UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-15006

AVANT IMMUNOTHERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-3191702**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

119 Fourth Avenue, Needham, Massachusetts 02494
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: **(781) 433-0771**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.001

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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 Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

The aggregate market value of common stock held by non-affiliates as of June 30, 2005 was $86,078,569 (excludes shares held by directors and executive officers). Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the actions of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant. The number of shares of common stock outstanding at March 1, 2006 was: 74,172,695 shares.

Certain information contained in the registrant's proxy statement relating to its annual meeting of stockholders to be held on May 18, 2006 is incorporated by reference in Part III, Items 10, 11, 12 and 13.

AVANT IMMUNOTHERAPEUTICS, INC.
ANNUAL REPORT ON FORM 10-K
YEAR ENDED DECEMBER 31, 2005
TABLE OF CONTENTS

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: *This report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. You can identify forward-looking statements by the use of the words "believe", "expect", "anticipate", "intend", "estimate", "project", "will", "should", "may", "plan", "intend", "assume" and other expressions which predict or indicate future events and trends to and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the control of the Company. These risks, uncertainties and other factors may cause the actual results, performance or achievements of the Company to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.*

Some of the factors that might cause these differences include the following: (1) the integration of multiple technologies and programs; (2) the ability to adapt AVANT's vectoring systems to develop new, safe and effective orally administered vaccines against anthrax and plague or other bioterrorism threats or emerging health care threats; (3) the ability to successfully complete development and commercialization of TP10, CETi-1, CholeraGarde® (Peru-15), Ty800 and other products; (4) the cost, timing, scope and results of ongoing safety and efficacy trials of TP10, CETi-1, CholeraGarde® (Peru-15), Ty800 and other preclinical and clinical testing; (5) the ability to successfully complete product research and further development, including animal, pre-clinical and clinical studies of TP10, CETi-1, CholeraGarde® (Peru-15), Ty800 and other products; (6) the ability of the Company to manage multiple late stage clinical trials for a variety of product candidates; (7) the volume and profitability of product sales of Megan®Vac 1, Megan®Egg and other future products; (8) the process of obtaining regulatory approval for the sale of Rotarix® in major commercial markets, as well as the timing and success of worldwide commercialization of Rotarix® by our partner, GlaxoSmithKline; (9) changes in existing and potential relationships with corporate collaborators; (10) the availability, cost, delivery and quality of clinical and commercial grade materials supplied by contract manufacturers; (11) the timing, cost and uncertainty of obtaining regulatory approvals to use TP10, CETi-1, CholeraGarde® (Peru-15) and Ty800, among other purposes, for adults undergoing cardiac surgery, to raise serum HDL cholesterol levels and to protect travelers and people in endemic regions from diarrhea causing diseases, respectively; (12) the ability to obtain substantial additional funding; (13) the ability to develop and commercialize products before competitors; (14) the ability to retain certain members of management; and (15) other factors detailed from time to time in filings with the Securities and Exchange Commission. In addition, the factors described under "Item 1A. Risk Factors" in this report may result in these differences. You should carefully review all of these factors. These forward-looking statements were based on information, plans and estimates at the date of this report, and we do not promise to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

PART I

Item 1. BUSINESS

A. General

As used herein, the terms "we", "us", "our", or "AVANT" refer to AVANT Immunotherapeutics, Inc., a Delaware corporation organized in 1983. We are a biopharmaceutical company that uses novel applications of immunology to develop products for the prevention and treatment of diseases. We are developing a broad portfolio of vaccines and immunotherapeutics addressing a wide range of applications including cardiovascular disease, bacterial and viral diseases, biodefense and food safety. These include single-dose, oral vaccines that protect against important disease-causing agents, a novel, proprietary vaccine candidate for cholesterol management, and a treatment to reduce complement-mediated tissue damage associated with cardiac by-pass surgery. Our strategy is to demonstrate proof-of-concept for our product candidates before leveraging their value through partnerships or, in appropriate situations, continuing late stage development ourselves. Demonstrating proof-of-concept for a product candidate generally involves bringing it through Phase I clinical trials and one or more Phase II clinical trials so that

we are able to demonstrate, based on human trials, good safety data for the product candidate and some data indicating its effectiveness. Our current collaborations encompass the development of an oral human rotavirus vaccine, vaccines to combat threats of biological warfare, and vaccines addressed to human food safety and animal health. Our product candidates address large market opportunities for which we believe current therapies are inadequate or non-existent.

The Company's web site is located at http://www.avantimmune.com. On the Company's web site, investors can obtain a copy of the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company files such material electronically with, or furnishes it to, the Securities and Exchange Commission.

Our focus is on using the power of the immune system to prevent and treat disease. We have assembled a broad portfolio of technologies and intellectual property that we believe will give us a strong competitive position in vaccines and immunotherapeutics. This portfolio includes:

- *Cholera*- and *Salmonella*-vectored vaccine delivery technologies;
- patent rights directed to a rotavirus strain;
- technology supporting our CETi-1 product candidate, which is aimed at increasing levels of HDL, or "good" cholesterol;
- our VitriLife® patented drying system for the preservation of proteins, cells, bacteria and viruses; and
- technology and patents for the complement inhibitors based on sCR1 (TP10).

We currently have six products in clinical development. Our goal is to become a leading developer of innovative vaccines and immunotherapeutics that address health care needs on a global basis. Our success has depended and will continue to depend upon many factors, including our ability and that of our licensees and collaborators to successfully develop, obtain regulatory approval for and commercialize our product candidates. To date, commercial sales have only been generated by from Rotarix® and our Megan poultry vaccines, and we have had no commercial revenues from sales of our human therapeutic or other human vaccine products and we have had a history of operating losses. It is possible that we may not be able to successfully develop, obtain regulatory approval for or commercialize our product candidates, and we are subject to a number of risks that you should be aware of before investing in AVANT. These risks are disclosed more fully in "Item 1A. Risk Factors."

AVANT is targeting its efforts where it can add the greatest value to the development of its products and technologies. Our goal is to demonstrate clinical proof-of-concept for each product, and then seek partners to help see those products through to commercialization. This approach allows us to maximize the overall value of our technology and product portfolios while best ensuring the expeditious development of each individual product.

In January 2003, we acquired the technology and intellectual property portfolio of Universal Preservation Technologies, Inc. ("UPT"), a privately held company based in San Diego, California, and licensed certain patent rights from Elan Drug Delivery Limited (formerly a subsidiary of Elan Corporation plc, now Innovata plc). Through this transaction, AVANT has gained exclusive rights to UPT's VitriLife® process for use in AVANT's oral vaccines and certain other non-injectable applications.

On December 1, 2000, we acquired Megan Health, Inc. ("Megan"), a Delaware corporation, pursuant to an Agreement and Plan of Merger dated as of November 20, 2000 by and among AVANT, AVANT Acquisition Corp., a Delaware corporation and our wholly-owned subsidiary, and Megan.

On August 21, 1998, we acquired Virus Research Institute, Inc. ("VRI"), a Delaware corporation, pursuant to an Agreement and Plan of Merger dated as of May 12, 1998 by and among AVANT, TC Merger Corp., a Delaware corporation and our wholly-owned subsidiary, and VRI.

Using our expertise in immunology, we are building business franchises in three major disease areas: cardiovascular diseases including cholesterol management, bacterial vaccines, and viral vaccines. Each of our business franchises addresses large market opportunities for which current therapies are inadequate or non-existent. We have pursued some of these opportunities independently in a highly focused manner. In other cases, we have leveraged the financial support and development capabilities of corporate and public sector partners to bring our development projects to fruition. The research we have so diligently pursued over the past several years has matured into an exciting portfolio of product candidates.

Our products derive from a broad set of complementary technologies with the ability to utilize the human immune system and enable the creation of preventative and therapeutic agents. We are using these technologies to develop vaccines and immunotherapeutics that prevent or treat disease caused by infectious organisms, and treatment vaccines that modify undesirable activity by the body's own proteins or cells. Our products are in various stages of research and development. Below is a table of our currently active programs:

CURRENT PROGRAMS AND PARTNERSHIPS

Technology	Product	Indication/Field	Partner	Status
Immunotherapeutics				
Cardiovascular Diseases	TP10	Cardiac by-pass surgery	—	Phase IIb
	CETi	Cholesterol management	—	Phase II
Bacterial Vaccines				
Global Health	CholeraGarde®	Cholera	IVI	Phase IIb
	Ty800	Typhoid fever	NIH	Phase I/II
Travelers'	ETEC	Enterotoxigenic *E coli* infection	—	Pre-clinical
	Shigella	Dysentery	—	Pre-clinical
	Campylobacter	*Campylobacter* infection	—	Pre-clinical
BioDefense	Injectable Anthrax	Anthrax infection	DoD/DVC	Phase I
	Oral Anthrax & Plague	Anthrax & Plague infections	DoD/DVC and NIH	Pre-clinical
Food Safety and Animal Health	Megan®Vac 1	*Salmonella* infection in chicken	Lohmann	Marketed
	Megan®Egg	*Salmonella* infection in laying hens and eggs	Lohmann	Marketed
	Other Food Safety and Animal Health Vaccines	Bacterial contamination of food sources and animal health	Pfizer	Pre-clinical
Viral Vaccines	Rotarix®	Rotavirus infection	GlaxoSmithKline	Marketed
	Therapore®	Viral infection—HIV	US Army	Phase I

B. Strategy

AVANT's strategy is to utilize our expertise to design and develop vaccines and immunotherapeutics that have significant and growing market potential; to establish governmental and corporate alliances to fund development; and to commercialize our products either through corporate partners or, in appropriate circumstances, by our own direct selling efforts. Our goal is to demonstrate clinical proof-of-concept for

each product, and then seek partners to help see those products which we cannot develop ourselves through to commercialization. This approach allows us to maximize the overall value of our technology and product portfolios while best ensuring the expeditious development of each individual product. Implementation of this strategy is exemplified by the following lead programs:

Rotavirus Vaccine: Rotavirus is a major cause of diarrhea and vomiting in infants and children. In 1997, AVANT licensed its oral rotavirus vaccine to GlaxoSmithKline ("Glaxo"). All of the ongoing development for this program is being conducted and funded by Glaxo. Glaxo gained approval for Rotarix® in Mexico in July 2004, which represents the first in an expected series of worldwide approvals and commercial launches for the product. Glaxo has already filed for market approval in more than 75 countries worldwide and has launched Rotarix® in additional Latin American and Asia Pacific countries during the course of 2005. Additionally, Glaxo filed for market approval of Rotarix® with the European regulatory authorities in late 2004, which triggered a $2 million milestone payment to AVANT. In February 2006, the European Commission granted approval of Rotarix® in the European Union, which triggers a $4 million milestone payment from Glaxo. Glaxo has agreed to make further payments, which could total up to $1.5 million, upon the achievement of a specific milestone. AVANT licensed the Rotarix® technology in 1995 from Cincinnati Children's Hospital medical Center ("CCH") and owes CCH a license fee of 30% on net royalties received from Glaxo. In May 2005, AVANT entered into an agreement whereby an affiliate of Paul Royalty Fund ("PRF") purchased an interest in the net royalties AVANT will receive on worldwide sales of Rotarix® (see Note 9 of our audited consolidated financial statements). Under the PRF agreement, AVANT retains 50% of the $4 million milestone payment from Glaxo for the European Commission approval discussed above and of any future Glaxo milestone payments, with the balance payable to PRF and CCH.

Complement Inhibitor: We are developing a new class of immunotherapeutics that inhibits the complement system, a key triggering mechanism for the body's inflammatory response. Medical problems that result from excessive complement activation represent multi-billion dollar market opportunities. These include reperfusion injury, the vascular and tissue damage that occurs following a heart attack, stroke or surgical procedure where the patient's blood supply is shut off and then restored; hyperacute or chronic organ rejection following transplantation; acute inflammatory injury to the lungs and autoimmune diseases. We have developed a lead compound, TP10, for cardiac surgery.

In February 2002, AVANT announced that TP10 had not achieved a significant reduction in the primary endpoint of a Phase II adult cardiac surgery trial conducted in 564 patients. However, further analysis of the study data demonstrated an important treatment benefit in male patients participating in the trial directly related to mortality; however, no treatment benefit was observed in female patients. In February 2004, AVANT started a Phase IIb double-blind, placebo-controlled trial of TP10 in approximately 300 women undergoing cardiopulmonary by-pass surgery. The trial was designed to examine the effect of TP10 versus placebo at approximately 30 sites throughout the United States. The goals of the trial were to clarify the treatment effect that TP10 has for women undergoing high risk cardiac surgery, as well as augment the safety data for that patient population to allow for the design of a subsequent registration-directed trial. In February 2006, AVANT reported that the females-only study did not meet the primary endpoint, thus confirming the results for female subjects in the previous TP10 trial. Therefore, given the strong efficacy data in males shown in this previous study, AVANT believes there is a clear clinical development pathway for a males-only indication for TP10 in cardiac bypass surgery. Males represent 75% of the U.S. market opportunity in cardiac bypass surgery. AVANT believes that the TP10 program is now well-positioned for a males-only cardiac bypass surgery indication and expects to partner the TP10 program for this indication. AVANT plans to seek a corporate partner to complete the development and commercialization of TP10, including with respect to a male-only cardiac bypass surgery indication, prior to starting a Phase III clinical trial.

Bacterial Vaccines: AVANT is developing a series of single-dose, genetically-attenuated, live bacterial vaccines to prevent diarrhea and dysentery. These diarrheal vaccines are targeted to address the U.S. and European travelers' market as well as the healthcare requirements of developing countries, where for example the need for cholera and typhoid fever vaccines is particularly acute. We believe that vaccines for the travelers' market are appropriate indications for a small company such as AVANT to pursue independently with our own sales and marketing effort in the United States and with partners outside the United States.

Development of a safe and effective cholera vaccine is the first step in establishing AVANT's single-dose, oral bacterial vaccine franchise. During 2002, AVANT completed a Phase II dose-ranging study with CholeraGarde® which confirmed the safety and activity of this vaccine and supported the start of Phase II trials in December 2002 with the International Vaccine Institute ("IVI") in Bangladesh where cholera is endemic. In July 2005, the Bangladesh study results in children and infants showed CholeraGarde® to be well tolerated and highly immunogenic, with 77% of children aged 9 months to 5 years generating protective immune responses. Previously published results showed the vaccine to be well tolerated and immunogenic against the cholera organism in the adult portion of this trial.

In July 2005, AVANT reported that it and Harvard Medical School would receive approximately $500,000 from the National Institutes of Health ("NIH") to apply AVANT's VitriLife® formulation to CholeraGarde®. In 2006, AVANT plans to utilize VitriLife®, a proprietary technology that confers thermostability to live bacterial vaccines, at the Fall River manufacturing facility for CholeraGarde® and its other bacterial vaccines.

AVANT is also developing an oral typhoid fever vaccine, Ty800, for global health needs. The National Institute of Allergy and Infectious Disease ("NIAID") of the NIH and AVANT have agreed for the NIAID to conduct a Phase I/II in-patient dose-ranging clinical trial aimed at demonstrating the safety and immunogenicity of the Ty800 vaccine. NIAID has funded the production of the Ty800 vaccine for clinical testing and initiated the Phase I/II trial at a NIH-funded clinical site in February 2006. The NIAID trial seeks to confirm the safety and immunogenicity of the Ty800 oral vaccine observed in an earlier physician-sponsored Ty800 vaccine study.

Finally, AVANT is developing three additional bacterial vaccines against enterotoxigenic *E. coli* ("ETEC"), *Shigella* and *Campylobacter*—all important causes of serious diarrheal diseases worldwide. These three programs are in pre-clinical development. In 2006, AVANT expects to allocate resources to further the development of a two-vaccine combination product containing ETEC and *Shigella* or *Campylobacter* addressed to the travelers' market. In April 2005, AVANT was awarded a Phase I Small Business Innovation Research ("SBIR") grant to support the development of a live attenuated salmonella vaccine against *Campylobacter*. The NIAID award provides approximately $131,000 in funding and work was started by AVANT during the third quarter of 2005.

BioDefense Vaccines: The attenuated live bacteria used to create AVANT's single-dose oral vaccines can also serve as vectors for the development of vaccines against other bacterial and viral diseases. By engineering key disease antigens into the DNA of the vector organisms, AVANT expects to be able to extend the protective ability of its single-dose oral vaccines to a wide variety of illnesses. AVANT believes its vector technologies may prove useful for improving and expanding America's vaccine arsenal against microbial agents used in war or terrorist attacks.

In October 2001, AVANT granted DVC LLC ("DVC", formerly DynPort Vaccine Company LLC) a license for exclusive rights to use certain components of AVANT's anthrax vaccine technology. In October 2002, DVC announced the initiation of a Phase I clinical trial of a new injectable recombinant anthrax vaccine in approximately 70 volunteers. The vaccine candidate consists of a highly purified protein, or Protective Antigen, derived from the anthrax bacterium using recombinant DNA technology and production processes licensed from AVANT. The study will evaluate tolerability, safety and

immunogenicity of DVC's new vaccine. On August 5, 2005, AVANT received notice from DVC of termination of the license agreement, effective November 5, 2005. DVC plans to complete the ongoing Phase I clinical trial.

Further, in January 2003, AVANT was awarded a subcontract by DVC in the amount of $2.5 million to develop for the U.S. Department of Defense an oral combination vaccine against anthrax and plague using AVANT's proprietary vaccine technologies. As of December 31, 2005, AVANT had received a number of additional subcontract modifications from DVC to support pre-clinical animal testing of vaccine constructs and the start of human clinical testing of a plague vaccine candidate being developed by AVANT for use in the oral combination vaccine. Total contract funding awarded by DVC now totals approximately $10 million. Payments under the subcontract agreement are made on a time and materials basis and receipt of the full amount is conditioned upon the project being fully funded through completion and AVANT performing and continuing to demonstrate that it has the capability to perform the funded work. Through December 31, 2005, AVANT had received approximately $8 million in payments under the subcontract agreements, all of which relate to approved subcontract awards. These agreements expire in 2007, although they may be terminated by DVC at any time upon 30 days notice.

Cholesterol Management Vaccine: AVANT is developing an immunotherapeutic vaccine against endogenous cholesteryl ester transfer protein ("CETP"), which may be useful in reducing risks associated with atherosclerosis. CETP is a key intermediary in the balance of HDL (high-density lipoprotein) and LDL (low-density lipoprotein). The Company is developing this vaccine, CETi-1, to stimulate an immune response against CETP, which it believes may improve the ratio of HDL to LDL cholesterol and reduce the progression of atherosclerosis, which often leads to a heart attack.

In October 2003, AVANT completed the CETi-1 vaccine Phase II efficacy study in approximately 200 patients with low levels of HDL cholesterol. The results of the study demonstrated proof-of-concept in humans confirming that blocking cholesterol transfer could raise HDL levels. In addition, the CETi-1 vaccine worked as designed to elicit anti-CETP antibodies in a high percentage of patients treated, approximately 90%. In recent pre-clinical testing, AVANT has identified a new adjuvanted formulation for the vaccine that elicits more than a 10-fold increase in anti-CETP antibody titers when compared to the current CETi vaccine. We have contracted for the production of GMP peptide for the newly formulated vaccine and we expect to complete toxicology, release and stability studies in 2006 consistent with the goal of having a CETi vaccine back into the clinic. AVANT plans to seek a corporate partner to complete development and to commercialize the CETi vaccine.

Factors that may significantly harm our commercial success, and ultimately the market price of our common stock, include but are not limited to, announcements of technological innovations or new commercial products by our competitors, disclosure of unsuccessful results of clinical testing or regulatory proceedings and governmental approvals, adverse developments in patent or other proprietary rights, public concern about the safety of products developed by AVANT and general economic and market conditions. See "Item 1A. Risk Factors".

C. Viral Vaccine Development Programs

1. Rotavirus Vaccine

We are developing a novel vaccine against rotavirus infection. Rotavirus, a major cause of diarrhea and vomiting in infants, affects approximately 80% of the approximately 4 million infants born each year in the United States. As a result, on an annual basis, about 500,000 infants require medical attention and 50,000 are hospitalized. The economic burden in the United States is estimated at over $1 billion in direct medical and indirect societal costs. We anticipate that in the United States a vaccine against rotavirus disease will become a universal pediatric vaccine. In the rest of the world, rotavirus is a cause of significant infant mortality. We completed Phase I clinical trials of the orally delivered live human rotavirus vaccine

selected to elicit a broadly protective immune response to the most prevalent strains of rotavirus. During 1997, we completed a Phase I/II clinical trial designed to define the optimal vaccine dose and optimal age for immunization. Based on the assessment of the safety and immunogenicity of the vaccine, we initiated a Phase II efficacy study in 1997. This trial, conducted at four U.S. medical centers, was designed to examine the vaccine's ability to prevent rotavirus disease and to further study the safety of the vaccine. A total of 215 infants were enrolled in the study and were immunized with the vaccine. In 1998, we announced positive results from this trial, which were published in *Lancet* in July 1999. The results showed that approximately 90 percent of the vaccinated infants were protected from rotavirus disease and demonstrated a statistical significance at $p<0.001$. Examination of the safety data revealed that mild fever in a small number of infants was the only side effect significantly more common in the vaccine group than in the placebo group.

AVANT and Glaxo have collaborated on the development and commercialization of our oral rotavirus vaccine, Rotarix®. As discussed under "F. Collaborative Agreements", with the successful completion of the Phase II clinical trial and the development by Glaxo of a viable manufacturing process, Glaxo has assumed financial responsibility for all subsequent clinical and development activities and paid us a milestone payment of $500,000. Glaxo completed Phase I/II bridging studies in over 6,500 infants in Europe, Latin America and Asia using the two-dose oral Rotarix® vaccine. Glaxo initiated global Phase III clinical trials of Rotarix® in the third quarter of 2003 and AVANT recognized a $1.0 million milestone.

Glaxo gained approval for Rotarix® in Mexico during 2004, which represents the first in an expected series of worldwide approvals for that product. Glaxo has launched Rotarix® in additional Latin American countries as well as Asia Pacific countries during the course of 2005, and they have filed for market approval in more than 31 countries worldwide as well as with the European regulatory authorities, which triggered a $2 million milestone fee payable to AVANT, which was paid in January 2005. In February 2006, the European Commission granted approval of Rotarix® in the European Union, which triggers a $4 million milestone payment from Glaxo. Assuming product development and commercialization continues satisfactorily, we may receive an additional milestone payment totaling $1.5 million upon the achievement of a specified milestone.

Royalty rates on Rotarix® escalate from 7% to 10% based on net product sales in countries that have valid patent protection. These royalty rates are discounted by 30% for "non-patent" countries (primarily international markets). AVANT licensed the Rotarix® technology from CCH in 1995 and owes a license fee of 30% to CCH on net royalties received from Glaxo. In May 2005, AVANT entered into an agreement whereby an affiliate of PRF purchased an interest in the net royalties AVANT will receive on worldwide sales of Rotarix® (see Note 9 of our audited consolidated financial statements). Under the PRF agreement, AVANT retains 50% of the $4 million milestone payment from Glaxo for the European Commission approval discussed above and of any future Glaxo milestone payments, with the balance payable to PRF and CCH.

2. Therapore®

AVANT is developing a proprietary immunotherapeutic delivery system for the prevention and/or treatment of infectious diseases and some forms of cancers. In 1998, we received a non-exclusive license from the NIH to further secure our Therapore® technology rights. We have conducted pre-clinical research to evaluate this system for the treatment of persistent viral infections, such as Hepatitis B, Hepatitis C, HIV and some forms of cancer.

We plan to employ Therapore® to develop novel immunotherapeutics for the treatment of chronic viral infections and cancers. We have entered into a collaborative agreement for WRAIR to fund and perform the first human clinical trial of a Therapore®-based product, a vaccine candidate under development by the U.S. Army against HIV. This HIV clinical trial of a Therapore®-component was

initiated in May 2004 and the results of the trial are expected in the second half of 2006. As clinical data becomes available, AVANT may seek a corporate partner to develop and to commercialize Therapore®. We have currently suspended substantially all in-house development efforts on Therapore® pending the results of clinical and partnering efforts.

D. Bacterial Vaccine Development Programs

Overview

Modern biotechnology offers great potential for bettering health conditions worldwide. New vaccine technologies, in particular, can provide avenues to disease prevention and treatment with notable advantages over drugs in terms of patient compliance and cost. They also offer strategies to solve global health problems, to protect both civilians and the military from biowarfare threats, and to increase the safety of our food supply. Our goal is to become a leading developer of innovative vaccines that address health care needs on a global basis. In this regard, we acquired VitriLife®, a new technology with the potential to reduce manufacturing costs and improve product stability, eliminating the need for vaccine refrigeration. With this technology and our *Cholera*- and *Salmonella*-vectored delivery technologies, named VibrioVec® and SalmoVec™, we can now develop a new generation of vaccines that have an ideal product profile: safe and effective, oral, single-dose, rapidly protective and requiring no refrigeration.

AVANT is developing a series of single-dose, genetically-attenuated, live bacterial vaccines to protect travelers and endemic populations from diarrhea and dysentery. AVANT's single-dose oral vaccine technology is currently addressed to serious bacterial diseases, but combines the advantages of rapid onset of protection with the flexibility to address a variety of different causes of disease. The attenuated live bacteria used to create these vaccines can also serve as vectors for the development of vaccines against other bacterial and viral diseases. By engineering key disease antigens into the DNA of the vector organisms, AVANT can extend the protective ability of its single-dose oral vaccines to a wide variety of illnesses. Thus, our vector technologies may prove useful for improving and expanding America's vaccine arsenal against microbial agents used in war or terrorist attacks. AVANT has also partnered with Pfizer Inc ("Pfizer"), who will apply AVANT's vaccine technology to animal health and human food safety markets.

In November 2004, we opened our 11,800 square foot vaccine manufacturing facility in Fall River, Massachusetts to support the clinical development of our portfolio of bacterial vaccines, including vaccines for biodefense, as well other next-generation bacterial vaccines for clinical trials and eventually commercial sale. In November 2005, we leased an additional 2,500 square feet of space at the Fall River facility. Importantly, this facility will also implement our VitriLife® preservation technology. In July 2005, AVANT reported that it and Harvard Medical School would receive approximately $500,000 from the NIH to apply AVANT's VitriLife® formulation to CholeraGarde®. In 2006, AVANT plans to utilize VitriLife®, a proprietary technology that confers thermostability to live bacterial vaccines, at the Fall River manufacturing facility for CholeraGarde® and its other bacterial vaccines.

1. Global Health

AVANT's oral, bacterial vaccine technology can address the healthcare requirements of developing countries, where, for example, the need for cholera and typhoid vaccines is particularly acute. These vaccine technologies may provide avenues to disease prevention and treatment with notable advantages over drugs in terms of ease of use, patient compliance, thermostability and cost. Thus, they may offer strategies to solve global health problems.

We are developing an attenuated form of the bacterium *Vibrio cholerae* as a potential cholera vaccine. In several Phase I/II clinical studies, single oral doses of the cholera vaccine, CholeraGarde® (or Peru-15), were administered to more than 75 human subjects and shown to be safe, immunogenic and protective

against infection with the virulent organism. In 1999, we announced the collaboration on a Phase IIb clinical trial of the Peru-15 vaccine with WRAIR and the NIH. AVANT and the NIAID of the NIH also signed a Clinical Trial Agreement that allowed for the clinical evaluation of the Peru-15 vaccine formulation at CCH. AVANT and WRAIR have successfully manufactured clinical supplies of the vaccine at WRAIR's facility for use in the study.

The Phase IIb trial, which began in October 2000 at CCH, tested the safety, immunogenicity and protective capacity of the vaccine against a challenge with live virulent cholera. Results of the study demonstrated the ability of AVANT's vaccine candidate, CholeraGarde®, to provide complete protection against the trial's primary endpoint, moderate and severe diarrhea. During 2002, AVANT completed a Phase II dose-ranging study with CholeraGarde® which confirmed the safety and activity of this vaccine and supported the start of trials in December 2002 with the IVI in Bangladesh where cholera is endemic. In January 2004, we announced positive preliminary results of the adult portion from the Phase II clinical trial of CholeraGarde® in Bangladesh. In 70 adult patients, enrolled as part of this ongoing study that is assessing the safety and immunogenicity of the vaccine in adults prior to moving into progressively younger pediatric populations, vaccination with the single-dose, oral cholera vaccine was well tolerated. Moreover, over 70% of the vaccinated adults responded with a favorable immune response. In July 2005, the Bangladesh study results in children and infants showed CholeraGarde® to be well tolerated and highly immunogenic, with 77% of children aged 9 months to 5 years generating protective immune responses. These results showed the vaccine to be consistently well tolerated and immunogenic against the cholera organism in all portions of this trial.

AVANT has developed an oral vaccine to offer rapid, single-dose protection against *Salmonella typhi*, the cause of typhoid fever. The NIAID and AVANT have entered into a cooperative agreement for the NIAID to conduct a Phase I/II in-patient dose ranging clinical trial aimed at demonstrating the safety and immunogenicity of the Ty800 typhoid fever vaccine. The trial is planned for an NIAID funded clinical site. NIAID has funded the manufacture of Ty800 vaccine for clinical testing and initiated the Phase I/II trial in February 2006. The NIAID trial seeks to confirm the safety and immunogenicity of the Ty800 oral vaccine observed in an earlier physician sponsored Ty800 vaccine study.

2. Travelers' Vaccines

With our acquisition of Megan Health in 2000, AVANT gained access to technologies for developing vaccines against *Campylobacter* and ETEC. When combined with our existing *Shigella* vaccine program, AVANT now has three travelers' vaccine programs in pre-clinical development—all addressing important causes of serious diarrheal diseases worldwide. AVANT is pursuing a strategy to develop a combination travelers' vaccine from these programs. In April 2005, AVANT was awarded a Phase I SBIR grant to support the development of a live attenuated salmonella vaccine against *Campylobacter*. The NIAID award provides approximately $131,000 in funding and work was started by AVANT during the third quarter of 2005. In 2006, we expect to allocate additional resources to further the development of a two-vaccine combination product containing ETEC and *Shigella* or *Campylobacter* addressed to the travelers' market.

3. BioDefense Vaccine Programs

The attenuated live bacteria used to create AVANT's single-dose oral vaccines also can serve as vectors for the development of vaccines against other bacterial and viral diseases. By engineering key disease antigens into the DNA of the vector organisms, AVANT expects to be able to extend the protective ability of its single-dose oral vaccines to a wide variety of illnesses. We believe our vector technologies may prove useful for improving and expanding America's vaccine arsenal against microbial agents used in war or terrorist attacks.

In October 2001, AVANT granted DVC a license for exclusive rights to use certain components of AVANT's anthrax vaccine technology. In October 2002, DVC initiated a Phase I clinical trial of a new injectable recombinant anthrax vaccine in approximately 70 volunteers. The vaccine candidate includes a highly purified protein—Protective Antigen—derived from the anthrax bacterium using recombinant technology and production processes licensed from AVANT. DVC hopes this vaccine will offer a safe, effective product to support the country's need for a new-generation injectable anthrax vaccine. The Phase I trial is being conducted at WRAIR in conjunction with the Henry M. Jackson Foundation. The study will evaluate tolerability, safety and immunogenicity of DVC's new vaccine being developed for the Department of Defense (the "DoD") through the Joint Vaccine Acquisition Program ("JVAP"). In June 2003, AVANT was awarded a subcontract by DVC, in the amount of $344,000, which covers stability testing of DVC's injectable anthrax vaccine. Payments under the subcontract agreement are made on a time and materials basis and receipt of the full amount is conditioned upon the project being fully funded through completion and AVANT performing and continuing to demonstrate that it has the capability to perform the funded work. On August 5, 2005, AVANT received notice from DVC of termination of the license agreement, effective November 5, 2005. DVC plans to complete the ongoing Phase I clinical trial.

In July 2002, AVANT was awarded a Phase I Small Business Innovation Research (SBIR) grant to support the development of our single oral-dose bacterial vectors to immunize people against anthrax. Vaccine delivery using live, attenuated bacteria is particularly well suited for situations where ease of administration and rapid onset of immunity are required, such as for protection against biological warfare agents. The NIAID award provided approximately $125,000 in funding and work was completed by AVANT in 2003.

Further, in January 2003, AVANT was awarded a subcontract by DVC to develop for the U.S. Department of Defense an oral combination vaccine against anthrax and plague using AVANT's proprietary vaccine technologies. As of December 31, 2005, AVANT had received a number of additional subcontract modifications from DVC to support pre-clinical animal testing of vaccine constructs and the start of human clinical testing of a plague vaccine candidate being developed by AVANT for use in the oral combination vaccine. Total contract funding awarded by DVC now totals approximately $10 million. Payments under the subcontract agreement are made on a time and materials basis and receipt of the full amount is conditioned upon the project being fully funded through completion and AVANT performing and continuing to demonstrate that it has the capability to perform the funded work. Through December 31, 2005, AVANT had received approximately $8 million in payments under the subcontract agreements. These agreements expire in 2007, although they may be terminated by DVC at any time upon 30 days notice.

4. Animal Health and Food Safety Vaccine Programs

On December 1, 2000, AVANT acquired all of the outstanding capital stock of Megan, a company engaged in the discovery and development of human and animal vaccines using patented gene modification technologies. In connection with our acquisition of Megan, we entered into a licensing agreement with Pfizer whereby Pfizer has licensed from us Megan's technology for the development of animal health and food safety vaccines. In accordance with this agreement, Megan's existing poultry health and food safety products fall outside the Pfizer collaboration.

In addition to developing proprietary and patented bacterial gene technologies, Megan has commercialized three veterinary vaccines; Argus™ SC, licensed by the United States Department of Agriculture ("USDA") in March 1998 and marketed by Intervet, Inc., and Megan®Vac 1 and Megan®Egg, licensed by the USDA in November 1998 and 2003, respectively, and currently marketed by Lohmann Animal Health International ("LAHI").

Megan®Vac 1: Megan®Vac 1 is a double gene-deleted modified vaccine for use in chickens for protection against multiple species and/or strains of Salmonella bacteria. The vaccine is administered to chicks at the hatchery in a spray cabinet with a field boost generally given at around two weeks of age. The objective of the vaccine is to eliminate or reduce the overall load of Salmonella spp. in the bird and environment, thus reducing bacteria levels on broiler carcasses in the processing plant. While the reduction of Salmonella spp. in the broiler may provide some direct health benefit to the chicken, the primary purpose of the vaccine is to increase food safety. Megan®Vac 1 is also registered in New Zealand. Registration activities are underway for Australia, South Korea, Canada, Israel, Turkey, Egypt and the Dominican Republic.

Megan®Egg: Megan®Egg is from the same master seed as Megan®Vac 1 with titer, dosage recommendations, and product configuration specifically targeting the layer (commercial table-egg pullets) and breeder hen markets. Pullets generally receive three vaccinations during the growing period and are protected throughout the lay period without further vaccination. In the case of table-egg layers and breeder hens, the primary objective is elimination or reduction of Salmonella enteritidis levels in the eggs, birds, and poultry houses.

Because AVANT's focus is on human health care, in September 2002 we appointed LAHI as the exclusive distributor of our Megan Health poultry vaccines in North America. LAHI, an established animal health company, has taken over marketing and distribution of Megan's currently marketed products for the commercial poultry market.

E. Immunotherapeutic Programs

1. Complement Inhibitors

We have been developing a new class of immunotherapeutics that inhibit a part of the immune system called the complement system. The complement system is a series of proteins that are important initiators of the body's acute inflammatory response against disease, infection and injury. Excessive complement activation also plays a role in some persistent inflammatory conditions. Our lead compound, TP10, a soluble form of naturally occurring Complement Receptor 1, has effectively shown to inhibit the activation of the complement cascade in animal models. We believe that regulating the complement system could have therapeutic and prophylactic applications in several acute and chronic conditions, including reperfusion injury from surgery or ischemic disease, organ transplant, multiple sclerosis, rheumatoid arthritis, and myasthenia gravis. Medical problems that result from excessive complement activation represent multi-billion dollar market opportunities. In the United States, several million people are afflicted with these complement-mediated conditions.

We have elected to develop and commercialize TP10 for cardiac surgery. The objective of clinical studies in adults is to assess the ability of TP10 to mitigate the injury to the heart, brain and other organs that occurs when patients are placed on cardiopulmonary bypass (CPB) circuits, thus potentially improving post-operative outcomes.

In February 2002, AVANT announced that TP10 had not achieved a significant reduction in the primary endpoint of death, myocardial infarction, prolonged intubation or prolonged intra-aortic balloon pumping following preliminary analysis of a Phase II adult cardiac surgery trial conducted in 564 patients. However, further analysis of the study data demonstrated an important treatment benefit in male patients participating in the trial, with no significant treatment benefit observed in female patients. Adverse events reported following treatment with TP10 were generally similar to those seen in placebo treated patients and were said by investigators to be routinely observed following cardiopulmonary bypass.

The important treatment benefits seen in the male population were directly related to morbidity and mortality and the benefit seen was impressive. This further analysis of the study data showed continued

promise for this molecule and AVANT has renewed its commitment to TP10's development. Results of this Phase II adult trial were presented at the American Heart Association's Annual Meeting in November 2003 and were published in *Circulation* in September 2004.

In February 2004, AVANT announced plans to start a Phase IIb double-blind, placebo-controlled trial of TP10 in approximately 300 women undergoing cardiopulmonary by-pass surgery. The trial was designed to examine the effect of TP10 versus placebo at approximately 30 sites throughout the United States. The goals of the trial were to clarify the effect that TP10 has for women undergoing cardiac surgery, as well as augment the safety data for that patient population to allow for the design of a subsequent registration-directed trial. In February 2006, AVANT reported that the females-only study did not meet the primary endpoint, thus confirming the results for female subjects in the previous TP10 trial. Therefore, given the strong efficacy data in males shown in this previous study, AVANT believes there is a clear clinical development pathway for a males-only indication for TP10 in cardiac bypass surgery. Males represent 75% of the U.S. market opportunity in cardiac bypass surgery. AVANT believes that the TP10 program is now well-positioned for a males-only cardiac bypass surgery indication. AVANT plans to seek a corporate partner to complete the development and commercialization of TP10, including with respect to a males-only cardiac bypass surgery indication, prior to starting a Phase III clinical trial.

In addition to TP10, AVANT has identified other product candidates to inhibit activation of the complement system. The lead candidate under research evaluation is a form of sCR1 (TP10) that has been modified by the addition of sialyl Lewis x (sLe^x) carbohydrate side chains yielding $sCR1sLe^x$. sLe^x is a carbohydrate which mediates binding of neutrophils to selectin proteins. Selectin-mediated binding of neutrophils to activated endothelial cells is a critical event in inflammation. We have confirmed the presence of the desired carbohydrate structures and confirmed the presence of both anti-complement and selectin-binding functions in *in vitro* experiments. Research results published in the July 1999 issue of *Science* showed that the $sCR1sLe^x$ molecule, which simultaneously blocks complement activation and cell-mediated inflammatory events, can significantly limit damage to cerebral tissue in a mouse model of ischemic stroke. $sCR1sLe^x$ may be effective in complement- and selectin-dependent indications such as stroke and myocardial infarction. We believe that $sCR1sLe^x$ has the ability to target the complement-inhibiting activity of sCR1 to the site of inflammation and, at the same time, inhibit the leukocyte/endothelial cell adhesion process.

AVANT plans to seek partnering arrangements to capture the value inherent in the complement inhibitor programs and their strong intellectual property. AVANT can offer a worldwide license for all fields as a part of such a partnership arrangement.

2. Cholesterol Management Vaccine

We are developing an immunotherapeutic vaccine against endogenous cholesteryl ester transfer protein ("CETP"), which may be useful in reducing risks associated with atherosclerosis. CETP is a key intermediary in the balance of HDL and LDL. We are developing this vaccine (CETi) to stimulate an immune response against CETP which we believe may improve the ratio of HDL to LDL cholesterol and reduce the progression of atherosclerosis. We have conducted preliminary studies of rabbits which had been administered the CETi vaccine and fed a high-cholesterol, high-fat diet. In these studies, vaccine-treated rabbits exhibited reduced lesions in their blood vessels compared to a control group of untreated rabbits which developed significant blood vessel lesions. These studies have demonstrated, in animal models, the ability of CETi vaccine to elevate HDL and reduce the development of blood vessel lesions.

Atherosclerosis is one of the leading causes of morbidity and mortality in the United States and most of the Western world. Current pharmacologic treatments require daily administration and can result in high costs and poor patient compliance. A vaccine directed at lowering CETP activity, such as the one we

are developing, may offer several advantages over conventional approaches, including requiring less frequent dosing, lower costs, reduced side effects, and improved patient compliance.

In 1996, the NIH awarded us a $100,000 Phase I SBIR grant for the development of a novel transgenic rat atherosclerosis model, affording better comparison to human atherosclerosis. In early 1997, the NIH awarded us a second $100,000 Phase I SBIR grant to develop a novel plasmid-based vaccine to prevent or treat atherosclerosis. In late 1997, the NIH awarded us a $678,000 Phase II SBIR grant which provided funding over a two year period for the continued development of the novel transgenic rat model of atherosclerosis. In 1998, we received a $96,000 Phase I SBIR grant from the NIH for the development of a novel peptide vaccine to prevent or treat atherosclerosis.

In June 1999, we initiated a double-blinded placebo controlled, Phase I clinical trial of our CETi vaccine in adult volunteers. The object of the study was to demonstrate the safety of single administrations of the vaccine at four different dose levels. AVANT completed the Phase I clinical trial in late 2000 and results indicated that the vaccine was very well tolerated in the 48 adult volunteers who participated in the study. The only serious adverse reaction reported during the study (allergic reaction to shower gel) was not related to study medication. There were no differences in the safety profiles of placebo groups and active vaccine groups. In addition there was limited evidence of an immune response in one subject treated with the highest dose. In early 2001, AVANT announced results from a double-blinded placebo controlled extension of the earlier completed Phase I trial of the CETi vaccine in healthy adult volunteers receiving a second dose of the vaccine. Results from the extension study showed measurable antibody titers in all dose groups treated with study medication and suggested a dose-response relationship.

These data were helpful in moving the program forward to a placebo controlled Phase II study, which was initiated in August 2001, in approximately 200 patients with low levels of HDL cholesterol. The objectives of the study were to evaluate the safety, immunogenicity and dose-response relationship of the CETi product in patients who received an initial immunization followed by boosters. In October 2003, AVANT completed the CETi vaccine Phase II efficacy study. The results of the study demonstrated proof-of-concept in humans, confirming that blocking cholesterol transfer could raise HDL levels. In addition, the CETi vaccine worked as designed to elicit anti-CETP antibodies in a high percentage of patients treated, approximately 90%.

AVANT is continuing to evaluate the next steps for development of this vaccine. In recent pre-clinical testing, we have identified a new adjuvanted formulation for the vaccine that elicits more than a 10-fold increase in anti-CETP antibody titers when compared to the current CETi vaccine. We have contracted for the production of GMP peptide for the newly formulated vaccine and we expect to complete toxicology, release and stability studies in 2006 consistent with the goal of having a CETi vaccine back into the clinic. We plan to seek a corporate partner to complete development and to commercialize the CETi vaccine.

F. Collaborative Agreements

GlaxoSmithKline ("Glaxo"): In 1997, we entered into an agreement with Glaxo to collaborate on the development and commercialization of our oral rotavirus vaccine. Under the terms of the agreement, Glaxo received an exclusive worldwide license to commercialize our rotavirus vaccine. We were responsible for continuing the Phase II clinical efficacy study of the rotavirus vaccine, which was completed in August 1998. Subject to the development by Glaxo of a viable manufacturing process, Glaxo assumed responsibility for all subsequent clinical trials and all other development activities. Glaxo made an initial license payment of $250,000 in 1997 upon execution of the agreement. In June 1999, the Company received a milestone payment of $500,000 from Glaxo for successfully completing the Phase II clinical efficacy study and establishing a commercially viable process to manufacture the vaccine. Glaxo initiated global Phase III clinical trials of Rotarix® in the third quarter of 2003, and AVANT recognized a $1.0 million milestone. Glaxo gained approval for Rotarix® in Mexico during 2004, which represents the first in

an expected series of worldwide approvals for that product. Glaxo filed for market approval with the European regulatory authorities in late 2004, triggering a $2 million milestone fee payable to AVANT. In February 2006, the European Commission granted approval of Rotarix® in the European Union, which triggers a $4 million milestone payment from Glaxo. Assuming product development and commercialization continues satisfactorily, we may receive an additional milestone payment totaling $1.5 million upon the achievement of a specified milestone. Royalty rates on Rotarix® ramp up from 7% to 10% based on net product sales in countries for which we have valid patent protection. These royalty rates are discounted by 30% for "non-patent" countries (primarily international markets). Our internal commercialization models for Rotarix® suggest a blended royalty rate ranging from mid to high single digits over the next three years. The term of this agreement is through the expiration of the last of the relevant patents covered by the agreement, although Glaxo may terminate the agreement upon 90 days prior written notice.

