AVI BIOPHARMA INC
Form 424B3
December 21, 2006

PROSPECTUS SUPPLEMENT
(To Prospectus Dated October 9, 2003)

Registration No. 333-109015
Rule 424(b)(3) Prospectus

192,857 Shares

AVI BioPharma, Inc.

Common Stock

This is an offering of $675,000 of our common stock. We are offering all of the shares of common stock pursuant to this prospectus supplement. Our common stock is quoted on the Nasdaq Global Market under the symbol AVII . The last reported sale price of the common stock on December 19, 2006 was $3.34 per share.

Investing in our common stock and warrants involves risks. See Risk Factors beginning on page 2 of the accompanying prospectus and Forward-Looking Information on page S-1 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	$ 3.50	$ 675,000
Proceeds, before expenses, to AVI BioPharma	$ 3.50	$ 675,000

December 20, 2006

You should only rely on the information contained in, or incorporated by reference in, this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information and if anyone provides you with different or additional information, you should not rely on it. We are not making an offer of these securities in any state where the offer of these securities is not permitted. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate as of any date other than the dates of the specific information.

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

Unless we have indicated, or the context otherwise requires, references in this prospectus supplement to AVI BioPharma, we, us, or similar terms, are to AVI BioPharma, Inc.

ABOUT THIS PROSPECTUS SUPPLEMENT

We are providing this information to you about this offering of common stock in two parts. The first part is this prospectus supplement, which provides the specific details regarding the offering. The second part is the accompanying base prospectus, which provides general information. Generally, when we refer to this prospectus, we are referring to both documents combined. Some of the information in the base prospectus may not apply to this offering.

You should also read and consider the information in the documents that we have referred you to in Where You Can Find More Information on page S-9 of this prospectus supplement. The information incorporated by reference is considered to be part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede this information, except for any information updated or superseded by information contained directly in the prospectus or this prospectus supplement.

If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement.

FORWARD-LOOKING INFORMATION

This prospectus supplement and the accompanying prospectus and the information incorporated by reference herein and therein contain forward-looking statements regarding our plans, expectations, estimates and beliefs. Such statements are forward-looking statements for purposes of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Our actual results could differ materially from those discussed in, or implied by, these forward-looking statements. Forward-looking statements are identified by words such as believe, anticipate, expect, intend, plan, will, may, and other similar expre addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are based on current expectations and are not guarantees of future performance. We caution you not to place undue reliance on these statements, which speak only as of the date on which the statement was made. Forward-looking statements in this prospectus supplement and the accompanying prospectus include, but are not necessarily limited to, those relating to:

- our plans for future clinical developments;
- receipt of any required FDA or other regulatory approval for our products;
- our expectations about the markets for our products;
- acceptance of our products, when introduced, in the marketplace;
- our future capital needs; and
- success of our patent applications.

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

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

Because of these risks and uncertainties, the forward-looking events and circumstances discussed in this prospectus supplement and the accompanying prospectus or incorporated by reference might not transpire. Except for our ongoing obligations to disclose material information as required by the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. All of the above factors are difficult to predict, contain uncertainties that may materially affect our actual results and may be beyond our control. New factors emerge from time to time, and it is not possible for our management to predict all of such factors or to assess the effect of each factor on our business.

PROSPECTUS SUPPLEMENT SUMMARY

The following information supplements, and should be read together with, the information contained or incorporated by reference in other parts of this prospectus supplement and in the accompanying prospectus. This summary highlights selected information from this prospectus supplement and the accompanying prospectus to help you understand our business. Because the following is only a summary, it does not contain all of the information that may be important to you. You should carefully read this prospectus supplement and the accompanying prospectus before deciding whether to invest in our common stock. You should pay special attention to the Risk Factors section beginning on page 2 of the accompanying prospectus to determine whether an investment in our common stock is appropriate for you.

Business Overview

We are a biopharmaceutical company developing therapeutic products principally based on third-generation NEUGENE® antisense technology. Our principal products in development target life-threatening diseases, including cardiovascular disease and infectious disease. Currently approved drugs or other therapies for these diseases often prove to be ineffective or produce undesirable side effects. Our pre-clinical and clinical studies indicate that our technology may produce drugs that we believe offer more effective treatment options with fewer side effects than currently approved products. A patent estate including 172 patents (foreign and domestic) issued or licensed to us and 151 pending patent applications (domestic and foreign) protects our technologies. Our lead product candidate, Resten-NG®, targets a market we believe may exceed $3 billion worldwide.

We have developed third-generation antisense technology that we believe produces drugs that may be more stable, specific, efficacious, and cost effective than other gene-targeting technologies, including second-generation antisense, ribozyme, and siRNA compounds. In eleven clinical trials involving over 300 subjects, we have not observed any drug-related serious adverse events. NEUGENE drugs are synthetic polymers that block the function of selected genetic sequences involved in disease processes. Targeting specific genetic sequences provides for greater selectivity than that available through conventional drugs. NEUGENE drugs have the potential to provide safe and effective treatment for a wide range of human diseases. NEUGENE drugs are distinguished by a novel backbone chemistry that replaces the modified backbones of competing technologies with a synthetic backbone that has been designed to improve pharmaceutical parameters.

