
| 6,734,507 | |
| | 2,899,845 |
| 2,420,122 | |
| 7,989,556 | |
| 708,331 | |
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