AVANT licensed the Rotarix® technology from CCH in 1995 and owes a license fee of 30% to CCH on net royalties received from Glaxo. In May 2005, AVANT entered into an agreement whereby an affiliate of PRF purchased an interest in the net royalties AVANT will receive on worldwide sales of Rotarix® (see Note 9 of our audited consolidated financial statements). Under the PRF agreement, AVANT will retain 50% of future Glaxo milestone payments, with the balance payable to PRF and CCH.

Pfizer Inc ("Pfizer"): In connection with our acquisition of Megan in 2000, we entered into a licensing agreement with Pfizer whereby Pfizer has licensed Megan's technology for the development of animal health and food safety vaccines. Upon execution of the agreement, Pfizer made an initial license payment of $2.5 million together with a $3 million equity investment. In December 2002, we received a milestone payment of $500,000 from Pfizer as a result of the submission of an application with the USDA for licensure of a food safety vaccine. Under the agreement, we may receive additional milestone payments of up to $3 million based upon attainment of specified milestones. We have received research and development funding from Pfizer through November 2002 totaling $1 million and may receive royalty payments on eventual product sales. The term of this agreement is through the expiration of the last of the patents covered by the agreement. AVANT has no obligations to incur any research and development costs in connection with this agreement.

DynPort Vaccine Company LLC ("DVC"): In October 2001, AVANT granted DVC a license for exclusive rights to use certain components of AVANT's anthrax vaccine technology. In October 2001, in connection with the execution of the agreement, AVANT received a $200,000 materials transfer fee. On August 5, 2005, AVANT received notice from DVC of termination of the license agreement, effective November 5, 2005. Under the agreement, AVANT has received $200,000 in annual license maintenance payments, and milestone payments of $100,000. In June 2003, we were awarded a subcontract by DVC in the amount of $344,000, which covers stability testing of DVC's injectable anthrax vaccine, which is currently in Phase I clinical testing. Payments under the subcontract agreement are made on a time and materials basis and receipt of the full amount is conditioned upon the project being fully funded through completion and AVANT performing, and continuing to demonstrate that it has the capability to perform, the funded work. DVC plans to complete the ongoing Phase I clinical trial.

During 2003, AVANT entered into an agreement with DVC for funding production of the replacement of AVANT's recombinant Protective Antigen ("rPA") clinical materials used by DVC in the Phase I clinical trial described above. Under a separate agreement with the Walter Reed Army Institute of Research ("WRAIR"), AVANT was obligated to provide rPA for a clinical trial. AVANT recorded the $1 million received from DVC as deferred revenue in 2003. In 2004, the agreement with WRAIR was amended and AVANT was no longer obligated to provide rPA. Accordingly, AVANT recognized the previously deferred $1 million as revenue in the first quarter of 2004. DVC, a subsidiary of Computer Sciences Corporation, is chartered with providing an integrated approach for the advanced development of specific vaccines and other products to protect against the threat of biological warfare agents. DVC has a

contract with the U.S. Department of Defense for the development of vaccines against certain acute infectious diseases and contagious diseases, initiated under the 1997 Joint Vaccine Acquisition Program.

Further, in January 2003, AVANT was awarded a subcontract by DVC to develop for the U.S. Department of Defense an oral combination vaccine against anthrax and plague using AVANT's proprietary vaccine technologies. As of December 31, 2005, AVANT had received a number of additional subcontract modifications from DVC to support pre-clinical animal testing of vaccine constructs and the start of human clinical testing of a plague vaccine candidate being developed by AVANT for use in the oral combination vaccine. Total contract funding awarded by DVC now totals approximately $10 million. Payments under the subcontract agreement are made on a time and materials basis and receipt of the full amount is conditioned upon the project being fully funded through completion and AVANT performing and continuing to demonstrate that it has the capability to perform the funded work. Through December 31, 2005, AVANT had received approximately $8 million in payments under the subcontract agreements. These agreements expire in 2007, although they may be terminated by DVC at any time upon 30 days notice.

Lohmann Animal Health International ("LAHI"): In September 2002, we appointed LAHI as the exclusive distributor of our Megan Health poultry vaccines in North America. LAHI, an established animal health company, is taking over marketing and distribution of Megan's marketed products for the commercial poultry market. Under the distribution agreement, AVANT receives a percentage of Megan®Vac 1 and Megan®Egg product sales in the form of royalty payments. From the inception of the agreement to December 31, 2005, AVANT has received approximately $472,100 in royalties under the agreement. Royalties received in 2005, 2004 and 2003 were $126,598, $177,685 and $167,830, respectively. The initial term of the agreement is five years with automatic extensions thereafter unless the agreement is terminated by either party.

Inflazyme Pharmaceuticals Ltd. ("Inflazyme", formerly AdProTech, Ltd ("AdProTech")): In March 2004, AVANT granted a license to AdProTech for non-exclusive rights to use certain components of its intellectual property surrounding complement inhibition. In April 2004, AVANT received an initial license payment of $1 million from AdProTech and AdProTech was acquired by Inflazyme which assumed the license. AVANT has no continuing involvement or obligation under this license agreement, thus it recognized the $1 million as revenue during the first quarter of 2004. Under the agreement, AVANT is entitled to annual license fees, milestone payments of up to $13.5 million in the aggregate and royalties on eventual product sales. AVANT has no obligations to incur any research and development costs in connection with this agreement.

We depend on our collaborative relationships and may enter into more of them in the future. Some of the above referenced agreements give our collaborator substantial responsibility to commercialize a product and to make decisions about the amount and timing of resources that are devoted to developing and commercializing a product. As a result, we do not have complete control over how resources are used toward some of our products.

In addition, some of these agreements relate to products in the early stages of research and development. Others require AVANT and our collaborator to jointly decide on the feasibility of developing a particular product using our technologies. In either case, these agreements may terminate without benefit to us if the underlying products are not fully developed. Moreover, once specific products are chosen for development, the agreements relating to them may require AVANT to meet specified milestones, to invest money and other resources in the development process or to negotiate additional licenses and other agreements, which may not be possible or advantageous. If we fail to meet our obligations under those agreements, they could terminate and we might need to enter into relationships with other collaborators and to spend additional time, money, and other valuable resources in the process.

Moreover, we cannot predict whether our collaborators will continue their development efforts or, if they do, whether their efforts will achieve success. Many of our collaborators face the same kinds of risks and uncertainties in their business that we face. A delay or setback to a collaborator will, at a minimum, delay the commercialization of any affected products, and may ultimately prevent it. Moreover, any collaborator could breach its agreement with us or otherwise not use best efforts to promote our products. A collaborator may choose to pursue alternative technologies or products that compete with our technologies or products. In either case, if a collaborator failed to successfully develop one of our products, we would need to find another collaborator. Our ability to do so would depend upon our legal right to do so at the time and whether the product remained commercially viable.

G. Competition

Competition in the biotechnology and vaccine industries is intense. We face competition from many companies in the United States and abroad, including a number of large pharmaceutical companies, firms specialized in the development and production of vaccines, adjuvants and vaccine and immunotherapeutic delivery systems and major universities and research institutions. These competitors include Glaxo, Merck, Novartis, Pfizer, Roche, Sanofi Pasteur, Acambis, Cambridge Biostability, Crucell, Emergent, Intercell, Iomai, SBL Vaccines and VaxGen. Most of our competitors have substantially greater resources, more extensive experience in conducting pre-clinical studies and clinical testing and obtaining regulatory approvals for their products, greater operating experience, greater research and development and marketing capabilities and greater production capabilities than those of AVANT. There can be no assurance that our competitors will not develop technologies and products that are safer or more effective than any which are being developed by us or which would render our technology and products obsolete and noncompetitive. In addition, our competitors may succeed in obtaining approval from the Food and Drug Administration ("FDA") for products more rapidly than we do. There can be no assurance that the vaccines and immunotherapeutic products under development by us and our collaborators will be able to compete successfully with existing products or products under development by other companies, universities and other institutions or that they will obtain regulatory approval in the United States or elsewhere. We believe that the principal competitive factors in the vaccine and immunotherapeutic market are product quality, measured by efficacy and safety, ease of administration and price.

Our competitive position will also depend upon our ability to attract and retain qualified personnel, obtain patent protection or otherwise develop proprietary products or processes and secure sufficient capital resources for the often lengthy period between technological conception and commercial sales. We will require substantial capital resources to complete development of some or all of our products, obtain the necessary regulatory approvals and successfully manufacture and market our products. In order to secure capital resources, we anticipate having to sell additional capital stock, which would dilute existing stockholders. We may also attempt to obtain funds through research grants and agreements with commercial collaborators. However, these types of fundings are uncertain because they are at the discretion of the organizations and companies that control the funds. As a result, we may not receive any funds from grants or collaborations. Alternatively, we may borrow funds from commercial lenders, likely at high interest rates, which would increase the risk of any investment in AVANT.

H. Manufacturing

We have no experience in volume manufacturing and we rely upon collaborators or contractors to manufacture our proposed products for both clinical and commercial purposes. While we believe that there is currently sufficient capacity worldwide for the production of our potential products by our collaborators or through contract manufacturers, establishing long-term relationships with contract manufacturers and securing multiple sources for the necessary quantities of clinical and commercial materials required can be a challenge. Qualifying the initial source of clinical and ultimately commercial

material is a time consuming and expensive process due to the highly regulated nature of the pharmaceutical / biotech industry. These costs are hopefully mitigated in the economies of scale realized in commercial manufacture and product sale. The key difficulty in qualifying more than one source for each product is the duplicated time and expense in doing so without the potential to mitigate these costs if the secondary source is never utilized.

To date, we have been arranging with contract manufacturers for the manufacture of clinical trial supplies of TP10, CETi and our rotavirus vaccine. Future manufacture of our rotavirus vaccine is the responsibility of Glaxo, which has received from us a world-wide exclusive license to commercialize this vaccine.

We contracted with Lonza Biologics plc for process development and scale-up of TP10 for clinical trials. The CETi vaccine was manufactured under contracts with NeoMPS, Inc. and Bioconcepts, Inc. WRAIR has manufactured Cholera Peru-15 and Bengal-15 vaccines under collaborative agreements with us. We entered into an agreement with the NIH for the manufacture of Ty800 by WRAIR, our typhoid fever vaccine, for clinical trials. We have also entered into a collaborative arrangement with WRAIR for the manufacture of a Therapore®-HIV product.

The manufacturing processes for our other vaccine and immunotherapeutic delivery systems and vaccines utilize known technologies. We believe that the products we currently have under development can be scaled up to permit manufacture in commercial quantities. However, there can be no assurance that we will not encounter difficulties in scaling up the manufacturing processes.

Use of third party manufacturers limits our control over and ability to monitor the manufacturing process. As a result, we may not be able to detect a variety of problems that may arise and may face additional costs in the process of interfacing with and monitoring the progress of our contract manufacturers. If third party manufacturers fail to meet our manufacturing needs in an acceptable manner, we would face delays and additional costs while we develop internal manufacturing capabilities or find alternative third party manufacturers. It may not be possible to have multiple third party manufacturers ready to supply us with needed material without incurring significant costs or at all.

We intend to establish manufacturing arrangements with manufacturers that comply with the FDA's requirements and other regulatory standards, although there can be no assurance that we will be able to do so. We have established our own manufacturing facility to produce bacterial vaccine products that we may develop at scale for clinical trials. In order for us to establish a commercial manufacturing facility, we will require substantial additional funds and will be required to hire and retain significant additional personnel and comply with the extensive cGMP regulations of the FDA applicable to such facility. The product manufacturing facility would also need to be licensed for the production of vaccines by the FDA.

In 2003, we reached agreement with MassDevelopment, an economic development entity for the Commonwealth of Massachusetts, for AVANT to occupy and build-out an 11,800 square foot manufacturing facility in Fall River, Massachusetts. We have completed construction and have substantially validated this facility, its systems and equipment. The facility became operational in the third quarter of 2005. In November 2005, we leased an additional 2,500 square feet of space from MassDevelopment at the Fall River facility. The Fall River facility will complement our research and clinical expertise with the capability to develop and manufacture our own portfolio of bacterial vaccines, as well as to utilize our patented thermo-stable preservation technology, VitriLife®.

I. Marketing

Under the terms of existing and future collaborative agreements, we rely and expect to continue to rely on the efforts of our collaborators for the sale and marketing of our products. We have agreements with, among others, Glaxo, Pfizer, Inflazyme (formerly AdProTech) and LAHI for the development and commercialization of some of our products. The relevant aspects of these relationships have been previously discussed under the heading "F. Collaborative Agreements." There can be no assurance that our collaborators will market vaccine products incorporating our technologies, or, if marketed, that such efforts will be successful. The failure of our collaborators to successfully market products would harm our business.

We have retained, and in the future intend to retain, marketing rights to some of our product candidates, including vaccine and immunotherapeutic delivery systems and vaccine candidates, in selected geographic areas and for specified indications. We intend to seek marketing and distribution agreements and/or co-promotion agreements for the distribution of our products in these geographic areas and for these indications. We believe that these arrangements could enable us to generate greater financial return than might be obtained from early stage licensing and collaboration agreements. We have no marketing and sales staff and limited experience relating to marketing and distribution of commercial products, including vaccines. If we determine in the future to engage in direct marketing of our products, we will be required to recruit an experienced marketing group, develop a supporting distribution capability and incur significant additional expenditures. There can be no assurance that we will be able to establish a successful marketing force. We may choose or find it necessary to enter into strategic partnerships on uncertain, but potentially unfavorable, terms to sell, market and distribute our products. Any delay in the marketing or distribution of our products, whether it results from problems with internal capabilities or with a collaborative relationship, could harm the value of an investment in AVANT.

J. Patents, Licenses and Proprietary Rights

AVANT's policy is to protect our technology by filing patent applications and obtaining patent rights covering our own technology, both in the United States and in foreign countries. In addition, we have acquired and will seek to acquire as needed or desired, exclusive rights of others through assignment or license to complement our portfolio of patent rights. We also rely on trade secrets, unpatented know-how and technological expertise and innovation to develop and maintain our competitive position.

Patents: The successful development and marketing of products by AVANT will depend in part on our ability to create and maintain intellectual property, including patent rights. We have established a proprietary patent position in the areas of complement inhibitor technology, cholesterol regulation technology, vaccine technologies, and preservation technologies, and we are the owner or exclusive licensee of numerous patents and pending applications around the world. Although we continue to pursue patent protection for our products, no assurance can be given that any pending application will issue as a patent, that any issued patent will have a scope that will be of commercial benefit, or that we will be able to successfully enforce our patent position against infringers.

We are the owner or exclusive licensee of 399 patents and patent applications and co-owner or non-exclusive licensee of an additional 113 patents and patent applications around the world covering inventions relating to our business. In the area of complement inhibitor technology, we have rights to 136 patents and patent applications worldwide with the key patents in this area expiring in 2009 and 2016. In the area of cholesterol regulation, we have rights to 42 patents and patent applications worldwide with the key patents in this area expiring in 2016 and 2019. In the area of rotavirus vaccines, we have rights to 20 patents and patent applications worldwide with the key patents in this area expiring in 2011 and 2014. In the area of cholera and typhoid vaccines, we have rights to 221 patents and patent applications worldwide with the key patents in this area expiring between 2008 and 2018.

In the area of complement inhibitors, we are co-owner with The Johns Hopkins University and Brigham & Women's Hospital, whose rights AVANT has exclusively licensed, of patents and applications covering inventions relating to soluble complement receptor type 1 (sCR1). These rights are based in part on the work of Dr. Douglas Fearon and include U.S. and foreign patents which claim nucleic acid sequences encoding CR1, sCR1 and active fragments; purification methods; and therapeutic uses of sCR1. We also own a number of other issued patents and patent applications relating to sCR1, sCR1sLe^x and other complement inhibitor molecules and their uses.

We have an exclusive license to four United States patents, and corresponding foreign patents and applications, directed to vectors that are used in our VibrioVec® vaccine delivery system. We have an exclusive license to five U.S. patents, and corresponding foreign patents and applications, directed to vectors that are used in our SalmoVec™ vaccine delivery system. We also have an exclusive license to nineteen issued U.S. and foreign patents directed to a rotavirus strain that forms the basis of our rotavirus vaccine. We also have an exclusive license in a defined field to fifteen U.S. and foreign patents directed to technology that may be useful for our Therapore® system. We have twenty-five issued patents and additional pending patent applications in the U.S. and selected foreign countries relating to control of CETP activity through vaccination. We have also filed patent applications on the use of a recombinantly produced single protein of *B. anthracis*, as well as on new live attenuated bacterial strains for delivering isolated anthrax and/or plague antigens, to provide effective anthrax and plague vaccines.

In December 2000, we acquired Megan and by this acquisition obtained exclusive rights to vaccine technology patents and applications based on the work of Dr. Roy Curtiss III. These patent rights complement and expand the patent rights of AVANT in this technological area. In connection with our acquisition of Megan, we entered into a licensing agreement with Pfizer whereby Pfizer has licensed Megan's technology for the development of animal health and food safety vaccines.

In March 2003, AVANT enhanced its intellectual property portfolio through the acquisition of certain intellectual property from Pharmacia Corporation ("Pharmacia"), including a portfolio of pending patent applications. These patent applications are directed to products or methods for stimulating an immune response against cholesteryl ester transfer protein (CETP), which mediates an important cholesterol transport mechanism.

Our acquisition of this intellectual property from Pharmacia, coupled with our September 2001 acquisition of a portfolio of granted and pending patents from The Immune Response Corporation, consolidates AVANT's ownership of patents and applications that cover the technology of anti-atherosclerosis vaccines. AVANT now owns 25 granted patents around the world relating to CETP vaccine technology.

In January 2003, AVANT completed licensing and acquisition agreements which gave us ownership or exclusive rights in certain defined fields to a portfolio of patents and applications filed by Universal Preservation Technologies, Inc. and Elan Drug Delivery Ltd. (now Innovata plc). This portfolio affords AVANT exclusive rights in a particular technology of foam preservation of biomolecules and cells. This technology should be especially useful in AVANT's vaccine programs to produce vaccine dosage forms that are shelf stable at room temperatures and do not require refrigeration.

There can be no assurance that patent applications owned by or licensed to AVANT will result in granted patents or that, if granted, the resultant patents will afford protection against competitors with similar technology. It is also possible that third parties may obtain patents or other proprietary rights that may be necessary or useful to AVANT. In cases where third parties are first to invent a particular product or technology, it is possible that those parties will obtain patents that will be sufficiently broad to prevent us from using important technology or from further developing or commercializing important vaccine and immunotherapeutic systems and vaccine candidates. If licenses from third parties are necessary but cannot be obtained, commercialization of the covered products might be delayed or prevented. Even if these

licenses can be obtained, they would probably require us to pay ongoing royalties and other costs, which could be substantial.

Although a patent has a statutory presumption of validity in the United States, the issuance of a patent is not conclusive as to validity or as to the enforceable scope of the patent claims. The validity or enforceability of a patent after its issuance by the Patent and Trademark Office can be challenged in litigation. As a business that uses a substantial amount of intellectual property, we face a heightened risk of intellectual property litigation. If the outcome of the litigation is adverse to the owner of the patent, third parties may then be able to use the invention covered by the patent without authorization or payment. There can be no assurance that our issued patents or any patents subsequently issued to or licensed by us will not be successfully challenged in the future. In addition, there can be no assurance that our patents will not be infringed or that the coverage of our patents will not be successfully avoided by competitors through design innovation.

We are aware that others, including universities and companies, have filed patent applications and have been granted patents in the United States and other countries which claim subject matter potentially useful or necessary to the commercialization of our products. The ultimate scope and validity of existing or future patents which have been or may be granted to third parties, and the availability and cost of acquiring rights in those patents necessary to the manufacture, use or sale of our products presently cannot be determined by AVANT.

We use a mutated *Vibrio cholerae* in our VibrioVec® vaccine delivery system. We are aware of an issued U.S. patent which claims a culture of mutated *Vibrio cholerae*. We believe that only one claim (the "Claim") of the patent may be pertinent to our VibrioVec® system. The remaining claims of the patent cover other cultures, which we believe are not pertinent to VibrioVec®. We have received an opinion of counsel from Fish & Richardson, P.C. that, based on the analysis set forth in their opinion and the facts known to them, the Claim is invalid. While a party challenging the validity of a patent has the burden of proving invalidity, the outcome of any litigation cannot be predicted with certainty. Accordingly, there can be no assurance that, if litigated, a court would conclude that the Claim is invalid.

In addition to the patent referred to in the previous paragraph, there may be other patent applications and issued patents belonging to competitors that may require us to alter our vaccine candidates and vaccine and immunotherapeutic delivery systems, pay licensing fees or cease some of our activities. If our product candidates conflict with patents that have been or may be granted to competitors, universities or others, the patent owners could bring legal action against us claiming damages and seeking to enjoin manufacturing and marketing of the patented products. If any of these actions are successful, in addition to any potential liability for damages, we could be required to obtain a license in order to continue to manufacture or market the affected products. There can be no assurance that we would prevail in any such action or that any license required under any such third party patent would be made available on acceptable terms or at all. We believe that there may be significant litigation in the biotechnology and vaccine industries regarding patent and other intellectual property rights. If we become involved in that litigation, we could consume substantial resources.

Licenses: We have entered into several significant license agreements relating to technology that is being developed by AVANT and/or its collaborators, including licenses from the following: Harvard College relating to proprietary technology involving genetically altered Vibrio cholerea and Salmonella strains; Cincinnati Children's Hospital involving proprietary rights and technologies relating to an attenuated rotavirus strain for a rotavirus vaccine; and the NIH for the proprietary technology related to Therapore®, a novel immunotherapy delivery system to be developed for delivery of products for the treatment of persistent viral infections. In general, these institutions (except the NIH) have granted us an exclusive worldwide license (with right to sublicense) to make, use and sell products embodying the licensed technology, subject to the reservation by the licensor of a non-exclusive right to use the technologies for non-commercial research purposes. Generally, the term of each license is through the

expiration of the last of the patents issued with respect to the technologies covered by the license. We have generally agreed to use reasonable efforts to develop and commercialize licensed products and to achieve specified milestones and pay license fees, milestone payments and royalties based on the net sales of the licensed products or to pay a percentage of sublicense income. If we breach our obligations, the licensor has the right to terminate the license, and, in some cases, convert the license to a non-exclusive license. Generally, we control and are responsible for the cost of defending the patent rights of the technologies that we license.

Proprietary Rights: We also rely on unpatented technology, trade secrets and confidential information, and no assurance can be given that others will not independently develop substantially equivalent information and techniques or otherwise gain access to our know-how and information, or that we can meaningfully protect our rights in such unpatented technology, trade secrets and information. We require each of our employees, consultants and advisors to execute a confidentiality agreement at the commencement of an employment or consulting relationship with AVANT. The agreements generally provide that all inventions conceived by the individual in the course of employment or in providing services to AVANT and all confidential information developed by, or made known to, the individual during the term of the relationship shall be the exclusive property of AVANT and shall be kept confidential and not disclosed to third parties except in limited specified circumstances. There can be no assurance, however, that these agreements will provide meaningful protection for our information in the event of unauthorized use or disclosure of such confidential information.

K. Government Regulation

Our activities and products are significantly regulated by a number of governmental entities, including the FDA in the United States and by comparable authorities in other countries and by the USDA with respect to products developed by Megan. These entities regulate, among other things, the manufacture, testing, safety, effectiveness, labeling, documentation, advertising and sale of our products. We must obtain regulatory approval for a product in all of these areas before we can commercialize the product. Product development within this regulatory framework takes a number of years and involves the expenditure of substantial resources. Many products that initially appear promising ultimately do not reach the market because they are found to be unsafe or ineffective when tested. Our inability to commercialize a product would impair our ability to earn future revenues.

In the United States, vaccines and immunotherapeutics for human use are subject to FDA approval as "biologics" under the Public Health Service Act and "drugs" under the Federal Food, Drug and Cosmetic Act. The steps required before a new product can be commercialized include: pre-clinical studies in animals, clinical trials in humans to determine safety and efficacy and FDA approval of the product for commercial sale.

Data obtained at any stage of testing is susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. Moreover, during the regulatory process, new or changed drug approval policies may cause unanticipated delays or rejection of our product. We may not obtain necessary regulatory approvals within a reasonable period of time, if at all, or avoid delays or other problems in testing our products. Moreover, even if we received regulatory approval for a product, the approval may require limitations on use, which could restrict the size of the potential market for the product.

The FDA provides that human clinical trials may begin thirty (30) days after receipt and review of an Investigational New Drug ("IND") application, unless the FDA requests additional information or changes to the study protocol within that period. An IND must be sponsored and filed by AVANT for each of our proposed products. Authorization to conduct a clinical trial in no way assures that the FDA will ultimately approve the product. Clinical trials are usually conducted in three sequential phases. In a Phase I trial, the product is given to a small number of healthy volunteers to test for safety (adverse effects). Phase II trials are conducted on a limited group of the target patient population; safety, optimal dosage and efficacy are

studied. A Phase III trial is performed in a large patient population over a wide geographic area to prove that significant efficacy exists. The FDA has ongoing oversight over all these trials and can order a temporary or permanent discontinuation if warranted. Such an action could materially harm AVANT. Clinical tests are critical to the success of our products but are subject to unforeseen and uncontrollable delay, including delay in enrollment of patients. Any delay in clinical trials could delay our commercialization of a product.

A product's safety and effectiveness in one test is not necessarily indicative of its safety and effectiveness in another test. Moreover, we may not discover all potential problems with a product even after completing testing on it. Some of our products and technologies have undergone only pre-clinical testing. As a result, we do not know whether they are safe or effective for humans. Also, regulatory authorities may decide, contrary to our findings, that a product is unsafe or not as effective in actual use as its test results indicated. This could prevent the product's widespread use, require its withdrawal from the market or expose us to liability.

The results of the clinical trials and all supporting data are submitted to the FDA for approval. A Biologics License Application ("BLA") is submitted for a biologic product; a New Drug Application ("NDA") for a drug product. The interval between IND filing and BLA/NDA filing is usually at least several years due to the length of the clinical trials, and the BLA/NDA review process can take over a year. During this time the FDA may request further testing or additional trials or may turn down the application. Even with approval, the FDA frequently requires post-marketing safety studies (known as Phase IV trials) to be performed.

The FDA requires that the manufacturing facility that produces a licensed product meet specified standards, undergo an inspection and obtain an establishment license prior to commercial marketing. Subsequent discovery of previously unknown problems with a product or its manufacturing process may result in restrictions on the product or the manufacturer, including withdrawal of the product from the market. Failure to comply with the applicable regulatory requirements can result in fines, suspensions of regulatory approvals, product recalls, operating restrictions and criminal prosecution.

In the United States, vaccines for animal health and food safety use are subject to USDA approval. The steps required before a new product can be commercialized include: pre-clinical studies in animals; clinical trials in animals to determine safety and efficacy; and USDA approval of the product for commercial sale. The registration of these vaccines may be subject to numerous delays or possibly outright rejection of the product by the agency. Delays may occur at any stage of testing, clinical results may be subject to unfavorable interpretation by the agency and regulatory approval, if received, may require limitations on use which could restrict the size of the potential market for the product. The USDA requires that the manufacturing facility that produces a licensed product meet specified standards, undergo an inspection and obtain an establishment license prior to commercial marketing. Under USDA regulations, this license is held by the manufacturer of the product, not the developer of the product, such as Megan. Failure to comply with applicable USDA regulatory requirements can result in fines, suspensions of regulatory approvals, product recalls, operating restrictions and criminal prosecution.

The Advisory Committee on Immunization Practices ("ACIP") of the Centers for Disease Control ("CDC") has a role in setting the public market in the United States for the vaccine products we intend to develop. The ACIP makes recommendations on the appropriate use of vaccines and related products and the CDC develops epidemiologic data relevant to vaccine requirements and usage.

Because we may market our products abroad, we will be subject to varying foreign regulatory requirements. Although international efforts are being made to harmonize these requirements, applications must currently be made in each country. The data necessary and the review time vary significantly from one country to another. Approval by the FDA does not ensure approval by the regulatory bodies of other countries.

Our collaborators are also subject to all of the above-described regulations in connection with the commercialization of products utilizing our technology.

L. Product Liability

The risk of product liability claims, product recalls and associated adverse publicity is inherent in the testing, manufacturing, marketing and sale of medical products. If and when we manufacture vaccines that are recommended for routine administration to children, we will be required to participate in the National Vaccine Injury Compensation Program. This program compensates children having adverse reactions to certain routine childhood immunizations with funds collected through an excise tax from the manufacturers of these vaccines.

We have clinical trial liability insurance coverage in the amount of $5 million. However, there can be no assurance that such insurance coverage is or will continue to be adequate or available. We may choose or find it necessary under our collaborative agreements to increase our insurance coverage in the future. We may not be able to secure greater or broader product liability insurance coverage on acceptable terms or at reasonable costs when needed. Any liability for mandatory damages could exceed the amount of our coverage. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product recall could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other product candidates.

M. Employees; Scientific Consultants

As of March 1, 2006, we employed 73 full time persons and 12 part time or temporary persons, 13 of whom have doctoral degrees. Of these employees, 72 were engaged in or directly support research and development activities.

Item 1A. Risk Factors

You should consider carefully these risk factors together with all of the information included or incorporated by reference in this Annual Report. This section includes some forward-looking statements.

Our history of losses and uncertainty of future profitability make our common stock a highly speculative investment.

We have had no commercial revenues to date from sales of our human therapeutic or vaccine products and cannot predict when we will. We have accumulated net operating losses since inception of approximately $235.9 million, as of December 31, 2005. We expect to spend substantial funds to continue research and product testing of the following products we have in the pre-clinical and clinical testing stages of development:

Product	Use	Stage
CholeraGarde® vaccine	Cholera	Clinical phase IIb
Ty800 vaccine	Typhoid fever	Clinical phase I/II
ETEC vaccine	Enterotoxigenic *E. coli* infection	Pre-clinical
Shigella vaccine	Dysentery	Pre-clinical
Campylobacter vaccine	*Campylobacter* infection	Pre-clinical
Injectable Anthrax vaccine	Anthrax infection	Clinical Phase I
Oral Anthrax & Plague vaccines	Anthrax & plague infection	Pre-clinical
CETi vaccine	Cholesterol management	Clinical phase II
TP10	Cardiac surgery	Clinical phase IIb
Therapore®	HIV	Clinical phase I

In anticipation of FDA approval of these products, we will need to make substantial investments to establish sales, marketing, quality control, and regulatory compliance capabilities. These investments will increase if and when any of these products receive FDA approval. We cannot predict how quickly our lead products will progress through the regulatory approval process. As a result, we may continue to lose money for several years.

If we cannot sell capital stock to raise necessary funds, it may force us to limit our research, development and testing programs.

We will need to raise more capital from investors to advance our lead products through the clinical testing and to fund our operations until we receive final FDA approval and our products begin to generate revenues for us. However, based on our history of losses, we may have difficulty attracting sufficient investment interest. As of December 31, 2005, we had cash and cash equivalents of $23.4 million, which, at that time, we believed would support expected operations for more than 12 months. We anticipate receipt of $40 million from PRF upon the European launch of Rotarix® (see Note 9 to consolidated financial statements) in the first half of 2006. We anticipate using cash in the range of $1.5-$2.0 million per month to support our expected operations.

We continue to seek partnerships with pharmaceutical and biotech companies and with other organizations to support the clinical development of our programs, in addition to funded research grants. This kind of funding is at the discretion of other organizations and companies which have limited funds and many companies compete with us for those funds. As a result, we may not receive any research grants or funds from collaborators. If we are unable to raise necessary funds, we may have to delay or discontinue the clinical development of programs, license out programs earlier than expected, raise funds at significant discount or on other unfavorable terms or evaluate a sale of all or part of our business.

Our share price has been and could remain volatile.

The market price of our common stock has historically experienced and may continue to experience significant volatility. From January 2003 through December 2005, the market price of our common stock has fluctuated from a high of $3.77 per share in the first quarter of 2004, to a low of $0.88 per share in the first quarter of 2003. Our progress in developing and commercializing our products, the impact of government regulations on our products and industry, the potential sale of a large volume of our common stock by selling stockholders, our quarterly operating results, changes in general conditions in the economy or the financial markets and other developments affecting us or our competitors could cause the market price of our common stock to fluctuate substantially. In addition, in recent years, the stock market has experienced significant price and volume fluctuations. This volatility has affected the market prices of securities issued by many companies for reasons unrelated to their operating performance and may adversely affect the price of our common stock. In addition, we could be subject to a securities class action litigation as a result of volatility in the price of our stock, which could result in substantial costs and diversion of management's attention and resources and could harm our stock price, business, prospects, results of operations and financial condition.

If selling stockholders choose to sell shares in large volume, the trading price of our common stock could suffer.

In December 2000, we issued 1,841,236 shares of our common stock at $9.54 per share in connection with our acquisition of Megan Health Inc. and 285,877 shares of our common stock at $10.50 per share in a separate private placement with Pfizer Inc. In February 2004, we completed a direct equity placement of 8,965,000 shares of common stock to institutional investors at a price of $2.75 per share which generated gross proceeds totaling approximately $25 million. In July 2003, we issued 4,444,444 shares of our common stock and warrants to purchase 444,444 shares of our common stock for an aggregate purchase price of

$10 million in a private placement with The Riverview Group, LLC. Those shares plus, among others, 3,057,900 shares we sold in an October 2001 direct equity placement at $4.58 per share, 4,650,953 shares we sold in a July 2000 private placement at $7.85 per share, 5,459,375 shares we sold in a September 1999 private placement at $1.92 per share, and 2,974,950 shares that employees may purchase under stock options at prices ranging from $1.08 to $14.69 per share, can be resold in the public securities markets without restriction. These shares in total account for approximately 43.3% of our total common stock outstanding as of March 1, 2006. If large numbers of shares are sold over a short period of time, the price of our stock may decline rapidly or fluctuate widely.

Our products and product candidates are subject to extensive regulatory scrutiny.

All of our products and product candidates are at various stages of development and commercialization and our activities, products and product candidates are significantly regulated by a number of governmental entities, including the FDA in the United States and by comparable authorities in other countries and by the USDA in the United States with respect to products developed by Megan. These entities regulate, among other things, the manufacture, testing, safety, effectiveness, labeling, documentation, advertising and sale of our products and product candidates. We must obtain regulatory approval for a product candidate in all of these areas before we can commercialize the product candidate. Product development within this regulatory framework takes a number of years and involves the expenditure of substantial resources. This process typically requires extensive pre-clinical and clinical testing, which may take longer or cost more than we anticipate, and may prove unsuccessful due to numerous factors. Many product candidates that initially appear promising ultimately do not reach the market because they are found to be unsafe or ineffective when tested. Companies in the pharmaceutical, biotechnology and vaccines industries have suffered significant setbacks in advanced clinical trials, even after obtaining promising results in earlier trials. Our inability to commercialize a product or product candidate would impair our ability to earn future revenues.

If our products do not pass required tests for safety and effectiveness, we will not be able to derive commercial revenue from them.

For AVANT to succeed, we will need to derive commercial revenue from the products we have under development. The FDA has not approved any of our lead products for sale to date. Products in our vaccine programs are in various stages of pre-clinical and clinical testing. Pre-clinical tests are performed at an early stage of a product's development and provide information about a product's safety and effectiveness on laboratory animals. Pre-clinical tests can last years. If a product passes its pre-clinical tests satisfactorily, we file an investigational new drug application for the product with the FDA, and if the FDA gives its approval we begin phase I clinical tests. Phase I testing generally lasts between 6 and 24 months. If phase I test results are satisfactory and the FDA gives its approval, we can begin phase II clinical tests. Phase II testing generally lasts between 6 and 36 months. If phase II test results are satisfactory and the FDA gives its approval, we can begin phase III pivotal studies. Phase III studies generally last between 12 and 48 months. Once clinical testing is completed and a new drug application is filed with the FDA, it may take more than a year to receive FDA approval.

In all cases we must show that a pharmaceutical product is both safe and effective before the FDA, or drug approval agencies of other countries where we intend to sell the product, will approve it for sale. Our research and testing programs must comply with drug approval requirements both in the United States and in other countries, since we are developing our lead products with companies, including Glaxo, Pfizer, and DVC, which intend to commercialize them both in the U.S. and abroad. A product may fail for safety or effectiveness at any stage of the testing process. The key risk we face is the possibility that none of our products under development will come through the testing process to final approval for sale, with the

result that we cannot derive any commercial revenue from them after investing significant amounts of capital in multiple stages of pre-clinical and clinical testing.

Product testing is critical to the success of our products but subject to delay or cancellation if we have difficulty enrolling patients.

As our portfolio of potential products moves from pre-clinical testing to clinical testing, and then through progressively larger and more complex clinical trials, we will need to enroll an increasing number of patients with the appropriate characteristics. At times we have experienced difficulty enrolling patients and we may experience more difficulty as the scale of our clinical testing program increases. The factors that affect our ability to enroll patients are largely uncontrollable and include principally the following:

- the nature of the clinical test;
- the size of the patient population;
- the distance between patients and clinical test sites; and
- the eligibility criteria for the trial.

If we cannot enroll patients as needed, our costs may increase or it could force us to delay or terminate testing for a product.

Any delay in obtaining regulatory approval would have an adverse impact on our ability to earn future revenues.

It is possible that none of the products or product candidates that we develop will obtain the regulatory approvals necessary for us to begin commercializing them. The time required to obtain FDA and other approvals is unpredictable but often can take years following the commencement of clinical trials, depending upon the nature of the product candidate. Any analysis we perform of data from clinical activities is subject to confirmation and interpretation by regulatory authorities, which could delay, limit or prevent regulatory approval. Any delay or failure in obtaining required approvals could have a material adverse effect on our ability to generate revenues from the particular product candidate. Furthermore, if we, or our partners, do not reach the market with our products before our competitors offer products for the same or similar uses, or if we, or our partners, are not effective in marketing our products, our revenues from product sales, if any, will be reduced.

We face intense competition in our development activities. We face competition from many companies in the United States and abroad, including a number of large pharmaceutical companies, firms specialized in the development and production of vaccines, adjuvants and vaccine and immunotherapeutic delivery systems and major universities and research institutions. These competitors include Glaxo, Merck, Novartis, Pfizer, Roche, Sanofi Pasteur, Acambis, Cambridge Biostability, Crucell, Emergent, Intercell, Iomai, SBL Vaccines and VaxGen. Most of our competitors have substantially greater resources, more extensive experience in conducting pre-clinical studies and clinical testing and obtaining regulatory approvals for their products, greater operating experience, greater research and development and marketing capabilities and greater production capabilities than those of our Company. These companies might succeed in obtaining regulatory approval for competitive products more rapidly than we can for our products, especially if we experience any delay in obtaining required regulatory approvals.

Failure to comply with applicable regulatory requirements would adversely impact our operations.

Even after receiving regulatory approval, our products are subject to extensive regulatory requirements, and our failure to comply with applicable regulatory requirements will adversely impact our operations. In the United States, the FDA and USDA, as applicable, require that the manufacturing

facility that produces a product meet specified standards, undergo an inspection and obtain an establishment license prior to commercial marketing. Under USDA regulations, this license is held by the manufacturer of the product, not the developer of the product, such as Megan. Subsequent discovery of previously unknown problems with a product or its manufacturing process may result in restrictions on the product or the manufacturer, including withdrawal of the product from the market. Failure to comply with the applicable regulatory requirements can result in fines, suspensions of regulatory approvals, product recalls, operating restrictions and criminal prosecution.

We depend greatly on the intellectual capabilities and experience of our key executives and scientists and the loss of any of them could affect our ability to develop our products.

The loss of Dr. Una S. Ryan, our President and Chief Executive Officer, or other key members of our staff, including Dr. M. Timothy Cooke, our Chief Operating Officer, Avery W. Catlin, our Chief Financial Officer, Dr. Ronald W. Ellis, our Senior Vice President of Research and Development, Dr. Henry C. Marsh, Jr., our Vice President of Research, or Dr. Taha Keilani, our Vice President of Medical and Regulatory Affairs, could harm us. We have employment agreements with Dr. Ryan, Dr. Cooke and Mr. Catlin. We do not have any key-person insurance coverage. We also depend on our scientific and clinical collaborators and advisors, all of whom have outside commitments that may limit their availability to us. In addition, we believe that our future success will depend in large part upon our ability to attract and retain highly skilled scientific, managerial and marketing personnel, particularly as we expand our activities in clinical trials, the regulatory approval process and sales and manufacturing. We routinely enter into consulting agreements with our scientific and clinical collaborators and advisors, opinion leaders and heads of academic departments in the ordinary course of our business. We also enter into contractual agreements with physicians and institutions who recruit patients into our clinical trials on our behalf in the ordinary course of our business. Notwithstanding these arrangements, we face significant competition for this type of personnel from other companies, research and academic institutions, government entities and other organizations. We cannot predict our success in hiring or retaining the personnel we require for continued growth.

We rely on our contract manufacturers. Should the cost, delivery and quality of clinical and commercial grade materials supplied by contract manufacturers vary to our disadvantage, our business operations could suffer significant harm.

We are dependent on sourcing from third-party manufacturers for suitable quantities of clinical and commercial grade materials essential to pre-clinical and clinical studies currently underway and to planned clinical trials in addition to those currently being conducted by third parties or us. The inability to have suitable quality and quantities of these essential materials produced in a timely manner would result in significant delays in the clinical development and commercialization of products, which could adversely affect our business, financial condition and results of operations. We rely on collaborators and contract manufacturers to manufacture proposed products in both clinical and commercial quantities in the future. Our leading bacterial vaccine candidates use attenuated live bacteria as vectors and therefore require specialized manufacturing capabilities and processes. We have faced difficulties in securing commitments from U.S. and foreign contract manufacturers as these manufacturers have at times been unwilling or unable to accommodate our needs. Relying on foreign manufacturers involves peculiar and increased risks, and in one occasion we had to terminate a contract with a foreign manufacturer and find a substitute source of material for planned clinical trials. These peculiar and increased risks include risks relating to the difficulties foreign manufacturers may face in complying with the FDA's Good Manufacturing Practices, or GMP, as a result of language barriers, lack of familiarity with GMP or the FDA regulatory process or other causes, economic or political instability in or affecting the home countries of our foreign manufacturers, shipping delays, potential changes in foreign regulatory laws governing the sales of our product supplies, fluctuations in foreign currency exchange rates and the imposition or application of trade restrictions.

There can be no assurances that we will be able to enter into long-term arrangements with such third party manufacturers on acceptable terms or at all. Further, contract manufacturers must also be able to meet our timetable and requirements, and must operate in compliance with GMP; failure to do so could result in, among other things, the disruption of product supplies. As noted above, non-U.S. contract manufacturers may face special challenges in complying with the FDA's GMP requirements, and although we are not currently dependent on non-U.S. collaborators or contract manufacturers, we may choose or be required to rely on non-U.S. sources in the future as we seek to develop stable supplies of increasing quantities of materials for ongoing clinical trials of larger scale. Our dependence upon third parties for the manufacture of our products may adversely affect our profit margins and our ability to develop and deliver products on a timely and competitive basis.

We depend on third party suppliers and manufacturers, including Walter Reed Army Institute of Research, Lonza Biologics plc, Bioconcept, Inc., NeoMPS, Inc., and Maine Biological Laboratories, to provide us with suitable quantities of materials necessary for clinical tests. If these materials are not available in suitable quantities of appropriate quality, in a timely manner, and at a feasible cost, our clinical tests will face delays**.**

We rely on third parties to plan, conduct and monitor our clinical tests, and their failure to perform as required would interfere with our product development.

We rely on third parties, including, among others, the International Center for Diarrhoeal Disease Research, Bangladesh, the International Vaccines Institute, Cincinnati Children's Hospital Medical Center, The Cleveland Clinic, Radiant Research, Inc., Biobridges, LLC, Glaser Research Group, the NIH and Glaxo to conduct the significant majority of our clinical research development activities. These activities can be characterized as clinical patient recruitment and observation, clinical trial monitoring, clinical data management and analysis, safety monitoring and project management. We conduct approximately 100% of our project management and 100% of our medical and safety monitoring in-house and rely on third parties for the remainder of our clinical development activities. If any of these third parties fails to perform as we expect or if their work fails to meet regulatory standards, our testing could be delayed, cancelled or rendered ineffective.

We depend greatly on third party collaborators to license, develop and commercialize some of our products, and they may not meet our expectations.

We have agreements with other companies, including Glaxo, Pfizer, DVC, Inflazyme (formerly AdProTech), and LAHI for the licensing, development and ultimate commercialization of some of our products. Some of those agreements give substantial responsibility over the products to the collaborator. Some collaborators may be unable or unwilling to devote sufficient resources to develop our products as their agreements require. They often face business risks similar to ours, and this could interfere with their efforts. Also, collaborators may choose to devote their resources to products that compete with ours. If a collaborator does not successfully develop any one of our products, we will need to find another collaborator to do so. The success of our search for a new collaborator will depend on our legal right to do so at the time and whether the product remains commercially viable.