We have completed pre-clinical and some clinical studies using our NEUGENE drugs in the treatment of cardiovascular disease, infectious disease, cancer and polycystic kidney disease (PKD), and in regulating drug metabolism. We filed our first antisense Investigational New Drug application (IND) with the FDA for Resten-NG for cardiovascular restenosis in 1999 and have completed a Phase I and a Phase II clinical trial. We have completed four Phase I trials in our drug metabolism program and two Phase Ib trials in our cancer and polycystic kidney disease programs. We filed an IND and conducted a Phase Ib trial in 2003 for our NEUGENE antisense drug for West Nile virus infection We filed an IND and are currently conducting an exploratory clinical trial (Phase I/II) for Hepatitis C virus infection. We are also in preclinical development for influenza A, including avian influenza.

A further description of our business can be found in our annual and quarterly reports. See page S-10 of this prospectus supplement for our reports which are incorporated by reference.

The Offering

Common stock offered by us	192,857
Common stock to be outstanding after the offering	53,182,841 shares
Use of proceeds	The shares are being issued in connection with a collaboration and license agreement between the Company and Ercole Biotech, Inc.
Risk factors	See Risk Factors beginning on page 2 of the accompanying prospectus and Forward-Looking Information on page S-1 of this prospectus supplement for a discussion of material risks that prospective purchasers of our common stock should consider.
Nasdaq Global Market Symbol	AVII

The number of shares of common stock to be outstanding after the offering is based on the number of shares outstanding as of December 18, 2006. As of that date, we had 52,989,984 shares of common stock outstanding, which does not include:

- 5,705,764 shares of common stock underlying options outstanding at a weighted average exercise price of $5.11 per share;
- 8,508,103 shares of common stock underlying warrants outstanding at a weighted average exercise price of $11.68 per share; and
- 1,681,990 shares available for future grant under our stock option plan and 248,144 shares available for future issuance under our employee stock purchase plan.

Summary Financial Data

The tables below set forth summary financial data for the years ended December 31, 2003, 2004, and 2005 and for the nine months ended September 30, 2005 and 2006. The summary financial data for the years ended December 31, 2003 through December 31, 2005 are derived from our audited financial statements for those periods. We derived the summary financial data as of September 30, 2006 and for the nine months ended September 30, 2005 and 2006 from our unaudited financial statements. The unaudited financial statement data includes, in our opinion, all adjustments that are necessary for a fair presentation of our financial position and results of operations for these periods. Operating results for the nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2006.

This information is only a summary. You should read it in conjunction with our historical financial statements and related notes contained in our annual reports, quarterly reports and other information on file with the SEC. For more details on how you can obtain our SEC reports and other information, you should read the section entitled, Where You Can Find More Information, beginning on page 20 of the accompanying prospectus. The adjusted balance sheet data give effect to the sale of common stock in this offering, at an assumed offering price of $3.50 per share, after deducting the estimated underwriting discounts and commissions and estimated offering expenses.

Statement of operations data
(in thousands, except per share data)

	Year Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005 (unaudited)	2006
Total revenues	$ 970	$ 430	$ 4,784	$ 3,366	$ 98
Total operating expenses	$ 19,843	$ 25,474	$ 22,300	$ 15,978	$ 24,309
Net loss	$ (14,617)	$ (24,778)	$ (16,676)	$ (12,124)	$ (22,744)
Net loss per share, basic and diluted	$ (0.49)	$ (0.69)	$ (0.37)	$ (0.28)	$ (0.43)
Shares used in computing basic and diluted net loss per share	29,809	35,995	44,655	43,609	52,546

Balance sheet data
(in thousands)

	September 30, 2006	
	Actual (unaudited)	As Adjusted
Cash, cash equivalents and short-term investments	$ 38,425	38,425
Working capital	$ 37,106	37,106
Total assets	$ 46,542	47,217
Long-term obligations, less current portion	$ -	
Accumulated deficit	$ (195,392)	(195,392)
Total stockholders equity	$ 44,359	45,034

USE OF PROCEEDS

The shares are being issued to Ercole Biotech, Inc. in connection with that certain collaboration and license agreement between the Company and Ercole. The Company expects Ercole to dispose of the shares in the open market in the near future.

PRICE RANGE OF COMMON STOCK

Our common stock has been quoted and traded on the Nasdaq Global Market under the symbol AVII . The following table sets forth, for the periods indicated, the reported high and low closing sales prices per share of our common stock on the Nasdaq Global Market:

	AVI BioPharma Common Stock	
Calendar Year Ended December 31, 2004	(low)	(high)
First quarter	2.88	4.75
Second quarter	2.02	3.58
Third quarter	1.59	2.71
Fourth quarter	2.04	2.35
Calendar Year Ended December 31, 2005		
First quarter	2.00	4.14
Second quarter	2.22	2.95
Third quarter	2.11	2.64
Fourth quarter	2.60	4.03
Calendar Year Ended December 31, 2006		
First Quarter		