The success of our vaccine candidates depends in great part upon our and our collaborators' success in promoting them as superior to other treatment alternatives. We believe that vaccines like those under development by AVANT can be proven to offer disease prevention and treatment with notable advantages over drugs in terms of patient compliance and cost and ease of distribution. However, there can be no assurance that we will be able to prove these advantages or that the advantages will be sufficient to support the successful commercialization of our vaccines.

We may face delays, difficulties or unanticipated costs in establishing sales, distribution and manufacturing capabilities for our commercially ready products.

We have chosen to retain, rather than license, all rights to some of our lead products, such as our portfolio of travelers' vaccines. If we proceed with this strategy, we will have full responsibility for commercialization of these products if and when they are approved for sale. We currently lack the marketing, sales and distribution capabilities that we will need to carry out this strategy. To market any of our products directly, we must develop a substantial marketing and sales force with technical expertise and a supporting distribution capability. We have little expertise in this area, and we may not succeed. We may find it necessary to enter into strategic partnerships on uncertain but potentially unfavorable terms to sell, market and distribute our products when they are approved for sale.

Some of our products are difficult to manufacture, especially in large quantities, and we have not yet developed commercial scale manufacturing processes for any of our products. We do not currently plan to develop internal manufacturing capabilities to produce any of our cardiovascular products if they are approved for sale. To the extent that we choose to market and distribute the cardiovascular products ourselves, this strategy will make us dependent on other companies to produce our products in adequate quantities, in compliance with regulatory requirements, and at a competitive cost. We may not find third parties capable of meeting those manufacturing needs.

A decrease in the demand and sales and profitability of for Megan®Vac 1 and Megan®Egg could adversely affect our revenues.

Both the demand for and ultimately the profitability of Megan®Vac 1 and Megan®Egg are components to our success. Because our focus is on human health care, as of September 1, 2002 we appointed LAHI as the exclusive distributor of our Megan poultry vaccines in North America. LAHI, an established animal health company, has taken over marketing and distribution of Megan's currently marketed products for the commercial poultry market. Under the distribution agreement, we receive a percentage of Megan®Vac 1 and Megan®Egg product sales in the form of royalty payments. The following are potential factors, without limitation, that may negatively affect the demand for Megan®Vac 1 and Megan®Egg:

- Our competitors may develop, manufacture and market products that are more effective or less expensive than Megan®Vac 1 and/or Megan®Egg;
- Megan®Vac 1 and Megan®Egg could be replaced by a novel product and may become obsolete;
- Users may not accept such a recently approved product without years of proven history;
- Our competitors in the food safety market have greater financial and management resources than we do, and significantly more experience in bringing products to market; and
- We have no manufacturing or distribution facilities for Megan®Vac 1 and Megan®Egg. Instead, we contract with Maine Biological Laboratories ("MBL"), a subsidiary of LAHI, to manufacture Megan®Vac 1 and Megan®Egg for us.

Any one of these factors could reduce demand for Megan®Vac 1 and Megan®Egg to a level which may lead to LAHI's and/or our discontinuation of the product. Should LAHI or we be unable to realize acceptable profits from sales of Megan®Vac 1 and Megan®Egg, LAHI or we may choose to scale back our commercialization efforts. In addition, if our partner, LAHI, is unable to continue to distribute Megan®Vac 1 and Megan®Egg in an effective manner, or is unable to maintain sufficient personnel with the appropriate levels of experience to manage this function, LAHI may be unable to meet the demand for our products and we may lose potential revenues and royalties.

Certain factors could negatively affect the demand for and sales and profitability of Rotarix®, which would have a material adverse affect on our revenues.

Both the demand and ultimately the profitability of Rotarix® are components to our success. We have licensed our oral rotavirus vaccine, Rotarix®, to Glaxo for the purposes of Glaxo developing and commercializing Rotarix® worldwide. Glaxo gained approval for Rotarix® in Mexico in July 2004 and in the European Union in February 2006. In May 2005, AVANT entered into an agreement whereby an affiliate of PRF purchased an interest in the net royalties we will receive on worldwide sales of Rotarix® (see Note 9 of our audited consolidated financial statements) and we will retain 50% of future Glaxo milestone payments, with the balance payable to PRF and CCH. The following are potential factors, without limitation, that may negatively affect the demand for Rotarix®:

- Our competitors in the pharmaceuticals, biotechnology and vaccines market have greater financial and management resources than we do, and significantly more experience in bringing products to market, and may develop, manufacture and market products that are more effective or less expensive than Rotarix®;
- Rotarix® could be replaced by a novel product and may become obsolete;
- We and Glaxo may be unable to prevent third parties from infringing upon our proprietary rights related to Rotarix®;
- Users may not accept such a recently approved product without years of proven history; and
- We are dependent on Glaxo for the manufacturing, testing, acquisition of regulatory approvals, marketing, distribution and commercialization of Rotarix®.

Any of these factors could have a material adverse effect on the sales of Rotarix® and our results of operations.

Other factors could affect the demand for and sales and profitability of Megan® Vac 1, Megan® Egg, Rotarix® and any other of our current or future products.

In general, other factors that could affect the demand for and sales and profitability of our products include, but are not limited to:

- The timing of regulatory approval, if any, of competitive products;
- Our, Megan's, Glaxo's or any other of our partners' pricing decisions, as applicable, including a decision to increase or decrease the price of a product, and the pricing decisions of our competitors;
- Government and third-party payer reimbursement and coverage decisions that affect the utilization of our products and competing products;
- Negative safety or efficacy data from new clinical studies conducted either in the U.S. or internationally by any party could cause the sales of our products to decrease or a product to be recalled;
- The degree of patent protection afforded our products by patents granted to or licensed by us and by the outcome of litigation involving our or any of our licensor's patents;
- The outcome of litigation involving patents of other companies concerning our products or processes related to production and formulation of those products or uses of those products;
- The increasing use and development of alternate therapies;
- The rate of market penetration by competing products; and

- The termination of, or change in, existing arrangements with our partners.

Any of these factors could also have a material adverse effect on our sales of Megan®Vac 1, Megan®Egg, Rotarix® and any other of our current or future products and results of operations.

We may be unable to manage multiple late stage clinical trials for a variety of product candidates simultaneously.

During 2006, we expect to have one Phase I clinical trial, one Phase II clinical trial and one Phase III clinical trial in progress under our management. As our current clinical trials progress, we may need to manage multiple late stage clinical trials simultaneously in order to continue developing all of our current products. The management of late stage clinical trials is more complex and time consuming than early stage trials. Typically early stage trials involve several hundred patients in no more than 10-20 clinical sites. Late stage (Phase III) trials involve up to several thousand patients in up to several hundred clinical sites and may require facilities in several countries. Therefore the project management required to supervise and control such an extensive program is substantially larger than early stage programs. As the need for these resources is not known until some months before the trials begin it is necessary to recruit large numbers of experienced and talented individuals very quickly. If the labor market does not allow this team to be recruited quickly the sponsor is faced with a decision to delay the program or to initiate it with inadequate management resources. This may result in recruitment of inappropriate patients, inadequate monitoring of clinical investigators and inappropriate handling of data or data analysis. Consequently it is possible that conclusions of efficacy or safety may not be acceptable to permit filing of a Biologics License Application or New Drug Application for any one of the above reasons or a combination of several.

We face the risk of product liability claims, which could exceed our insurance coverage, and produce recalls, each of which could deplete our cash resources.

The pharmaceutical, biotechnology and vaccines industries expose us to the risk of product liability claims alleging that use of our products or product candidates caused an injury or harm. These claims can arise at any point in the development, testing, manufacture, marketing or sale of our products or product candidates and may be made directly by patients involved in clinical trials of our products, by consumers or healthcare providers or by individuals, organizations or companies selling our products. Product liability claims can be expensive to defend, even if the product or product candidate did not actually cause the alleged injury or harm.

Insurance covering product liability claims becomes increasingly expensive as a product candidate moves through the development pipeline to commercialization. We have clinical trial liability insurance coverage in the amount of $5 million. However, there can be no assurance that such insurance coverage is or will continue to be adequate or available. We may choose or find it necessary under our collaborative agreements to increase our insurance coverage in the future. We may not be able to secure greater or broader product liability insurance coverage on acceptable terms or at reasonable costs when needed. Any liability for damages resulting from a product liability claim could exceed the amount of our coverage, require us to pay a substantial monetary award from our own cash resources and have a material adverse effect on our business, financial condition and results of operations. Moreover, a product recall, if required, could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other products and product candidates.

In addition, some of our licensing and other agreements with third parties require or might require us to maintain product liability insurance. If we cannot maintain acceptable amounts of coverage on commercially reasonable terms in accordance with the terms set forth in these agreements, the corresponding agreements would be subject to termination, which could have a material adverse impact on our operations.

Our reliance on third parties requires us to share our trade secrets, which increases the possibility that a competitor will discover them.

Because we rely on third parties to develop our products, we must share trade secrets with them. We seek to protect our proprietary technology in part by entering into confidentiality agreements and, if applicable, material transfer agreements, collaborative research agreements, consulting agreements or other similar agreements with our collaborators, advisors, employees and consultants prior to beginning research or disclosing proprietary information. These agreements will typically restrict the ability of our collaborators, advisors, employees and consultants to publish data potentially relating to our trade secrets. Our academic collaborators typically have rights to publish data, provided that we are notified in advance and may delay publication for a specified time in order to secure our intellectual property rights arising from the collaboration. In other cases, publication rights are typically controlled exclusively by us, although in some cases we may share these rights with other parties. Nevertheless, our competitors may discover our trade secrets, either through breach of these agreements, independent development or publication of information including our trade secrets in cases where we do not have proprietary or otherwise protected rights at the time of publication. A competitor's discovery of our trade secrets would impair our competitive position.

We may not be able to successfully integrate newly acquired technology with our existing technology or to modify our technologies to create new vaccines.

As part of our acquisition of the assets of UPT in January 2003, we acquired VitriLife®, a patented drying process for the industrial-scale preservation of proteins, cells, bacteria and viruses. VitriLife® may improve product stability at room temperature or higher, thereby eliminating the need for costly cold-chain distribution storage of vaccines and rendering vaccines more affordable. If we are able to integrate VitriLife® with our vaccine technology, we believe that the room temperature stability afforded by VitriLife® will give AVANT's vaccines a competitive advantage for a wide range of uses in food safety, animal health and biodefense applications. However, if we are unable to successfully integrate VitriLife®, or other technologies which we have acquired or may acquire in the future, with our existing technology and potential products currently under development, we may be unable to realize any benefit from our acquisition of VitriLife®, or other technology which we have acquired or may acquire in the future and may face the loss of our investment of financial resources and time in the integration process.

We believe that AVANT's vaccine technology portfolio may offer opportunities to develop vaccines that treat a variety of bacterial and viral infections by stimulating a patient's immune system against those disease organisms. However, some applications of our vaccine technology will require that we adapt AVANT's vectoring systems to develop new, safe and effective oral vaccines against anthrax, plague, and other bacterial and viral health threats. It is possible that the attenuated live bacteria we use in our bacterial vaccine candidates can not serve as vectors for the development of further bacterial or viral vaccines. If our vaccine technology portfolio cannot be used to create vaccines against a variety of disease organisms, we may lose all or portions of our investment in development efforts for new bacterial or viral vaccine candidates.

We license technology from other companies to develop our products, and those companies could restrict our use of it.

Companies that license to us technologies we use in our research and development programs may require us to achieve milestones or devote minimum amounts of resources to develop products using those technologies. They may also require us to make significant royalty and milestone payments, including a percentage of any sublicensing income, as well as payments to reimburse them for patent costs. The number and variety of our research and development programs require us to establish priorities and to allocate available resources among competing programs. From time to time we may choose to slow down

or cease our efforts on particular products. If in doing so we fail to perform our obligations under a license fully, the licensor can terminate the licenses or permit our competitors to use the technology. Moreover, we may lose our right to market and sell any products based on the licensed technology.

We have many competitors in our field and they may develop technologies that make ours obsolete.

Biotechnology, pharmaceuticals and therapeutics are rapidly evolving fields in which scientific and technological developments are expected to continue at a rapid pace. We have many competitors in the U.S. and abroad, including Glaxo, Merck, Novartis, Pfizer, Roche, Sanofi Pasteur, Acambis, Cambridge Biostability, Crucell, Emergent, Intercell, Iomai, SBL Vaccines and VaxGen. Our success depends upon our ability to develop and maintain a competitive position in the product categories and technologies on which we focus. Many of our competitors have greater capabilities, experience and financial resources than we do. Competition is intense and is expected to increase as new products enter the market and new technologies become available. Our competitors may:

- develop technologies and products that are more effective than ours, making ours obsolete or otherwise noncompetitive;
- obtain regulatory approval for products more rapidly or effectively than us; and
- obtain patent protection or other intellectual property rights that would block our ability to develop competitive products.

We rely on patents, patent applications and other intellectual property protections to protect our technology and trade secrets; they are expensive and may not provide sufficient protection.

Our success depends in part on our ability to obtain and maintain patent protection for technologies that we use. Biotechnology patents involve complex legal, scientific and factual questions and are highly uncertain. To date, there is no consistent policy regarding the breadth of claims allowed in biotechnology patents, particularly in regard to patents for technologies for human uses like those we use in our business. We cannot predict whether the patents we seek will issue. If they do issue, a competitor may challenge them and limit their scope. Moreover, our patents may not afford effective protection against competitors with similar technology. A successful challenge to any one of our patents could result in a third party's ability to use the technology covered by the patent. We also face the risk that others will infringe, avoid or circumvent our patents. Technology that we license from others is subject to similar risks and this could harm our ability to use that technology. If we, or a company that licenses technology to us, were not the first creator of an invention that we use, our use of the underlying product or technology will face restrictions, including elimination.

If we must defend against suits brought against us or prosecute suits against others involving intellectual property rights, we will incur substantial costs. In addition to any potential liability for significant monetary damages, a decision against us may require us to obtain licenses to patents or other intellectual property rights of others on potentially unfavorable terms. If those licenses from third parties are necessary but we cannot acquire them, we would attempt to design around the relevant technology, which would cause higher development costs and delays, and may ultimately prove impracticable.

Our business requires us to use hazardous materials, which increases our exposure to dangerous and costly accidents.

Our research and development activities involve the use of hazardous chemicals, biological materials and radioactive compounds. Although we believe that our safety procedures for handling and disposing of hazardous materials comply with the standards prescribed by applicable laws and regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of an

accident, an injured party will likely sue us for any resulting damages with potentially significant liability. The ongoing cost of complying with environmental laws and regulations is significant and may increase in the future. In addition, in connection with our merger with Virus Research Institute, Inc. in 1998, we assumed the real property lease at Virus Research Institute, Inc.'s former site. We understand that this property has a low level of oil-based and other hazardous material contamination. We believe that the risks posed by this contamination are low, but we cannot predict whether additional hazardous contamination exists at this site, or that changes in applicable law will not require us to clean up the current contamination of the property.

Health care reform and restrictions on reimbursement may limit our returns on potential products.

Because AVANT's strategy ultimately depends on the commercial success of our products, we assume, among other things, that end users of our products will be able to pay for them. In the United States and other countries, in most cases, the volume of sales of products like those we are developing depends on the availability of reimbursement from third-party payors, including national health care agencies, private health insurance plans and health maintenance organizations. Third-party payors increasingly challenge the prices charged for medical products and services. Accordingly, if we succeed in bringing products to market, and reimbursement is not available or is insufficient, we could be prevented from successfully commercializing our potential products.

The health care industry in the United States and in Europe is undergoing fundamental changes as a result of political, economic and regulatory influences. Reforms proposed from time to time include mandated basic health care benefits, controls on health care spending, creation of large medical services and products purchasing groups and fundamental changes to the health care delivery system. We anticipate ongoing review and assessment of health care delivery systems and methods of payment in the United States and other countries. We cannot predict whether any particular reform initiatives will result or, if adopted, what their impact on us will be. However, we expect that adoption of any reform proposed will impair our ability to market products at acceptable prices.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We lease approximately 54,300 square feet of laboratory and office space in Needham, Massachusetts. The lease had an initial six-year term which expired in April 2002. In August 2001, we extended our lease through April 30, 2007. Under the extended lease agreement, we are obligated to pay an escalating base annual rent ranging from $1,466,600 to $1,561,600 during the extension term. In November 2005, we entered into a lease amendment which calls for the complete renovation of the Needham facility by the landlord and AVANT, reduces AVANT's leased space to approximately 35,200 square feet of laboratory and office space and extends the lease through April 2017. The preliminary projected costs for the tenant improvements portion of the renovations project are approximately $6.9 million. As an incentive for AVANT to enter into the Lease Amendment, the landlord has agreed to contribute up to $3.6 million towards tenant improvement costs. Under this lease extension, we are obligated to pay an escalating base annual rent ranging from $879,700 to $1,161,200 during the extension term. Aggregate rental payments including common area maintenance costs as defined for the years ended December 31, 2005 and 2004 for this facility were $2,069,170 and $1,902,874, respectively.

AVANT leases approximately 12,400 square feet of laboratory and office space in Overland, Missouri near St. Louis. In February 2004, we extended our lease through September 30, 2007. Under the extended lease agreement, we are obligated to pay an escalating base annual rent ranging from $158,400 to $161,500

during the extension term plus common area maintenance costs as defined. Aggregate rental payments including common area maintenance costs for the years ended December 31, 2005 and 2004 for this facility were $163,852 and $152,758, respectively.

In 2003, we reached an agreement with MassDevelopment for AVANT to occupy and build-out an 11,800 square foot manufacturing facility in Fall River, Massachusetts. The lease has an initial seven-year term which expires in December 2010. Under the lease agreement, we are obligated to pay annual rent of approximately $290,900 plus certain common area maintenance costs, subject to annual rent adjustments in the final two years. In November 2005, we amended the MassDevelopment lease to increase the rentable space to 14,314 square feet at the Fall River facility. The landlord is providing a tenant incentive allowance of $49,740 against the cost of alterations and improvements required by AVANT to be made to the expanded space. Under the lease amendment, we are obligated to pay additional annual rent of approximately $35,300 plus certain common area maintenance costs, subject to annual rent adjustments in the final two years of the lease term. Aggregate rental payments including common area maintenance costs for the year ended December 31, 2005 and 2004 for this facility were $230,776 and $108,147, respectively.

Item 3. LEGAL PROCEEDINGS

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock began trading on the Nasdaq National Market (the "Nasdaq") under the symbol "AVAN" on August 24, 1998. Prior to that date, we were traded on the Nasdaq under the symbol "TCEL". The following table sets forth for the periods indicated the high and low closing sales prices for our common stock as reported by Nasdaq.

Fiscal Period

	High	Low
Year Ended December 31, 2004		
1Q (Jan. 1 – March 31, 2004)	$3.77	$2.13
2Q (April 1 – June 30, 2004)	3.05	2.24
3Q (July 1 – Sept. 30, 2004)	2.63	1.57
4Q (Oct. 1 – Dec. 31, 2004)	2.23	1.75
Year Ended December 31, 2005		
1Q (Jan. 1 – March 31, 2005)	$2.17	$1.59
2Q (April 1 – June 30, 2005)	1.60	1.16
3Q (July 1 – Sept. 30, 2005)	1.46	1.19
4Q (Oct. 1 – Dec. 31, 2005)	2.13	1.26

As of March 1, 2006, there were approximately 677 shareholders of our common stock. The price of the common stock was $2.05 as of the close of the market on March 1, 2006. We have not paid any dividends on our common stock since our inception and do not intend to pay any dividends in the foreseeable future. Declaration of dividends will depend, among other things, upon our operating and future earnings, our capital requirements and general business conditions.

On February 13, 2004, we completed a direct equity placement of 8,965,000 shares of common stock to institutional investors at a price of $2.75 per share which generated net proceeds totaling approximately $23,051,000 after deducting all associated expenses of approximately $1,602,800. Proceeds from the direct equity placement are being used to fund our clinical development programs, including TP10 for cardiac surgery, to provide for our general working capital needs and to enable us to pursue licensing and acquisition opportunities for complementary technologies and products.

On July 1, 2003, we closed a private placement of approximately 4.4 million shares of common stock at $2.25 per share and warrants to purchase 444,444 shares of common stock at $3.00 per share to an institutional investor which generated net proceeds totaling approximately $9,207,800 after deducting all associated expenses of approximately $792,200. Rodman & Renshaw, Inc. was the placement agent for the offering. The transaction was not registered under the Securities Act of 1933, as amended, in reliance on an exemption from registration provided by Rule 506 of the Securities Act of 1933, as amended, which was available because, among other things, there were fewer than thirty five purchasers of common stock and more than six months had elapsed from the date of any previous offerings. Proceeds from the private placement are being used to support the development of our bacterial vaccines programs and provides for our general working capital needs.

On October 17, 2001, we completed a direct equity placement of approximately 3,057,900 shares of common stock to institutional investors at an average price of $4.58 per share which generated net proceeds totaling approximately $13,575,200 after deducting all associated expenses of approximately $424,800. Proceeds from the direct equity placement were used to support clinical development of our travelers' vaccine portfolio and other company activities.

In December 2000, we issued 1,841,236 shares of our common stock at $9.54 per share in connection with our acquisition of Megan and 285,877 shares of our common stock at $10.50 per share in a separate private placement with Pfizer.

See Item 12 for information regarding our equity compensation plan.

Item 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented below for the years ended December 31, 2005, 2004, 2003, 2002, and 2001 have been derived from the audited consolidated financial statements of AVANT. All amounts are in thousands except per share data.

CONSOLIDATED STATEMENTS OF OPERATIONS DATA	2005	2004	2003	2002	2001
REVENUE:					
Product Development and Licensing	$ 242	$ 4,566	$ 1,608	$ 6,275	$ 2,500
Government Contracts and Grants	2,720	2,115	2,857	138	500
Product Sales and Royalty	126	178	168	292	346
Total Revenue	3,088	6,859	4,633	6,705	3,346
OPERATING EXPENSE:					
Research and Development	14,063	13,574	10,021	14,709	21,581
Other Operating Expense	7,890	6,867	6,346	6,428	6,326
Total Operating Expense	21,953	20,441	16,367	21,137	27,907
Investment and Other Income, Net	768	378	240	603	1,808
Net Loss Before Cumulative Effect of Change in Accounting Principle	(18,097)	(13,204)	(11,494)	(13,829)	(22,753)
Cumulative Effect of Change in Accounting Principle	—	—	(1,175)	—	—
Net Loss	$ (18,097)	$ (13,204)	$ (12,669)	$ (13,829)	$ (22,753)
Basic and Diluted Net Loss Per Common Share:					
Net Loss Per Common Share Before Cumulative Effect of Change in Accounting Principle	(0.24)	(0.18)	(0.18	(0.23)	(0.39)
Cumulative Effect of Change in Accounting Principle Per Common Share	—	—	(0.02)	—	—
Net Loss Per Common Share	$ (0.24)	$ (0.18)	$ (0.20)	$ (0.23)	$ (0.39)
Weighted Average Common Shares Outstanding	74,143	72,965	62,513	60,461	57,982

CONSOLIDATED BALANCE SHEET DATA	2005	2004	2003	2002	2001
Working Capital	$ 20,912	$ 29,089	$ 18,924	$ 22,427	$ 37,821
Total Assets	36,452	45,804	31,305	35,233	53,485
Long Term Obligations	11,870	2,103	184	456	2,693
Accumulated Deficit	(235,872)	(217,776)	(204,572)	(191,903)	(178,073)
Total Stockholders' Equity	20,889	38,408	27,920	31,344	45,269

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: *Statements contained in the following, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, that are not historical facts may be forward-looking statements that are subject to a variety of risks and uncertainties. There are a number of important factors that could cause the actual results to differ materially from those expressed in any forward-looking statements made by AVANT. These factors include, but are not limited to: (1) the integration of the UPT technology and programs; (2) the ability to adapt AVANT's vectoring systems to develop new, safe and effective orally administered vaccines against anthrax and plague or any other microbes used as bioweapons; (3) the ability to successfully complete development and commercialization of TP10, CholeraGarde® (Peru-15), Ty800, CETi-1 and of other products; (4) the cost, timing, scope and results of ongoing safety and efficacy trials of TP10, CholeraGarde® (Peru-15), Ty800, CETi-1 and other preclinical and clinical testing; (5) the ability to successfully complete product research and further development, including animal, pre-clinical and clinical studies of TP10, CholeraGarde® (Peru-15), Ty800, CETi-1 and other products; (6) the ability of the Company to manage multiple late stage clinical trials for a variety of product candidates; (7) the volume and profitability of product sales of Megan®Vac 1, Megan®Egg and other future products; (8) the process of obtaining regulatory approval for the sale of Rotarix® in major commercial markets, as well as the timing and success of worldwide commercialization of Rotarix® by our partner, Glaxo; (9) changes in existing and potential relationships with corporate collaborators; (10) the availability, cost, delivery and quality of clinical and commercial grade materials supplied by contract manufacturers; (11) the timing, cost and uncertainty of obtaining regulatory approvals to use TP10, CETi-1, CholeraGarde® (Peru-15) and Ty800, among other purposes, for adults undergoing cardiac surgery, to raise serum HDL cholesterol levels and to protect travelers and people in endemic regions from diarrhea causing diseases, respectively; (12) the ability to obtain substantial additional funding; (13) the ability to develop and commercialize products before competitors; (14) the ability to retain certain members of management; and (15) other factors detailed from time to time in filings with the Securities and Exchange Commission. In addition, the factors described under "Item 1A. Risk Factors" in this report may result in these differences. You should carefully review all of these factors. These forward-looking statements were based on information, plans and estimates at the date of this report, and we do not promise to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.*

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

AVANT's principal activity since our inception has been research and product development conducted on our own behalf, as well as through joint development programs with several pharmaceutical companies and other collaborators. We were incorporated in the State of Delaware in December 1983.

AVANT's focus is unlocking the power of the immune system to prevent and treat disease. We have assembled a broad portfolio of technologies and intellectual property that give us a strong competitive position in vaccines and immunotherapeutics. Six of our products are in clinical development. The development of immunotherapeutic vaccines like CETi and the marriage of innovative vector delivery technologies with the unique VitriLife® manufacturing process represent the potential for a new generation of vaccines. Our goal is to become a leading developer of such innovative vaccines that address health care needs on a global basis.

We have actively developed and acquired innovative technologies—especially novel approaches to vaccine creation. Today our broad intellectual property position allows us to respond quickly and leverage our expertise into many different areas as opportunities and needs arise. For example, our vaccine technology for providing rapid protection against bacterial illnesses may prove useful for improving and expanding America's vaccine arsenal against microbial agents used in war or terrorist attacks.

AVANT is targeting its efforts where it can add the greatest value to the development of its products and technologies. Our goal is to demonstrate clinical proof-of-concept for each product, and then seek excellent partners to help see those products through to commercialization. This approach allows us to maximize the overall value of our technology and product portfolios while best ensuring the expeditious development of each individual product.

Acquisitions

Universal Preservation Technologies, Inc. ("UPT"): In January 2003, AVANT completed the acquisition of certain technology and intellectual property of UPT, a privately held company, and the licensure of certain patent rights from Elan Drug Delivery Limited ("EDD"), a subsidiary of Elan Corporation plc. EDD's license to AVANT gives AVANT exclusive rights to the VitriLife® process for use in orally administered vaccines and certain other non-injectable applications, and non-exclusive rights in certain other fields. VitriLife® is a patented drying method for the industrial-scale preservation of biological solutions and suspensions, such as proteins, enzymes, viruses, bacteria and other cells, which has the potential to cut production costs and improve product stability at room temperature or higher. AVANT has determined that this technology has alternative future uses and will be incorporated into a number of AVANT's bacterial vaccine programs. AVANT paid an aggregate of $2,000,000 in consideration in the transaction, recorded this value to acquired intangible assets, and is amortizing these assets over their estimated lives of ten years.

Megan Health, Inc. ("Megan"): On December 1, 2000, AVANT acquired all of the outstanding capital stock of Megan, a company engaged in the discovery and development of human and animal vaccines using patented gene modification technologies. In connection with the acquisition, AVANT recorded a charge of $9,012,300 for acquired in-process research and development ("IPR&D"), which represented purchased in-process technology which had not yet reached technological feasibility and had no alternative future use. As of December 31, 2005, none of the acquired research and development projects had reached technological feasibility.

Virus Research Institute, Inc. ("VRI"): On August 21, 1998, AVANT acquired VRI, a company engaged in the discovery and development of systems for the delivery of vaccines and immunotherapeutics, and novel vaccines for adults and children. In connection with the acquisition, we recorded a charge of $44,630,000 for acquired IPR&D, which represented purchased in-process technology which had not yet reached technological feasibility and had no alternative future use. As of December 31, 2005, none of the acquired research and development projects had reached technological feasibility, except for Rotarix®.

Research and Development Activities

AVANT is currently focused on the development of a number of vaccine product candidates which are in various stages of clinical trials. We expect that a large percentage of our research and development expenses will be incurred in support of our current and future clinical trial programs.

The expenditures that will be necessary to execute AVANT's business plan are subject to numerous uncertainties. Completion of clinical trials may take several years or more, and the length of time generally varies substantially according to the type, complexity, novelty and intended use of a product candidate. It is not unusual for the clinical development of these types of product candidates to each take five years or more, and for total development costs to exceed $100 million for each product candidate. AVANT estimates that clinical trials of the type AVANT generally conducts are typically completed over the following timelines:

Clinical Phase	Estimated Completion Period
Phase I	1-2 Years
Phase II	1-5 Years
Phase III	1-5 Years

The duration and the cost of clinical trials may vary significantly over the life of a project as a result of differences arising during the clinical trial protocol, including, among others, the following:

- the number of patients that ultimately participate in the trial;
- the duration of patient follow-up that seems appropriate in view of results;
- the number of clinical sites included in the trials;
- the length of time required to enroll suitable patient subjects; and
- the efficacy and safety profile of the product candidate.

AVANT tests potential product candidates in numerous preclinical studies for safety, toxicology and immunogenicity. AVANT then may conduct multiple clinical trials for each product candidate. As we obtain results from trials, we may elect to discontinue or delay clinical trials for certain product candidates in order to focus our resources on more promising product candidates.

An element of AVANT's business strategy is to pursue the research and development of a broad portfolio of product candidates. This is intended to allow AVANT to diversify the risks associated with its research and development expenditures. As a result, AVANT believes its future capital requirements and its future financial success are not substantially dependent on any one product candidate. To the extent AVANT is unable to maintain a broad range of product candidates, AVANT's dependence on the success of one or a few product candidates increases.

AVANT's product candidates also have not yet received FDA regulatory approval, which is required before AVANT can market them as therapeutic or vaccine products. In order to proceed to subsequent clinical trial stages and to ultimately achieve regulatory approval, the FDA must conclude that AVANT's clinical data establish safety and efficacy. Historically, the results from preclinical testing and early clinical trials (through Phase II) have often not been predictive of results obtained in later clinical trials. A number of new drugs, biologics and vaccines have shown promising results in early clinical trials, but subsequently failed to establish sufficient safety and efficacy data to obtain necessary regulatory approvals.

Furthermore, AVANT's business strategy includes the option of entering into collaborative arrangements with third parties to complete the development and commercialization of AVANT's product candidates. In the event that third parties take over the clinical trial process for one of AVANT's product candidates, the estimated completion date would largely be under control of that third party rather than AVANT. AVANT cannot forecast with any degree of certainty which proprietary products, if any, will be subject to future collaborative arrangements, in whole or in part, and how such arrangements would affect AVANT's development plan or capital requirements. AVANT's programs may also benefit from subsidies,

grants, contracts or government or agency-sponsored studies that could reduce AVANT's development costs.

As a result of the uncertainties discussed above, among others, AVANT is unable to estimate the duration and completion costs of its research and development projects or when, if ever, and to what extent it will receive cash inflows from the commercialization and sale of a product. AVANT's inability to complete its research and development projects in a timely manner or its failure to enter into collaborative agreements, when appropriate, could significantly increase its capital requirements and could adversely impact its liquidity. These uncertainties could force AVANT to seek additional, external sources of financing from time to time in order to continue with its business strategy. AVANT's inability to raise additional capital, or to do so on terms reasonably acceptable to it, would jeopardize the future success of its business. The amount incurred for each material research program since the beginning of 2001, is set forth below under "Program Developments." During the past five years through the end of 2005, AVANT incurred an aggregate of $74 million in research and development costs. During the year ended December 31, 2005, AVANT incurred an aggregate of $14 million in research and development costs. The following table indicates the amount incurred for each of AVANT's material research programs and for other identified research and development activities during the years ended December 31, 2005, 2004, 2003, 2002 and 2001. The amounts disclosed in the following table and in "Program Developments" below reflect direct research and development costs, license fees associated with the underlying technology and an allocation of indirect research and development costs to each program.

	Years Ended December 31,				
	2005	2004	2003	2002	2001
Bacterial Vaccines:					
CholeraGarde®	$ 1,257,200	$ 123,100	$ 695,800	$ 5,959,100	$ 2,369,200
Ty800	404,500	688,300	186,300	2,203,600	1,863,500
Other	528,900	332,500	137,500	204,400	—
BioDefense Vaccines	2,470,700	3,082,800	3,524,500	239,900	—
Food Safety & Animal Health Vaccines	9,900	12,600	49,400	450,600	984,900
Viral Vaccines:					
Rotarix® vaccine	—	500,000	200,000	400,000	334,100
Therapore®/HIV	11,800	184,900	72,400	346,800	264,600
Cholesterol Management Vaccine:					
CETi	650,800	816,900	3,404,000	3,176,800	2,387,700
Complement Inhibitors:					
TP10/TP20	8,327,200	7,706,300	1,648,700	1,714,800	12,930,500
Other Programs:	402,300	426,400	102,700	—	—
Discontinued Program:	—	—	—	12,500	446,000
Total R&D Expense	$14,063,300	$13,873,800	$10,021,300	$14,708,500	$21,580,500

Program Developments

Rotavirus Vaccine: Rotavirus is a major cause of diarrhea and vomiting in infants and children. In 1997, AVANT licensed its oral rotavirus vaccine to Glaxo. All of the ongoing development for this program is being conducted and funded by Glaxo. Glaxo gained approval for Rotarix® in Mexico in July 2004, which represents the first in an expected series of worldwide approvals and commercial launches for the product. Glaxo has already filed for market approval in more than 75 countries worldwide and has launched in additional Latin American and Asia Pacific countries during the course of 2005. Additionally, Glaxo filed for market approval of Rotarix® with the European Commission in late 2004, which triggered

a $2 million milestone payment to AVANT. In February 2006, the European Commission granted approval of Rotarix® in the European Union, which triggers a $4 million milestone payment from Glaxo. Glaxo has agreed to make further payments, which could total up to $1.5 million, upon achievement of a specific milestone. AVANT licensed the Rotarix® technology in 1995 from CCH and owes CCH a license fee of 30% on net royalties received from Glaxo. In May 2005, AVANT entered into an agreement whereby an affiliate of Paul Royalty Fund ("PRF") purchased an interest in the net royalties AVANT will receive on worldwide sales of Rotarix®. Under the PRF agreement, AVANT retains 50% of the $4 million milestone payment from Glaxo for the European Commission approval discussed above and of any future Glaxo milestone payments, with the balance payable to PRF and CCH.

Complement Inhibitors: In February 2002, AVANT announced that TP10 had not achieved a significant reduction in the primary endpoint of a Phase II adult cardiac surgery trial conducted in 564 patients. However, further analysis of the study data demonstrated an important treatment benefit in male patients participating in the trial directly related to mortality; however, no treatment benefit was observed in female patients. In February 2004, AVANT started a Phase IIb double-blind, placebo-controlled trial of TP10 in approximately 300 women undergoing cardiopulmonary by-pass surgery. The trial will examine the effect of TP10 versus placebo at approximately 30 sites throughout the United States. The goals of the trial are to clarify the treatment effect that TP10 has for women undergoing high risk cardiac surgery, as well as augment the safety data for that patient population to allow for the design of a subsequent registration-directed trial. In February 2006, AVANT reported that the females-only study did not meet the primary endpoint, thus confirming the results for female subjects in the previous TP10 trial. Therefore, given the strong efficacy data in males shown in this previous study, AVANT believes there is a clear clinical development pathway for a males-only indication for TP10 in cardiac bypass surgery. Males represent 75% of the U.S. market opportunity in cardiac bypass surgery. AVANT believes that the TP10 program is now well positioned for a males-only cardiac bypass surgery indication. AVANT plans to seek a corporate partner to complete the development and commercialization of TP10, including with respect to a males-only cardiac bypass surgery indication, prior to starting a Phase III clinical trial.

During the period January 1, 2001 through December 31, 2005, AVANT incurred approximately $32.3 million in research, development, contract manufacturing and clinical costs associated with its complement program.

Bacterial Vaccines: AVANT's goal is to become a leading developer of innovative vaccines that address health care needs on a global basis. In this regard, AVANT acquired VitriLife®, a technology with the potential to reduce manufacturing costs and improve product stability, eliminating the need for vaccine refrigeration during shipping and storage. With this technology and AVANT's *Cholera*- and *Salmonella*-vectored delivery technologies, named VibrioVec® and SalmoVec™, the Company can now develop a new generation of vaccines that have an ideal product profile: safe, effective, oral, single-dose, rapidly protective and requiring no refrigeration.

Development of a safe and effective cholera vaccine is the first step in establishing AVANT's single-dose, oral bacterial vaccine franchise. During 2002, AVANT completed a Phase II dose-ranging study with CholeraGarde® which confirmed the safety and activity of this vaccine and supported the start of Phase II trials in December 2002 with the IVI in Bangladesh where cholera is endemic. In July 2005, the Bangladesh study results in children and infants showed CholeraGarde® to be well tolerated and highly immunogenic, with 77% of children aged 9 months to 5 years generating protective immune responses. Previously published results showed the vaccine to be well tolerated and immunogenic against the cholera organism in the adult portion of this trial.

In July 2005, AVANT reported that it and Harvard Medical School would receive approximately $500,000 from the NIH to apply AVANT's VitriLife® formulation to CholeraGarde®. In 2006, AVANT

plans to utilize VitriLife®, a proprietary technology that confers thermostability to live bacterial vaccines, at the Fall River manufacturing facility for CholeraGarde® and its other bacterial vaccines.

During the period January 1, 2001 through December 31, 2005, AVANT incurred approximately $10.4 million in research, development and clinical costs on its CholeraGarde® program.

AVANT is also developing an oral typhoid fever vaccine, Ty800, for global health needs. The National Institute of Allergy and Infectious Disease (NIAID) of the NIH and AVANT have agreed for the NIAID to conduct a Phase I/II in-patient dose-ranging clinical trial aimed at demonstrating the safety and immunogenicity of the Ty800 vaccine. NIAID has funded the production of Ty800 vaccine for clinical testing and initiated the Phase I/II trial at a NIH-funded clinical site in February 2006. The NIAID trial seeks to confirm the safety and immunogenicity of the Ty800 oral vaccine observed in an earlier physician-sponsored the Ty800 vaccine study. During the period January 1, 2001 through December 31, 2005, AVANT incurred approximately $5.3 million in research, development, contract manufacturing and clinical costs on its Ty800 program.

Finally, AVANT is developing three additional bacterial vaccines against enterotoxigenic *E. coli* ("ETEC"), *Shigella* and *Campylobacter*—all important causes of serious diarrheal diseases worldwide. These three programs are in pre-clinical development. In 2006, AVANT expects to allocate resources to further the development of a two-vaccine combination product containing ETEC and *Shigella* or *Campylobacter* addressed to the travelers' market. In April 2005, AVANT was awarded a Phase I Small Business Innovation Research (SBIR) grant to support the development of a live attenuated salmonella vaccine against *Campylobacter*. The NIAID award provides approximately $131,000 in funding and work was started by AVANT during the third quarter of 2005. During the period January 1, 2001 through December 31, 2005, AVANT incurred approximately $1.2 million in research, development, contract manufacturing and clinical costs on these pre-clinical programs.

BioDefense Vaccines: The attenuated live bacteria used to create AVANT's single-dose oral vaccines can also serve as vectors for the development of vaccines against other bacterial and viral diseases. By engineering key disease antigens into the DNA of the vector organisms, AVANT expects to be able to extend the protective ability of its single-dose oral vaccines to a wide variety of illnesses. AVANT believes its vector technologies may prove useful for improving and expanding America's vaccine arsenal against microbial agents used in war or terrorist attacks.

In October 2001, AVANT granted DVC LLC ("DVC", formerly DynPort Vaccine Company LLC) a license for exclusive rights to use certain components of AVANT's anthrax vaccine technology. In October 2002, DVC announced the initiation of a Phase I clinical trial of a new injectable recombinant anthrax vaccine in approximately 70 volunteers. The vaccine candidate consists of a highly purified protein, Protective Antigen, derived from the anthrax bacterium using recombinant DNA technology and production processes licensed from AVANT. The study will evaluate tolerability, safety and immunogenicity of DVC's new vaccine. On August 5, 2005, AVANT received notice from DVC of termination of the license agreement, effective November 5, 2005. DVC plans to complete the ongoing Phase I clinical trial.

Further, in January 2003, AVANT was awarded a subcontract by DVC in the amount of $2.5 million to develop for the U.S. Department of Defense an oral combination vaccine against anthrax and plague using AVANT's proprietary vaccine technologies. As of December 31, 2005, AVANT has received a number of additional subcontract modifications from DVC to support preclinical animal testing of vaccine constructs and the start of human clinical testing of a plague vaccine candidate being developed by AVANT for use in the oral combination vaccine. Total contract funding awarded by DVC now totals approximately $10 million. Payments under the subcontract agreement are made on a time and materials basis and receipt of the full amount is conditioned upon the project being fully funded through completion and AVANT performing and continuing to demonstrate that it has the capability to perform the funded

work. For the twelve months ended December 31, 2005 and 2004, AVANT recognized $2,408,936 and $1,974,998, respectively, in government contract revenue from DVC. Through December 31, 2005, AVANT had received approximately $8 million in payments under the subcontract agreements. These agreements expire in 2007, although they may be terminated by DVC at any time upon 30 days notice.

During the period January 1, 2001 through December 31, 2005, AVANT incurred approximately $9.3 million in research and development costs on its biodefense vaccine program.

Food Safety and Animal Health Vaccines: AVANT has partnered with Pfizer Inc. ("Pfizer"), who will apply AVANT's vaccine technologies to animal health and human food safety markets. The Pfizer research program achieved an important milestone in late 2002, which resulted in a payment of $500,000 to AVANT. During the period January 1, 2001 through December 31, 2005, AVANT incurred approximately $1.5 million in research and development costs on its food safety and animal health vaccines program.

Cholesterol Management Vaccine: AVANT is developing an immunotherapeutic vaccine against endogenous cholesteryl ester transfer protein ("CETP"), which may be useful in reducing risks associated with atherosclerosis. CETP is a key intermediary in the balance of HDL (high-density lipoprotein) and LDL (low-density lipoprotein). The Company is developing this vaccine, CETi-1, to stimulate an immune response against CETP, which it believes may improve the ratio of HDL to LDL cholesterol and reduce the progression of atherosclerosis which often leads to a heart attack.

In October 2003, AVANT completed the CETi-1 vaccine Phase II efficacy study in approximately 200 patients with low levels of HDL cholesterol. The results of the study demonstrated proof-of-concept in humans confirming that blocking cholesterol transfer could raise HDL levels. In addition, the CETi-1 vaccine worked as designed to elicit anti-CETP antibodies in a high percentage of patients treated, approximately 90%. In recent pre-clinical testing, AVANT has identified a new adjuvanted formulation for the vaccine that elicits more than a 10-fold increase in anti-CETP antibody titers when compared to the current CETi vaccine. We have contracted for the production of GMP peptide for the newly formulated vaccine and we expect to complete toxicology, release and stability studies in 2006 consistent with the goal of having a CETi vaccine back into the clinic. During the period January 1, 2001 through December 31, 2005, AVANT incurred approximately $10.4 million in research, development and clinical costs associated with the CETi program. AVANT plans to seek a corporate partner to complete development and to commercialize the CETi vaccine.

Technology Licensing

AVANT has adopted a business strategy of out-licensing technology that does not match its development focus or where it lacks sufficient resources for the technology's efficient development. For example, when AVANT acquired Megan it also signed an agreement with Pfizer to leverage the value of Megan's oral vaccine technology in a significant market opportunity (animal health and human food safety) outside of AVANT's own focus on human health care.

Inflazyme (formerly AdProTech): In March 2004, AVANT granted a license to AdProTech for non-exclusive rights to use certain components of its intellectual property surrounding complement inhibition. Financial terms of the agreement with AdProTech include license fees, milestone payments and royalties. In April 2004, AdProTech was acquired by Inflazyme., which assumed the license.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 1 to the consolidated financial statements included in Item 8 of this Form 10-K. We believe our most critical accounting policies include revenue recognition for agreements entered into with various collaborators, the amortization policy for acquired intangible assets and the estimates of costs incurred and assumptions made in recording accrued clinical research and contract manufacturing costs.

Revenue Recognition: AVANT has entered into various license and development agreements with pharmaceutical and biotechnology companies. The terms of the agreements typically include non-refundable license fees, funding of research and development, payments based upon achievement of certain milestones and royalties on net product sales. Non-refundable license fees are recognized as contract and license fee revenue when AVANT has a contractual right to receive such payments, provided a contractual arrangement exists, the contract price is fixed or determinable, the collection of the resulting receivable is reasonably assured and AVANT has no further performance obligations under the license agreement. When AVANT has performance obligations under the terms of a contract, non-refundable fees are recognized as revenue as AVANT completes its obligations. Where AVANT's level of effort is relatively constant over the performance period, the revenue is recognized on a straight-line basis. The determination of the performance period involves judgment on management's part. Funding of research and development is recognized over the term of the applicable contract as costs are incurred related to that contract.

Revenues from milestone payments related to arrangements under which we have no continuing performance obligations are recognized upon achievement of the related milestone. Revenues from milestone payments related to arrangements under which we have continuing performance obligations are recognized as revenue upon achievement of the milestone only if all of the following conditions are met: the milestone payments are non-refundable; achievement of the milestone was not reasonably assured at the inception of the arrangement; substantive effort is involved in achieving the milestone; and, the amount of the milestone is reasonable in relation to the effort expended or the risk associated with achievement of the milestone. If any of these conditions are not met, the milestone payments are deferred and recognized as revenue over the term of the arrangement as AVANT completes its performance obligations.

Revenues from government contracts are recorded as effort is expended on the contracted work and billed to the government. Royalty revenue consists of payments received from licensees for a portion of sales proceeds from products that utilize AVANT's licensed technologies and would be recognized when the amount of and basis for such royalty payments are reported to us in accurate and appropriate form and in accordance with the related license agreement. Payments received in advance of activities being performed are recorded as deferred revenue. Any significant changes in our estimates or assumptions could impact our revenue recognition. Revenues from product sales are recorded when the product is shipped providing no significant post-delivery obligations remain and collection of the related receivable is reasonably assured.

In May 2005, AVANT entered into an agreement whereby an affiliate of PRF purchased an interest in the net royalties AVANT will receive on worldwide sales of Rotarix®. Rotarix® is licensed to Glaxo. The terms of the agreement with PRF include an upfront unconditional payment and future payments, upon achievement of specified milestones. In addition, AVANT retains some participation in the worldwide net royalty stream from Rotarix®. The PRF transaction qualifies as a sale in accordance with guidance in EITF 88-18 "Sale of Future Revenues". The upfront unconditional payment and any future milestone payments received from PRF will be recorded as deferred revenue. Revenues will be recognized and calculated based on the ratio of total royalties received from Glaxo and remitted to PRF over expected total amounts to be received by PRF and then applying this percentage to the total cumulative

consideration received from PRF to date. The expected total of payments to be paid to PRF is an estimate which AVANT will update from time to time to determine that the estimate continues to be reasonable in the light of then current events and circumstances.

Effective July 1, 2003, we adopted EITF 00-21, *Accounting For Revenue Arrangements with Multiple Deliverables,* which establishes criteria for whether revenue on a deliverable can be recognized separately from other deliverables in a multiple deliverable arrangement. The criteria considers whether the delivered item has stand-alone value to the customer, whether the fair value of the delivered item can be reliably determined and the customer's right of return for the delivered item. The adoption of EITF 00-21 did not have a material impact on our financial statements.

Long-Lived Assets: In the ordinary course of our business, we incur substantial costs to construct property and equipment. The treatment of costs to construct these assets depends on the nature of the costs and the stage of construction. Costs incurred in the project planning and design phase, and in the construction and installation phase, are capitalized as part of the cost of the asset. We stop capitalizing costs when the asset is substantially complete and ready for its intended use. Determining the appropriate period during which to capitalize costs, and assessing whether particular costs qualify for capitalization, requires us to make significant judgments. These judgments can have a material impact on our reported results.

For manufacturing property and equipment, we also capitalize the cost of validating these assets for the underlying manufacturing process. We complete the capitalization of validation costs when the asset is substantially complete and ready for its intended use. Costs capitalized include incremental labor and fringe benefits, and direct consultancy services. Determining whether to capitalize validation costs require judgment and can have a material impact on our reported results.

Property and equipment is stated at cost and depreciated over the estimated useful lives of the related assets using the straight-line method. Laboratory equipment and office furniture and equipment are depreciated over a five year period and computer equipment is depreciated over a three year period. Manufacturing equipment is amortized over a seven to ten year period. Leasehold improvements are amortized over the shorter of the estimated useful life or the noncancelable term of the related lease, including any renewals that are reasonably assured of occurring. Property and equipment under construction is classified as construction in progress and is depreciated or amortized only after the asset is placed in service. Expenditures for maintenance and repairs are charged to expense whereas the costs of significant improvements which extend the life of the underlying asset are capitalized. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are eliminated and the related gains or losses are reflected in net income. Determining the economic lives of property and equipment requires us to make significant judgments that can materially impact our operating results.

Amortization of Intangible Assets: We have acquired intangible assets, which include core technology, developed technology and strategic partner agreement, through the acquisition of Megan and UPT. These acquired intangible assets are being amortized on a straight-line basis over their estimated lives which range from 5 to 17 years. The determination of the amortization period involves estimates and judgment on management's part. Any significant changes in our estimates or assumptions could impact the carrying value of acquired intangible assets. We evaluate the recoverability of these assets when facts and circumstances suggest the asset could be impaired in accordance with Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment of Long-Lived Assets".

As a result of the adoption of SFAS No. 142, effective January 1, 2002, we ceased amortization of goodwill and perform an impairment assessment annually or whenever events or changes in circumstances indicate that our goodwill may be impaired. On July 1, 2004, 2003 and 2002, we conducted an annual impairment assessment as required under SFAS No. 142 by comparing our fair value to our net assets,

including goodwill, as of July 1, 2004, 2003 and 2002. Because our fair value exceeded the carrying value of our net assets at July 1, 2004, 2003 and 2002, we determined that our goodwill was not impaired.

Accounting for Patent Costs: In 2003, we changed our accounting for patent costs and now expense all patent costs as incurred. As a result of this change, we recorded a non-cash charge for the cumulative effect of the change in accounting principle of approximately $1.2 million, or $.02 per share, for the year ended December 31, 2003. Certain patent costs are reimbursed by our product development and licensing partners. Any reimbursed patent costs are recorded as product development and licensing agreement revenues in our financial statements.

Accrued Clinical Research and Contract Manufacturing Costs: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period reported. Specifically, the Company's management must make estimates of costs incurred to date, but not yet invoiced by external entities such as clinical research organizations ("CROs") and contract manufacturers. For CROs, management analyzes the progress of clinical trials, invoices received, and budgeted costs when evaluating the adequacy of the accrued liability. For contract manufacturers, management analyzes the progress of process development and scale-up efforts and the production of clinical materials, contract amendments signed for specific work, invoices received, and budgeted costs when evaluating the adequacy of the accrued liability. Significant management judgments and estimates must be made and used in connection with the accrued balance in any accounting period. Actual results may differ from the amount and timing of the accrued balance for any period.

Inflation and changing prices have not had a significant effect on continuing operations and are not expected to have any in the near future.

RESULTS OF OPERATIONS

Fiscal Year Ended December 31, 2005 compared with Fiscal Year ended December 31, 2004

AVANT reported a net loss of $18,096,569, or $0.24 per share, for the year ended December 31, 2005, an increase of $4,892,790, or 37.1%, compared to a net loss of $13,203,779, or $0.18 per share, for the year ended December 31, 2004. The increase in net loss between periods was due to reduced revenues and increased operating expenses, offset partially by increased investment and other income. The weighted average common shares outstanding used to calculate the net loss per common share was 74,143,454 in 2005 and 72,964,640 in 2004.

Revenue

Total revenue decreased $3,770,257, or 55%, to $3,088,341 in 2005 from $6,858,598 in 2004.

Product development and licensing revenue decreased $4,323,574 to $242,092 in 2005 from $4,565,666 in 2004. The decrease in product development and licensing revenue primarily reflects the recognition in 2004 of a one-time milestone fee of $2 million from Glaxo for the European filing of an application for market approval of Rotarix®, the recognition of $1 million in revenue from DVC for rPA clinical materials and an upfront license fee of $1 million from AdProTech (now Inflazyme). Fifty percent of the $2 million Glaxo milestone fee in 2004 is creditable against future royalties.

AVANT has received a number of subcontracts from its partner, DVC, to develop anthrax and plague vaccines for the U.S. Department of Defense. We will be reimbursed by DVC on a time and materials basis for vaccine development research work performed by us. Under these agreements and several SBIR grants, AVANT recognized $2,719,651 and $2,115,247 in government contract and grant revenue during 2005 and 2004, respectively. The increase in government contract and grant revenue in 2005 compared to

2004 primarily represents an increase in the level of research work billable to DVC. AVANT expects the amount of research work to be performed for DVC during 2006 to approximate the amount of research work performed during 2005.

In 2002, AVANT transferred the marketing and distribution of the Megan poultry product line to its partner, LAHI. Product royalty payments received by AVANT for Megan®Vac 1 and Megan®Egg product sales in 2005 and 2004 totaled $126,598 and $177,685, respectively. We expect royalty payments from LAHI to increase in 2006.

Operating Expense

Total operating expense increased $1,512,388, or 7.4%, to $21,953,358 in 2005 compared to $20,440,970 in 2004. The increase in total operating expense in 2005 compared to 2004 is primarily due to increased research and development expenses due to an increase in clinical trial costs associated with AVANT's TP10 Phase IIb study in women undergoing cardiac bypass surgery, increased personnel and facility costs incurred at our new Fall River facility and increased general and administrative expenses.

Research and development expense increased $189,469 to $14,063,295 in 2005 compared to $13,873,826 in 2004. The increase in 2005 compared to 2004 is primarily due to increased personnel, consulting, operating and facility-related costs of $1,292,913 associated with operations of the Fall River facility, increases in research laboratory supplies of $297,356 and increases in clinical trial costs of $236,053 associated with the TP10 program. These increases were offset in part by decreases in contract manufacturing costs of $975,991, license fees of $500,000 and insurance costs of $56,388. In the fourth quarter of 2004, we recorded $300,000 as an accrual for license fee obligations with respect to the portion of Glaxo's milestone payment that will offset future royalties. We expect research and development expense to increase substantially in 2006 as AVANT initiates a Phase I study of its plague vaccine candidate and a Phase III trial of CholeraGarde®, as payment of royalties are made to CCH on Rotarix® worldwide sales and as the Fall River facility runs at full operational status manufacturing clinical materials for bacterial vaccine clinical studies.

General and administrative expense increased $1,322,919, or 23.7%, to $6,894,951 in 2005 compared to $5,572,032 in 2004. The increase in 2005 is primarily attributed to increased personnel and related expenses of $551,826, legal fees of $342,756 primarily associated with the PRF royalty transaction and patent matters, and other professional services and consulting costs of $121,329 related to project management and Sarbanes-Oxley compliance. We expect general and administrative expense to increase in 2006.

Amortization expense of acquired intangible assets remained the same at $995,112 in both 2005 and 2004.

Investment and Other Income, Net

Net investment and other income increased $389,855 to $768,448 in 2005 compared to $378,593 in 2004. The increase is primarily due to higher average interest rates, offset in part by lower average cash balances during 2005 compared to 2004. During 2005 and 2004, the average month-end cash balances were approximately $25,600,800 and $35,812,400, respectively. The average effective interest rates during 2005 and 2004 were approximately 3.06% and 1.26%, respectively.

Fiscal Year Ended December 31, 2004 compared with Fiscal Year ended December 31, 2003

AVANT reported a net loss of $13,203,779, or $0.18 per share, for the year ended December 31, 2004, an increase of $534,282, or 4.2%, compared to a net loss of $12,669,497, or $0.20 per share, for the year

ended December 31, 2003. The weighted average common shares outstanding used to calculate the net loss per common share was 72,964,640 in 2004 and 62,512,916 in 2003.

Revenue

Total revenue increased $2,225,662, or 48%, to $6,858,598 in 2004 from $4,632,936 in 2003.

Product development and licensing revenue increased $2,957,993 to $4,565,666 in 2004 from $1,607,673 in 2003. In 2004, the increase in product development and licensing revenue primarily reflects the recognition of a one-time milestone fee of $2 million from Glaxo for the European filing of an application for market approval of Rotarix®, the recognition of $1 million in revenue from DVC for rPA clinical materials and an upfront license fee of $1 million from AdProTech, offset in part by the recognition of a one-time milestone payment from Glaxo of $1 million upon initiation of Rotarix® Phase III clinical trials in 2003 and by a reduction in government contract revenue in 2004 compared to 2003. Fifty percent of the $2 million Glaxo milestone fee in 2004 is creditable against future royalties.

AVANT has received a number of subcontracts from its partner, DVC, to develop anthrax and plague vaccines for the U.S. Department of Defense. We will be reimbursed by DVC on a time and materials basis for vaccine development research work performed by us. Under these agreements and several SBIR grants, AVANT recognized $2,115,247 and $2,857,433 in government contract and grant revenue during 2004 and 2003, respectively.

In 2002, AVANT transferred the marketing and distribution of the Megan poultry product line to its partner, LAHI. Product royalty payments received by AVANT for Megan®Vac 1 and Megan®Egg product sales in 2004 and 2003 totaled $177,685 and $167,830, respectively.

Operating Expense

Total operating expense increased $4,074,026, or 24.9%, to $20,440,970 in 2004 compared to $16,366,944 in 2003. The increase in total operating expense in 2004 compared to 2003 is primarily due to increased research and development expenses due to an increase in clinical trial costs associated with AVANT's TP10 Phase IIb study in women undergoing cardiac bypass surgery, TP10 contract manufacturing costs incurred for process development and scale-up work, and increased personnel and facility costs incurred at our new Fall River facility.

Research and development expense increased $3,852,530, or 38.4%, to $13,873,826 in 2004 compared to $10,021,296 in 2003. The increase in 2004 compared to 2003 is primarily due to increases in contract manufacturing costs of $2,725,300, clinical trial costs of $840,700 both associated with the TP10 program, laboratory supplies and services expenses of $105,700, clinical trials insurance expenses of $99,100, and Fall River related expenses of $856,400. In the fourth quarter of 2004, we recorded $300,000 as an accrual for license fee obligations with respect to the portion of Glaxo's milestone payment that will offset future royalties. These increases were offset in part by declines in license fees of $215,000, and research and development consultancy costs of $181,000.

General and administrative expense increased $221,496, or 4.1%, to $5,572,032 in 2004 compared to $5,350,536 in 2003. The increase in 2004 is primarily attributed to increased personnel and related expenses of $350,600, and increased consultancy expenses of $278,400 and other professional fees of $131,600 as a result of the Sarbannes-Oxley Act of 2002, offset partly by decreases in legal expenses of $529,000.

Amortization expense of acquired intangible assets remained the same at $995,112 in both 2004 and 2003.

Investment and Other Income, Net

Net investment and other income increased $138,782, or 57.9%, to $378,593 in 2004 compared to $239,811 in 2003. The increase is primarily due to higher average cash balances and higher interest rates during 2004 compared to 2003. Investment income was reduced primarily by foreign exchange losses of $61,700 in 2004. During 2004 and 2003, the average month-end cash balances were approximately $35,812,400 and $21,198,200, respectively. The average effective interest rates during 2004 and 2003 were approximately 1.26% and 1.11%, respectively.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2005, AVANT's principal sources of liquidity consisted of cash and cash equivalents of $23,419,434 compared to cash and cash equivalents at December 31, 2004 of $31,741,494. AVANT's cash and cash equivalents are highly liquid investments with a maturity of three months or less at the date of purchase and consist of time deposits and investments in money market mutual funds with commercial banks and financial institutions, short-term commercial paper, and U.S. Government and other investment grade debt securities. At December 31, 2005, all investments were in money market mutual funds. Also, the Company maintains cash balances with financial institutions in excess of insured limits. AVANT does not anticipate any losses with respect to such cash balances.

The use of AVANT's cash flows for operations has primarily consisted of salaries and wages for its employees, facility and facility-related costs for its offices and laboratories, fees paid in connection with preclinical studies, clinical studies, contract manufacturing, laboratory supplies and services, consulting fees, and legal fees. To date, the primary sources of cash flows from operations have been payments received from the Company's collaborative partners, from government entities and from financial institutions such as Paul Royalty Fund ("PRF"). In general, AVANT's sources of cash flows from

operations for the foreseeable future will be upfront license payments, payments for the achievement of milestones, product royalty payments, payments under government contracts and grants, funded research and development under collaboration agreements that AVANT may receive and the monetization of future royalty payments by financial institutions such as PRF. The timing of any new collaboration agreements, government contracts or grants and any payments under these agreements, contracts or grants cannot be easily predicted and may vary significantly from quarter to quarter.

Net cash used in operating activities decreased to $6,016,630 in 2005 compared to $10,347,958 in 2004. The decrease is primarily due to the receipt of $10 million related to the PRF royalty transaction included in deferred revenue, a decrease in accounts receivable of $1.8 million due to the collection of a Glaxo milestone payment, offset partly by an increase of $4.9 million in net loss in 2005 compared to 2004 and a decrease in accounts payable and accrued expenses of $1.6 million due to timing of payments. AVANT expects that cash used in operations will increase in 2006 as the Company continues to develop its products in clinical trials, contracts for the manufacture of clinical materials, runs its Fall River facility at full operational status and advances new products into preclinical development. The expected increase in cash used would be partially offset by anticipated payments made under the Company's government contracts and grants and anticipated milestone and product royalty payments.

Net cash used in investing activities was $2,173,768 in 2005 compared to net cash used in investing activities of $1,656,719 in 2004. The increase is primarily due to increased investment in property and equipment in 2005 compared to 2004 primarily at the Fall River manufacturing facility. AVANT expects it will continue to use cash in its investing activities as the Company expands its infrastructure, completes the tenant renovations of the Company's Needham facility, which are projected at a cost of approximately $4 million, net of amounts expected to be paid by the landlord, and runs the Fall River facility at full operational status.

Net cash used in financing activities was $131,662 in 2005 compared to net cash provided by financing activities of $25,495,131 in 2004. The decrease in cash provided by financing activities between years is due primarily to the sale of common stock in the first quarter of 2004.

In connection with our acquisition of the technology and intellectual property portfolio of UPT and the licensure of certain patents from Elan in 2003, AVANT paid an aggregate of $2,000,000 in consideration in the transaction. In connection with our acquisition of Megan, we entered into a licensing agreement with Pfizer whereby Pfizer made an initial license payment of $2.5 million together with a $3 million equity investment in AVANT.

In August 2002, our Board of Directors approved a share repurchase plan, which authorized the buyback of up to two million shares of our common stock in the open market or through privately negotiated transactions through August 31, 2003. Under the plan, we acquired 220,300 shares at an aggregate cost of approximately $227,600 and an average price of $1.03 per share.

In February 2004, we completed a direct equity placement of 8,965,000 shares of common stock to institutional investors at a price of $2.75 per share which generated gross proceeds totaling approximately $24.7 million. Expenses associated with the transaction totaled approximately $1,602,800.

In July 2003, AVANT completed a private placement of approximately 4,444,444 shares and warrants to purchase 444,444 shares of common stock at $3.00 per share to an institutional investor. Gross proceeds from the offering totaled $10 million. Expenses associated with the transaction totaled approximately $792,300.

AVANT believes that cash inflows from existing collaborations, interest income on invested funds and its current cash and cash equivalents will be sufficient to meet estimated working capital requirements and fund operations beyond December 31, 2006. The working capital requirements of AVANT are dependent on several factors including, but not limited to, the costs associated with research and development

programs, preclinical and clinical studies and the scope of collaborative arrangements. In February 2006, Glaxo, AVANT's partner for the commercialization of the Rotarix® vaccine, received approval from the European Commission to market this product in the European Union ("EU"). This approval triggers a $4 million milestone payment to AVANT from Glaxo. Further, under AVANT's agreement with PRF, the approval of Rotarix® by the European Commission leads to a $40 million milestone payment to AVANT from PRF upon launch of the product in the EU. During 2006 and 2007, AVANT may take steps to raise additional capital including, but not limited to, the licensing of technology programs with existing or new collaborative partners, possible business combinations, or the issuance of common stock via private placement and public offering. There can be no assurance that such efforts will be successful.

AGGREGATE CONTRACTUAL OBLIGATIONS

The following table summarizes AVANT's contractual obligations at December 31, 2005 and the effect such obligations and commercial commitments are expected to have on its liquidity and cash flow in future years. These obligations, commitments and supporting arrangements represent payments based on current operating forecasts, which are subject to change:

	Total	2006	2007-2009	2010-2011	Thereafter
Contractual obligations:					
Operating lease obligations	$15,049,000	$ 2,639,200	$4,587,900	$2,379,300	$5,442,600
Loan payable*	1,608,316	144,041	404,887	247,003	812,385
Note payable*	933,183	177,166	531,499	224,518	—
Licensing obligations	510,000	85,000	255,000	170,000	—
Construction contracts	110,600	110,600	—	—	—
Total contractual obligations	$18,211,099	$ 3,156,007	$5,779,286	$3,020,821	$6,254,985
Commercial commitments:					
Clinical development	$ 57,481	$ 57,481	$ —	$ —	$ —
Manufacturing development	1,160,931	1,160,931	—	—	—
Total commercial commitments	$ 1,218,412	$ 1,218,412	$ —	$ —	$ —

* includes interest obligations

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS 123R: In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123R"), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options and share-based payments granted to non-employee members of a company's board of directors, to be recognized in the income statement based on their fair values using an option-pricing model, such as the Black-Scholes model, at the date of grant. The pro forma footnote disclosure alternative is no longer allowable under SFAS No. 123R. On March 29, 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 to express the SEC staff's views regarding the interaction between SFAS No. 123R and certain SEC rules and regulations and provide the staff's views regarding the valuation of share-based payment arrangements.

AVANT is required to adopt SFAS 123R in the first quarter of fiscal 2006, beginning January 1, 2006. Under SFAS 123R, AVANT must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. AVANT is expecting to elect to use the modified prospective method for

adoption, which requires compensation expense to be recorded for all unvested stock options and restricted shares beginning in the first quarter of adoption. For all unvested options outstanding as of January 1, 2006, compensation expense previously measured under SFAS No. 123, but unrecognized, will be recognized using the straight-line method over the remaining vesting period. For share-based payments granted subsequent to January 1, 2006, compensation expense, based on the fair value on the date of grant, as defined by SFAS 123R, will be recognized using the straight-line method from the date of grant over the service period of the employee receiving the award.

SFAS 123R requires the estimation of forfeitures when recognizing compensation expense and that this estimate of forfeitures be adjusted over the requisite service period should actual forfeitures differ from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment, which will be recognized in the period of change and which will impact the amount of unamortized compensation expense to be recognized in future periods. Prior to the adoption of SFAS No. 123R, AVANT recognized share-based employee compensation expense for restricted stock awards. No share-based employee compensation cost for our stock option awards and for stock issuances under our employee stock purchase plan will have been reflected in net income prior to the adoption of SFAS No. 123R. Results for prior periods will not be restated. Although AVANT cannot estimate the exact amount at this time, AVANT expects that the adoption of SFAS 123R will have a material impact on its consolidated results of operations and earnings per share and will depend on the levels of share-based payments granted in the future. Due to the acceleration of options during 2005, the compensation expense previously reported in pro forma disclosures is not expected to be representative of future expected compensation expense.

FIN 47: In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). This is an interpretation of SFAS No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations," which applies to all entities and addresses the legal obligations with the retirement of tangible long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. FIN 47 further clarifies what the term "conditional asset retirement obligation" means with respect to recording the asset retirement obligation discussed in SFAS 143. The provisions of FIN 47 are effective no later than December 31, 2005. The adoption of FIN 47 did not have a material impact on AVANT's financial position and results of operations.

SFAS 154: On June 1, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"), which will require entities that voluntary make a change in accounting principle to apply that change retrospectively to prior periods' financial statements, unless this would be impracticable. SFAS 154 supersedes Accounting Principles Board Opinion No. 20, "Accounting Changes" (APB 20), which previously required that most voluntary changes in accounting principle be recognized by including in the current period's net income the cumulative effect of changing to the new accounting principle. SFAS 154 also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. SFAS 154 applies to accounting changes and error corrections that are made in fiscal years beginning after December 15, 2005.

OFF-BALANCE SHEET ARRANGEMENTS.

None.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We own financial instruments that are sensitive to market risk as part of our investment portfolio. Our investment portfolio is used to preserve our capital until it is used to fund operations, including our research and development activities. None of these market-risk sensitive instruments are held for trading purposes. We invest our cash primarily in money market mutual funds and U.S. Government and other investment grade debt securities. These investments are evaluated quarterly to determine the fair value of the portfolio. Our investment portfolio includes only marketable securities with active secondary or resale markets to help insure liquidity. We have implemented investment policies regarding the amount and credit ratings of investments. Because of the short-term nature of these investments, we do not believe we have material exposure due to market risk. The impact to our financial position and results of operations from likely changes in interest rates is not material.

We do not utilize derivative financial instruments. See Note 1 to the Consolidated Financials Statements for a description of our use of other financial instruments. The carrying amounts reflected in the consolidated balance sheet of cash and cash equivalents, accounts receivables and accounts payable approximates fair value at December 31, 2005 due to the short-term maturities of these instruments.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of
AVANT Immunotherapeutics, Inc.:

We have completed integrated audits of AVANT Immunotherapeutics, Inc.'s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of AVANT Immunotherapeutics, Inc. and its subsidiary at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Boston, Massachusetts
March 16, 2006

AVANT IMMUNOTHERAPEUTICS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2005	December 31, 2004
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 23,419,434	$ 31,741,494
Accounts Receivable	418,380	2,230,350
Prepaid and Other Current Assets	767,082	567,916
Total Current Assets	24,604,896	34,539,760
Property and Equipment, Net	5,743,663	4,164,292
Intangible and Other Assets, Net	5,067,073	6,063,185
Goodwill	1,036,285	1,036,285
Total Assets	$ 36,451,917	$ 45,803,522
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 1,140,578	$ 1,752,313
Accrued Expenses	2,334,708	3,341,659
Current Portion of Deferred Revenue	—	11,704
Current Portion of Long-Term Liabilities	217,457	186,509
Total Current Liabilities	3,692,743	5,292,185
Deferred Revenue	10,000,000	—
Other Long-Term Liabilities	1,870,051	2,103,711
Commitments and Contingent Liabilities (Notes 2 and 11)		
Stockholders' Equity:		
Convertible Preferred Stock, 4,513,102 Shares Authorized; None Issued and Outstanding at December 31, 2005 and 2004	—	—
Common Stock, $.001 Par Value 100,000,000 Shares Authorized; 74,387,087 Issued and 74,166,768 Outstanding at December 31, 2005; 74,351,571 Issued and 74,131,252 Outstanding at December 31, 2004	74,387	74,351
Additional Paid-In Capital	258,139,855	257,829,825
Deferred Compensation	(1,225,000)	(1,493,000)
Less: 220,319 Common Treasury Shares at Cost at December 31, 2005 and 2004	(227,646)	(227,646)
Accumulated Deficit	(235,872,473)	(217,775,904)
Total Stockholders' Equity	20,889,123	38,407,626
Total Liabilities and Stockholders' Equity	$ 36,451,917	$ 45,803,522

The accompanying notes are an integral part of the consolidated financial statements.

AVANT IMMUNOTHERAPEUTICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
REVENUE:			
Product Development and Licensing Agreements	$ 242,092	$ 4,565,666	$ 1,607,673
Government Contracts and Grants	2,719,651	2,115,247	2,857,433
Product Royalties	126,598	177,685	167,830
Total Revenue	3,088,341	6,858,598	4,632,936
OPERATING EXPENSE:			
Research and Development	14,063,295	13,873,826	10,021,296
General and Administrative	6,894,951	5,572,032	5,350,536
Amortization of Acquired Intangible Assets	995,112	995,112	995,112
Total Operating Expense	21,953,358	20,440,970	16,366,944
Operating Loss	(18,865,017)	(13,582,372)	(11,734,008)
Investment and Other Income, Net	768,448	378,593	239,811
Net Loss Before Cumulative Effect of Change in Accounting Principle	(18,096,569)	(13,203,779)	(11,494,197)
Cumulative Effect of Change in Accounting Principle	—	—	(1,175,300)
Net Loss	$(18,096,569)	$(13,203,779)	$(12,669,497)
Basic and Diluted Net Loss Per Common Share:			
Net Loss Per Common Share Before Cumulative Effect of Change in Accounting Principle	(0.24)	(0.18)	(0.18)
Cumulative Effect of Change in Accounting Principle Per Common Share	—	—	(0.02)
Net Loss Per Common Share	$ (0.24)	$ (0.18)	$ (0.20)
Weighted Average Common Shares Outstanding	74,143,454	72,964,640	62,512,916

The accompanying notes are an integral part of the consolidated financial statements.

AVANT IMMUNOTHERAPEUTICS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	Shares	Common Stock Par Value	Additional Paid-In Capital	Deferred Compensation	Treasury Stock Cost	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2002	**60,464,897**	**60,465**	**223,322,960**	□	**(136,374)**	**(191,902,628)**	**31,344,423**
Shares Issued upon Exercise of Stock Options	2,125	1	2,588	□	□	□	2,589
Shares Issued upon Cashless Exercise of Warrants	5,535	6	(6)	□	□	□	□
Employee Stock Purchase Plan Issuances	11,387	12	10,697	□	□	□	10,709
Net Proceeds from Stock Issuance	4,444,444	4,444	9,203,335	□	□	□	9,207,779
Purchase of 87,700 Shares of Treasury Stock at Cost	□	□	□	□	(91,272)	□	(91,272)
Issuance of Restricted Stock Units	□	□	1,104,000	(1,104,000)	□	□	□
Amortization of Deferred Compensation	□	□	□	115,000	□	□	115,000
Net Loss	□	□	□	□	□	(12,669,497)	(12,669,497)
Balance at December 31, 2003	**64,928,388**	**64,928**	**233,643,574**	**(989,000)**	**(227,646)**	**(204,572,125)**	**27,919,731**
Shares Issued upon Exercise of Stock Options	391,904	392	294,361	□	□	□	294,753
Shares Issued upon Cashless Exercise of Warrants	57,912	58	(58)	□	□	□	□
Employee Stock Purchase Plan Issuances	8,367	8	17,936	□	□	□	17,944
Net Proceeds from Stock Issuance	8,965,000	8,965	23,042,012	□	□	□	23,050,977
Issuance of Restricted Stock Units	□	□	832,000	(832,000)	□	□	□
Amortization of Deferred Compensation	□	□	□	328,000	□	□	328,000
Net Loss	□	□	□	□	□	(13,203,779)	(13,203,779)
Balance at December 31, 2004	**74,351,571**	**$ 74,351**	**$257,829,825**	**$ (1,493,000)**	**$(227,646)**	**$(217,775,904)**	**$ 38,407,626**
Shares Issued upon Exercise of Stock Options	30,375	30	34,597	□	□	□	34,627
Shares Issued upon Cashless Exercise of Warrants	536	1	(1)	□	□	□	□
Employee Stock Purchase Plan Issuances	4,605	5	5,434	□	□	□	5,439
Issuance of Restricted Stock Units	□	□	270,000	(270,000)	□	□	□
Amortization of Deferred Compensation	□	□	□	538,000	□	□	538,000
Net Loss	□	□	□	□	□	(18,096,569)	(18,096,569)
Balance at December 31, 2005	**74,387,087**	**$ 74,387**	**$258,139,855**	**$ (1,225,000)**	**$(227,646)**	**$(235,872,473)**	**$ 20,889,123**

The accompanying notes are an integral part of the consolidated financial statements.

AVANT IMMUNOTHERAPEUTICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Cash Flows From Operating Activities:			
Net Loss	$(18,096,569)	$(13,203,779)	$(12,669,497)
Adjustments to Reconcile Net Loss to Cash Used in Operating Activities:			
Cumulative Effect of Change in Accounting Principle	—	—	1,175,255
Depreciation and Amortization	1,591,659	1,388,172	1,412,068
(Gain) Loss on Disposal of Assets	(1,150)	797	—
Amortization of Deferred Compensation	538,000	328,000	115,000
Changes in Assets and Liabilities, Net of Acquisition:			
Accounts Receivable	1,811,970	(757,540)	(1,241,871)
Prepaid and Other Current Assets	(199,166)	17,294	(26,775)
Accounts Payable and Accrued Expenses	(1,618,686)	3,349,083	(1,131,200)
Deferred Revenue	9,988,296	(1,444,493)	502,329
Deferred Rent	(30,984)	(25,492)	125,414
Net Cash Used in Operating Activities	(6,016,630)	(10,347,958)	(11,739,277)
Cash Flows From Investing Activities:			
Other Non Current Assets	1,000	(11,231)	—
Acquisition of Property and Equipment	(2,175,918)	(3,651,488)	(210,142)
Proceeds from Disposal of Assets	1,150	6,000	—
Proceeds from the Maturity of Marketable Securities	—	4,000,000	5,200,000
Purchases of Marketable Securities	—	(2,000,000)	(1,200,000)
Cash Paid for Acquisition of Universal Preservation Technologies, Inc. Assets	—	—	(2,000,000)
Net Cash Provided by (Used in) Investing Activities	(2,173,768)	(1,656,719)	1,789,858
Cash Flows From Financing Activities:			
Net Proceeds from Stock Issuance	—	23,050,977	9,207,779
Proceeds from Exercise of Stock Options and Warrants	40,066	312,697	13,298
Proceeds from (Payment of) Long-Term Liabilities	(171,728)	2,131,457	—
Purchases of Treasury Stock	—	—	(91,272)
Net Cash Provided by (Used in) Financing Activities	(131,662)	25,495,131	9,129,805
Increase (Decrease) in Cash and Cash Equivalents	(8,322,060)	13,490,454	(819,614)
Cash and Cash Equivalents at Beginning of Period	31,741,494	18,251,040	19,070,654
Cash and Cash Equivalents at End of Period	$ 23,419,434	$ 31,741,494	$ 18,251,040
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	$ 108,408	—	—

See Note 6.

The accompanying notes are an integral part of the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Nature of Business and Overview

AVANT Immunotherapeutics, Inc. ("AVANT" or "the Company") is a biopharmaceutical company engaged in the discovery, development and commercialization of products that harness the human immune response to prevent and treat disease. AVANT has actively developed and acquired innovative technologies—especially novel approaches to vaccine creation—that harness the human immune system. The Company develops and commercializes products on a proprietary basis and in collaboration with established pharmaceutical partners and other collaborators, including GlaxoSmithKline plc, Pfizer Inc, DVC LLC and Lohmann Animal Health International.

In February 2004, AVANT completed a direct equity placement of 8,965,000 shares of common stock to institutional investors at a price of $2.75 per share which generated net proceeds totaling $23,050,977. In July 2003, the Company closed a private placement of approximately 4.4 million shares of common stock at $2.25 per share and warrants to purchase 444,444 shares of common stock at $3.00 per share to an institutional investor which generated net proceeds totaling $9,207,779.

AVANT's cash and cash equivalents at December 31, 2005 were $23,419,434. Its working capital at December 31, 2005 was $20,912,153. We incurred a loss of $18,096,569 for the year ended December 31, 2005. AVANT believes that cash inflows from existing grants and collaborations, interest income on invested funds and our current cash and cash equivalents will be sufficient to meet estimated working capital requirements and fund operations beyond December 31, 2006. The working capital requirements of AVANT are dependent on several factors including, but not limited to, the costs associated with research and development programs, pre-clinical and clinical studies, manufacture of clinical materials and the scope of collaborative arrangements. In February 2006, GlaxoSmithKline ("Glaxo"), AVANT's partner for the commercialization of the Rotarix® vaccine, received approval from the European Commission to market this product in the European Union ("EU"). This approval triggers a $4 million milestone payment to AVANT from Glaxo. Further, under AVANT's agreement with an affiliate of Paul Royalty Fund II, L.P. ("PRF"), the approval of Rotarix® by the European Commission leads to a $40 million milestone payment to AVANT from PRF upon launch of the product in the EU.

(B) Basis of Presentation

The consolidated financial statements include the accounts of AVANT Immunotherapeutics, Inc. and its wholly-owned subsidiary, Megan Health, Inc. ("Megan"). All intercompany transactions have been eliminated.

(C) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with original maturities of three months or less. Cash and cash equivalents are stated at cost, which approximates fair value. At December 31, 2005, all investments were in money market mutual funds.

Investments in marketable securities are accounted for in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities". At December 31, 2005 and 2004, there were no outstanding investments in marketable securities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

AVANT invests its non-operating cash in debt instruments of financial institutions, government entities and corporations, and mutual funds. The Company has established guidelines relative to credit ratings, diversification and maturities to mitigate risk and maintain liquidity.

(D) Fair Value of Financial Instruments

AVANT enters into various types of financial instruments in the normal course of business. Fair values for cash, cash equivalents, accounts receivable, accounts payable and accrued expenses approximate carrying value at December 31, 2005 and 2004, due to the nature and the relatively short maturity of these instruments, other than long-term liabilities discussed in Note 10.

(E) Revenue Recognition

AVANT has entered into various license and development agreements with pharmaceutical and biotechnology companies. The terms of the agreements typically include non-refundable license fees, funding of research and development, payments based upon achievement of certain milestones and royalties on net product sales. Non-refundable license fees are recognized as contract and license fee revenue when AVANT has a contractual right to receive such payments, provided a contractual arrangement exists, the contract price is fixed or determinable, the collection of the resulting receivable is reasonably assured and AVANT has no further performance obligations under the license agreement. When AVANT has performance obligations under the terms of a contact, non-refundable fees are recognized as revenue as AVANT completes its obligations. Where AVANT's level of effort is relatively constant over the performance period, the revenue is recognized on a straight-line basis. The determination of the performance period involves judgment on management's part. Funding of research and development is recognized over the term of the applicable contract as costs are incurred related to that contract.

Revenues from milestone payments related to arrangements under which we have no continuing performance obligations are recognized upon achievement of the related milestone. Revenues from milestone payments related to arrangements under which we have continuing performance obligations are recognized as revenue upon achievement of the milestone only if all of the following conditions are met: the milestone payments are non-refundable; achievement of the milestone was not reasonably assured at the inception of the arrangement; substantive effort is involved in achieving the milestone; and, the amount of the milestone is reasonable in relation to the effort expended or the risk associated with achievement of the milestone. If any of these conditions are not met, the milestone payments are deferred and recognized as revenue over the term of the arrangement as AVANT completes its performance obligations.

Revenues from government contracts are recorded as effort is expended on the contracted work and billed to the government. Royalty revenue consists of payments received from licensees for a portion of sales proceeds from products that utilize AVANT's licensed technologies and would be recognized when the amount of and basis for such royalty payments are reported to us in accurate and appropriate form and in accordance with the related license agreement. Payments received in advance of activities being performed are recorded as deferred revenue. Any significant changes in our estimates or assumptions could impact our revenue recognition.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In May 2005, AVANT entered into an agreement whereby PRF purchased an interest in the net royalties AVANT will receive on worldwide sales of Rotarix®. The PRF transaction qualifies as a sale in accordance with guidance in EITF 88-18 "Sale of Future Revenues". The upfront unconditional payment of $10 million was recorded by AVANT as deferred revenue at December 31, 2005. Any future milestone payments received from PRF will also be recorded as deferred revenue. Revenues will be recognized and calculated based on the ratio of total royalties received from Glaxo and remitted to PRF over expected total amounts to be received by PRF and then applying this percentage to the total cumulative consideration received from PRF to date. The expected total of payments to be paid to PRF is an estimate which AVANT will update from time to time to determine that the estimate continues to be reasonable in the light of then current events and circumstances.

Effective July 1, 2003, we adopted EITF 00-21, *Accounting For Revenue Arrangements with Multiple Deliverables,* which establishes criteria for whether revenue on a deliverable can be recognized separately from other deliverables in a multiple deliverable arrangement. The criteria considers whether the delivered item has stand-alone value to the customer, whether the fair value of the delivered item can be reliably determined and the customer's right of return for the delivered item. The adoption of EITF 00-21 did not have a material impact on our financial statements.

(F) Research and Development Costs

Research and development costs, including internal and contract research costs, are expensed as incurred.

(G) Trade and Other Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. AVANT has not historically experienced credit losses from our trade accounts receivable and therefore have not established an allowance for doubtful accounts. The Company does not have any off-balance-sheet credit exposure related to its customers.

Accounts receivable consists of the following:

	December 31, 2005	December 31, 2004
Trade Receivables	$383,416	$2,205,176
Other Receivables	34,964	25,174
	$418,380	$2,230,350

Other receivables at December 31, 2005 and 2004 represent interest receivable from a bank.

(H) Long-Lived Assets.

In the ordinary course of our business, we incur substantial costs to construct property and equipment. The treatment of costs to construct these assets depends on the nature of the costs and the stage of construction. Costs incurred in the project planning and design phase, and in the construction and installation phase, are capitalized as part of the cost of the asset. We stop capitalizing costs when the asset is substantially complete and ready for its intended use.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For manufacturing property and equipment, we also capitalize the cost of validating these assets for the underlying manufacturing process. We complete the capitalization of validation costs when the asset is substantially complete and ready for its intended use. Costs capitalized include incremental labor and fringe benefits, and direct consultancy services. Determining whether to capitalize validation costs require judgment and can have a material impact on our reported results.

Property and equipment is stated at cost and depreciated over the estimated useful lives of the related assets using the straight-line method. Laboratory equipment and office furniture and equipment are depreciated over a five year period and computer equipment is depreciated over a three year period. Manufacturing equipment is amortized over a seven to ten year period. Leasehold improvements are amortized over the shorter of the estimated useful life or the noncancelable term of the related lease, including any renewals that are reasonably assured of occurring. Property and equipment under construction is classified as construction in progress and is depreciated or amortized only after the asset is placed in service. Expenditures for maintenance and repairs are charged to expense whereas the costs of significant improvements which extend the life of the underlying asset are capitalized. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are eliminated and the related gains or losses are reflected in net income.

(I) Accounting for Patent Costs:

In 2003, we changed our accounting for patent costs and now expense all patent costs as incurred. As a result of this change, we recorded a non-cash charge for the cumulative effect of the change in accounting principle of approximately $1.2 million, or $.02 per share, for the year ended December 31, 2003. Certain patent costs are reimbursed by our product development and licensing partners. Any reimbursed patent costs are recorded as product development and licensing agreement revenues in our financial statements.

(J) Interest Capitalization

AVANT capitalizes interest cost as part of the historical cost of acquiring certain assets during the period of time required to get the asset ready for its intended use. The amount of capitalized interest is limited to the amount of interest incurred by AVANT. In 2005, AVANT has capitalized interest costs of $115,796 incurred in financing leasehold improvements and laboratory and manufacturing equipment at its Fall River facility, which represents the total amount of interest costs incurred by AVANT during 2005.

(K) Operating Leases

The Company has three facilities which are located at Needham and Fall River, Massachusetts and Overland, Missouri under non-cancellable operating lease agreements for office, laboratory and manufacturing space. The rent payments for the three locations escalate over the lease term. The Company expenses its obligations under these lease agreements on a straight-line basis over the term of each lease, including any renewals that are reasonably assured of occurring.

(L) Intangible Assets

AVANT has acquired intangible assets, which include core technology, developed technology and a strategic partner agreement, through the acquisition of Megan and UPT. These acquired intangible assets

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

are being amortized on a straight-line basis over their estimated lives which range from 5 to 17 years. The determination of the amortization period involves estimates and judgments on management's part. Any significant changes in our estimates or assumptions could impact the carrying value of acquired intangible assets. The Company evaluates the recoverability of these assets when facts and circumstances suggest the asset could be impaired in accordance with Statement of Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment of Long-Lived Assets".

In the fourth quarter of 2003, AVANT changed its method of accounting for legal costs associated with the application for patents effective January 1, 2003. Prior to the change, AVANT capitalized these patent costs and amortized them over the estimated remaining economic life of the patent. Under the new method, these costs are expensed as incurred. The Company believes that this change is preferable because it will provide a better comparison with our industry peers, the majority of which expense these costs as incurred. The $1,175,300 cumulative effect of the change on prior years is included as a charge to net income as of January 1, 2003. The effect of the change for the year ended December 31, 2003 was to increase net loss $1,175,300, or $0.02 per basic and diluted share.

(M) Loss Per Share

AVANT computes and reports earnings per share in accordance with the provisions of SFAS No. 128, "Earnings Per Share". The computations of basic and diluted loss per common share are based upon the weighted average number of common shares outstanding and potentially dilutive securities. Potentially dilutive securities include stock options, restricted stock units and warrants. Options and warrants to purchase 3,419,394, 3,470,131 and 3,860,457 shares of common stock and Restricted Stock Units totaling 1,000,000, 800,000, and 400,000 shares were not included in the 2005, 2004 and 2003 computation of diluted net loss per share, respectively, because inclusion of such shares would have an anti-dilutive effect on net loss per share.

(N) Comprehensive Income

Comprehensive income is comprised of two components, net income and other comprehensive income. For the years ended December 31, 2005, 2004 and 2003, AVANT had no other comprehensive income.

(O) Foreign Currency Transactions

Expenses incurred in foreign currencies are translated at exchange rates in effect during each period. Gains and losses from foreign currency translations are included in investment and other income, net in the statements of operations. In 2005 and 2004, AVANT recorded foreign currency transaction losses of $2,223 and $61,728, respectively.

(P) Stock-Based Compensation

AVANT's employee stock compensation plans are accounted for in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, including FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation." AVANT adopted the disclosure requirements of Statement of Financial Accounting

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation". All stock based awards to non-employees are accounted for at their fair value as prescribed by SFAS 123 and Emerging Issues Task Force (EITF) 96-18, "Accounting for Equity Instruments that are issued to other than Employees for Acquiring, or in conjunction with Selling, Goods and Services" (see Note 6). Accordingly, no compensation cost has been recognized under SFAS 123 for the Company's employee stock option plan. Had compensation cost for the awards under the plan been determined based on the grant date fair values, consistent with the method required under SFAS 123, the Company's net loss and net loss per share would have been reduced to the pro forma amounts indicated below:

	2005	2004	2003
Net Loss:			
As reported	$18,096,569	$13,203,700	$12,669,500
Less: Stock-based employee compensation expense as reported	(538,000)	(328,000)	(115,000)
Add: Total stock-based employee compensation expense determined under fair value based method for all awards	1,329,300	1,000,400	854,700
Pro forma	$18,887,869	$13,876,100	$13,409,200
Basic and Diluted Net Loss Per Share:			
As reported	$ 0.24	$ 0.18	$ 0.20
Pro forma	0.25	0.19	0.21

The fair value of the option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2005	2004	2003
Expected dividend yield	0%	0%	0%
Expected stock price volatility	80%	91%	109%
Risk-free interest rate	3.6% – 4.6%	2.7% – 4.2%	1.0% – 3.4%
Expected option term	5 Years	5 Years	5 Years

Because the determination of the fair value of all options granted includes an expected volatility factor in addition to the factors detailed in the table above, and because additional option grants are expected to be made each year, the above pro forma disclosures are not representative of pro forma effects of reported net income for future years.

(Q) Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(R) Reclassification

Certain reclassifications have been made to prior year amounts to conform to the current year presentation, including reclassifying $158,763 of deferred rent expense from its previously reported classification as accrued expenses to other long-term liabilities at December 31, 2004. AVANT has also made corresponding adjustments to classifications within operating activities in its Consolidated Statements of Cash Flows for fiscal 2004 and 2003. These changes in classification do not affect previously reported cash flows from operations, financing or investing activities in AVANT's Consolidated Statements of Cash Flows.

(S Segments

Management uses consolidated financial information in determining how to allocate resources and assess performance. For this reason, AVANT has determined that it is engaged in one industry segment. Substantially all of AVANT's revenue since inception has been generated in the United States and all of our assets are in the United States.

(T) Recent Pronouncements

SFAS 123R: In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123R"), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options and share-based payments granted to non-employee members of a company's board of directors, to be recognized in the income statement based on their fair values using an option-pricing model, such as the Black-Scholes model, at the date of grant. The pro forma footnote disclosure alternative is no longer allowable under SFAS No. 123R. On March 29, 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 to express the SEC staff's views regarding the interaction between SFAS No. 123R and certain SEC rules and regulations and provide the staff's views regarding the valuation of share-based payment arrangements.

AVANT is required to adopt SFAS 123R in the first quarter of fiscal 2006, beginning January 1, 2006. Under SFAS 123R, AVANT must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. AVANT is expecting to elect to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options and restricted shares beginning in the first quarter of adoption. For all unvested options outstanding as of January 1, 2006, compensation expense previously measured under SFAS No. 123, but unrecognized, will be recognized using the straight-line method over the remaining vesting period. For share-based payments granted subsequent to January 1, 2006, compensation expense, based on the fair value on the date of grant, as defined by SFAS 123R, will be recognized using the straight-line method from the date of grant over the service period of the employee receiving the award.

SFAS 123R requires the estimation of forfeitures when recognizing compensation expense and that this estimate of forfeitures be adjusted over the requisite service period should actual forfeitures differ from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

adjustment, which will be recognized in the period of change and which will impact the amount of unamortized compensation expense to be recognized in future periods. Prior to the adoption of SFAS No. 123R, AVANT recognized share-based employee compensation expense for restricted stock awards. No share-based employee compensation cost for our stock option awards and for stock issuances under our employee stock purchase plan will have been reflected in net income prior to the adoption of SFAS No. 123R. Results for prior periods will not be restated. Although AVANT cannot estimate the exact amount at this time, AVANT expects that the adoption of SFAS 123R will have a material impact on its consolidated results of operations and earnings per share and will depend on the levels of share-based payments granted in the future. Due to the acceleration of options during 2005, the compensation expense previously reported in pro forma disclosures is not expected to be representative of future expected compensation expense.

FIN 47: In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). This is an interpretation of SFAS No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations," which applies to all entities and addresses the legal obligations with the retirement of tangible long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. FIN 47 further clarifies what the term "conditional asset retirement obligation" means with respect to recording the asset retirement obligation discussed in SFAS 143. The adoption of FIN 47 did not have a material impact on AVANT's financial position and results of operations.

SFAS 154: On June 1, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"), which will require entities that voluntary make a change in accounting principle to apply that change retrospectively to prior periods' financial statements, unless this would be impracticable. SFAS 154 supersedes Accounting Principles Board Opinion No. 20, "Accounting Changes" (APB 20), which previously required that most voluntary changes in accounting principle be recognized by including in the current period's net income the cumulative effect of changing to the new accounting principle. SFAS 154 also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. SFAS 154 applies to accounting changes and error corrections that are made in fiscal years beginning after December 15, 2005.

2. PROPERTY, EQUIPMENT AND LEASES

Property and equipment includes the following:

	December 31, 2005	December 31, 2004
Laboratory Equipment	$ 2,966,354	$ 2,383,692
Manufacturing Equipment	1,054,512	6,766
Office Furniture and Equipment	1,893,623	1,665,403
Leasehold Improvements	4,510,075	1,704,590
Construction in Progress	960,624	3,473,578
Total Property and Equipment	11,385,188	9,234,029
Less Accumulated Depreciation	(5,641,525)	(5,069,737)
	$ 5,743,663	$ 4,164,292

During 2005 and 2004, AVANT wrote off approximately $24,759 and $83,497, respectively, of fully depreciated equipment no longer used in its operations. In 2005, AVANT recorded a gain on disposal of other fixed assets of $1,150. In 2004, the Company also wrote off $57,974 of equipment that was not fully depreciated and recorded a loss on disposal of $797. Depreciation expense related to equipment and leasehold improvements was approximately $596,547, $393,087 and $416,956 for the years ended December 31, 2005, 2004 and 2003, respectively.

AVANT leases approximately 54,300 square feet of laboratory and office space in Needham, Massachusetts. In August 2001, AVANT extended its lease of approximately 54,300 sq. ft. of laboratory and office space in Needham, Massachusetts through April 30, 2007. In November 2005, AVANT entered into a lease amendment which calls for the renovation of the Needham facility by the landlord and AVANT, reduces AVANT's leased space to approximately 35,200 square feet of laboratory and office space and extends the lease through April 2017. The lease also provides for a 5-year extension option. The preliminary projected costs for the tenant improvements portion of the renovations project are approximately $6.9 million. As an incentive for AVANT to enter into the lease amendment, the landlord has agreed to contribute up to $3.6 million towards tenant improvement costs. As of December 31, 2005, AVANT had made payments and accrued costs totaling approximately $145,300 towards the tenant improvements portion of the renovations project.

AVANT leases approximately 12,400 square feet of laboratory and office space in Overland, Missouri near St. Louis. In February 2004, AVANT extended its lease of approximately 12,400 sq. ft. of laboratory and office space in St. Louis, Missouri through September 30, 2007.

In 2003, the Company reached agreement with MassDevelopment, an economic development entity for the Commonwealth of Massachusetts, for AVANT to occupy and build-out an 11,800 square foot manufacturing facility in Fall River, Massachusetts. The lease has an initial seven-year term which expires in December 2010 and two renewal options of five years each. Management has determined that it is reasonably assured that AVANT will exercise one five-year renewal option. Therefore, AVANT is amortizing leasehold improvements made to the Fall River facility over the original lease term plus one five-year renewal term. In November 2005, AVANT amended the MassDevelopment lease to increase the rentable space to approximately 14,300 square feet at the Fall River facility. The landlord is providing a tenant incentive allowance of $49,740 against the cost of alterations and improvements required by AVANT to be made to the expanded space.

2. PROPERTY, EQUIPMENT AND LEASES (Continued)

In 2005, AVANT has capitalized interest costs of $ 115,796 incurred in financing leasehold improvements and laboratory and manufacturing equipment at its Fall River facility, which represents the total amount of interest costs incurred by AVANT during 2005.

Obligations for base rent under these and other noncancelable operating leases as of December 31, 2005 are approximately as follows:

Year ending December 31,	2006	$ 2,639,188
	2007	1,868,640
	2008	1,366,369
	2009	1,352,895
	2010	1,358,844
	2011 and thereafter	6,463,047
	Total minimum lease payments	$15,048,983

Our total rent for all operating leases (including rent expense net of sublease income) was approximately $2,491,274, $2,332,192, and $2,307,026 for the years ended December 31, 2005, 2004 and 2003, respectively.

3. GOODWILL, INTANGIBLE AND OTHER ASSETS

Goodwill: AVANT adopted SFAS 142 in January 2002. AVANT has concluded that it currently has one reporting unit and has assigned the entire balance of goodwill to this reporting unit for purposes of performing its annual impairment test. The fair value of the reporting unit was determined using AVANT's market capitalization as of July 1, 2005 and 2004, adjusted for a control premium. The fair value on July 1, 2005 and 2004 exceeded the net assets of the reporting unit, including goodwill. Accordingly, AVANT concluded that no impairment existed as of these dates.

Intangible and Other Assets: Intangible and other assets include the following:

		December 31, 2005			December 31, 2004		
	Estimated Lives	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Intangible Assets:							
Collaborative Relationships	5 years	1,090,000	(1,090,000)	□	1,090,000	(1,090,000)	□
Core Technology	10 years	3,786,900	(1,508,352)	2,278,548	3,786,900	(1,129,658)	2,657,242
Developed Technology	7 years	3,263,100	(2,366,800)	896,300	3,263,100	(1,901,200)	1,361,900
Strategic Partner Agreement	17 years	2,563,900	(766,655)	1,797,245	2,563,900	(615,838)	1,948,062
Total Intangible Assets		10,703,900	(5,731,807)	4,972,093	10,703,900	(4,736,696)	5,967,204
Other Non Current Assets		94,981	□	94,981	95,981	□	95,981
		$10,798,881	$(5,731,807)	$5,067,074	$10,799,881	$(4,736,696)	$6,063,185

In January 2003, AVANT completed the acquisition of certain technology and intellectual property of UPT and the licensure of certain patent rights from Elan Drug Delivery Limited (EDD). Through this transaction, AVANT gained exclusive rights to UPT's VitriLife® process for use in AVANT's oral vaccines and certain other non-injectable applications. The Company has determined that this technology

3. GOODWILL, INTANGIBLE AND OTHER ASSETS (Continued)

has alternative future uses and will be incorporated into a number of AVANT's bacterial vaccine programs. AVANT paid an aggregate of $2,000,000 in consideration in the transaction, recorded this value to acquired intangible assets, Core Technology, and is amortizing these assets over their estimated lives of ten years.

In 2003, AVANT changed its accounting for patent costs and now expenses all patent costs as incurred. As a result of this change, the Company recorded a non-cash charge for the cumulative effect of the change in accounting principle of approximately $1.2 million, or $.02 per share, for the year ended December 31, 2003.

All of AVANT's intangible assets are amortized over their useful lives. Total amortization expense for intangible assets for the years ended December 31, 2005, 2004 and 2003 was $995,112.

The estimated future amortization expense of intangible assets as of December 31, 2005 and for the five succeeding years is as follows:

Year ending December 31,	Estimated Amortization Expense
2006	$ 995,112
2007	960,212
2008	529,512
2009	529,512
2010	514,622

4. ACCRUED EXPENSES

Accrued expenses are comprised of amounts owed to employees, vendors, and suppliers for work performed on behalf of us. At each period end the Company evaluates the accrued expense balance related to these activities based upon information received from the supplier and estimated progress toward completion of objectives to ensure that the balance is appropriately stated. Such estimates are subject to changes as additional information becomes available. Accrued expenses include the following:

	December 31, 2005	December 31, 2004
Accrued License Fees	$ 253,566	$ 350,000
Accrued Payroll and Employee Benefits	621,611	383,353
Accrued Clinical Trials	825,084	798,666
Accrued Manufacturing Expenses	215,644	1,338,155
Accrued Professional Fees	181,833	232,878
Other Accrued Expenses	236,970	238,607
	$2,334,708	$3,341,659

5. INCOME TAXES

	Year Ended December 31,		
	2005	2004	2003
Income tax benefit (provision):			
Federal	$ 6,907,000	$ 5,273,800	$ 4,848,600
State	1,436,200	1,155,100	1,024,800
	8,343,200	6,428,900	5,873,400
Deferred tax valuation allowance	(8,343,200)	(6,428,900)	(5,873,400)
	$ —	$ —	$ —

Deferred tax assets and liabilities are comprised of the following:

	December 31, 2005	December 31, 2004
Gross Deferred Tax Assets		
Net Operating Loss Carryforwards	$ 62,738,000	$ 60,528,000
Tax Credit Carryforwards	9,472,000	8,499,000
Deferred Expenses	11,593,000	13,151,000
Fixed Assets	658,000	569,000
Accrued Expenses and Other	395,000	630,000
Deferred Revenue	4,027,000	5,000
	88,883,000	83,382,000
Gross Deferred Tax Liabilities		
Acquired Intangibles	(1,358,000)	(1,759,000)
Deferred Tax Assets Valuation Allowance	(87,525,000)	(81,623,000)
Net Deferred Tax Asset (Liability)	$ —	$ —

Reconciliation between the amount of reported income tax and the amount computed using the U.S. Statutory rate of 34% follows:

	2005	2004	2003
Pre-tax book income (loss)	$(18,096,575)	$(13,203,700)	$(12,669,500)
Loss at Statutory Rates	(6,152,800)	(4,489,300)	(4,307,600)
Research and Development Credits	(812,000)	(788,100)	(544,200)
State Taxes	(1,436,200)	(1,155,100)	(1,024,800)
Other	57,800	3,600	3,200
Expiration of Net Operating Losses and Research & Development Tax Credits	2,441,000	1,310,000	2,441,000
Increase in Valuation Allowance	5,902,200	5,118,900	3,432,400
	$ —	$ —	$ —

As of December 31, 2005, AVANT had federal net operating loss and tax credit carryforwards of approximately $172,538,000 and $6,972,000, respectively, and state net operating loss and credit carry-forwards of approximately $69,354,000 and $3,788,000, respectively, which may be available to offset future

5. INCOME TAXES (Continued)

federal and state income tax liabilities and that expire at various dates from 2006 through 2025. During 2005, federal net operating losses and credits of approximately $4,626,000 and $321,000, respectively, and state net operating losses of approximately $9,319,000 expired unused.

As required by Statement of Financial Accounting Standards No. 109, management has evaluated the positive and negative evidence bearing upon the realizability of its net deferred tax assets, which are comprised principally of net operating loss and tax credit carryforwards. Management has determined that it is more likely than not that AVANT will not recognize the benefits of federal and state deferred tax assets and, as a result, a valuation allowance of approximately $87,525,000 has been established at December 31, 2005. The future realization, if any, of the deferred tax assets attributable to disqualifying dispositions of incentive stock options and the exercise of nonqualified stock options will not be recognized as a tax benefit in the statement of operations, but rather as a component of stockholders' equity.

Ownership changes, as defined in the Internal Revenue Code, may have limited the amount of net operating loss and tax credit carryforwards that can be utilized annually to offset future taxable income. Subsequent ownership changes could further affect the limitation in future years.

The American Jobs Creation Act of 2004 (the "Act") was signed into law on October 22, 2004. The Act contains numerous amendments and additions to the U.S. corporate income tax rules. AVANT has evaluated the impact of the Act and has determined that it will not have a material impact on the Company's financial position and results of operations.

6. STOCKHOLDERS' EQUITY

(A) Public and Private Stock Offerings

In February 2004, AVANT completed a direct equity placement of 8,965,000 shares of common stock to institutional investors at a price of $2.75 per share which generated gross proceeds totaling approximately $24.7 million. Expenses associated with the transaction totaled $1,602,773.

AVANT filed a shelf registration statement in November 2003 with the Securities and Exchange Commission to register 15 million shares of common stock and warrants to purchase 2.25 million shares of common stock. At December 31, 2005, 6,035,000 shares and all of the warrants were still available for issuance.

In July 2003, AVANT closed a private placement of approximately 4.4 million shares of common stock at $2.25 per share and warrants to purchase 444,444 shares of common stock at $3.00 per share to an institutional investor which generated net proceeds totaling $9,207,779.

(B) Preferred Stock

At December 31, 2005 and 2004, AVANT had authorized preferred stock comprised of 1,163,102 shares of convertible Class B and 3,000,000 shares of convertible Class C of which 350,000 shares has been designated as Class C-1 Junior Participating Cumulative, the terms of which are to be determined by our Board of Directors. There was no preferred stock outstanding at December 31, 2005 and 2004.

6. STOCKHOLDERS' EQUITY (Continued)

(C) Warrants

AVANT has issued warrants to purchase common stock in connection with the private placement of approximately 4.4 million shares in July 2003. The warrants are exercisable at $3.00 per share and expire July 1, 2008. In connection with the acquisition of VRI in August 1998, AVANT assumed the obligations of VRI with respect to each outstanding warrant to purchase VRI common stock (a "VRI Warrant"). The last of the VRI Warrants expired on December 14, 2005.

Warrants outstanding at December 31, 2005 are as follows:

Security	Number of Shares	Exercise Price Per Share	Expiration Date
Common stock	444,444	$3.00	July 1, 2008

In 2005, 1,861 warrants were exercised as cashless exercises resulting in the issuance of 536 shares. In 2004, 87,568 warrants were exercised as cashless exercises resulting in the issuance of 57,912 shares.

(D) Stock Options and Employee Stock Purchase Plans

Stock Options

On May 6, 1999, AVANT's 1999 Stock Option and Incentive Plan (the "1999 Plan") was adopted. The 1999 Plan replaced the Amended and Restated 1991 Stock Compensation Plan, which was an amendment and restatement of AVANT's 1985 Incentive Option Plan. The 1999 Plan permits the granting of incentive stock options (intended to qualify as such under Section 422A of the Internal Revenue Code of 1986, as amended), non-qualified stock options, stock appreciation rights, performance share units, restricted stock and other awards of restricted stock in lieu of cash bonuses to employees, consultants and outside directors.

The 1999 Plan, as amended in 2002, allows for a maximum of 3,500,000 shares of common stock to be issued prior to May 6, 2009. The Board of Directors determines the term of each option, option price, number of shares for which each option is granted and the rate at which each option vests. The term of each option cannot exceed ten years (five years for options granted to holders of more than 10% of the voting stock of AVANT) and the exercise price of stock options cannot be less than the fair market value of the common stock at the date of grant (110% of fair market value for incentive stock options granted to holders of more than 10% of the voting stock of AVANT).

In connection with the acquisition of Megan, we assumed the obligations of Megan under Megan's Stock Option Plan (the "Megan Plan") and each outstanding option to purchase Megan common stock (a "Megan Stock Option") granted under the Megan Plan. Each Megan Stock Option assumed by AVANT is deemed to constitute an option to acquire, on the same terms and conditions as were applicable under the Megan Plan, shares of AVANT's common stock which has been adjusted consistent with the ratio at which our common stock was issued in exchange for Megan's common stock in the acquisition. As of the date the acquisition was completed we assumed options to acquire 31,910 shares of our common stock at a weighted average exercise price of $4.39. The Megan Stock Options are fully vested as of December 1, 2000 and the term of each option cannot exceed ten years from the date of grant.

6. STOCKHOLDERS' EQUITY (Continued)

On November 17, 2005, pursuant to and in accordance with the recommendation of the Compensation Committee, the Board of Directors of AVANT approved full acceleration of the vesting of otherwise unvested stock options that had an exercise price of $2.00 or greater granted under the 1999 Plan that were held by employees, officers and non-employee directors. As a result of the Board of Directors' action, a total of 265,935 of such "out-of-the-money" unvested stock options, having a weighted average exercise price of $2.37 per share, became exercisable effective November 17, 2005, rather than the later dates when such options would have vested in the normal course. The Company determined the value of the "out-of-the-money" unvested stock options to be $360,100. This action was taken in accordance with the applicable provisions of the 1999 Plan. The Board's decision to accelerate the vesting of these "out-of-the-money" stock options was made primarily to reduce compensation expense that otherwise would likely be recorded in future periods following AVANT's anticipated adoption in the first quarter of 2006 of SFAS 123R. On December 16, 2004, the FASB issued SFAS 123R, which requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. SFAS 123R will require that compensation expenses associated with stock options be recognized in the income statement of the Company rather than as a footnote disclosure. The Company must recognize compensation expense related to any awards that are not fully vested as of the effective date, January 1, 2006. Upon adoption by the Company, SFAS 123R also will apply to options granted on or after January 1, 2006.

A summary of stock option activity for the years ended December 31, 2005, 2004 and 2003 is as follows:

	2005		2004		2003	
	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share
Outstanding at January 1,	3,023,041	$ 2.62	3,325,799	$ 2.54	3,084,910	$ 2.83
Granted	312,300	1.87	535,000	2.35	412,100	1.31
Exercised	(30,375)	1.14	(391,904)	0.75	(2,125)	1.22
Canceled	(330,016)	2.65	(445,854)	3.33	(169,086)	4.94
Outstanding at December 31,	2,974,950	$ 2.55	3,023,041	$ 2.62	3,325,799	$ 2.54
At December 31,						
Options exercisable	2,584,971		2,256,252		2,613,188	
Available for grant	1,861,215		1,844,204		1,974,528	
Weighted average fair value of options granted during year		$ 1.22		$ 1.74		$ 1.08

6. STOCKHOLDERS' EQUITY (Continued)

The following tables summarize information about the stock options outstanding at December 31, 2005:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
$1.08 – 1.31	485,626	5.12	$ 1.24
1.33 – 1.71	312,077	4.29	1.58
1.77 – 1.93	418,100	6.28	1.88
1.97 – 2.08	316,162	5.30	2.02
2.10 – 2.41	462,250	4.24	2.34
2.50 – 2.68	322,433	3.11	2.55
2.71 – 2.99	325,263	6.62	2.91
3.03 – 8.53	330,289	3.66	6.64
8.75	250	4.66	8.75
14.69	2,500	4.19	14.69
$1.08 – 14.69	2,974,950	4.86	$ 2.55

	Options Exercisable	
Range of Exercise Prices	Number Exercisable	Weighted Average Exercise Price per Share
$1.08 – 1.31	376,421	$ 1.26
1.33 – 1.71	241,627	1.61
1.77 – 1.93	215,276	1.87
1.97 – 2.08	308,662	2.02
2.10 – 2.41	462,250	2.34
2.50 – 2.68	322,433	2.55
2.71 – 2.99	325,263	2.91
3.03 – 8.53	330,289	6.64
8.75	250	8.75
14.69	2,500	14.69
$1.08 – 14.69	2,584,971	$ 2.70

Employee Stock Purchase Plan

The 2004 Employee Stock Purchase Plan (the "2004 Plan") was adopted on May 13, 2004. All full time employees of AVANT are eligible to participate in the 2004 Plan. A total of 150,000 shares of common stock are reserved for issuance under this plan. Under the 2004 Plan, each participating employee may contribute up to 15% of his or her compensation to purchase up to 500 shares of common stock per year in any offering and may withdraw from the offering at any time before stock is purchased. Participating terminates automatically upon termination of employment. The purchase price per share of common stock in an offering is 85% of the lower of its fair market value at either the beginning of the offering period or the applicable exercise date.

6. STOCKHOLDERS' EQUITY (Continued)

(E) Shareholder Rights Plan

On November 5, 2004, AVANT's Board adopted a new Shareholder Rights Plan, as set forth in the Shareholder Rights Agreement, dated November 5, 2004, between the Company and Computer Investor Services, LLC (formerly EquiServe Trust Company, N.A.), as Rights Agent (the "Rights Agreement"). The Rights Agreement replaces the Company's existing Shareholder Rights Agreement which expired on November 10, 2004.

Pursuant to the terms of the Rights Agreement, the Board declared a dividend distribution of one Preferred Stock Purchase Right for each outstanding share of AVANT's common stock. These rights, which expire in November 2014, entitle their holders to purchase from AVANT one ten-thousandth of a share (a "Unit") of Series C-1 Junior Participating Cumulative Preferred Stock, par value $0.01 per share, ("C-1 Preferred Stock") at a cash exercise price of $35.00 per Unit, subject to adjustment. The rights will trade separately from the common stock and will become exercisable only when a person or group has acquired 15% or more of the outstanding common stock or upon the commencement by a person or group of a tender offer that would result in such person or group acquiring 15% or more of the outstanding common stock other than as a result of repurchases of stock by AVANT or certain inadvertent actions by a shareholder. In the event a person or group acquires 15% or more of the outstanding common stock each holder of a right (except for any such person or group) would be entitled to receive upon exercise sufficient Units of C-1 Preferred Stock to equal a value of two times the exercise price of the purchase right. In the event AVANT is acquired in a merger or other business combination transaction or if 50% or more of AVANT's assets or earning power is sold, each holder of a right (except for any such person or group described above) would receive upon exercise common stock of the acquiring company with a value equal to two times the exercise price of the right.

As of December 31, 2005 and 2004, the Company has authorized the issuance of 350,000 shares of C-1 Preferred Stock for use in connection with the shareholder rights plan.

(F) Share Repurchase Plan

On August 16, 2002, AVANT announced that its Board of Directors had authorized the repurchase of up to 2 million shares of its common stock. The repurchased stock provides AVANT with treasury shares for general corporate purposes, such as stock to be issued under employee stock option and stock purchase plans. The share repurchase plan expired as of August 31, 2003. AVANT purchased 220,300 shares through December 31, 2003 at a cost of $227,600. No shares were purchased in 2005 or 2004.

(G) Deferred Compensation

On September 21, 2005, AVANT awarded Dr. Una Ryan, its President and CEO, 200,000 Restricted Stock Units. The Restricted Stock Units vest over four years but will vest in their entirety upon the earlier of the sale of the Company or Dr. Ryan's retirement at or after age 65. The Company determined the value of the Restricted Stock Units to be $270,000, based on $1.35 per share, the closing price of AVANT's common stock on the award date. The value of the Restricted Stock Units is being amortized over approximately two years until Dr. Ryan attains age 65, and is being recorded as compensation expense. In 2005, AVANT recognized $54,000 of compensation expense in connection with this award.

6. STOCKHOLDERS' EQUITY (Continued)

On November 5, 2004, AVANT awarded Dr. Ryan 400,000 Restricted Stock Units which vest over four years. The Company determined the value of the Restricted Stock Units as $832,000, based on $2.08 per share, the closing price of AVANT's common stock on the award date. The value of the Restricted Stock Units is being amortized over their vesting period, or four years, and being recorded as compensation expense. AVANT recognized compensation expense of $208,000 and $52,000 in 2005 and 2004, respectively, in connection with this award.

On September 18, 2003, we awarded Dr. Ryan 400,000 Restricted Stock Units which vest over four years. The Company determined the value of the Restricted Stock Units as $1,104,000, based on $2.76 per share, the closing price of AVANT's common stock on the award date. The value of the Restricted Stock Units is being amortized over their vesting period, or four years, and being recorded as compensation expense. AVANT recognized compensation expense of $276,000, $276,000 and $115,000 in 2005, 2004 and 2003, respectively, in connection with this award.

7. RESEARCH AND LICENSING AGREEMENTS

AVANT has entered into licensing agreements with several universities and research organizations. Under the terms of these agreements, we have received licenses or options to license technology, specified patents or patent applications. AVANT has expensed nonrefundable license fees and royalties of approximately $85,000, $285,000 and $500,000 in the years ended December 31, 2005, 2004 and 2003, respectively.

8. PRODUCT DEVELOPMENT AND LICENSING AGREEMENTS

Our revenue from product development and licensing agreements was received pursuant to contracts with different organizations. Total revenue recognized by us in connection with these contracts for the years ended December 31, 2005, 2004 and 2003 were $242,092, $4,565,666 and $1,607,673, respectively. A summary of these contracts follows:

(A) GlaxoSmithKline plc ("Glaxo")

During 1997, AVANT entered into an agreement with Glaxo to collaborate on the development and commercialization of the Company's oral rotavirus vaccine and Glaxo assumed responsibility for all subsequent clinical trials and all other development activities. Glaxo initiated global Phase III clinical trials of Rotarix® in the third quarter of 2003, and AVANT recognized a $1 million milestone as revenue. Glaxo filed for market approval with the European regulatory authorities in late 2004, which triggered a $2 million milestone fee payable to AVANT, 50% of which was creditable against future royalties. The amount was recorded as revenue in 2004 as AVANT has no obligation to incur any research and development costs in connection with this agreement. AVANT licensed-in the Rotarix® technology in 1995 and owes a license fee of 30% to Cincinnati Children's Hospital Medical Center ("CCH") on net royalties received from Glaxo. AVANT is obligated to maintain the license with CCH with respect to the Glaxo agreement and incurred licensing fee expense of $0, $200,000 and $200,000 in 2005, 2004 and 2003, respectively. In addition, the Company recorded $300,000 of expense in the fourth quarter of 2004 for amounts which will be payable to this institution in connection with the aforementioned 2004 milestone payment. All licensing fees are included in research and development expense. The term of this agreement is through the expiration of the last of the relevant patents covered by the agreement, although Glaxo may

8. PRODUCT DEVELOPMENT AND LICENSING AGREEMENTS (Continued)

terminate the agreement upon 90 days prior written notice. In February 2006, the European Commission granted approval of Rotarix® in the European Union, which triggers a $4 million milestone payment from Glaxo. Glaxo has agreed to make further payments, which could total up to $1.5 million, upon achievement of a specific milestone. In May 2005, AVANT entered into an agreement whereby an affiliate of Paul Royalty Fund II, L.P. ("PRF") purchased an interest in the net royalties AVANT will receive on worldwide sales of Rotarix® (see Note 9). Under the PRF agreement, AVANT retains 50% of the $4 million milestone payment from Glaxo for the European Commission approval discussed above and of any future Glaxo milestone payments, with the balance payable to PRF and CCH.

(B) Pfizer Inc ("Pfizer")

In connection with the Company's acquisition of Megan in 2000, it entered into a licensing agreement with Pfizer's Animal Health Division whereby Pfizer has licensed Megan's technology for the development of animal health and food safety vaccines. Under the agreement, AVANT may receive additional milestone payments of up to $3 million based upon attainment of specified milestones. AVANT may receive royalty payments on eventual product sales. The term of this agreement is through the expiration of the last of the patents covered by the agreement. AVANT has no obligation to incur any research and development costs in connection with this agreement.

(C) DVC LLC ("DVC", formerly DynPort Vaccine Company LLC)

In October 2001, the Company granted DVC a license for exclusive rights to use certain components of its anthrax vaccine technology. Under the agreement, AVANT is entitled to annual $50,000 license maintenance payments, with respect to which AVANT has received $200,000 in the aggregate, including $50,000 received in the first quarter of 2005, and milestone payments of up to $700,000 in the aggregate, $100,000 of which AVANT recognized as revenue in 2002. The annual license fee is recognized as revenue on a straight line basis over the year. On August 5, 2005, AVANT received notice from DVC of termination of the license agreement, effective November 5, 2005.

In January 2003, AVANT was awarded a subcontract by DVC in the amount of $2.5 million to develop for the U.S. Department of Defense an oral combination vaccine against anthrax and plague using AVANT's proprietary vaccine technologies. As of December 31, 2005, AVANT has received a number of additional subcontract modifications from DVC to support preclinical animal testing of vaccine constructs and the start of human clinical testing of a plague vaccine candidate being developed by AVANT for use in the oral combination vaccine. Total contract funding awarded by DVC now totals approximately $10 million. Payments under the subcontract agreement are made on a time and materials basis and receipt of the full amount is conditioned upon the project being fully funded through completion and AVANT performing and continuing to demonstrate that it has the capability to perform the funded work. For the years ended December 31, 2005, 2004 and 2003, AVANT recognized $2,408,936, $1,974,998 and $2,661,170, respectively, in government contract revenue from DVC. Through December 31, 2005, AVANT had received approximately $8 million in payments under the various subcontract agreements, all of which relate to approved subcontract awards. These agreements expire in 2007, although they may be terminated by DVC at any time upon 30 days notice.

8. PRODUCT DEVELOPMENT AND LICENSING AGREEMENTS (Continued)

(D) Inflazyme Pharmaceuticals Ltd. ("Inflazyme", formerly AdProTech, Ltd ("AdProTech"))

In March 2004, AVANT granted a license to AdProTech for non-exclusive rights to use certain components of its intellectual property surrounding complement inhibition. In April 2004, AVANT received an initial license payment of $1 million from AdProTech and AdProTech was acquired by Inflazyme, which assumed the license. AVANT has no continuing involvement or obligation under this license agreement, thus it recognized the $1 million as revenue during the first quarter of 2004. Under the agreement, AVANT is entitled to annual license fees, milestone payments of up to $13.5 million in the aggregate and royalties on eventual product sales. AVANT has no obligations to incur any research and development costs in connection with this agreement.

9. PAUL ROYALTY FUND

In May 2005, AVANT entered into an agreement whereby an affiliate of Paul Royalty Fund II, L.P. ("PRF") purchased an interest in the net royalties AVANT will receive on worldwide sales of Rotarix®. Rotarix® is licensed to Glaxo. The terms of the agreement with PRF include an upfront unconditional payment from PRF totaling $10 million ($5 million paid at closing and $5 million received on December 1, 2005) and the following milestone payments: (i) $40 million on product launch in the European Union, and (ii) between $9 million and $11 million on product launch in the United States, depending on date of the launch.

In addition, AVANT retains some participation in the worldwide net royalty stream from Rotarix®. If worldwide net royalties on sales of Rotarix® from Glaxo exceed $27.5 million in any year, AVANT will receive 92.5% of royalties in excess of $27.5 million. Also, once PRF receives cumulative royalties equal to 2.45 times PRF's aggregate cash payments to AVANT, then AVANT will receive 92.5% of all additional royalties. If Rotarix® is not launched in the U.S. by the end of 2009, either PRF or AVANT can opt out of the U.S. portion of the agreement, and AVANT will retain all U.S.-derived royalties and PRF would not be obligated to make payments to AVANT upon U.S. approval.

The PRF transaction qualifies as a sale in accordance with guidance in EITF 88-18 "Sale of Future Revenues". The upfront unconditional payment of $10 million was recorded by AVANT as deferred revenue at December 31, 2005. Any future milestone payments received from PRF will also be recorded as deferred revenue. Revenues will be recognized and calculated based on the ratio of total royalties received from Glaxo and remitted to PRF over expected total amounts to be received by PRF and then applying this percentage to the total cumulative consideration received from PRF to date. The expected total of payments to be paid to PRF is an estimate which AVANT will update from time to time to determine that the estimate continues to be reasonable in the light of then current events and circumstances. Management cannot reasonably estimate Glaxo royalties for 2006; thus, the Company has classified the entire deferred revenue balance at December 31, 2005 as long-term.

On March 14, 2006, AVANT amended its agreement with PRF to accelerate a $40 million milestone payment, which will now be received on March 17, 2006. The payment had previously been due upon the first sale of Rotarix® in the European Union, which is expected to occur during the second quarter of 2006. Other financial terms of the PRF agreement were not changed.

10. OTHER LONG-TERM LIABILITIES

In December 2003, AVANT entered into a Lease Agreement, a Secured Promissory Note: Equipment Loan and a Security Agreement with the Massachusetts Development Finance Agency ("MassDevelopment"), an economic development entity for the Commonwealth of Massachusetts, for AVANT to occupy and build-out a manufacturing facility in Fall River, Massachusetts.

(A) Loan Payable

Under the Lease Agreement, AVANT received a Specialized Tenant Improvement Allowance of $1,227,800 to finance the build-out of the Fall River facility. Principal and interest payments of the aggregate disbursement increments are due monthly using an amortization period of 15 years and an interest rate of 5.5% per annum.

At December 31, 2005, AVANT has recorded leasehold improvement assets of $1,227,800 and currently has a loan payable of $1,152,767 to MassDevelopment, of which $81,853 is classified as current and $1,070,914 as long-term. AVANT began amortizing the leasehold improvement assets in the third quarter of 2005 when the Fall River facility became operational. Based on current market interest rates available to AVANT for long-term liabilities with similar terms and maturities, the fair value of the loan payable is approximately $816,100 at December 31, 2005.

(B) Note Payable

Under the Secured Promissory Note: Equipment Loan, AVANT received $903,657 from MassDevelopment to finance the purchases of equipment to be placed in the Fall River facility (the "Loan"). The Loan has a term of 84 months at an interest rate of 5.5% per annum. The Loan is collateralized by all of the equipment purchased with the principal amount. The net book value of these collateralized assets at December 31, 2005 and 2004 was $880,690 and $897,924, respectively

At December 31, 2005, AVANT has recorded manufacturing and laboratory equipment assets of $903,657 and currently has a note payable of $806,961 to MassDevelopment, of which $135,603 is classified as current and $671,358 as long-term. AVANT began depreciating the manufacturing and laboratory equipment assets over the estimated economic lives of the assets this quarter when the Fall River facility became operational. Based on current market interest rates available to AVANT for long-term liabilities with similar terms and maturities, the fair value of the note payable is approximately $706,500 at December 31, 2005.

11. COMMITMENTS AND CONTINGENCIES

(A) Commitments for the Renovations of the Needham Facility

In November 2005, AVANT entered into a Lease Amendment with the landlord which specified terms for the complete renovation of the Company's Needham facility. The preliminary projected costs for the tenant improvements portion of the renovations project are approximately $6.9 million. As an incentive for AVANT to enter into the Lease Amendment, the landlord has agreed to contribute up to $3.6 million towards tenant improvement costs. As of December 31, 2005, AVANT had made payments and accrued costs totaling approximately $145,300 towards the tenant improvements portion of the renovations project.

11. COMMITMENTS AND CONTINGENCIES (Continued)

(B) Purchase Commitments for Contract Manufacturing

In April 2000, AVANT entered into a Services Agreement (the "Lonza Agreement") with Lonza Biologics plc ("Lonza") for process development and manufacture of its product candidate TP10. AVANT has entered into a number of amendments to the Lonza Agreement for specific process development and scale-up work and remaining aggregate commitments as of December 31, 2005 total approximately $1,374,309. The Company has incurred $1,505,109 and $6,780,721, respectively, of expense related to the Lonza Agreement in the twelve-month period ended December 31, 2005 and from inception through December 31, 2005, of which $215,644 remained accrued at December 31, 2005.

12. DEFERRED SAVINGS PLAN

Under section 401(k) of the Internal Revenue Code of 1986, as amended, the Board of Directors adopted, effective May 1990, a tax-qualified deferred compensation plan for employees of AVANT. AVANT may, at its discretion, make contributions to the plan each year matching up to 1% of the participant's total annual salary. AVANT contributions amounted to $38,700, $37,300 and $37,300 for the years ended December 31, 2005, 2004 and 2003, respectively.

13. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

2005	Q1 2005	Q2 2005	Q3 2005	Q4 2005
Total revenue	$ 970,552	$ 637,161	$ 846,322	$ 634,306
Net loss	(4,868,499)	(4,733,940)	(4,514,434)	(3,979,697)
Basic and diluted net loss per common share	(0.07)	(0.06)	(0.06)	(0.05)

2004	Q1 2004	Q2 2004	Q3 2004	Q4 2004
Total revenue	$ 3,030,697	$ 893,010	$ 527,510	$ 2,407,381
Net loss	(1,909,414)	(3,898,737)	(3,697,231)	(3,698,397)
Basic and diluted net loss per common share	(0.03)	(0.05)	(0.05)	(0.05)

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the Company's filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported accurately within the time periods specified in the Securities and Exchange Commission's rules and forms. As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (pursuant to Exchange Act Rule 13a-15(b)). Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company has conducted an evaluation of the effectiveness of its internal control over financial reporting based upon the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's internal control over financial reporting was effective at December 31, 2005.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their attestation report included in Item 8 of this Form 10-K.

Changes in Internal Control Over Financial Reporting.

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION.

We lease approximately 54,300 square feet of laboratory and office space in Needham, Massachusetts. In November 2005, we entered into a lease amendment which calls for the complete renovation of the Needham facility by the landlord and AVANT, reduces AVANT's leased space to approximately 35,200 square feet of laboratory and office space beginning in 2007 and extends the lease through April 2017. Under this extension, we are obligated to pay an escalating base annual rent ranging from $879,700 to $1,161,200 during the extension term. Aggregate rental payments including common area maintenance costs as defined for the years ended December 31, 2005 and 2004 for this facility were $2,069,170 and $1,902,874, respectively.

In November 2004, we opened our 11,800 square foot vaccine manufacturing facility in Fall River, Massachusetts to support the clinical development of our portfolio of bacterial vaccines, including vaccines for biodefense, as well other next-generation bacterial vaccines for clinical trials and eventually commercial sale. In November 2005, we entered into a lease amendment which increases AVANT's leased space at the Fall River facility by an additional 2,500 square feet of space.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information in response to this Item appears under the caption "Proposal 2—Election of Directors" and "Management" in the Registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year, and is incorporated by reference.

Item 11. EXECUTIVE COMPENSATION

Information in response to this Item appears under the caption "Management" of the Registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year, and is incorporated by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Equity Compensation Plan Information

The following table provides information as of December 31, 2005 regarding shares of common stock of the Company that may be issued under our existing equity compensation plans, including the Company's 1999 Stock Option and Incentive Plan (the "1999 Plan") and the Company's 1994 Employee Stock Purchase Plan (the "1994 Plan"). Footnote (4) to the table sets forth the total number of shares of common stock of the Company issuable upon the exercise of assumed options as of December 31, 2005, and of assumed options and warrants as of August 21, 1998, and the weighted average exercise price of these options and warrants.

	Equity Compensation Plan Information		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights[1] (a)	Weighted Average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plan (excluding securities referenced in column (a)) (c)
Equity compensation plans approved by security holders[2]	2,837,376[3,4]	$2.49	1,861,215[5]

1 Does not include any Restricted Stock as such shares are already reflected in the Company's outstanding shares.

2 Consists of the 1999 Plan and the 1994 Plan.

3 Does not include purchase rights accruing under the 1994 Plan because the purchase price (and therefore the number of shares to be purchased) will not be determined until the end of the purchase period.

4 Does not include: (i) outstanding options to acquire 9,306 shares, at a weighted-average exercise price of $8.10 per share, that were assumed in connection with the 2000 merger of Megan with and into the Company, under Megan's Stock Option Plan—no future options may be granted under Megan's Stock Option Plan; and (ii) outstanding options to acquire 128,268 shares, at a weighted-average exercise price of $3.53 per share, that were assumed in connection with the 1998 merger of VRI with and into the Company, under the VRI Stock Option Plan—no future options may be granted under the VRI Stock Option Plan.

5 Includes shares available for future issuance under the 1994 Plan.

Additional information in response to this Item appears under the caption "Beneficial Ownership of Common Stock" of the Registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year, and is incorporated by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information in response to this Item appears under the caption "Proposal 2—Election of Directors" and "Management" of the Registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year, and is incorporated by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information in response to this Item appears under the caption "Principal Accountant Fees and Services" in the Registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year, and is incorporated by reference.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) The following documents are filed as part of this Form 10-K:

(1) Financial Statements:

See "Index to Consolidated Financial Statements" at Item 8.

(2) Financial Statement Schedules:

Schedules are omitted since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or Notes thereto.

(3) Exhibits:

No.	Description	Page No.
2.1	Agreement and Plan of Merger, dated as of November 20, 2000, by and among AVANT, AVANT Acquisition Corp., and Megan Health, Inc.	Incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed December 12, 2000
2.2	First Amendment to Agreement and Plan of Merger, dated as of November 20, 2000, by and among AVANT, AVANT Acquisition Corp., and Megan Health, Inc.	Incorporated by reference to Exhibit 2.2 of the Company's Current Report on Form 8-K filed December 12, 2000
3.1	Third Restated Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-4 (Reg. No. 333-59215), filed July 16, 1998
3.2	Certificate of Amendment of Third Restated Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-4 (Reg. No. 333-59215), filed July 16, 1998
3.3	Second Certificate of Amendment of Third Restated Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-4 (Reg. No. 333-59215), filed July 16, 1998
3.4	Amended and Restated By-Laws of the Company as of November 10, 1994	Incorporated by reference to Exhibit 3.3 of the Company's Registration Statement on Form S-4 (Reg. No. 333-59215), filed July 16, 1998
3.5	Third Certificate of Amendment of Third Restated Certificate of Incorporation of the Company	Incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q, filed May 10, 2002
3.6	Certificate of Elimination of Series C-1 Junior Participating Cumulative Preferred Stock	Incorporated by reference to Exhibit 3.6 of the Company's Annual Report on Form 10-K filed March 16, 2005

3.7	Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of AVANT Immunotherapeutics, Inc. classifying and designating the Series C-1 Junior Participating Cumulative Preferred Stock	Incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form 8-A filed November 8, 2004
4.1	Shareholder Rights Agreement dated November 5, 2004 between the Company and EquiServe Trust Company, N.A. as Rights Agent	Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form 8-A filed November 8, 2004
10.1	AVANT Immunotherapeutics, Inc. 2004 Employee Stock Purchase Plan	Incorporated by reference to Appendix A to the Company's Proxy Statement filed on April 19, 2004 pursuant to Section 14 (a) of the Exchange Act
10.2	Megan Health, Inc. Stock Option Plan	Incorporated by reference to Exhibit 4.6 of the Company's Registration Statement on Form S-8 (Reg. No. 333-52796), filed December 27, 2000
10.3	AVANT Immunotherapeutics, Inc. 1999 Stock Option and Incentive Plan	Incorporated by reference to Exhibit A to the Company's Proxy Statement on Schedule 14A filed on April 1, 1999
10.4	Virus Research Institute, Inc. 1992 Equity Incentive Plan as amended and restated	Incorporated by reference to Exhibit 10.4 of the Company's Annual Report on Form 10-K filed March 28, 2000
10.5	Performance Plan of the Company	Incorporated by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K filed March 28, 2000
10.6	Form of Agreement relating to Change of Control	Incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K filed March 28, 2000
10.7	Amended and Restated Employment Agreement between the Company and Una S. Ryan, Ph.D. dated August 20, 1998	Incorporated by reference to Exhibit 10.8 of he Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998
10.8	Commercial Lease Agreement of May 1, 1996 between the Company and Fourth Avenue Ventures Limited Partnership	Incorporated by reference to Exhibit 10.11 of the Company's quarterly report on Form 10-Q/A for the quarterly period ended June 30, 1996 (File No. 0-15006)
10.9	Extension of Lease Agreement of May 1, 1997 between the Company and DIV Needham 53 LLC (successor in interest to Fourth Avenue Ventures Limited Partnership) dated as of August 23, 2001	Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001

10.10	Option Agreement by and between the Company and Novartis Pharma AG dated as of October 31, 1997, portions of which are subject to a request for confidential treatment	Incorporated by reference to Exhibit 10.16 of the Company's Quarterly Report on Form 10-Q/A for the quarterly period ended September 30, 1997
10.11	Settlement Agreement between the Company and Forest City 38 Sidney Street, Inc.; Forest City Management, Inc.; and Forest City Enterprises, Inc.	Incorporated by reference to Exhibit 10.15 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997
10.12	Agreement between Lonza Biologics plc and the Company dated as of April 19, 2000, portions of which are subject to confidential treatment	Incorporated by reference to Exhibit 10.11 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000
10.13	Stock Purchase Agreement dated December 1, 2000 by and between the Company and Pfizer Inc	Incorporated by reference to Exhibit 10.12 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000
10.14	License and Royalty Agreement by and between Pfizer Inc, the Company and Megan Health, Inc. dated as of December 1, 2000, portions of which are subject to confidential treatment	Incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000
10.15	Amendment to License and Royalty Agreement by and between Pfizer Inc., the Company and Megan Health, Inc. dated as of December 1, 2000, portions of which are subject to confidential treatment	Incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000
10.16	Collaborative Research and Development Agreement by and between Pfizer Inc. and Megan Health, Inc. dated as of December 1, 2000, portions of which are subject to confidential treatment	Incorporated by reference to Exhibit 10.15 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000
10.17	Exclusive License Agreement between AVANT Immunotherapeutics, Inc. and DynPort Vaccine Company, LLC dated as of October 10, 2001, portions of which are subject to a request for confidential treatment	Incorporated by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001
10.18	First Amendment to AVANT Immunotherapeutics, Inc. 1999 Stock Option and Incentive Plan	Incorporated by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001
10.19	First Amendment to Amended and Restated Employment Agreement between the Company and Una S. Ryan, Ph.D. dated as of December 23, 2002	Incorporated by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002

10.20	License Agreement between Virus Research Institute, Inc. and SmithKline Beecham PLC dated as of December 1, 1997, portions of which are subject to confidential treatment	Incorporated by reference to Exhibit 10.20 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999
10.21	Amendment Agreement, dated January 9, 2003, between the Company and SmithKline Beecham PLC	Incorporated by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002
10.22	License Agreement, dated as of January 31, 2003, by and between the Company and Elan Drug Delivery Limited	Incorporated by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002
10.23	License and Clinical Trials Agreement, effective as of February 27, 1995, between Virus Research Institute, Inc. and the James N. Gamble Institute of Medical Research	Incorporated by reference to Exhibit 10.23 of the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002
10.24	License Agreement, dated as of May 1, 1992, by and between the President and Fellows of Harvard College and Virus Research Institute, Inc.	Incorporated by reference to Exhibit 10.24 of the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002
10.25	Amendment to License Agreement, dated July 23, 1993, by and between the President and Fellows of Harvard College and Virus Research Institute, Inc.	Incorporated by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002
10.26	Amendment to License Agreement, dated as of August 2, 2000, by and between the President and Fellows of Harvard College and the Company	Incorporated by reference to Exhibit 10.26 of the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002
10.27	PHS Patent License Agreement, dated March 25, 1998, by and between the National Institutes of Health and Virus Research Institute, Inc.	Incorporated by reference to Exhibit 10.27 of the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002
10.28	License Agreement, dated as of November 25, 1988, by and among The Johns Hopkins University, Brigham and Women's Hospital and the Company f/k/a T Cell Sciences, Inc.	Incorporated by reference to Exhibit 10.28 of the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002
10.29	Subcontractor Service Agreement by and between DynPort Vaccine Company LLC and AVANT, dated January 15, 2003	Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003

10.30	Subcontract modification by and between DynPort Vaccine Company LLC and AVANT, dated May 27, 2003	Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003
10.31	Subcontract by and between DynPort Vaccine Company LLC and AVANT, dated May 27, 2003	Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003
10.32	Second Amendment to Amended and Restated Employment Agreement between AVANT and Una S. Ryan, Ph.D., dated as of September 18, 2003	Incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003
10.33	Restricted Stock Unit Agreement between AVANT and Una S. Ryan, dated September 18, 2003	Incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003
10.34	Amendment to AVANT Immunotherapeutics, Inc. 1999 Stock Option and Incentive Plan	Incorporated by reference to Exhibit 10.34 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003
10.35	Lease Agreement, by and between the Company and the Massachusetts Development Finance Agency, dated as of December 22, 2003, portions of which are subject to a request for confidential treatment	Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004
10.36	Security Agreement, by and between the Company and the Massachusetts Development Finance Agency, dated as of December 22, 2003, portions of which are subject to a request for confidential treatment	Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004
10.37	Secured Promissory Note: Equipment Loan, by and between the Company and the Massachusetts Development Finance Agency, dated as of December 22, 2003, portions of which are subject to a request for confidential treatment	Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004
10.38	Non-Exclusive License Agreement, by and between the Company and AdProTech Ltd., dated as of March 10, 2004, portions of which are subject to a request for confidential treatment	Incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004
10.39	Design/Builder Agreement, dated August 20, 2004 by and between AVANT Immunotherapeutics, Inc. and SPEC Process Engineering & Construction, Inc.	Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004

10.40	First Amendment to Lease by and between the Company and DIV Needham 53 LLC dated November 29,2005	Filed herewith
10.41	Second Amendment to Lease by and between the Company and the Massachusetts Development Finance Agency dated as of November 4, 2005	Filed herewith
18.0	Letter regarding Change in Accounting Principle	Incorporated by reference to Exhibit 18.0 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003
21.0	List of Subsidiaries	Incorporated by reference to Exhibit 21.0 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification of President and Chief Executive Officer	Filed herewith
31.2	Certification of Senior Vice President and Chief Financial Officer	Filed herewith
32	Section 1350 Certifications	Filed herewith

(B) Reports on Form 8-K.

We filed the following Current Reports on Form 8-K during the quarter ended December 31, 2005.

1. On October 27, 2005, we filed a Current Report on Form 8-K under Items 2.02 and 9.01.
2. On November 21, 2005, we furnished a Current Report on Form 8-K under Items 5.02, 7.01 and 9.01.
3. On November 21, 2005, we filed a Current Report on Form 8-K under Item 1.01.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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	**AVANT IMMUNOTHERAPEUTICS, INC.**
March 7, 2006	By: /s/ UNA S. RYAN Una S. Ryan President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ UNA S. RYAN (Una S. Ryan)	President, Chief Executive Officer, and Director	March 7, 2006
/s/ AVERY W. CATLIN (Avery W. Catlin)	Senior Vice President, Chief Financial Officer and Treasurer	March 7, 2006
/s/ HARRY H. PENNER, JR. (Harry H. Penner, Jr.)	Director	March 13, 2006
/s/ KAREN S. LIPTON (Karen S. Lipton)	Director	March 13, 2006
/s/ LARRY ELLBERGER (Larry Ellberger)	Director	March 7, 2006
/s/ ALF A. LINDBERG (Alf A. Lindberg)	Director	March 7, 2006
/s/ FRANCIS R. CANO (Francis R. Cano)	Director	March 8, 2006

Exhibit 10.40

FIRST AMENDMENT TO LEASE

This FIRST AMENDMENT TO LEASE (this **"Amendment"**) is made as of November 29, 2005 (the **"Effective Date"**) by and between DIV NEEDHAM 115 LLC, a Massachusetts limited liability company with an address of c/o The Davis Companies, One Appleton Street, Boston, MA 02116 (**"Landlord"**) and AVANT IMMUNOTHERAPEUTICS, INC., a Delaware corporation, with an address of 119 Fourth Avenue, Needham, Massachusetts 02494 (**"Tenant"**).

RECITAL S

A. Fourth Avenue Ventures Limited Partnership (**"Fourth Avenue Ventures"**), as landlord, and T Cell Sciences, Inc. (**"T Cell"**) entered into that certain lease dated May 1, 1996, as amended by letter agreement dated April 23, 2001 (collectively, the **"Lease"**) of certain premises consisting of 54,317 rentable square feet of space located on a portion of the first (**1st**) floor and a portion of the second (2nd) floor (the **"Original Premises"**) in the building located at and commonly known as 115-119 Fourth Avenue, Needham, Massachusetts (the **"Building"**).

B. Landlord is the successor in interest to Fourth Avenue Ventures.

C. Tenant is the successor in interest to T Cell.

D. The Lease Term commenced on May 1, 1996 and is currently scheduled to expire on April 30, 2007.

E. Landlord and Tenant wish to amend the Lease to (i) reduce the Original Premises to consist of 35,189 rentable square feet on the first (1st) floor of the Building as delineated on **Exhibit A** attached hereto (the **"Retained Premises"**) and terminate the Lease as to the remainder of the Original Premises effective as of the Early Termination Date (as defined in Section 2 of this Amendment); (ii) set forth the obligations of Landlord to perform and pay for the Base Building Work (as defined in **Exhibit C** attached hereto) and the respective obligations of Landlord and Tenant to perform and pay for the Tenant Improvement Work (as defined in **Exhibit C** attached hereto) to the Retained Premises; (iii) extend the Lease Term for the Retained Premises; and (iv) amend certain other terms of the Lease.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby mutually acknowledged, Landlord and Tenant agree as follows:

1. Recitals; Capitalized Terms. All of the foregoing recitals are true and correct. Unless otherwise defined herein, all capitalized terms used in this Amendment shall have the meanings ascribed to them in the Lease, and all references herein or in the Lease to the "Lease" or "this Lease" or "herein" or "hereunder" or similar terms or to any section thereof shall mean the Lease, or such section thereof, as amended by this Amendment.

2. Termination of Lease and Surrender of Terminated Premises. The term of the Lease with respect to the portion of the Original Premises consisting of 19,128 rentable square feet on the second (2nd) floor of the Building (hereinafter the "**Terminated Premises**") shall terminate without further obligation or liability for periods after the date of termination on the

part of Landlord or Tenant on that date which is ninety (90) days after Landlord Substantially Completes the Tenant Improvement Work (the **"Early Termination Date"**). From and after the Early Termination Date, the term "Premises" wherever it appears in the Lease shall mean and refer to the Retained Premises only. Notwithstanding anything in the Lease or this Amendment. Tenant shall surrender and deliver the Terminated Premises to Landlord in accordance with the terms of the Lease for delivery of the Demised Premises upon termination on or before that date (the **"Terminated Premises Surrender Date"**) which is no later than fifteen (15) business days after Landlord substantially completes the Tenant Improvement Work (as defined on **Exhibit C**), such Terminated Premises to be broom clean, vacant and free from all occupants, subtenants, or other persons or entities claiming rights of possession by, through or under Tenant, free of all Hazardous Materials and Substances, including, without limitation, materials and substances of a biological nature, and free of all furniture, equipment, fixtures and other property of Tenant. Except as set forth in the immediately preceding sentence, Landlord hereby accepts the condition of the Terminated Premises as of the date hereof and Tenant shall have no obligation to remove any improvements or alterations that have been made to the Terminated Premises as of the date hereof, except that Tenant shall remove any Existing Equipment listed as being required to be removed on **Exhibit B** attached hereto which is located in the Terminated Premises and relocate the same to the Retained Premises. Any delay by Tenant in surrendering the Premises in the condition specified in the immediately preceding sentence beyond the end of day on the Terminated Premises Surrender Date shall postpone the Early Termination Date by a similar period. During the aforementioned fifteen (15) business day period, Landlord shall have access to the Surrendered Premises for the purpose of commencing work that Landlord desires to perform thereat; provided Landlord will not unreasonably interfere with Tenant's process of vacating the same.

3. Extension of Term. The Lease Term for the Retained Premises only is hereby extended for an additional term of ten (10) years (the **"Extension Term"**) commencing on May 1, 2007 (the **"Extension Term Commencement Date"**) and expiring on April 30, 2017, unless sooner terminated in accordance with the terms and conditions of the Lease. Except as otherwise set forth in this Amendment, the Extension Term shall be upon all of the terms and conditions of the Lease to the extent such terms are applicable to the Extension Term and are not inconsistent with this Amendment. From and after the Extension Term Commencement Date, the phrase or phrases "Lease Term" or "Term" or "term of this Lease" or "the initial term" or "original term" as used in the Lease shall be deemed to refer to the initial Lease Term as herein extended for the Extension Term (as hereinafter defined).

4. Amendment of Terms.

(a) As of the Effective Date, the following terms whenever they appear in the Lease shall have the following meanings:

LANDLORD:	DIV NEEDHAM 115 LLC
TENANT:	AVANT IMMUNOTHERAPEUTICS, INC.

LEASE TERM:	The period commencing on May 1, 1996 and expiring on April 30, 2017, unless terminated earlier in accordance with this Lease.
TERM EXPIRATION DATE:	April 30, 2017, unless terminated earlier in accordance with this Lease.
SECURITY DEPOSIT:	$70,251.69 in cash.

(b) As of the Early Termination Date, the following terms whenever they appear in the Lease shall have the following meanings:

PREMISES:	Approximately 35,189 rentable square feet on the first (1st) floor of the Building and depicted on **Exhibit A** attached hereto (described in this Amendment as the "Retained Premises").
PREMISES SQUARE FOOTAGE:	Approximately 35,189 rentable square feet.
TENANT'S PROPORTIONATE FRACTION:	44.78%

5. (a) Annual Fixed Rent. Tenant shall continue to pay Annual Fixed Rent, Additional Rent and other charges due under the Lease (i) with respect to the Terminated Premises in accordance with the terms of the Lease through and including the Early Termination Date and (ii) with respect to the Retained Premises in accordance with the terms of the Lease through and including the originally scheduled expiration date of April 30, 2007. Beginning on the Extension Term Commencement Date, and throughout the remainder of the Lease Term, Tenant shall pay Annual Fixed Rent with respect to the Retained Premises only to Landlord in the manner and in accordance with the terms and conditions of the Lease, in the amounts set forth below:

TERM	ANNUAL FIXED RENT	MONTHLY INSTALLMENT
From May 1, 2007 through and including April 30, 2009	$ 879,725.00	$ 73,310.42
From May 1, 2009 through and including April 30, 2011	$ 950,103.00	$ 79,175.25
From May 1, 2011 through and including April 30, 2013	$ 1,020,481.00	$ 85,040.08
From May 1, 2013 through and including April 30, 2015	$ 1,090,859.00	$ 90,904.92
From May 1, 2015 through and including April 30, 2017	$ 1,161,237.00	$ 96,769.75

(b) Tenant's Percentage Share of Operating Expenses. Section 5.2 of the Lease is amended to provide that in no event shall there be included in the Operating Expenses allocable to Tenant the items list in **Exhibit G** hereto.

6. Base Building Work. In consideration of and as part of Tenant's agreement to extend the Lease Term as set forth in this Amendment, Landlord covenants to perform a major upgrade of the exterior of the Building and upgrades and replacements to certain building systems in the Building to provide Tenant with a quality location, including, without limitation, installation of a new front lobby/vestibule, new window system and decorative panels to enhance the appeal of the building and the energy efficiency thereof, all as more particularly described on **Exhibit C** attached hereto and made a part hereof (the **"Base Building Work"**). The Base Building Work shall be performed by Landlord, (i) at Landlord's sole cost and expense and without deduction from the Tenant Improvement Allowance and without inclusion of any such costs and expenses in the Operating Expenses for the Building, (ii) in compliance with all applicable laws, ordinances, regulations, rules, permits or other authorizations of any governmental agency or public or quasi-public authority (the foregoing collectively, **"Legal Requirements"**), (iii) pursuant to the Phasing Schedule attached hereto as **Exhibit C-2**, (iv) in such manner as to minimize any unreasonable interference or disruption of Tenant's use and occupancy of the portions of the Original Premises which Tenant will occupy during the Base Building Work and Tenant Improvement Work as more particularly set forth in the Phasing Schedule, and (v) within twenty-one (21) months following the date on which Landlord obtains a Building Permit for the Tenant Improvement Work and Tenant delivers that portion of the Retained Premises which is the subject of Phase I of **Exhibit C-2** attached hereto (which date shall hereinafter be referred to as the **"Base Building Work Commencement Date"**), subject to delays resulting from Tenant Delay and Force Majeure.

7. Tenant Improvement Work. Promptly after approval of the Construction Documents (as defined in **Exhibit C**) by Landlord and Tenant and Landlord's receipt of a building permit for the Tenant Improvement Work, Landlord shall commence and exercise all

reasonable efforts to complete the Tenant Improvement Work in accordance with the Phasing Schedule attached hereto as **Exhibit C-2,** the Budget attached hereto as **Exhibit C-3,** and otherwise in accordance with all of the terms and conditions of **Exhibit C** attached hereto and made a part hereof by reference.

8. Extension Option. The definition of Extension Term in Section 1.1 and Sections 4.2 and 4.3 of the Lease are hereby deleted in their entirety and the foregoing new Section 4.2 is substituted in place thereof.

"Section 4.2 Option to Extend.

(a) Provided that there is no event of default of Tenant in existence and continuing beyond applicable notice and cure periods (either at the time of exercise or atthe commencement of the extended term), Tenant shall have the right and option to extend the Lease Term for one extended term (the **"Second Extension Term"**) (the first extension term, although not defined, being the period May 1, 2007 through April 30, 2017, inclusive, and which has, by this Amendment been incorporated into the definition of Lease Term) of five (5) years by giving written notice to Landlord not later than twelve (12) months prior to the expiration date of the Lease Term. The effective giving of such notice of extension by Tenant shall automatically extend the Lease Term for theSecond Extension Term, and no instrument of renewal or extension need be executed. In the event that Tenant fails timely to give such notice to Landlord, this Lease shall automatically terminate at the end of the Lease Term then in effect, and Tenant shall have no further option to extend the Lease Term. The Second Extension Term shall commence on the day immediately succeeding the expiration date of the Lease Term, and shall end on the day immediately preceding the fifth (5^{th}) anniversary of the first day of such Second Extension Term. The Second Extension Term shall be on all the terms and conditions of this Lease, except: (i) during the Second Extension Term, Tenant shall have no further option to extend the Lease Term, and (ii) the Annual Fixed Rent for the Second Extension Term shall be equal to 95% of the Fair Market Rental Value of the Premises as of the commencement of the Second Extension Term but in no event less than the Annual Fixed Rent payable under this Lease during the last year of the LeaseTerm immediately preceding the commencement of the Second Extension Term, taking into account all relevant factors, determined pursuant to paragraph (b) below.

(b) Promptly after receiving Tenant's notice extending the Lease Term pursuant to paragraph (a) above, Landlord shall provide Tenant with Landlord's goodfaith estimate of the Fair Market Rental Value of the Premises for the upcoming Second Extension Term based upon rents then being charged for space in the Building and if no space is then or has recently been available in the Building, then for similar space in the Needham Industrial Park and if none then that paid by tenants entering into leases for first-class office and laboratory space similar in size, build-out, amenities and term in the Needham/Newton area of Massachusetts. If Tenant is unwilling to accept Landlord's estimate of the Fair Market Rental Value as set forth in Landlord's notice referred to above, and the parties are unable to reach agreement thereon within thirty (30) days after the delivery of such notice by Landlord, then either party may submit the determination of Fair Market Rental Value of the Premises to arbitration by giving notice to the other

party naming the initiating party's arbitrator within ten (10) days after the expiration of such thirty (30) day period. Within fifteen (15) days after receiving a notice of initiation of arbitration, the responding party shall appoint its own arbitrator by notifying the initiating party of the responding party's arbitrator. If the second arbitrator shall not have been so appointed within such fifteen (15) day period, the Fair Market Rental Value of the Premises shall be determined by the initiating party's arbitrator. If the second arbitrator shall have been so appointed, the two arbitrators thus appointed shall, within fifteen (15) days after the responding party's notice of appointment of the second arbitrator, appoint a third arbitrator. If the two initial arbitrators are unable timely to agree on the third arbitrator, then either may, on behalf of both, request such appointment by the Boston office of The American Arbitration Association, or its successor, or, on its failure, refusal or inability to act, by a court of competent jurisdiction. Within fifteen (15) days after the appointment of the third arbitrator, the three arbitrators shall determine the Fair Market Rental Value of the Premises and give notice thereof to the parties hereto, and the arbitrators' determination shall be binding upon the parties. The decision of the majority of the three arbitrators shall be binding upon Landlord and Tenant. Failure of a majority of the arbitrators to reach agreement shall result in the Fair Market Rental Value of the Premises being determined by averaging the determinations of the three arbitrators, ignoring for the purposes of such averaging any high and/or low determination which is more than ten percent (10%) in excess of or less than the middle determination. All arbitrators shall be appraisers or other qualified real estate professionals who are independent from the parties who have had at least ten (10) years commercial real estate experience in the greater Boston area. Each party shall pay the fees of its own arbitrator, and the fees of the third arbitrator shall be shared equally by the parties."

9. Assignment and Subletting. Subparagraphs (a) and (b) of Section 9.13 of the Lease are hereby deleted and the following new subparagraphs (a) and (b) are substituted in place thereof and the following Paragraphs (f), (g) and (h)are added to said Section 9.13:

"(a) Tenant shall not assign, transfer, mortgage or pledge this Lease or grant a security interest in Tenant's rights hereunder or sublease (which term shall include the granting of concessions and licenses and the like), all or any part of the Premises or suffer or permit this Lease to be assigned, transferred or encumbered in whole or in part whether voluntarily, involuntarily or by operation of law, or permit the occupancy of the Premises by anyone other than Tenant without first obtaining the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed by Landlord. Without limiting the foregoing, a dissolution and winding up of Tenant (or its assignee, as permitted hereunder), occurring in a series of one or more transactions, shall be deemed an assignment for purposes of this Lease, and shall require Landlord's prior written consent, which may be withheld in Landlord's reasonable discretion.

Notwithstanding anything in this Lease to the contrary, Tenant shall have the right to sublet or assign to a parent or subsidiary of Tenant without Landlord consent, but with notice to Landlord; and Tenant shall have the right to sublet or assign to an affiliate or to an entity which results from a merger, consolidation or reorganization involving Tenant (collectively, a "**Merger**") without Landlord's consent, but with notice to Landlord. In

connection with a transfer to an affiliate or as part of a Merger, Tenant agrees that if the affiliate or surviving entity from the Merger, as applicable, does not have a net worth on a pro forma basis after giving effect to the transfer or Merger, as applicable, that is equal to or better than the net worth of Tenant as of December 31, 2005, Tenant or the successor will be obligated to deposit with Landlord an additional security deposit equal to six (6) months of the base rent due under this Lease at the time of the transfer. Net worth for purposes hereof shall mean "the entity's shareholders' equity as reported on its Form 10- Q report (or similar financial document reporting shareholders' or owners' equity).

(b) Tenant shall be permitted to transfer or assign this Lease or sublease all or any portion of the Premises, without Landlord's consent but with prior notice to Landlord, to Tenant's parent company or other entity owning (directly or indirectly) 51% or more of the outstanding common stock, membership interests or other beneficial ownership interests of Tenant, or to Tenant's Subsidiary (as hereinafter defined). Subsidiary shall be defined as any entity which directly or indirectly is controlled by Tenant by virtue of Tenant being the beneficial owner of 51% or more of such entity's outstanding common stock, membership interests."

"(f) In no event may any transfer, assignment, Merger or the like under (a) and (b) *infra* be part of a liquidation plan of Tenant or permitted successor under any federal or state bankruptcy or insolvency laws."

(g) One-half (1/2) of any rent or other economic consideration received by Tenant as a result of any Transfer requiring Landlord's consent and properly allocable to the portion of the Premises Transferred, which exceeds (**"Excess Rent"**), in the aggregate, (i) the total of the remaining rent which Tenant is obligated to pay Landlord under this Lease plus (ii) the unamortized value of those portions of Tenant's Contribution (as defined in **Exhibit C**) allocable to leasehold improvements and fixtures as certified by Tenant to Landlord based upon sound economic and valuation principles, plus (iii) amounts paid to Tenant for the purchase of equipment, trade fixtures and other non-real estate property or assets of Tenant as determined on a reasonable economic basis, plus (iv) any reasonable tenant fit-up costs, brokerage commissions and attorneys' fees actually paid by Tenant in connection with such Transfer (specifically excluding moving or relocation costs paid to the Transferee), plus (v) Operating Expenses and Real Estate Taxes (collectively, the **"Transfer Costs"**) shall be paid to Landlord on a monthly basis within ten (10) days after receipt thereof as Additional Rent under this Lease, without affecting or reducing any other obligations of Tenant hereunder. In calculating Excess Rent for the purposes of the foregoing, the Rent to be received and the Transfer Costs shall be computed over the period of the Transfer and recognized (as and if to the extent received by Tenant) on a monthly basis. Each payment shall be sent with a detailed statement explaining such amount and/or allocation. Landlord shall have the right to audit Tenant's books and records to verify the accuracy of the detailed statement.

(h) Upon completion of any permitted assignment, the assignee shall agree to assume and perform obligations of Tenant as tenant under the Lease from and after the

assignment, and the Tenant first named above shall be jointly and severally liable with such assignee for the obligations of the tenant under the Lease."

10. Parking. Three (3) of the parking spaces which Tenant is entitled to use under Section 1.3 of the Lease, which three (3) parking spaces are shown on **Exhibit A-2** attached hereto, will, without additional charge, be designated, marked and identified by Landlord as being reserved for the exclusive use of Tenant, its employees and invitees. Landlord shall be under no obligation to enforce Tenant's exclusive parking rights. The total number of parking spaces which Tenant shall be entitled to use (including the designated spaces) is 60.

11. Amendment of Lease Terms; Inapplicable Provisions. In addition to other provisions of this Amendment, from and after the Effective Date, the following provisions of the Lease shall be amended as set forth below:

(i) Exhibit A of the Lease shall be deleted and **Exhibit A** attached to this Amendment shall be inserted in place thereof;

(ii) Exhibit B of the Lease is hereby deleted and **Exhibit B** attached hereto is substituted in place thereof;

(iii) The term **"Extension Term"** as used in Section 6.1 (g) shall be deleted and the term **"Second Extension Term"** shall be substituted in place thereof.

(iv) For all purposes of Section 10.2 of the Lease, provided Landlord is given full access to and use of the proceeds of all insurance required to be carried by Landlord and/or Tenant on the Tenant Improvement Work, Landlord's restoration obligations following a casualty to the Building shall include restoration of the Tenant Improvement Work and the Base Building Work. Further, notwithstanding anything in Section 10.3 of the Lease, Tenant shall be entitled to recover from the condemning authority an amount equal to Tenant's unamortized costs expended by Tenant to perform the Tenant Improvement Work, and moving and relocation costs, provided such costs do not reduce Landlord's award. Notwithstanding the foregoing in the event that the value of the Tenant Improvement Work is included in a single payment to Landlord as a result of such taking, then Landlord and Tenant shall allocate a fair portion of such award allocable to the unamortized value of the Tenant Improvement Work on a *pari passu* basis based upon the respective amounts paid by each of them for the Tenant Improvement Work, and Tenant's appropriate share thereof, as so allocated, shall be paid to Tenant.

(v) The term **"Property"** shall be substituted for the term **"Premises"** wherever such term appears in Section 14.4 of the Lease.

(vi) The following provisions of the Lease are inapplicable to the Extension Term and are hereby deleted from the Lease in their entirety: The

definition of Early Termination Option in Section 1.1, Sections 9.15, 15.1, 15.2 and 16.1, Exhibit 5.3, Exhibit 12.2 and Exhibit 15.1.

12. Waiver of Subrogation. From and after the Effective Date, Section 6.5 of the Lease is deleted and the following new Section 6.5 is substituted in place thereof:

"Section 6.5. Waiver of Claims; Waiver of Subrogation. The parties hereto shall each procure an appropriate clause in, or endorsement on, any property insurance policy on the Premises or any personal property, fixtures or equipment located thereon or therein, pursuant to which the insurer waives subrogation or consents to a waiver of right of recovery in favor of either party, its respective agents or employees. Having obtained such clauses and/or endorsements, each party hereby agrees that it will not make any claim against or seek to recover from the other or its agents or employees for any loss or damage to its property or the property of others resulting from fire or other perils covered by such property insurance regardless of the cause or origin of such loss or damage, including, but not limited to, the negligence of such other party or its agents or employees."

13. Maintenance of HVAC Units and Boiler/Relocation of Electrical Service.

(a) From and after the Substantial Completion of the Tenant Improvement Work, the fifth (5th) sentence of Section 9.2 of the Lease shall be deleted and the following substituted in place thereof. "Tenant shall be responsible for 100% of the cost for maintenance, replacement or repair of those portions of the HVAC equipment and systems solely serving the Premises. Tenant shall maintain, repair and/or replace, at Tenant's sole cost and expense, any HVAC equipment and systems installed by Tenant in addition to the HVAC equipment and systems included as a part of the Tenant Improvement Work and exclusively serving the Premises. All manufacturer warranties on the portions of the HVAC system solely serving the Premises shall be assigned or made available to, as applicable, the Tenant. The cost of maintenance, replacement and/or repair of HVAC equipment and systems serving more than the Premises (**"Common HVAC"**) shall be allocated as Operating Expenses, subject to the limitations therefor set forth in **Exhibit G."** Landlord shall have control of and maintain, repair and replace the Common HVAC. References in the Lease to specific HVAC equipment shall be deemed deleted as and when such equipment is replaced and the eleventh (11^{th}) and twelfth (12^{th}) sentences of Section 9.2 are hereby deleted.

(b) During and as a part of Base Building Work, Landlord shall have the option of having the existing electrical panel and service relocated from its current location shown approximately on the Plan attached as Exhibit A (**"Plan"**) as "Current Electrical Panel" to such other location upon which Landlord and Tenant shall mutually agree. At such time as and if Landlord and Tenant shall agree on an alternate location, then the Plan shall be amended accordingly. During construction of the Tenant Improvement Work, Landlord shall have reasonable access to the Retained Premises for the purpose of relocating the electrical panel and the service supplying the same and for constructing the area shown as "Area for Future Electrical Panel" on the Plan or to such other location as Landlord and Tenant may mutually agree upon. From and after completion of the Tenant Improvement Work, during the term of this Lease, Landlord and its agents, contractors and representatives shall have the reasonable right of

reasonable access through the Retained Premises to the area shown on the Plan (as the same may be amended consistent with this paragraph) as "Area for Future Electric Panel", for the purpose of repairing, maintaining, replacing, modifying and expanding the electrical service within the Area for Future Electrical Service.

14. Landlord's Right of Entry. From and after the Effective Date, Section 9.6 of the Lease is hereby deleted and the following new Section 9.6 shall be substituted in place thereof:

"Section 9.6. Landlord's Right to Enter. Tenant shall permit Landlord at reasonable times and upon reasonable prior notice to Tenant (except in the event of an emergency, when no notice shall be required) to enter into the Premises to examine the Premises, make such repairs and replacements as Landlord may elect, without however, any obligation to do so, and show the Premises to prospective purchasers and lenders, and, during the last year of the Lease Term, to show the Premises to prospective tenants. Notwithstanding the foregoing, Landlord shall not have the right to enter the laboratory areas and animal facility located in the Premises except that upon at least one (1) business day prior notice (which may be telephonic), Tenant will permit a representative of Landlord at reasonable times to enter into the laboratory areas and animal facility located in the Premises so long as such entry is at all times in the presence of an authorized representative of Tenant. Tenant shall make such tenant's representative available on one (1) business day notice. Landlord's representative shall comply with all reasonable bio-security or bio-safety requirements requested by Tenant in connection with entry into and inspection of the bio-secure portions of Tenant's laboratory."

15. Permitted Holdover. From and after the Effective Date, the existing language of Section 9.12 shall become subparagraph (a) of Section 9.12 and the following subparagraphs (b) and (c) shall be inserted at the end of Section 9.12:

"(b) Notwithstanding the foregoing to the contrary, in the event that Tenant wishes to holdover in the Premises for a period not to exceed three (3) months after the Term Expiration Date (the **"Requested Period"**) and so notifies Landlord in writing not less than ninety (90) days prior to the Term Expiration Date (the **"Holdover Request"**), Landlord shall grant Tenant permission to remain in possession of the Premises during the Requested Period, in which case Tenant shall be deemed to be occupying the Premises as a tenant for a term equal to the Requested Period except that (1) Fixed Rent due under the Lease during each month of the Requested Period shall be equal to 150% of the monthly Fixed Rent payable during the last full month of the Lease Term then ending; (2) Tenant will be liable to Landlord for all damages, excluding indirect or consequential damages incurred by Landlord as a result of such permitted holdover in the Premises; and (3) Tenant shall otherwise be subject to all of the conditions, provisions, and obligations of this Lease, including without limitation, Tenant's obligation to pay Additional Rent and other charges due hereunder, prorated as necessary or appropriate to make the same applicable to the Requested Period. Tenant's exposure for damages under clause (2) above in this subparagraph (b) shall be limited to extra costs incurred by Landlord as a result of: (i) the unavailability of the Premises for build-out of the Premises or any part thereof for a replacement tenant on the scheduled termination date as a result of Tenant's holdover; or (ii) loss or damage incurred by Landlord if Landlord

is unable to timely deliver the Premises to a new tenant as a result of Tenant's holdover. Landlord agrees to use commercially reasonable efforts to mitigate any such potential damages, provided Tenant agrees to promptly, upon receipt by Tenant of a written request therefor from Landlord, advance to Landlord any such out-of-pocket costs to Landlord for such mitigation efforts. Landlord agrees, if requested in writing by Tenant at any time earlier than 140 days prior to the scheduled term expiration date of this Lease, to advise Tenant of whether or not Landlord would, if Tenant exercises its holdover rights under this Section 9.12(b), as of the date of such request, incur any damages or expense if Tenant exercises its holdover rights under this Section 9.12(b). Nothing in Landlord's response to such request shall limit Landlord's rights to pursue damages in accordance with and subject to the terms of this Section 9.12. Landlord's response to Tenant's request shall be given no later than five (5) business days after receipt of Tenant's request. In addition to the foregoing, Landlord agrees to give Tenant at least five (5) business days written notice prior to signing a letter of intent, or its equivalent, or a lease for all or any part of the Premises (**"Landlord's Proposed Lease Notice"**), which notice will not be delivered to Tenant earlier than twelve (12) months prior to the end of the term of this Lease and such five (5) business day period shall commence to run from the date such notice is received by Tenant."

"(c) Notwithstanding, and in addition to, the foregoing, if (i) Landlord's response to Tenant's request under paragraph (b) above is that Landlord will not incur any damages if Tenant exercises its holdover rights as provided in this Section 9.12 and within five (5) business days after Landlord's response that it will not have any damages Tenant exercises its holdover rights by notice to Landlord; or (ii) Tenant exercises its holdover rights under this Section 9.12 within five (5) business days after Tenant's receipt of Landlord's Proposed Lease Notice, then Landlord shall not have the right to seek any damages and Tenant shall not be liable to Landlord for any damages suffered by Landlord on account of Tenant's exercise of its holdover rights under this Section 9.12."

16. Signage. Landlord hereby consents to Tenant's existing interior and exterior signage located in and on the Building and at the Property, including, without limitation, Tenant's monument signage, and Landlord agrees that Tenant shall have, subject to compliance by Tenant with all requirements of applicable laws and regulations, the right to all such signage throughout the Lease Term, as the same may be extended, except that as part of the Tenant Improvement Work and Base Building Work, the existing canopy sign will be removed.

17. Utilities. As part of the Tenant Improvement Work, Landlord shall use commercially reasonable efforts to cause the Retained Premises to be separately metered and billed for water, gas and electrical usage, and, following such metering, Tenant shall pay directly to the provider of such utilities the costs of such utilities consumed in the Retained Premises notwithstanding anything to the contrary in Section 7 of the Lease. Any cost for such work will be part of the Project Costs. In the event a utility provider will not or cannot separately meter and/or bill a utility to Tenant, then Landlord will sub-meter each such non-separately metered/billed utilities and Landlord will bill each sub-metered utility directly to Tenant based on Tenant's sub-metered use, without markup and Tenant will pay for such sub-metered utility use as additional rent.

18. Subordination and Non-Disturbance. Section 12.2 of the Lease is hereby deleted in its entirety and the following Section 12.2 is hereby substituted in place thereof.

"Section 12.2. Subordination of Lease and Non-Disturbance of Tenant.

"(a) Subject to the provisions of paragraph (b) below of this Section 12.2, this Lease and any extensions, renewals, replacements or modifications thereof are and shall at all times be and remain subject and subordinate to the lien of any mortgage, deed of trust and all other security documents now or hereafter securing payment of any indebtedness of Landlord with respect to the Premises, ground lease or underlying lease now or hereafter in force against the Premises, and to all advances made or hereafter to be made upon the security thereof and to any increases, renewals, modifications, substitutions, replacements, consolidations and extensions thereof. Although the foregoing subordination shall be self-effectuating, Tenant shall execute and return to Landlord any documentation reasonably requested by Landlord consistent with this Section 12.2 in order to confirm the foregoing subordination, within ten (10) business days after Landlord's written request. In the event any proceedings are brought for foreclosure, or in the event of the exercise of the power of sale under any mortgage or deed of trust made by Landlord covering the Premises, Tenant shall attorn to the purchaser at any such foreclosure, or to the grantee of a deed in lieu of foreclosure, and recognize such purchaser or grantee as Landlord under this Lease, provided such purchaser assumes, either expressly or by operation of law, the obligations of Landlord arising under this Lease after the date title to the Premises is transferred to such purchaser or grantee. Any such mortgagee shall have the right, at any time, to subordinate to this Lease any instrument to which this Lease is otherwise subordinated by operation of this Section 12.2 by delivery of written notice of such subordination to Tenant.

(b) Landlord represents that there is no ground lease or other lease superior to this Lease in effect with respect to the Property or the Premises. Notwithstanding the provisions of paragraph (a) above of this Section 12.2 to the contrary, the subordination of this Lease to any future mortgage (or ground lease) shall be conditioned upon the delivery to Tenant of a "Subordination, Non-Disturbance and Attornment Agreement." (**"SNDA"**) executed by it as the holder, mortgagee or lessor of such mortgage or ground lease of the Property substantially in the form attached as **Exhibit D** or such other form as the lender may reasonably require but which will provide to Tenant the protections listed below in this paragraph (b) from such future mortgagee (or ground lessor), but without requiring unreasonable waiver of rights or claims by Tenant. Any such SNDA shall provide, inter alia, that so long as Tenant is not in default hereunder (beyond any applicable notice and cure period) and attorns to such mortgagee (or ground lessor) or any successor-in-title thereto due to a foreclosure or deed-in-lieu thereof (or a termination of such ground lease), Tenant's rights under this Lease, including its right of possession of the Premises, shall not be disturbed in the event of a foreclosure of such mortgage or deed of trust (or a termination of such ground lease) and, until the Tenant Improvement Work has been completed, agreeing to recognize and honor, in the event it takes possession of or forecloses on the Building, the Landlord's obligation to fund the theretofore unfunded Landlord's Contribution to the Tenant Improvement Work."

(c) No later than January 31, 2006, Landlord shall either: (i) deliver to Tenant an SNDA in accordance with subsection (b) of this Section 12.2 from the current mortgage holder(s) of the Premises; or (ii) refinance the existing mortgage on the Property and deliver to Tenant from the new lender an SNDA in accordance with subsection 12.2(b) above. In the event Landlord fails to provide such SNDA in accordance with this subsection 12.2(c) on or before January 31, 2006, Tenant shall have the right, by written notice to terminate this Amendment as of a date specified in such notice, which date shall be no sooner than thirty (30) days after the date such notice is given, unless Landlord, prior to the date specified in such notice, delivers the required SNDA, and upon such termination, Landlord shall reimburse to Tenant the amounts theretofore paid by Tenant for design and preparation of Space Plan and Construction Documents for the Tenant Improvement Work in accordance with **Exhibit C** to this First Amendment to Lease. Notwithstanding anything in the First Amendment to Lease to the contrary, including **Exhibit C** thereto, in no event will Tenant be obligated to make any further payment of Tenant's Contribution towards the Tenant Improvement Work unless and until Landlord delivers the SNDA required under this Section 12.2(c)." If Landlord fails or is unable to provide the SNDA on or before January 31, 2006, then Landlord may terminate this Amendment by written notice to Tenant, and upon such termination, Landlord shall reimburse to Tenant the amounts theretofore paid by Tenant for design and preparation of Space Plan and Construction Documents for the Tenant Improvement Work in accordance with **Exhibit C** to this First Amendment to Lease.

(d) Simultaneously with the delivery of the SNDA Tenant will pay to Landlord any and all deferred Tenant Improvement Work payments advanced by Landlord on behalf of Tenant, subject to the conditions and receipt of documents required for such payments set forth in **Exhibit C** to this Amendment.

19. Notice of Lease. Landlord and Tenant shall, simultaneously with their execution and delivery of this Amendment, execute and deliver a Notice of Lease in substantially the form attached hereto as **Exhibit E.**

20. Surrender. For purposes of the Lease as amended hereby all references in the Lease to "Exhibit D" shall hereafter be deemed to mean **Exhibit B** attached to this Amendment. The Terminated Premises may not be surrendered by Tenant and Landlord shall not be required to accept surrender of the Terminated Premises until Tenant shall have vacated the same and removed all of its personal property and fixtures, furnishings and equipment as required under this Agreement and removed any Hazardous Materials placed or released upon or about the Premises by Tenant, T Cell or any party entering upon or about the Premises as an employee, invitee, customer, sales person, guest, contractor, agent or representative of, or acting by, through or under Tenant or T Cell, including, without limitation, biological or chemical materials as required by applied law without variance, restriction or limitation to the Terminated Premises.

21. Common Access Area in Retained Premises. Notwithstanding the calculation of the rentable area of the Retained Premise and the description thereof on **Exhibit A** to this Amendment, Landlord acknowledges that Landlord, its agents, employees, contractors, invitees,

visitors and tenants will continue to have non-exclusive access to and use in common with Tenant the areas of the Retained Premises cross-hatched and shown on **Exhibit A** as **"Common Access Areas."** Landlord shall indemnify, defend and hold Tenant and Tenant's partners, members, shareholders, officers, directors, managers, employees, agents and contractors harmless from and against all claims, losses, cost, damages, liability or expenses of whatever nature arising from any accident, injury or damage whatsoever to any person, or to the property of any person, occurring in or about the Common Access Areas to the extent caused by the negligence or willful misconduct of Landlord or Landlord's agents, employees or contractors. Tenant shall maintain property insurance and comprehensive general liability insurance on its use, and the use of its agents, contractors or employees, of the Common Access Areas as a part of the insurance on the Retained Premises. Notwithstanding anything contained in this Paragraph 21 to the contrary, Landlord will maintain comprehensive general liability insurance on and covering the use of the Common Access Areas by those entitled to the use thereof, other than Tenant or Tenant's employees, agents or contractors. Landlord and Tenant shall each indemnify and hold harmless the other to the extent of any claim not covered by insurance in connection with: (a) in the case of Landlord's indemnification of Tenant, the use of the Common Access Areas by any party other than Tenant and those claiming by, through or under Tenant, and (b) in the case of Tenant's indemnification of Landlord, the use of the Common Access Areas by Tenant and those claiming by, through or under Tenant. With respect to the use of the Common Access Areas by those other than Tenant, Landlord's insurance shall be primary. Landlord covenants and agrees that Landlord shall, at all times during the Term, be responsible to clean, repair and maintain such Common Access Areas to the extent of any damage or debris as a result of the use of the same by any party other than Tenant and its contractors, agents and employees. Tenant shall be responsible for securing the balance of the Retained Premises from the Common Access Areas.

22. Brokerage. Landlord and Tenant each represent and warrant to the other that neither of them has employed or dealt with any broker, agent or finder in carrying on the negotiations relating to this Amendment to the Lease other than affiliates of Landlord and Equis Corp. (the **"Brokers"**). Landlord shall pay a commission to the Brokers pursuant to a separate agreement. Tenant shall indemnify and hold Landlord harmless from and against any claim or claims for brokerage or other commissions relating to this Amendment asserted by any broker, agent or finder engaged by Tenant or with whom Tenant has dealt other than the Brokers. Landlord shall indemnify and hold Tenant harmless from and against any claim or claims for brokerage or other commissions relating to this Amendment asserted by any broker, agent or finder engaged by Landlord or with whom Landlord has dealt.

23. Ratification. Except as expressly modified by this Amendment, the Lease shall remain in full force and effect, and as further modified by this Amendment, is expressly ratified and confirmed by the parties hereto. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, subject to the provisions of the lease regarding assignment and subletting.

24. Governing Law; Interpretation and Partial Invalidity. This Amendment shall be governed and construed in accordance with the laws of the Commonwealth of Massachusetts. If any term of this Amendment, or the application thereof to any person or circumstances, shall to

any extent be invalid or unenforceable, the remainder of this Amendment, or the application of such term to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each term of this Amendment shall be valid and enforceable to the fullest extent permitted by law. The titles for the paragraphs are for convenience only and not to be considered in construing this Amendment. This Amendment contains all of the agreements of the parties with respect to the subject matter hereof, and supersedes all prior dealings between them with respect to such subject matter. No delay or omission on the part of either party to this Amendment in requiring performance by the other party or exercising any right hereunder shall operate as a waiver of any provision hereof or any rights hereunder, and no waiver, omission or delay in requiring performance or exercising any right hereunder on any one occasion shall be construed as a bar to or waiver of such performance or right on any future occasion.

25. Counterparts and Authority. This Amendment may be executed in multiple counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same document. Landlord and Tenant each warrant to the other that the person or persons executing this Amendment on its behalf has or have authority to do so and that such execution has fully obligated and bound such party to all terms and provisions of this Amendment.

26. Cooperation with Project. Tenant agrees to cooperate with Landlord as necessary to accommodate the construction of the Project, as defined in **Exhibit C**. Tenant further acknowledges and agrees that dust, noise, vibration, temporary closures of common areas, or other inconvenience or annoyance resulting from the construction of the work shall not be deemed to be a breach of Landlord's obligations under the Lease or create any liability of Landlord to Tenant for such inconvenience or annoyance, so long as Landlord shall use reasonable efforts, consistent with accepted construction practice, to avoid unreasonably interfering with the conduct of Tenant's business at the Premises. Tenant shall, at no cost to Tenant, support and neither directly or indirectly oppose nor object to Landlord's permit applications to the Town of Needham relating to the Property or Landlord's affiliates adjoining property at 53-83 Fourth Avenue with respect to the addition of parking to the Property from the adjoining property, the Base Building Work (except for the exercise of any of Tenant's rights under **Exhibit C)**, the Tenant Improvement Work (except for the exercise of any of Tenant's rights under **Exhibit C** and the buildout and leasing of the Terminated Premises

[Signatures commence on following page.]

IN WITNESS WHEREOF, the undersigned executed this Amendment as of the date and year first written above.

LANDLORD:

DIV NEEDHAM 115 LLC
By: Fourth Avenue Ventures Limited Partnership, its Manager
By: Cendav Investment Corp., its General Partner

By: /s/ Jonathan G. Davis
Name: Jonathan G. Davis
Title: President

By: _____
Name: _____
Title: _____

TENANT:

AVANT IMMUNOTHERAPEUTICS, INC.

By: /s/ Una S. Ryan
Name: Una S. Ryan, PhD
Title: President and CEO

List of Exhibits

Exhibit A	-	Plan of Retained Premises
Exhibit A-1	-	Real Property Description
Exhibit A-2	-	Plan of Reserved Parking Spaces
Exhibit B	-	List of Existing Equipment
Exhibit C	-	Base Building and Tenant Improvement Work Agreement
Exhibit C-1	-	Space Plan
Exhibit C-2	-	Phasing Schedule
Exhibit C-3	-	Budget
Exhibit C-4	-	Base Building Specification
Exhibit D	-	Form of Subordination, Non-Disturbance and Attornment Agreement
Exhibit E	-	Form of Notice of Lease
Exhibit F	-	Intentionally Omitted
Exhibit G	-	Operating Expense Exclusions

EXHIBIT A
PLAN OF RETAINED PREMISES

[Floor Plan]

EXHIBIT A-1
REAL PROPERTY DESCRIPTION

Exhibit A- 1

Property Description

LOTS 12 and 13

The land with the buildings and other improvements thereon situated in the Town of Needham, County of Norfolk and Commonwealth of Massachusetts, known as and numbered 115-119 Fourth Avenue ("Lot 12 and 13") described as follows:

Beginning at the Northeasterly corner of lot 13 at Fourth Avenue thence:

S 35°-01'-52" E Four hundred and thirty-six and 00/100 Feet (436.00'), by two (2) courses; the first course measuring One hundred sixty-six, and 46/100 (166.46') feet and the second course measuring Two hundred sixty-nine and 54/100 (269.54') feet

S 54°-58'-08" W Three hundred and seventy five and 00/100 Feet (375.00')

N 35°-01'-52" W One hundred and fifty four and 27/100 Feet (154.27')

N 25°-50'-13" W Two hundred eighty-five and 48/100 Feet (285.48'), by two (2) courses; the first course measuring One Hundred sixteen and 85/100 (116.85') feet, and the second course measuring One hundred sixty-eight and 63/100 (168.63') feet

N 54°-58'-08" E Three hundred and twenty nine and 39/100 Feet (329.39') to the point of beginning.

Lots 12 and 13 are shown on a plan drawn by Cheney Engineering Co. Inc., Surveyors, dated December 8, 1965, as approved by the Land Court, filed in the Land Court as No. 29185C, a copy of a portion of which is filed with the Land Court with Certificate No. 86939, Page 435.

EXHIBIT A-2
PLAN OF RESERVED PARKING SPACES

[Drawing]

EXHIBIT B
LIST OF EXISTING EQUIPMENT

[Table]

EXHIBIT C
BASE BUILDING AND
TENANT IMPROVEMENT WORK AGREEMENT

1. DEFINED TERMS

The terminology herein shall have the same meaning ascribed to such terminology within the Lease. In addition, the following terms shall have the following meanings:

"**Base Building Work**" shall mean the improvements and other alterations substantially as set forth in the attached design specification labeled Exhibit C-4 and shown on the Base Building Plans for the construction of the core base building upgrades and improvements in and to the Building.

"**Base Building Plans**" shall mean the final, permit set of plans and specifications for the Base Building Work. Landlord agrees to include Tenant in the process of the preparation of the Base Building Plans and to consider and discuss with Tenant any reasonable recommendations by Tenant without any obligation of Landlord to incorporate the same. Once Base Building Plans have been finalized, Landlord will not make any material changes to Base Building Plans which would adversely impact Tenant's access to and egress from the Premises without Tenant's written approval which Tenant will not unreasonably withhold, condition or delay.

"**Change Order**" shall have the meaning set forth in Paragraph 2C below.

"**Construction Documents**" shall mean the final Building Permit set of plans and specifications for the Tenant Improvement Work, as approved (and/or deemed approved) by Landlord and Tenant, as the same may be modified (i) by Change Orders, and/or (ii) to meet the requirements of the local building permit granting authority and comply with local by-laws and state building code for obtaining the issuance of Town of Needham building permits or other local approvals for the Tenant Improvement Work, *provided* any material modifications to the approved Construction Documents required by a local building permit authority for the issuance of a building or other Town of Needham zoning or building permit required to perform the Tenant Improvement Work which will affect Tenant's use and/or occupation of the Retained Premises in any material adverse respect shall be subject to the prior approval of Landlord and Tenant, which shall not be unreasonably withheld or delayed. Special build out and permits for Tenant's research and lab use shall be excluded from permits for Construction Documents.

"**Construction Manager**" shall mean Davis Investment Ventures, Inc., a Massachusetts corporation, or an unrelated responsible third party retained by Landlord on an arms-length basis to act as project/construction manager for Base Building Work and/or Tenant Improvement Work.

"**Estimate of Total Costs**" shall mean the estimated and budgeted costs for the Tenant Improvement Work set forth in **Exhibit C-3** attached hereto and defined as the "**Budget**" in Section 3 of this **Exhibit C**.

"**Force Majeure Delay(s)**" shall mean delay in the Substantial Completion of the Tenant Improvement Work occasioned by strikes, fire, severe and unusual weather, the inability to

procure necessary labor or materials and for any other reason beyond the reasonable control of Landlord. Landlord shall use reasonable efforts to avoid and/or shorten the length of any Force Majeure Delay. Landlord shall have no basis for any claim of Force Majeure Delay unless and until Landlord has provided Tenant written notice of any Force Majeure Delay within five (5) business days after Landlord determines that it intends to claim an extension of substantial completion of the Tenant Improvement Work on account of such Force Majeure Delay.

"**GMP**" shall mean the cost of the Tenant Improvement Work under the GMP Contract.

"**GMP Contract**" shall mean the construction contract entered into between Landlord and the GMP Contractor on the basis of a guaranteed maximum price for the performance of the Tenant Improvement Work. Unless Tenant signs as the "**Owner**" for purposes of the GMP Contract, the GMP Contract will contain a provision conditionally assigning to Tenant in the event of Landlord's default and entitling Tenant to assume Landlord's rights and obligations as Owner in the event Landlord defaults in its obligations to complete the Tenant Improvement Work as set forth in Section 5 of this **Exhibit C**. Such rights shall be subject and subordinate to Landlord's lender's rights to assume and perform the GMP Contract.

"**GMP Contractor**" means the general contractor selected by Landlord to perform the Base Building and Tenant Improvement Work. See Section 3(a) of this **Exhibit C** for Landlord's initial selection of the GMP Contractor.

"**Phasing Schedule**" shall mean that schedule attached hereto as **Exhibit C-2** which sets forth milestones with respect to the obligations of Landlord and Tenant regarding the development and completion of the Construction Documents, the negotiation, approval and execution of the contract with the GMP Contractor for the performance by Landlord of the applicable phases of the Base Building Work and the Tenant Improvement Work, the preparation, review, approval and completion of the final plans and specifications for the Tenant Improvement Work and the Base Building Plans, the dates on which Tenant shall temporarily vacate and surrender portions of the Original Premises in accordance with the provisions of this Agreement in order for Landlord to be able to perform the Base Building Work and Tenant Improvement Work and the construction and installation of the Base Building Work and the Tenant Improvement Work. Landlord and Tenant agree to cooperate with one another in the performance of their respective obligations under the Phasing Schedule. The parties shall cooperate to update the dates set forth in the Phasing Schedule from time to time in order to account for actual events and permitted delays during the performance of the Tenant Improvement Work.

"**Premises Delivery Date**" shall mean the date upon which the Tenant Improvement Work is Substantially Completed.

"**Project**" shall mean the Tenant Improvement Work and the Base Building Work.

"**Punch List Items**" The term "Punch List Items" shall mean details of construction, fixtures, finishes, decoration and mechanical adjustment which, in the aggregate, are minor in character and do not materially interfere with Tenant's use or enjoyment of the Retained

Premises and completion of which after Tenant is in occupancy of the Premises will not unreasonably interfere with Tenant's operations therein.

"**Space Plan**" shall mean the initial space plan for the Tenant Improvement Work to be performed in the Retained Premises and approved by the parties prior to the Effective Date, a copy of which is attached as **Exhibit C-1** to this **Exhibit C**.

"**Substantial Completion of the Base Building Work"** and phrases of a similar nature shall mean the Base Building Work shall have been completed in accordance with the Base Building Plans other than Punch List Items and Landlord has obtained all final governmental inspection and other approvals with regard to the Base Building Work.

"**Substantial Completion of the Tenant Improvement Work**" and phrases of a similar nature shall mean (1) the Tenant Improvement Work shall have been completed in accordance with the Construction Documents, other than Punch List Items which will not unreasonably interfere with Tenant's ability to lawfully occupy the Retained Premises and completion of which will not unreasonably interfere with Tenant's business operations in the Retained Premises; and (2) Landlord has obtained a Temporary or Permanent Certificate of Occupancy or its equivalent with regard to the Tenant Improvement Work for which Landlord is responsible which are necessary to permit Tenant to lawfully use and occupy and to continue to use and occupy the Retained Premises for their permitted uses under this Lease; provided, however, if the Landlord would have received a Certificate of Occupancy but for incomplete work to be performed by Tenant then Substantial Completion of the Tenant Improvement Work shall be deemed achieved.

"**Tenant Delay(s)**" shall mean any actual delay in the Substantial Completion of the Tenant Improvement Work which is directly attributable to (i) the actions, omissions or interference of Tenant or Tenant's agents, contractors or employees with respect to any aspect of the design, permitting and/or performance of the Tenant Improvement Work, (ii) any delay by Tenant in the review and approval of any Construction Documents submitted to it for review and/or approval, (iii) any delay occasioned by a Change Order requested by Tenant provided Tenant is notified by Landlord prior to acceptance of such Change Order of the estimated amount of Tenant Delay to result from such Change Order, (iv) any breach of the Lease (including this **Exhibit C**) by Tenant, (v) any long lead time items of which Tenant has received prior notice of the estimated amount of the Tenant Delay from such items and elects to proceed in spite thereof, and which causes actual delay in Substantial Completion of the Tenant Improvement Work, and (vi) any failure, for whatever reason, except where such failure shall be as a result of Landlord's inappropriate actions, of Tenant to meet the time requirements of the Phasing Schedule. In calculating the duration of any Tenant Delay, such duration shall be based upon the actual number of days of delay in the Substantial Completion of the Tenant Improvement Work attributable to the causes described above. Landlord shall notify Tenant of any delays occasioned by a Tenant Delay within five (5) business days after Landlord becomes aware that it intends to claim an extension of the date for substantial completion of the Tenant Improvement Work on account of such Tenant Delay; provided, however, Landlord agrees to exercise commercially reasonable efforts to immediately notify Tenant of any act, omission or interference of Tenant, its agents, employees or contractors in the performance of the Tenant Improvement Work which Landlord intends to claim as a Tenant Delay so as to permit Tenant a

reasonable opportunity to promptly mitigate and/or eliminate such act, omission or interference. Tenant Delays shall not include the normal and ordinary process of communication between Landlord and Tenant during the design and construction process or the exercise by Tenant of its rights under this **Exhibit C** to inspect the work on a timely basis and/or to have M&F dispute the achievement of Substantial Completion of the Tenant Improvement Work.

"**Tenant Improvement Allowance**" shall mean an amount up to Three Million Six Hundred Thousand and 00/100 Dollars ($3,600,000.00).

"**Tenant Improvement Work**" shall mean the improvements and other alterations shown on the Construction Documents for the improvements to be performed in the Retained Premises.

"**Tenant's Representative**" shall mean Avery "Chip" Catlin, or any other representative appointed by Tenant. Tenant's Representative shall have the power to bind Tenant with respect to all matters arising under this **Exhibit C**. Tenant has also retained (i) Margolis & Fishman, Inc. ("**M&F**") for architectural services; and (ii) AHA Consulting Engineers, Inc. ("**AHA**") for mechanical, plumbing, electrical, and fire protection services ("**MEPFP**"), as consultants to Tenant (but without power to bind Tenant) and Landlord hereby approves of M&F and AHA as Tenant's consultants. M&F is also referred to herein as the "**Project Architect**".

"**Total Costs**" are defined in Section 4 below.

2. REPARATION OF PLANS AND SPECIFICATIONS

(a) Tenant Improvement Work. Tenant has retained and will continue to retain M&F and AHA for design, architectural and MEPFP services for Tenant Improvement Work. Landlord has retained and will continue to retain M&F and AHA for design, architectural and MEPFP services for Base Building Work. If either Landlord or Tenant wishes to change such service providers, they shall do so only by mutual agreement which each party agrees, for good cause, shall not be unreasonably withheld, conditioned or delayed. Tenant is currently having the Construction Documents for the interior finish and other tenant improvements to the Retained Premises prepared in accordance with: (i) the Space Plan (as defined above in this **Exhibit C-1**); and (ii) information provided to the architect, M&F, or engineer, AHA. Tenant agrees to design the laboratory portions of the Retained Premises, exclusive of the animal research facility, office and other non-laboratory portions of the Retained Premises and except as otherwise consented to by Landlord, such that the laboratory areas will be generally re-usable by other laboratory users. Tenant shall prepare or cause the final Construction Documents to be prepared by M&F and AHA and will submit the same to Landlord for Landlord's review and approval no later than ninety (90) days after the date of this Amendment, subject to delays due to Force Majeure. As soon as practicable after receipt of the proposed Construction Documents but in no event more than five (5) business days after receipt thereof, Landlord shall return the proposed Construction Documents to Tenant with Landlord's suggested modifications and/or approval noted thereon. If, upon receipt of the Landlord's suggested modifications to the Construction Documents, if any, Tenant wishes to take exception to Landlord's modifications, Tenant may do so within five (5) business days after the date upon which Tenant receives Landlord's modifications to the Construction Documents. Landlord and Tenant shall negotiate

in good faith to promptly resolve any disagreements and make modifications to the Construction Documents which are acceptable to Landlord and Tenant. The parties shall attempt to reach agreement as soon as possible, and in all events within ten (10) business days after the date upon which Tenant receives Landlord's proposed modifications to the Construction Documents. Upon resolution of any issues, Tenant shall revise the Construction Documents to reflect the applicable changes, and the same shall be resubmitted to Landlord for final approval within seven (7) business days after resolution of any issues and Landlord shall grant its approval or disapproval thereto, and/or state any further objections or proposed modifications, within three (3) business days after receipt thereof. After the first submission and resubmission, Landlord and Tenant agree to restrict further objections or disputes only to matters which have been previously raised but not previously been agreed upon or accepted by the other party. The parties shall, in all events, act with due diligence and in good faith and use all reasonable efforts to reach agreement as soon as possible, and in all events within twenty (20) business days after the date upon which Tenant first receives the applicable modifications from Landlord which are in issue. The process of submissions and resubmissions shall continue thereafter until final agreement is reached, and in such process, the parties shall thereafter adhere to the three (3) business day response time required after the second resubmission. Each party agrees that its failure to respond to a submission or resubmission within the above-referenced time frames shall constitute such party's acceptance of the submission or resubmission in question. Upon Landlord and Tenant's final approval of the Construction Documents, the same shall constitute the "**Construction Documents**." The work shown on the Construction Documents shall be deemed the "**Tenant Improvement Work**" unless otherwise noted thereon. At the times set forth for obtaining varying phases of building permits in the Phasing Schedule and following final approval of the Construction Documents, Landlord agrees to have the GMP Contractor apply to the Town of Needham Building Department for a building permit for the construction of the Tenant Improvement Work and upon issuance thereof, to cause, subject to Tenant's payment for the portions thereof for which Tenant is responsible, the Tenant Improvement Work to be completed, installed or performed, as the case may be, in accordance therewith, subject only to minor variations and/or variations necessitated by the unavailability of specified materials and equipment in accordance with the Construction Documents. Except as above provided, no deviation from the Construction Documents shall be made by either party except by written Change Order approved by the other party, which approval shall not be unreasonably withheld, conditioned or delayed.

(b) Base Building Work. Landlord is currently having the Base Building Plans for the Base Building Work prepared in accordance with the design specifications previously delivered to Tenant for review. Landlord shall prepare or cause to be prepared by an architect licensed in the Commonwealth of Massachusetts, the Base Building Plans and submit the same to Tenant and Tenant's Representative at appropriate intervals during the design process for Tenant's review and comment in accordance with the provisions of the definition of "**Base Building Plans**".

(c) Change Orders. Tenant may request changes in the Construction Documents ("**Change Order**") from time to time by giving Landlord written notice thereof in each instance, and in each such event Landlord shall, promptly following receipt of written notice thereof from Tenant, submit to Tenant a written detailed estimate of the cost of such Change Order and whether the Change Order will constitute a Tenant Delay. Tenant shall advise Landlord in

writing within five (5) business days after receipt of such estimate whether it shall elect to proceed with the Change Order. Failure by Tenant to notify Landlord within this five (5) business day period (subject to extension by mutual agreement) shall be deemed to be disapproval by Tenant of the Change Order.

3. BID PROCESS

(a) Landlord and Tenant have prepared the Budget for the Tenant Improvement Work attached hereto as **Exhibit C-3** (the "**Budget**"). Except to the extent not practicable due to specialization of the work and limitations on the number of contractors in the field performing such specialized work, with respect to all major sub-trades, Landlord shall cause the GMP Contractor to solicit bids for performance of the Tenant Improvement Work from at least three (3) licensed subcontractors and in substantial accordance with the Budget. If Landlord or the GMP Contractor, as applicable, solicits or is required to solicit bids from subcontractors for such subcontractors to perform both the Base Building Work and the Tenant Improvement Work, Landlord or the GMP Contractor, as applicable, shall require that such subcontractors submit separate and distinct bids for their respective portions of each of the Base Building Work and the Tenant Improvement Work. In addition, Landlord covenants that the contracts (Base Building Work and Tenant Improvement Work and the respective subcontracts thereunder) entered into between Landlord and the GMP Contractor shall be on substantially the same terms and conditions, including, without limitation, pricing of materials and rates for general conditions and contractors' fees. Tenant may, in its sole discretion, require subcontractors to provide unit prices for certain items or services in their respective bids. When bids are solicited, upon the receipt of bids from each of the subcontractors, Landlord or the GMP Contractor shall prepare a bid format which compares each bid, and shall deliver such bid format, together with copies of the bids themselves to Tenant (together with Landlord's designation of the bid Landlord intends to accept). All documentation prepared by Landlord or others on its behalf and/or submitted by contractors, subcontractors, vendors, suppliers or others for the Tenant Improvement Work shall be provided to Tenant's Representative promptly after receipt of same by Landlord, including, without limitation, bid proposals, bid packages, architectural, design, engineering, earthwork, geotechnical and surveys, as applicable. Tenant shall have the right to review all bid packages and to participate with Landlord in the award of the GMP Contract for the Tenant Improvement Work. Landlord has retained C.E. Floyd as its contractor for pre-construction services on both Base Building Work and Tenant Improvement Work and intends to retain C. E. Floyd for construction as well. Tenant approves C. E. Floyd as the GMP Contractor. Any change in the selection of the GMP Contractor to perform the Tenant Improvement Work shall be made by Landlord, subject to Tenant's approval (which shall not be unreasonably withheld conditioned or delayed), provided Landlord shall select the lowest responsible and qualified bidder which is able to meet the timing requirements set forth in this Amendment unless Tenant and Landlord agree to select another bidder. If Tenant has not responded to Landlord's request for approval within five (5) business days, the same shall, at Landlord's election, be deemed to constitute Tenant's approval of Landlord's recommended selection. The bids selected and the GMP Contract entered into by Landlord and the GMP Contractor for the Tenant Improvement Work shall be upon the basis of a guaranteed maximum price. The GMP Contract for the Tenant Improvement Work shall be subject to Tenant's review and approval which shall not be unreasonably withheld, conditioned or delayed provided the total GMP is consistent with the Budget and Landlord and GMP Contractor may not amend such GMP Contract in any material

manner without Tenant's prior written consent. If the GMP is not consistent with the Budget, Tenant shall have ten (10) business days to review the GMP Contract and to modify the Construction Documents so that the GMP is satisfactory to Tenant and meets the Budget. If the final GMP Contract approved by the Tenant exceeds the Budget ten the Budget will be modified accordingly. Landlord may, without Tenant's approval, substitute materials of equal or better quality for materials which meet the Project design intent called for in the Construction Documents. A decrease in the quality of materials or an increase in the GMP Contract price other than by Tenant approved Change Order shall be deemed material.

(b) Landlord agrees to cause the GMP Contractor (or each bidding subcontractor) to identify "long lead" items or materials which will delay substantial completion of the Tenant Improvement Work beyond the outside dates contemplated in the Phasing Schedule, as such dates may be modified from time to time by the parties or extended as a result of permitted delays, and shall notify Tenant of the same promptly after such identification can be made. Landlord and Tenant shall cooperate in good faith to integrate "long lead" items or materials into the Phasing Schedule. If the lowest responsible and qualified bidder is to be selected pursuant to the foregoing and such bid is for a subcontract amount in excess of the line item for such subcontract in the Budget, Tenant shall have the right, within three (3) Business Days following the date of Landlord's selection of the bid, to submit revisions to the Construction Documents for review and approval by Landlord. Upon Landlord's approval of Tenant's revisions, Landlord shall seek and obtain revised bids to be reviewed and selected in accordance with the procedures and the time frames set forth in this **Exhibit C**.

(c) If Landlord and Tenant are unable, after the exercise of good faith efforts, to agree upon the Construction Documents, the selection of the GMP Contractor, if other than C. E. Floyd or the GMP Contract, within one hundred eighty (180) days after the Effective Date, either party may elect by notice to the other party delivered within ten (10) days following expiration of such one hundred eighty (180) day period but prior to agreement of the parties on the matter for which the parties had previously failed to agree to submit any disputes or disagreement to binding arbitration. Landlord and Tenant shall conduct and complete the arbitration within thirty (30) days with three (3) arbitrators knowledgeable in commercial construction of the type to be provided to Tenant. Tenant and Landlord shall each promptly select an arbitrator who shall together select a third arbitrator also knowledgeable in commercial construction, which three arbitrators who shall then resolve the issue. Costs of arbitration shall be shared as follows: Landlord and Tenant shall each pay their selected arbitrators and shall share equally the cost of the third arbitrator.

(d) If Landlord is unable to obtain from the Town of Needham the building permits and other governmental authorizations to perform the Tenant Improvement Work within six (6) months following the date of final approval of the Construction Documents, either party may elect to terminate this Amendment by delivery of written notice to the other party delivered within ten (10) days following expiration of such six (6) month period. Landlord and Tenant shall cooperate with each other to the extent reasonably necessary for either party to obtain necessary permits and approvals.

4. TOTAL COSTS/ALLOWANCE

(a) **Total Costs or Project Costs**: The term "**Total Costs**" shall mean the out-of-pocket costs and expenses actually incurred and required to be paid to third parties in designing, engineering, producing Construction Documents and "as-built" plans, Landlords Financing costs for Landlord's percentage share of the Total Costs in an amount not to exceed $175,000.00, obtaining required permits and approvals for the Tenant Improvement Work, project legal fees in connection with the GMP Contract and construction issues related to the Tenant Improvement Work in an amount not to exceed $45,000.00, construction management and administration to the Construction Manager, which shall not exceed the actual employee and out-of-pocket costs incurred by the GMP Contractor in managing and administering the Tenant Improvement Work, including normal allocation to employee benefits at commercially reasonable rates, insurance, but only to the extent clearly allocable (and documented as such) to the Tenant Improvement Work, a contingency fee for normal and customary contingency items for such jobs including, without limitation, correction of non-conforming work, warranty items, bonding of completion and such other items as are included in such construction contracts and constructing the Tenant Improvement Work and which are identified in the Budget plus approved Change Orders, but exclusive of any costs identified in this Section 4 as being excluded from Total Costs. For the purposes of this sentence, Landlord Parties (defined below) shall be considered third parties if they are providing services, which, but for the Landlord's affiliate providing the same, would have to be provided by another and the cost of such services are at prices consistent with those sums which would be paid to an unrelated, responsible third parry for performing such services or materials. The only Landlord Party entitled to receive any payment in connection with the Tenant Improvement Work is the Construction Manager. Notwithstanding anything to the contrary, the term Total Costs shall not include:

(1) Costs resulting from the gross negligence, willful misconduct or breach of this Amendment by Landlord, its agents or employees,

(2) Costs resulting from the gross negligence or willful misconduct of the GMP Contractor or any other contractors engaged to perform the Tenant Improvement Work, costs to correct nonconforming work performed during construction by GMP Contractor, subcontractors or any design and/or construction professionals engaged by Landlord to perform the Tenant Improvement Work and costs of correcting defective or nonconforming work, disposal and replacement of materials and equipment incorrectly ordered or supplied and correcting damage to property not forming part of the Tenant Improvement Work to the extent covered by manufacturer's or installer's warranties or required to be corrected by the GMP Contractor under the GMP Contract;

(3) Amounts (including, without limitation, salaries, benefits or fees) paid to Landlord, any affiliate of Landlord or any director, officer, member, shareholder or employee of Landlord or any affiliate of Landlord (collectively, the "**Landlord Parties**"), except for the construction management costs to be paid to the Construction Manager;

(4) Any costs not properly charged under the GMP Contract;

(5) Overhead and general expenses of Landlord except as related solely to the Tenant Improvement Work;

(6) Costs of self-insured losses (e.g., losses within the deductible limits); and

(7) Costs attributable to any Base Building Work or the improvements being performed by Landlord to the Terminated Premises and other areas on the second (2nd) floor of the Building (the "**Landlord's 2nd Floor Work**"), including costs of insurance, financing costs, legal fees and construction management costs allocable to Base Building Work and the Landlord's 2nd Floor Work, but including costs for making the Terminated Premises conform with the surrender requirements of Paragraphs 2 and 20 of this Amendment if Tenant fails to perform its obligations thereunder.

Landlord shall deliver a post-final completion accounting and true-up of Total Costs in reasonable detail and a calculation of Total Costs Savings (as hereinafter defined), together with all backup and supporting materials requested by Tenant, within sixty days (60) following the date that Landlord achieves the Substantial Completion of the Tenant Improvement Work. Any part of Total Costs (e.g. completion of punchlist items and warranty work) shall be accounted for in the same manner after Substantial Completion.

(b) **Allowance Excess/Tenant's Contribution**.

Landlord shall apply the Tenant Improvement Allowance against the Total Costs with each payment being made on an 80-20 basis (80% by Landlord and 20% by Tenant up to a total contract price of $4,500,000). Except for costs due to the gross negligence or willful misconduct of Landlord or its agents or employees or contractors and any subcontractors procured by the GMP Contractor, in no event shall Landlord's contribution to or cost for the Tenant Improvement Work exceed $3,600,000.00. In the event the Total Costs exceed $4,500,000, then the percentage of each progress payment to be made by Landlord will be based on a fraction determined as follows:

Landlord's Percentage = $3,600,000/Total Project Costs

By way of example only, should the Tenant Improvement Work cost be projected at $7.2 million, since Landlord has agreed to pay up to $3.6 million in Tenant Work costs, Landlord and Tenant will each contribute 50% of costs as incurred during construction, with a true-up of costs promptly following Substantial Completion of the Tenant Improvement Work for payments made by the parties outside of the applicable ratio (e.g. outside of the 80/20 ratio, adjusted as applicable consistent with the example set forth above). Subject to the provisions of Section 12.2(c) as contained in Paragraph 18 of this Amendment, Tenant's *pari passu* payments will begin, (including any payments which were deferred under Paragraph 18, of this Amendment) on the date Landlord delivers to Tenant the SNDA in form and content required under Paragraph 18 of this Amendment, subject to Tenant's receipt of the documentation required under this Section 4(b) of Exhibit C. Amounts incurred after delivery of the SNDA will be billed and payable on a monthly basis as costs are incurred. Amounts deferred until the SNDA is delivered will be due upon delivery of the SNDA. As of the date of this Amendment, the total design and other Total Costs incurred to date are $47,158.71 of which Landlord has paid $37,937.01 and Tenant has paid $9,221.70.

Change Orders which increase the GMP over $4,500,000 or decrease the GMP to a sum still in excess of $4,500,000 will be paid 100% by or credited 100% to Tenant. Change Orders which decrease the GMP below $4,500,000 will be shared on an 80/20 basis.

The amount of any payments of Tenant's Contribution requested hereunder shall be net of Tenant's allocable share of applicable retainage under the GMP Contract.

If the Total Costs exceed the amount of the Tenant Improvement Allowance, Landlord shall so notify Tenant in writing and Tenant shall be required to make payments to Landlord, or at Landlord's election directly to the GMP Contractor, on a *pari passu* basis with the Tenant Improvement Allowance (the "**Tenant's Contribution**") to pay the Total Costs, provided, however, that Landlord's and Tenant's Contribution payments shall be made on a percentage of completion basis, not more than once during each calendar month, and any amounts due from Tenant as Tenant's Contribution will be paid not sooner than fourteen (14) nor later than twenty-one (21) days following Tenant's receipt of a disbursement request (each a "**Funding Request**") along with, for each payment, a payment request, which shall be in the form of an Application for Payment on AIA Document G702 and G703 certified by the Project Architect seeking that percentage of the Tenant's Contribution (less the applicable holdback amount specified in the GMP Contract) which corresponds to the percentage of completion of the Tenant Improvement Work which has been achieved as of the date of such payment request and certified as such in the AIA Form Requisition Certificate of Payment by M&F or its successor as Project Architect. As a part of each payment request, Tenant will be provided with a copy of each Lien Waiver required to be furnished under the GMP Contract.

Before the payment of any Funding Request, Landlord and/or the GMP Contractor will provide to the Tenant at least twenty-one (21) days before such payment is due:

(i) A copy of the final Certificate of Occupancy (or its equivalent consistent with the provisions of the definition of "Substantial Completion of the Tenant Improvement Work" contained in this Amendment) issued to Landlord by the applicable governmental authority with respect to the Retained Premises (final payment only);

(ii) An insurance certificate or policy (or endorsement to existing policy) evidencing that all coverages required under the Lease are in effect with respect to the Retained Premises and the Tenant Improvement Work (first payment and final payment only);

(iii) Provided Tenant has made all payments required of it under this Amendment, final lien releases for the Tenant Improvement Work from all major subcontractors ["major subcontractor" shall be defined as one or a series of contracts with one subcontractor exceeding $50,000 in the aggregate] and the general contractor with respect to which payment is being requested (final payment only);

(iv) Proof that Landlord has made payment of the corresponding portion of Landlord's Contribution due with respect to the particular Funding Request; and

(v) An inspection by Tenant's Representative, if Tenant so elects, of the Tenant Improvement Work upon confirmation by the then Project Architect of Substantial Completion of the Tenant Improvement Work, provided that any such inspection occurs within five (5) business days after receipt of the request for final payment and retainage release, subject to delays caused by Landlord's failure to provide access to the Retained Premises at reasonable times to Tenant's Representative for such inspection.

(c) **Tenant's Share of Total Cost Savings**. Landlord and Tenant shall endeavor to use commercially reasonable value engineering practices whenever possible in performing the Tenant Improvement Work, and will share in the savings (the "**Total Costs Savings**") as follows: Any value engineering savings which reduce the Total Costs of the Tenant Improvement Work will belong to Tenant until the Total Costs Savings reduce the Total Costs to $4,500,000 and, thereafter, any net value engineering savings will be shared between Landlord and Tenant with Landlord receiving 80% of the additional savings and Tenant receiving 20% of the additional savings.

(d) **Tenant Furnishing, Fixtures and Equipment.** Tenant shall pay for: (i) its share of Tenant Improvement Work up to $4,500,000 as set forth in (B) of this section and all costs of Tenant Improvement Work referenced in the cost estimate and Budget in excess of $4,500,000.00; (ii) the cost of purchasing and installing Tenant's furnishings, fixtures and equipment not included in Tenant Improvement Work; and (iii) the cost of all permits and approvals required for its specific use and operation. Landlord and Tenant acknowledge and agree that, subject to and in conformance with the Phasing Schedule for completion of Tenant Improvement Work, Tenant will be permitted to access the Retained Premises upon reasonable prior notice to Landlord and the Construction Manager (which notice may be oral), in order to install specialized equipment and fixtures being ordered by Tenant for its use and operation of the Retained Premises. Tenant agrees not to interfere with the prosecution of the Tenant Improvement Work. Landlord and Tenant agree to cooperate with each other to facilitate such access and installations.

(e) Tenant Payment Defaults. Any payment of Tenant's Contribution required to be made by Tenant under this Amendment and not paid when due shall be equivalent of a default for non-payment of Annual Fixed Rent under the Lease and entitle Landlord to the remedies for non-payment of Annual Fixed Rent under the Lease.

5. PERFORMANCE OF TENANT IMPROVEMENT WORK

(a) Landlord shall obtain all local licenses, permits and approvals (whether governmental or non-governmental) required to perform the construction of Tenant Improvement Work from the Needham Building Department. Notwithstanding anything contained in the Lease to the contrary, it shall not be Landlord's responsibility to obtain the approval of the Town

of Needham Health Department or any other required federal, state and/or local licenses, permits and approvals (governmental or private) required to operate and use the Retained Premises for the Permitted Use except to the extent any such licenses, permits or approvals are required from the Town of Needham Building Department to sign off construction of the Tenant Improvement Work for general occupancy of the Premises and not related to Tenant's particular use of the Premises. Further and notwithstanding anything in this Amendment and/or the Lease to the contrary, Tenant and not Landlord and GMP Contractor shall be responsible for compliance of the Construction Documents with applicable codes and laws. The foregoing shall not relieve the GMP Contractor or any subcontractors from their respective obligations to ensure that materials ordered and installed by such parties as part of the Tenant Improvement Work are in compliance with the Construction Documents.

(b) Promptly after the later to occur of (i) the issuance of a building permit for the Tenant Improvement Work, and (ii) Landlord's entry into the GMP Contract for the Tenant Improvement Work, Landlord will use commercially reasonable efforts and due diligence to perform the Tenant Improvement Work to achieve Substantial Completion of the Tenant Improvement Work in accordance with the Phasing Schedule (subject to Tenant Delay, Change Orders and/or Force Majeure).

(c) The Tenant Improvement Work shall be (i) performed in a good and workmanlike manner using new materials (unless used and/or existing materials are called for under the Construction Documents), (ii) subject to and in accordance with all Legal Requirements (as defined in Section 6 of this Amendment), and (iii) completed in accordance with the Construction Documents (including approved Change Orders).

(d) Landlord will reasonably cooperate with Tenant and Tenant's Representative in the performance of the Tenant Improvement Work to provide Tenant access to the Premises both prior to and during construction and the right to attend all job meetings between Landlord and GMP Contractor for the Tenant Improvement Work and to review subcontractor submittals and shop drawings. Tenant shall have the right to have Tenant's Representative or other qualified engineer or contractor inspect the quality of construction of the Tenant Improvement Work and the Base Building Work and the compliance of the Tenant Improvement Work with the Construction Documents, provided such inspection is performed at a time mutually agreeable to Landlord and Tenant and which will not cause any delay in the performance of the Tenant Improvement Work or the Base Building Work. Landlord agrees to notify Tenant (which notice may be oral) of all job meetings held with the general contractor and related to the scheduling, design, modifications, change orders, or cost reporting or pricing of the Tenant Improvement Work. Tenant shall have the right to review and approve change orders to any portion of the Tenant Improvement Work proposed by Landlord or GMP Contractor. Tenant and its contractors and representatives shall work harmoniously and cooperate with Landlord and its contractors and representatives and not unreasonably interfere with Landlord's Work.

(e) In addition to insurance required to be maintained by Landlord under the Lease, Landlord shall carry and maintain with respect to the Project at all times during the design and construction of the Base Building Work and the Tenant Improvement Work, and shall require GMP Contractor, Landlord's architect and all contractors and subcontractors, as applicable, to maintain at all times during the design and construction of the Base Building Work and Tenant

Improvement Work, written by insurers rated by A.M. Best & Co., with a minimum rating of (or equivalent to) A-IX and qualified to do business in the Commonwealth of Massachusetts the types of insurance and minimum coverage amounts hereinafter set forth: (1) property insurance written on a builder's risk "all-risk" or equivalent policy form in the total value for the Base Building Work and Tenant Improvement Work, as applicable, at the site on a replacement cost basis without optional deductibles; (2) workers' compensation insurance in statutory amounts and employer's liability insurance in the amount of $1,000,000 for bodily injury or disease and with a wavier of subrogation included in such policies on behalf of Tenant, including policies of subcontractors; (3) commercial automobile vehicle insurance covering owned, non-owned and hired vehicles for personal injury in the amount of $1,000,000 combined single limit for bodily injury and for property damage and with a waiver of subrogation included in such policy on behalf of Tenant; (4) commercial general liability coverage for bodily injury, personal injury and property damage in the amount of $1,000,000 per occurrence and $2,000,000 aggregate limit and umbrella coverage in the amount of $10,000,000 and with a waiver of subrogation included in such policy on behalf of Tenant; and (5) coverage for negligent acts, errors and omissions arising out of the performance of professional services included in the GMP Contract. Such insurance carried by Landlord may be part of a blanket policy. Tenant shall be named as a certificate holder and additional insured on all comprehensive general liability insurance coverages required under this Section 5(e) and under the GMP Contract and all such comprehensive general liability insurance coverages shall be made primary to any insurance carried by Tenant under the Lease. The cost of such insurance documented as allocable to Tenant Improvement Work under this paragraph (e) shall be a part of the Total Costs.

6. DELIVERY; REMEDIES FOR DELAY

(a) Subject to adjustments in the time for performance due to Change Orders, Tenant Delays, and/or Force Majeure, the Tenant Improvement Work shall be Substantially Completed on or before seventeen (17) months from the date on which (i) Tenant relocates into the respective portions of the Premises required under the initial phase of the Phasing Schedule for Landlord to commence the Tenant Improvement Work and vacates and surrenders to Landlord those portions of the Premises required to be vacated by Tenant in accordance with the initial phase of the Phasing Schedule in the condition required under this Agreement; and (ii) Landlord has obtained all local governmental permits required to be obtained by Landlord under this Amendment for construction of the Tenant Improvement Work. When the Tenant Improvement Work is Substantially Complete, Landlord shall so notify Tenant in writing (such notice, the "**Completion Notice**") and shall tender full possession of the Retained Premises to Tenant subject, however, to completion of Punchlist Items. Tenant shall notify (the "**Substantial Completion Objection**") Landlord in writing within ten (10) days following receipt of Landlord's notice of Substantial Completion if Tenant does not agree that the Tenant Improvement Work is Substantially Complete (specifying items alleged not to be Substantially Completed) and the parties shall cooperate to resolve any disagreements as soon as possible. If the parties are unable to agree that the Tenant Improvement Work has been Substantially Complete, either party may submit the matter to arbitration in the manner provided in Section 3(c) of this **Exhibit C**. The Punch List Items shall be set forth in a list prepared during a walkthrough inspection of the Retained Premises by Landlord, the GMP Contractor, Tenant, Tenant's Representative and Tenant's consultants within seven (7) days after the Completion Notice. Landlord shall commence and use reasonable efforts to complete the Punch List within

sixty (60) days of the final agreement as to the Punch List Items. If Tenant fails to timely give the Substantial Completion Objection, then for the purposes of this Amendment, Substantial Completion will be deemed to have been achieved, except to the extent covered by manufacturer's or installer's warranties or under the GMP Contract.

(b) Subject to adjustments in the time for performance due to Change Orders, Tenant Delays, and/or Force Majeure, the Base Building Work shall be Substantially Completed on or before twenty-one (21) months from the date on which (i) Tenant relocates into the portion of the Premises required under the Phasing Schedule for Landlord to commence the Base Building Work and Tenant Improvement Work; and (ii) Landlord has obtained all local governmental permits required for construction of the Base Building Work and Tenant Improvement Work, subject, however to completion of Punch List Items. When the Base Building Work is Substantially Complete, Landlord shall so notify Tenant in writing (such notice, the "**Base Building Completion Notice**") and Tenant and Tenant's Representative shall have a right to inspect the Base Building Work within seven (7) days after the Base Building Completion Notice.

(c) In the event that Substantial Completion of the Tenant Improvement Work is delayed for reasons other than Force Majeure, Tenant Delays and/or Change Orders beyond April 9, 2007, then from and after May 1, 2007 as that date may be extended on account of delays due to Force Majeure Tenant Delays and/or Change Orders, Annual Fixed Rent and Additional Rent (except for utilities used by Tenant) for the Terminated Premises shall abate until the date that is fifteen (15) business days following the date of Substantial Completion of the Tenant Improvement Work in accordance with the terms of this Amendment. If Substantial Completion of Tenant Improvement Work is delayed subsequent to April 30, 2007 due to Force Majeure, Tenant Delays or Change Orders, Tenant will pay rent on the Terminated Premises for the periods of those delays.

(d) In the event that Substantial Completion of the Tenant Improvement Work is delayed beyond August 1, 2007, as such date may be extended for delays due to Force Majeure, Tenant Delays and/or Change Orders, then in addition to the remedies contained in Paragraph 6(c) above, Tenant shall be entitled to assume Landlord's position as Owner under the GMP Contract and to complete the Tenant Improvement Work in accordance with the Construction Documents and the Budget as of that date (the "**Assumption Date**") specified in a written notice from Tenant to Landlord (the "**Assumption Notice**") with a copy of the Assumption Notice to any holder(s) of a mortgage on the Building (the "**Holder(s)**"), the identity and address of which Holder(s) Tenant has received written notice, which Assumption Date shall be no earlier than sixty (60) days after the date of the Completion Notice. The Assumption Notice shall include a statement from Tenant's architect setting forth the amount of time reasonably estimated by the architect as being needed to complete the Tenant Improvement Work. If Tenant exercises such right to perform the Tenant Improvement Work following a failure by Landlord to do so, and Landlord and Holder (in accordance with the SNDA executed by such Holder pursuant to Section 12.2 of the Lease) fail to pay and disburse the theretofore unfunded Landlord's portion of the Tenant Improvement Allowance towards the Total Costs, then Tenant may deduct Landlord's unfunded portion of such Tenant Improvement Allowance plus any increased costs under the GMP Contract incurred by Tenant to complete the Tenant Improvement Work resulting from Landlord's non-permitted delays in completing the same (the "**Additional**

Costs") from the Annual Fixed Rent next due from Tenant under the Lease until Tenant has been fully reimbursed for the undisbursed amount of the Tenant Improvement Allowance which Landlord failed to pay plus the Additional Costs. Notwithstanding the foregoing, if, prior to the Assumption Date, Tenant receives written notice from the Holder(s) that Holder intends to perform Landlord's obligation to complete the Tenant Improvement Work and specifies a date for completion of the Tenant Improvement Work not later than 1.5 times the amount of time reasonably estimated by Tenant's Architect as necessary for the completion of the Tenant Improvement Work, then Tenant's right to assume the GMP Contract and complete the Tenant Improvement Work following Landlord's failure to do so shall be postponed for the period of time set forth in Holder's notice.

(e) For a period of one (1) year after Substantial Completion of the Tenant Improvement Work, the Landlord shall promptly correct defective or materially nonconforming work in both the Base Building Work and the Tenant Improvement Work after written request from the Tenant delivered to Landlord. Following Substantial Completion of the Tenant Improvement Work, Landlord shall assign to Tenant, on an exclusive basis, any claims, correction obligations, warranties and extended warranties provided by GMP Contractor or any other party with respect to the components and equipment included as part of the Tenant Improvement Work. If such claims, corrective obligations and warranties are not assignable, Landlord shall act diligently during the first year after Substantial Completion, in pursuing any available remedies against the contractors performing the Tenant Improvement Work. Landlord agrees to insert a clause into the GMP Contract requiring Contractor to assign all manufacturer warranties to Landlord or Tenant as appropriate. Notwithstanding the foregoing, following the expiration of such one (1) year period after the Substantial Completion of the Tenant Improvement Work, Landlord will, to the extent assignable, assign to Tenant any and all rights of Landlord under the GMP Contract to pursue remedies or enforce rights against the GMP Contractor or any other contractors employed by the GMP Contractor for defective or nonconforming work, to the extent such rights and remedies are still in full force and effect. Such assignment shall be without recourse to Landlord.

(f) The GMP Contract shall provide that any and all indemnifications running for the benefit of Landlord or Construction Manager by the GMP Contractor or any other contractors performing the Tenant Improvement Work or under the GMP Contract shall extend to Tenant to the same extent as Landlord is indemnified by such parties.

(g) During the term of the Lease the Landlord shall (a) maintain at its local offices in the Greater Boston Area or at the job site at or near the Premises one record copy of the drawings, specifications, addenda, change orders, change directives and other modifications for the Tenant Improvement Work, in good order and marked currently to record field changes and selections made during construction (the "**As-Built Documents**"), and (b) the As-Built Documents shall be provided to the Tenant at the conclusion of the Tenant Improvement Work in paper and electronic format approved by the Tenant.

(h) Landlord shall discharge or bond over any lien for labor and/or materials or notice of contract filed by any of Landlord's contractors, subcontractors, laborers, materialmen or suppliers against Tenant's property or the leasehold estate of Tenant.

(i) The GMP Contract and subcontracts for the Base Building Work and the Tenant Improvement Work shall provide that they shall be on an "open book" basis. Landlord shall cause the Construction Manager and GMP Contractor to maintain full and detailed accounts, books and records, including without limitation purchase orders, receipts, bids and subcontracts, for both the Tenant Improvement Work and the Base Building Work and Tenant shall have the right to audit, examine and copy all such books and records upon at least ten (10) business days prior notice to Landlord. The purpose for Tenant's right of review of the accounts, books and records for Base Building Work shall be to ensure compliance with the provisions of Section 3(a) of this Amendment.

EXHIBIT C-1
SPACE PLAN

[Floor Plan]

EXHIBIT C-2
PHASING SCHEDULE

[Table]

EXHIBIT C-3
BUDGET

[Table]

EXHIBIT C-4
BASE BUILDING SPECIFICATION

EXHIBIT C-4

Base Building Work

Landlord will perform the following Base Building Work at Landlord's sole cost and expense:

a. A new glass and aluminum main entry vestibule will be constructed to provide a single main entrance to the Building. The new entry vestibule will have glazed aluminum exterior doors;

b. Window units will be removed from certain window openings on the first and second floors of the Original Premises and replaced with new, aluminum-framed, dual-pane, insulating glass window units in accordance with architectural plans, elevations and details to be prepared by Landlord's Architect as part of the Base Building Plans. In addition, other existing window openings will be modified and/or enlarged in accordance with those documents, and new, aluminum-framed, dual-pane, insulating glass window units will be fabricated and installed in those enhanced window openings;

c. Tenant's existing public entry doorway (on the Fourth Avenue elevation of the Building) will be removed and replaced, as part of the new window system installation, with new window unit(s);

d. The exterior of the perimeter walls containing the Original Premises will be clad with an aluminum panel system in areas selected by the Landlord's Architect to accent the existing brick facade and complement the new window units;

e. A new monument sign, constructed with materials which are complementary to the new exterior building materials, will be located on the property to identify Tenant.

f. Existing landscaping will be supplemented with plantings and seasonal color.

g. Roof-mounted, packaged HVAC units will be provided to replace and supplement certain systems currently serving the Terminated Premises.

EXHIBIT D

FORM OF SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT (this "**Agreement**") is made as of , 2005, by and among *AMERICAN GENERAL LIFE INSURANCE COMPANY*, a Texas corporation, having an address at 1 SunAmerica Center, Century City, Los Angeles, California 90067-6022, Attention: Director-Mortgage Lending and Real Estate ("**Lender**"), Avant Immunotherapeutics, Inc., a Delaware Corporation, having an address at 119 Fourth Avenue, Needham, MA 02494 ("**Tenant**") and DIV Needham 115, LLC, a Massachusetts Limited Liability Company, having an address at The Davis Companies, One Appleton Street, Boston, MA 02116 ("**Landlord**").

RECITALS:

A. Landlord is or will be the owner of the land legally described in Exhibit A attached hereto and made a part hereof and the buildings and other improvements located on such land (such land, buildings and improvements being referred to herein as the "**Property**")

B. Lender has agreed to make a loan (the "**Loan**") to Landlord in connection with Landlord's financing of the Property.

C. Tenant is the lessee under that certain Lease dated October 1, 1994 relating to a portion of the Property (the "**Premises**") commonly referred to as 119 Fourth Avenue, Needham, MA 02494 as amended by a First Amendment to Lease (the "**First Amendment**") dated November , 2005 (collectively, the "**Original Lease**"). The Original Lease, as hereafter modified, amended or supplemented from time to time, is referred to hereinafter as the "**Lease**."

D. The Loan will be evidenced by a certain promissory note (the "**Note**") and secured by, among other things, a first-lien Mortgage, Deed of Trust, Deed to Secure Debt or similar security instrument encumbering the Property (such instrument, as amended, increased, renewed, modified, consolidated, replaced, combined, substituted, severed, split, spread or extended from time to time, being herein referred to as the "**Security Instrument**").

E. The Lease may be assigned by Landlord to Lender as further security for the Note.

F. It is a condition to obtaining Lender's agreement to make the Loan that the Security Instrument shall unconditionally be and remain at all times a lien or charge upon the Premises prior and superior to the Lease.

AGREEMENT:

NOW, THEREFORE, in consideration of the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and understanding that Lender will rely on Tenant's covenants and certifications, as set forth herein, in making the Loan, the parties hereto agree and certify as follows:

1. Tenant represents and warrants to Lender that the Lease has been duly authorized, executed and delivered by Tenant. Landlord and Tenant each represent and warrant to Lender that (a) the Lease is in full force and effect, (b) except as expressly set forth in Recital C hereof, the Lease has not been modified or amended in any way, and (c) to the best of the parties' knowledge, no party to the Lease is in default with respect to such party's obligations under the Lease as of the date of this Agreement.

2. Subject to the terms of this Agreement, the Security Instrument and any and all terms, conditions and provisions thereof, all advances made or to be made thereunder, and any other amendments, modifications, renewals, extensions, alterations or replacements thereof are and shall be and remain at all times a lien or charge upon the Premises senior, prior and superior to the Lease, the leasehold estate created thereby and all rights and privileges of Tenant or any other lessee thereunder in or to the Premises or in or to the Property. Subject to the terms of this Agreement, the Lease, the leasehold estate created thereby and all rights and privileges of Tenant or any other lessee thereunder in or to the Premises or in or to the Property are hereby subjected and made subordinate to, and Tenant hereby subordinates the leasehold estate created by the Lease, and all of Tenant's right, title, and interest under the Lease and in and to the Premises and in or to the Property to, the lien or charge of the Security Instrument and to all the terms, conditions and provisions thereof, to all advances made or to be made thereunder, and to any amendments, modifications, renewals, extensions, alterations or replacements thereof.

3. As long as Tenant is in compliance with the terms of this Agreement and is not in default in the performance of its monetary or other material obligations under the Lease, which default has continued beyond any cure periods provided in the Lease or at law, Tenant shall not be named as a party defendant in any action for foreclosure, trustee's sale or other enforcement of the Security Instrument (unless required by law), nor shall the Lease be terminated in connection with, or by reason of, foreclosure, trustee's sale or other proceedings for the enforcement of the Security Instrument, or by reason of a transfer of the landlord's interest under the Lease pursuant to the taking of a deed or assignment (or similar device) in lieu or in contemplation of foreclosure, nor shall Tenant's use or possession of the Premises be interfered with, and the rights of Tenant under the Lease shall remain in full force and effect, except that the person acquiring or succeeding to the interests of Landlord as the result of any such action or proceeding and such person's successors and assigns (any of the foregoing being hereinafter referred to as "**Successor**") shall not be:

(a) bound by any prepayment of rent paid more than thirty (30) days in advance of the due date or for any security deposit unless actually received by Successor and then limited to the amount of such security deposit actually received subject to all rights, privileges and benefits of Landlord set forth in the Lease with respect thereto;

(b) liable for any act or omission of any prior landlord (including, without limitation, Landlord) or for any claim for damages against any such prior landlord (including, without limitation, Landlord; provided that the foregoing shall not relieve Lender or such Successor of liability for damages arising out of any continuation of such breach, act or omission or for the performance of any act necessary to cure such breach, but solely with respect to the period after the date Lender or such Successor takes over title to the Property, was notified of the applicable claim of breach, act or omission in accordance with the mortgagee notice provisions

of the Lease and/or this Agreement, and failed to cure same within the time period provided for in the Lease or herein, as the case may be);

(c) subject to any offsets, defenses or counterclaims which Tenant may have against any prior landlord (including, without limitation, Landlord); provided that the foregoing shall not (i) relieve Lender or such Successor of liability to disburse the Tenant Improvement Allowance under Exhibit C to the First Amendment, (ii) reduce Tenant's right of offset against Landlord under the Lease with respect to the non-payment of all or any part of the Tenant Improvement Allowance under Exhibit C to the First Amendment or the amount owed to Tenant under Exhibit C to the Lease because of Landlord's failure to perform the Tenant Improvement Work or the Base Building Work (as defined in the Lease) (collectively the "**Special Offset Rights**") or (iii) relieve Lender or such Successor of liability for any offsets or defenses arising out of any breach of the Lease to the extent such breach continues after the date Lender or such Successor takes over title to the Property, was notified of the applicable claim of breach, and failed to cure same within the time period provided for in the Lease or

(d) bound by any amendment or modification of the Original Lease made without the written consent of Lender.

4. If the interest of Landlord under the Lease shall be transferred by reason of any foreclosure, trustee's sale or other proceedings for enforcement of the Security Instrument or the obligations which it secures or pursuant to a taking of a deed or assignment (or similar device) in lieu or in contemplation of foreclosure thereof, then as long as Tenant is not in default past any applicable cure periods provided in the Lease or at law, and except as provided in this Agreement, Tenant shall be bound to Successor and Successor shall be bound to Tenant under all of the terms, covenants and conditions of the Lease for the unexpired balance of the term thereof remaining (and any extensions, if exercised), with the same force and effect as if Successor were Landlord, and Tenant does hereby (a) agree to attorn to Successor, including Lender if it be Successor, as its landlord, (b) affirm its obligations under the Lease, and (c) agree to make payments of all sums due under the Lease to Successor subject to Tenant's rights thereunder, said attornment, affirmation and agreement to be effective and self-operative without the execution of any further instruments, upon Successor succeeding to the interest of Landlord under the Lease. To the extent permitted by applicable law, Tenant waives the provisions of any statute or rule of law now or hereafter in effect that may give or purport to give it any right or obligation to terminate or otherwise adversely affect the Lease or the obligations of Tenant thereunder by reason of any foreclosure, trustee's sale or other proceedings for enforcement of the Security Instrument or the taking of a deed or assignment (or similar device) in lieu or in contemplation of foreclosure, but said attornment shall be effective and self-operative without the execution of any further instruments upon Successor's succeeding to the interest of the lessor under the Lease. Tenant agrees to provide Successor a written confirmation of its attornment to Successor within ten (10) business days after receipt of a written request therefor from Successor, but failure to receive such written confirmation from Tenant shall not derogate from Tenant's obligations to Successor or Successor's obligations to Tenant hereunder.

5. Upon the written request of either Successor or Tenant to the other given at the time of foreclosure, trustee's sale or other proceeding for enforcement of the Security Instrument or by deed in lieu thereof, the parties shall execute a lease of the Premises upon the

same terms and conditions as the Lease between Landlord and Tenant, which Lease shall cover any unexpired balance of the term of the Lease existing prior to such foreclosure, trustee's sale or conveyance in lieu thereof.

6. Notwithstanding anything to the contrary in the Lease, Tenant shall not terminate or cancel the Lease or the term thereof by reason of a default or breach by Landlord thereunder and Tenant shall not commence any action against Landlord or otherwise pursue any right or remedy against Landlord in consequence of a default by Landlord under the terms and provisions of the Lease unless written notice by Tenant specifying such default is mailed to Lender at its address set forth above. Tenant further agrees that Lender shall have the right, but shall not be obligated, to cure such default on behalf of Landlord within thirty (30) days after receipt of such notice, or if such default cannot reasonably be cured by the payment of money or within such 30-day period and failure to cure will not delay the performance of the Tenant Improvement Work or otherwise materially affect Tenant's rights under the Lease, Lender shall have the right to commence the cure of such default in such 30-day period and thereafter diligently pursue such cure until completed. Tenant further agrees not to invoke any of its remedies either express or implied, under the Lease (except for Tenant's Special Offset Rights and except in the case of emergency repairs) unless such default shall remain uncured at the expiration of the 30-day period after receipt of such notice of default, or subject to the conditions set forth in this Section 6 for affording lender additional cure time if such default cannot reasonably be cured by Lender in such 30-day period, unless the cure of such default shall not be commenced within such 30-day period and thereafter prosecuted diligently to completion.

7. Tenant agrees that neither this Agreement nor the Security Instrument shall, prior to Lender's succession to Landlord's interest in the Premises, through any foreclosure, trustee sale, deed or assignment in lieu of foreclosure, or a possessory action, operate to place responsibility for the control, care, management or repair of the Premises upon Lender, or impose responsibility for the carrying out of the terms and conditions of the Lease, nor shall Lender be responsible for or liable for any waste committed on the Premises by any party whatsoever or for any dangerous or defective condition of the Premises, or for any negligence in the management, upkeep, repair or control of the Premises resulting in any damage to property or in any loss or injury or death to any person.

8. In the event that Lender notifies Tenant of any default under the Security Instrument and demands that Tenant pay rent and all other sums due under the Lease to Lender, Tenant (waiving any proof of the occurrence of such event of default other than receipt of Lender's notice) shall pay rent and all other sums due under the Lease directly to Lender. Any payments made to Lender by Tenant shall not affect or impair the other rights and remedies of Lender under the Security Instrument or otherwise against Landlord. Any and all payments made to Lender by Tenant pursuant to the foregoing shall be credited against Tenant's rental obligations under the Lease regardless of whether Lender had the right to make such demand and regardless of any contrary demands which may hereafter be made by Landlord.

9. This Agreement shall be the whole and only agreement between the parties hereto with regard to the subordination of the Lease to the lien or charge of the Security Instrument in favor of Lender, and shall supersede and cancel, but only insofar as would affect the priority of the Lease as to such subjection or subordination, all other subjection or

subordination agreements including, but not limited to, those provisions, if any, contained in the Lease which provide for the subjection or subordination of said Lease to a deed of trust or to a mortgage or mortgages.

10. This Agreement may not be modified except by an agreement in writing signed by the parties. All references to Lender in this Agreement shall be deemed to refer to Lender, its participants, and their respective successors and assigns. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

11. Nothing contained in this Agreement shall in any way impair or affect the lien created by the Security Instrument, except as specifically set forth herein.

12. Tenant acknowledges that this Agreement satisfies any condition or requirement in the Lease relating to the granting of a non-disturbance agreement with respect to the Security Instrument. In the event there is any inconsistency between the terms and provisions hereof and the terms and provisions of the Lease dealing with non-disturbance, the terms and provisions hereof shall be controlling.

13. All notices, demands or requests made pursuant to, under or by virtue of this Agreement shall be in writing and delivered by hand, sent by an overnight courier service providing dated evidence of delivery or mailed by certified or registered mail, return receipt requested, to the person to whom the notice, demand or request is being made at its address set forth herein. Such notices shall be deemed to have been promptly given and received for all purposes (a) if hand delivered, effective upon delivery; (b) if mailed, by United States registered or certified mail, postage prepaid, return receipt requested, effective on the date shown on the return receipt; or (c) if sent by Federal Express or other reliable express courier, effective on the next business day after delivery to such express courier service. Any person may change the place that notices and demands are to be sent by written notice delivered in accordance with this Agreement. “Business day” shall mean any day, except Saturday, Sunday and any day which, in the State in which the Property is located, is a legal holiday or a day on which banking institutions are authorized or required by law or other government action to close.

14. This Agreement shall be governed by the laws of the State in which the Property is located. If any of the terms of this Agreement or the application thereof to any person or circumstances shall to any extent be invalid or unenforceable, the remainder of this Agreement or the application of any such terms to any person or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby, and each term of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

15. In the event any legal action or proceeding is commenced to interpret or enforce the terms of, or obligations arising out of, this Agreement, or to recover damages for the breach thereof, the party prevailing in any such action or proceeding shall be entitled to recover from the non-prevailing party all reasonable attorneys’ fees, costs and expenses incurred by the prevailing party.

16. This Agreement may be executed in counterparts, each of which shall constitute an original and all of which taken together shall constitute one and the same agreement.

17. Tenant understands, acknowledges and agrees that Lender in making the Loan and third parties who are interested in the matters covered by this Agreement are relying on the representations contained herein, including without limitation purchasers, transferees, assignees, servicers, participants, investors, and their respective successors and assigns, and credit rating agencies in connection with the Loan.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have hereunto caused this Agreement to be duly executed as of the day and year first above written.

"TENANT"

Avant Immunotherapeutics, Inc., a
Delaware Corporation

By: _____

Name: Dr. Una Ryan

Title: President and CEO

"LENDER"

AMERICAN GENERAL LIFE INSURANCE
COMPANY, a Texas corporation

By: AIG GLOBAL INVESTMENT CORP., a
New Jersey corporation, its investment advisor

By: _____

Name: _____

Its: _____

"LANDLORD"

DIV Needham 115, LLC, a
Massachusetts Limited Liability Company
By: Davis Management Corp.,
Its: Managing Agent

By: _____

Name: _____

Title: _____

[USE STATE SPECIFIC NOTARY FORM]

STATE OF Massachusetts)
) ss.
COUNTY OF Norfolk)

Before me, [ ], a Notary Public, on this day personally appeared [ ] as [ ] of [ ], a [ ], known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

Given under my hand and official seal this [ ] day of [ ], [ ], A.D.

(SEAL) Notary Public

STATE OF [CALIFORNIA)
) ss.
COUNTY OF [LOS ANGELES)

Before me, [ ], a Notary Public, on this day personally appeared [ ] as [ ] of AIG Global Investment Corp., a New Jersey corporation, investment advisor for [ ], a [ ]corporation, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

Given under my hand and official seal this [ ] day of [ ], [ ], A.D.

(SEAL) Notary Public

STATE OF Massachusetts)
) ss.
COUNTY OF Suffolk)

Before me, [ ], a Notary Public, on this day personally appeared [ ] as [ ] of [ ], a [ ], known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

Given under my hand and official seal this [ ] day of [ ], [ ], A.D.

(SEAL) Notary Public

Exhibit A

Property Description

LOTS 12 and 13

The land with the buildings and other improvements thereon situated in the Town of Needham, County of Norfolk and Commonwealth of Massachusetts, known as and numbered 115-119 Fourth Avenue ("Lot 12 and 13") described as follows:

Beginning at the Northeasterly corner of lot 13 at Fourth Avenue thence:

S 35°-O1'-52" E Four hundred and thirty-six and 00/100 Feet (436.00'), by two (2) courses; the first course measuring One hundred sixty-six, and 46/100 (166.46') feet and the second course measuring Two hundred sixty-nine and 54/100 (269.54') feet

S 54°-58'-08" W Three hundred and seventy five and 00/100 Feet (375.00')

N 35°-01'-52" W One hundred and fifty four and 27/100 Feet (154.27')

N 25°-50'- 13" W Two hundred eighty-five and 48/100 Feet (285.48'), by two (2) courses; the first course measuring One Hundred sixteen and 85/100 (116.85') feet, and the second course measuring One hundred sixty-eight and 63/100 (168.63') feet

N 54°-58'-08" E Three hundred and twenty nine and 39/100 Feet (329.39') to the point of beginning.

Lots 12 and 13 are shown on a plan drawn by Cheney Engineering Co. Inc., Surveyors, dated December 8, 1965, as approved by the Land Court, filed in the Land Court as No. 29185C, a copy of a portion of which is filed with the Land Court with Certificate No. 86939, Page 435.

EXHIBIT E
FORM OF NOTICE OF LEASE

NOTICE OF LEASE AND AMENDMENT TO LEASE

Notice is hereby given, pursuant to the provisions of Massachusetts General Laws Chapter 183, Section 4, of the following Lease, as the same has been amended by a First Amendment to Lease:

LANDLORD:	DIV Needham 115 LLC, as successor in interest to Fourth Avenue Ventures Limited Partnership
TENANT:	AVANT Immunotherapeutics, Inc., a Delaware corporation, as successor in interest to T Cell Sciences, Inc.
DATE OF EXECUTION:	May 1, 1996
DATE OF EXECUTION OF FIRST AMENDMENT	, 2005
TO LEASE:	
DESCRIPTION OF LEASED PREMISES:	35,189 rentable square feet in the building situated at 115-119 Fourth Avenue, Needham, Massachusetts and more particularly shown on Exhibit A to the Lease. For legal description of the Property, see Exhibit A attached to this Notice of Lease.
TERM:	The period from May 1, 1996 through April 30, 2017.
EXTENSION RIGHTS:	One (1) option to extend the Term for an additional five (5) years.

The foregoing is a summary of certain terms of the Lease for purposes of giving notice thereof, and shall not be deemed to modify or amend the terms of the Lease.

For Landlord's title to the Property, see deed of to Landlord dated recorded with the Norfolk Registry of Deeds in Book , Page .

Executed as a sealed instrument on this day of , 2005.

LANDLORD:

DIV NEEDHAM 115 LLC

By: _____
Name:
Title:

TENANT:

AVANT IMMUNOTHERAPEUTICS, INC.

By: _____
Name: Una S. Ryan, PhD
Title: President and CEO

COMMONWEALTH OF MASSACHUSETTS)
)
COUNTY OF)

On this day of , 2005, before me, the undersigned notary public, personally appeared , proved to me through satisfactory evidence of identification, consisting of , to be the person whose name is signed on the preceding or attached document and acknowledged to me that (he)(she) signed it voluntarily for its stated purpose, as for DIV Needham 115 LLC,

(Official Signature and Seal of Notary)
My Commission Expires:

COMMONWEALTH OF MASSACHUSETTS)
)
COUNTY OF)

On this day of , 2005, before me, the undersigned notary public, personally appeared Una S. Ryan, PhD, proved to me through satisfactory evidence of identification, consisting of , to be the person whose name is signed on the preceding or attached document and acknowledged to me that she signed it voluntarily for its stated purpose, as President and CEO for AVANT Immunotherapeutics, Inc., a Delaware corporation,

(Official Signature and Seal of Notary)
My Commission Expires:

Exhibit A

Property Description

LOTS 12 and 13

The land with the buildings and other improvements thereon situated in the Town of Needham, County of Norfolk and Commonwealth of Massachusetts, known as and numbered 115-119 Fourth Avenue ("Lot 12 and 13") described as follows:

Beginning at the Northeasterly corner of lot 13 at Fourth Avenue thence:

S 35°-O1'-52" E Four hundred and thirty-six and 00/100 Feet (436.00'), by two (2) courses; the first course measuring One hundred sixty-six, and 46/100 (166.46') feet and the second course measuring Two hundred sixty-nine and 54/100 (269.54') feet

S 54°-58'-08" W Three hundred and seventy five and 00/100 Feet (375.00')

N 35°-01'-52" W One hundred and fifty four and 27/100 Feet (154.27')

N 25°-50'-13" W Two hundred eighty-five and 48/100 Feet (285.48'), by two (2) courses; the first course measuring One Hundred sixteen and 85/100 (116.85') feet, and the second course measuring One hundred sixty-eight and 63/100 (168.63') feet

N 54°-58'-08" E Three hundred and twenty nine and 39/100 Feet (329.39') to the point of beginning.

Lots 12 and 13 are shown on a plan drawn by Cheney Engineering Co. Inc., Surveyors, dated December 8, 1965, as approved by the Land Court, filed in the Land Court as No. 29185C, a copy of a portion of which is filed with the Land Court with Certificate No. 86939, Page 435.

EXHIBIT F

Intentionally Omitted.

EXHIBIT G
OPERATING EXPENSE EXCLUSIONS

In no event shall Operating Expenses include any of the following:

(a) Salaries and bonuses of officers and executives of Landlord and administrative employees above the grade of property manager or building supervisor, Landlord's general overhead, and direct and indirect compensation and benefits of any employee to the extent that the same is not fairly allocable to the work or service provided by such employee to the Building of the Property;

(b) Any management fee in excess of five percent (5%) of gross rents;

(c) Costs of selling, syndicating, financing, refinancing, mortgaging or hypothecating any of Landlord's interest in all or any part of the Building or Property, including, but not limited to, points and commissions in connection therewith, interest on debt or principal amortization payments or any other payments on any financing or refinancing, including under any ground lease;

(d) Any fees, costs and expenses incurred in procuring or attempting to procure tenants or entering into leases or other occupancy arrangements, including, but not limited to, brokerage commissions, finder's fees, legal fees and expenses, space planners' fees, entertainment costs, travel expenses, and costs of advertising or promotion of the Building or the Property or public relations, and the costs of leasehold improvements, alterations and decorations done to leasable areas of the Building. Notwithstanding the foregoing but subject to the limits set forth in this **Exhibit G,** operating costs and expenses allocable to the parking areas on adjacent property to the Property which are utilized by the tenants of the Property shall be included in the definition of Operating Expenses to the same extent as if such parking areas where located on the Property;

(e) Any cost included in Operating Expenses representing an amount paid to Landlord or to a person, firm, corporation or other entity affiliated with or related to Landlord which is in excess of the amount which would have been paid to a third party on an arms-length basis in the absence of such affiliation or relationship;

(f) Notwithstanding the terms of clause (v) of Section 5.2, the costs of any capital repairs, capital improvements or capital replacements (including, without limitation, replacements of the roof, structural elements and building systems serving the Building) except that if, during the Term of the Lease, Landlord shall make capital expenditures that is (are) either (i) intended to result in a savings in or reduction of Operating Expenses; or (ii) is (are) necessary to comply with any applicable laws, codes, orders or ordinances enacted or first effective after the Extension Term Commencement Date; or (iii) any capital expenditure incurred in connection with the commercially reasonable operation, maintenance, replacement or repair of the Building or the Property but not strictly for the redecoration or aesthetic improvement thereof, the total cost of which is not properly

includable in Operating Expenses for the year in which it was made, there shall nevertheless be included in such Operating Expenses for the applicable year during the Term in which it was made and in Operating Expenses for each succeeding year during the Term the annual charge off (as defined below) of such capital expenditure. Annual charge-off shall be determined by dividing the original capital expenditure plus an interest factor, reasonably determined by Landlord, as being the interest rate then being charged for long-term mortgages by institutional lenders on like properties within the locality in which the Property is located, by the number of years of useful life of the capital expenditure; and the useful life shall be determined reasonably by Landlord in accordance with Landlord's commercially reasonable practices in effect at the time of making such expenditure;

(g) Any costs necessary to cure any violation of any law, ordinance or regulation existing as of the commencement date of this Lease, unless such condition was caused by Tenant and any costs necessary to remediate any environmental condition on or about the Building or the Property, including the removal of, or other steps taken with respect to, asbestos located in the Building or on the Property, including the removal of, or other steps taken with respect to, asbestos located in the Building or on the Property, unless such condition was caused by Tenant, and costs (including, without limitation, attorneys' fees and disbursements) incurred in connection with any judgment, settlement or arbitration award resulting from any tort liability of Landlord;

(h) Legal or other professional fees or expenses relating to leasing, financing, tenant disputes or lease enforcement, disputes with employees or Building management, or disputes with other property owners, or other services not related to the normal maintenance, cleaning, repair, or protection of the Building and/or Property; and

(i) Estate, succession, inheritance, profit, use, occupancy, gross receipts, rental, capital gains and transfer taxes imposed upon Landlord.

Exhibit 10.41

SECOND AMENDMENT TO LEASE

This SECOND AMENDMENT TO LEASE (this "**Amendment**") is made as of the 4th day of November, 2005, **(**the **"Effective Date")** by and between MASSACHUSETTS DEVELOPMENT FINANCE AGENCY, a body politic and corporate and a public instrumentality of the Commonwealth of Massachusetts pursuant to Massachusetts General Laws, Chapter 23G, with an address of 160 Federal Street, Boston, Massachusetts 02110 ("**Landlord**") and AVANT IMMUNOTHERAPEUTICS, INC., a Delaware corporation, with an address of 119 Fourth Avenue, Needham, Massachusetts ("**Tenant**").

R E C I T A L S

WHEREAS, Landlord and Tenant entered into a certain lease dated effective December 22, 2003 and amended by that certain First Amendment to Lease (the "**First Amendment**") dated March 17, 2005 (as so amended, collectively, the "**Lease**") of certain premises consisting of approximately 11,827 rentable square feet of space (the "**Existing Premises**") in the building (the "**Building**") located at 151 Martine Street, Fall River, Massachusetts (the "**Property**") in the South Coast Research & Technology Park (the "**Park**");

WHEREAS, the original premises demised by the Lease consists of 11,756 rentable square feet in the Building and the Additional Space (as defined in the First Amendment) demised by the First Amendment is hereby agreed to be 71 rentable square feet.

WHEREAS, Landlord and Tenant wish to amend the Lease to (i) provide for the addition of approximately 2,487 rentable square feet on the second (2^{nd}) floor in the Building as shown on the floor plan attached hereto as Exhibit A-2 (the "**Expansion Premises**"); and (ii) amend certain other terms of the Lease.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby mutually acknowledged, Landlord and Tenant agree as follows:

1. Capitalized Terms. Unless otherwise defined herein, all capitalized terms used in this Amendment shall have the meanings ascribed to them in the Lease, and all references in the Lease to the "Lease" or "this Lease" or "herein" or "hereunder" or similar terms or to any section thereof shall, after the Effective Date, mean the Lease, or such section thereof, as amended by this Amendment.

2. Demise of Expansion Premises. Commencing on the date Landlord delivers possession of the Expansion Premises to Tenant vacant and free of all occupants and with the Landlord's Expansion Premises Work (as hereinafter defined) substantially complete (the "**Expansion Premises Commencement Date**"), Landlord does hereby lease to Tenant and Tenant does lease from Landlord the Expansion Premises to have and to hold for the remainder of the Lease Term as set forth in the Lease. Promptly following the completion of the Landlord's Expansion Premises Work, Landlord shall notify Tenant of the Expansion Premises Commencement Date (which date shall be no earlier than five (5) days after Landlord's notice to Tenant) and, unless Tenant in good faith disputes the same, Landlord and Tenant will, within five (5) business days after Landlord's notice, will execute a commencement date letter in

commercially reasonable form to confirm the Expansion Premises Commencement Date. Except as otherwise expressly provided herein, Tenant's lease of the Expansion Premises shall be on all of the terms and conditions of the Lease (including, without limitation, extension rights of Tenant for Extension Terms) and the term of the Lease with respect to the Expansion Premises shall be coterminous with the Original Term (and, if exercised, Extension Terms) of the Lease for the Existing Premises. As of the Expansion Premises Commencement Date, all references in the Lease to (i) the "Premises" and/or the premises demised by the Lease shall mean the Existing Premises and the Expansion Premises collectively as shown on the Exhibit A to the Lease, Exhibit A-1 attached to the First Amendment to Lease, and on Exhibit A-2 attached to this Amendment; (ii) the "Tenant's Proportionate Fraction" shall mean 24.78% which is calculated based upon the rentable square footage of the Premises less the 71 rentable square feet of the Additional Space described in the First Amendment; and (iii) the "Premises Square Footage" shall mean 14,314 rentable square feet.

3. Fixed Rent. Tenant shall pay to Landlord Fixed Rent with respect to the Expansion Premises in the manner and at the times set forth in the Lease, in the amounts set forth below:

TERM	ANNUAL FIXED RENTAL RATE FOR THE EXPANSION PREMISES
From the Expansion Premises Commencement Date through December 31, 2008.	$37,305.00
From January 1, 2009 through the expiration of the Lease Term, as the same may be extended.	Calculated in the same fashion as for the Existing Premises under subclause (iii) of the definition of Annual Fixed Rental Rate in Section 1.1 of the Existing Lease, except that only the Annual Fixed Rental Rate for the Expansion Premises shall be used in such calculation, and the first day after the Second Rent Period will be January 1, 2009.

4. Condition; Landlord's Work. Except for the performance of "Landlord's Expansion Premises Work" (as hereinafter defined), the Expansion Premises are being leased in their AS IS condition as of the date of this Lease. Landlord shall, at Landlord's sole cost and expense, deliver the Expansion Premises to Tenant on the applicable Commencement Date therefor (i) vacant, broom-clean, and with all debris and personal property removed therefrom, (ii) with the demising walls and suite entry door installed in the locations shown on **Exhibit A-2** attached hereto and with all such walls primed and ready for painting, and (iii) with the electrical installed to the edge of the Expansion Premises and the two Building-standard HVAC VAV boxes mounted within the Expansion Premises (collectively, the "**Landlord's Expansion Premises Work**"). Tenant acknowledges that the portion of Landlord's Expansion Premises Work described in (ii) of this Paragraph 4 has been completed as of the date hereof.

5. Tenant Expansion Premises Work; Tenant Improvement Allowance. Landlord acknowledges that Tenant desires to perform certain alterations and improvements to the Expansion Premises to prepare the same for Tenant's occupancy (the "**Tenant Expansion Premises Work**"). Landlord shall pay to Tenant an allowance in the amount of Forty-Nine Thousand Seven Hundred Forty and 00/100 Dollars ($49,740.00) (the "**Improvement Allowance**") towards the costs of performing the Tenant Expansion Premises Work. The Improvement Allowance shall be paid by Landlord to Tenant within thirty (30) days following receipt by Landlord of (i) detailed invoices supporting purchases and installation costs, which invoices shall reasonably itemize such costs on a line item basis, (ii) evidence of such installation, (iii) lien waivers from the contractors installing the same, (iv) an AIA reimbursement form signed by Tenant's contractor and architect, if any, and (v) other items reasonably requested by Landlord (collectively, "**Allowance Disbursement Request**"). Each Allowance Disbursement Request shall be subject to Landlord's approval. Tenant shall perform the Tenant Expansion Premises Work in accordance with the terms of the Lease, including, without limitation, Section 10.4 of the Lease, except that Landlord shall not require Tenant to post a bond or other security for the Tenant Expansion Premises Work. As part of the Tenant Expansion Premises Work, Tenant shall, at Tenant's cost and expense but subject to reimbursement from the Improvement Allowance, install a separate meter to measure electricity usage in the Expansion Premises. Landlord and Tenant acknowledge that the Expansion Premises will not use any gas or water services in the Building. In the event that, during the Lease Term, gas or water service is supplied to the Expansion Premises, Tenant shall, at Tenant's cost and expense, install a separate meter or submeter to measure the gas and/or water usage in the Expansion Premises.

6. Utility Payments. From and after the Expansion Premises Commencement Date, Tenant shall be responsible for the payment of all utilities used and consumed in the Expansion Premises directly to the utility companies if the Expansion Premises are separately metered or to Landlord if the Expansion Premises is sub-metered for such utility usage. Tenant shall pay the utility company directly for all telephone and telecommunications service to the Expansion Premises.

7. Data Room Cabinet; Compressed Air Unit.

(a) Landlord hereby agrees that Tenant may install a cabinet with a lock thereon in the first floor communication closet of the Building for containment of Tenant's telecommunications and data connections and equipment presently located therein. Landlord has received and approved Tenant's plans for such work and the schedule for the performance of such installation shall be subject to Landlord's prior approval, which approval will not be unreasonably withheld or delayed.

(b) Landlord acknowledges that Tenant has purchased and installed a compressed air unit in and serving the Existing Premises. Landlord agrees that such compressed air unit is the property of Tenant and may be removed by Tenant at the expiration or earlier termination of the term of the Lease and that any damage to the Existing Premises or the Building caused by such removal shall be repaired by Tenant. Landlord and Tenant acknowledge that the Expansion Premises does not utilize the compressed air supply of the Building.

8. Amendment of Terms; Inapplicable Provisions. From and after the Effective Date, the following provisions of the Lease shall be amended as set forth below:

(a) **Exhibit H** of the Lease shall be amended to include the following:

"27. Costs to supply compressed air to the leasable areas of the Building, provided, however, that in the event Tenant utilizes the Building's compressed air unit(s) (the "**Building CA System**") for the supply of compressed air to the Premises, then the cost of such service shall be included in the common area maintenance expenses. Notwithstanding the foregoing, if only the Existing Premises (as such term is defined in the Second Amendment to Lease) utilizes the Building CA System, then Tenant will only be responsible to pay 20.45% of the common area maintenance expenses associated with the Building CA Systems and if only the Expansion Premises (as such term is defined in the Second Amendment to Lease) utilizes the Building CA System, then Tenant will only be responsible to pay 4.33% of such costs."

(b) Sections 4.2 and 4.3 of the Lease shall not be applicable to the Expansion Premises or the Tenant Expansion Premises Work;

(c) Section 14.1 of the Lease shall be amended to delete the name "Michael Furlong" and insert in place thereof the name "Dr. Una S. Ryan;" and

(d) Exhibit G of the Lease is hereby replaced by the revised Exhibit G attached to this Amendment, and all references to the "North Parking Areas" under the Lease shall be deemed to refer to the parking areas shown as the "Primary Parking Area for 151 Martine Street" on the revised Exhibit G attached hereto. Accordingly, Section 14.14 of the Lease shall be amended by deleting the last sentence thereof and by substituting therefor the following: "As used in this Lease, the term "North Parking Areas" shall mean those areas shown on Exhibit G attached hereto as the "Primary Parking Area for 151 Martine Street."

9. Ratification. Except as expressly modified by this Amendment, the Lease shall remain in full force and effect, and as further modified by this Amendment, is expressly ratified and confirmed by the parties hereto. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, subject to the provisions of the Lease regarding assignment and subletting.

10. Brokerage. Landlord and Tenant each represent and warrant to the other that neither of them has employed or dealt with any broker, agent or finder other than Whelan Associates, LLC ("**Landlord's Broker**") in carrying on the negotiations relating to this Amendment to the Lease. Tenant shall indemnify and hold Landlord harmless from and against any claim or claims for brokerage or other commissions asserted by any broker, agent or finder (other than Landlord' s Broker) engaged by Tenant or with whom Tenant has dealt. Similarly, Landlord shall indemnify and hold Tenant harmless from and against any claims asserted by any broker, agent or finder engaged by Landlord or with whom Landlord has dealt. The representations and warranties contained in this Section 11 shall survive any termination of the Lease. As between Tenant and Landlord, Landlord shall be responsible to pay any brokerage

commission that may be due to Landlord's Broker in connection with the transactions described herein.

11. Governing Law; Interpretation; and Partial Invalidity. This Amendment shall be governed and construed in accordance with the laws of the Commonwealth of Massachusetts. If any term of this Amendment, or the application thereof to any person or circumstances, shall to any extent be invalid or unenforceable, the remainder of this Amendment, or the application of such term to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each term of this Amendment shall be valid and enforceable to the fullest extent permitted by law. The titles for the paragraphs are for convenience only and not to be considered in construing this Amendment. This Amendment contains all of the agreements of the parties with respect to the subject matter hereof, and supersedes all prior dealings between them with respect to such subject matter. No delay or omission on the part of either party to this Amendment in requiring performance by the other party or exercising any right hereunder shall operate as a waiver of any provision hereof or any rights hereunder, and no waiver, omission or delay in requiring performance or exercising any right hereunder on any one occasion shall be construed as a bar to or waiver of such performance or right on any future occasion.

12. Counterparts and Authority. This Amendment may be executed in multiple counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same document. Landlord and Tenant each warrant to the other that the person or persons executing this Amendment on its behalf has or have authority to do so and that such execution has fully obligated and bound such party to all terms and provisions of this Amendment.

[Signatures Commence on Following Page]

IN WITNESS WHEREOF, the undersigned executed this Amendment as of the date and year first written above.

LANDLORD:
MASSACHUSETTS DEVELOPMENT FINANCE AGENCY

By: /s/ Richard Henderson
Name: Richard Henderson
Title: Executive Vice President

TENANT:

AVANT IMMUNOTHERAPEUTICS, INC.

By: /s/ Una S. Ryan
Name: Una S. Ryan, PhD
Title: President and CEO

Exhibit A-2 – Plan of Expansion Premises

[Floor Plan]

Exhibit G – New Plan Showing "North Parking Areas"

[Drawing]

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8, (File Nos. 333-52796, 333-34780, 33-80036, 33-80050, 333-62017, 333-117601 and 333-117602) and the Registration Statements on Forms S-3 (File Nos. 333-64704, 333-43204, 333-52736, 33-64021, 333-08607, 333-56755, 333-64761, 333-89341, 333-109583 and 333-106918) of AVANT Immunotherapeutics, Inc. of our report dated March 16, 2006 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting which appears in this Form 10-K.

/s/ PricewaterhouseCoopers

Boston, Massachusetts
March 16, 2006

Exhibit 31.1

CERTIFICATION

I, Una S. Ryan, certify that:

1. I have reviewed this annual report on Form 10-K of AVANT Immunotherapeutics, Inc.;

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 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 the 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;

   (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;

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

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

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

Date: March 16, 2006

By: /s/ UNA S. RYAN
Name: Una S. Ryan, Ph.D.
Title: President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Avery W. Catlin, certify that:

1. I have reviewed this annual report on Form 10-K of AVANT Immunotherapeutics, Inc.;

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 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 the 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;

   (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;

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

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

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

Date: March 16, 2006

By: /s/ AVERY W. CATLIN
Name: Avery W. Catlin
Title: Senior Vice President and Chief Financial Officer

Exhibit 32

The undersigned officers of AVANT Immunotherapeutics, Inc. (the "Company") hereby certify to our knowledge that the Company's annual report on Form 10-K to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 16, 2006

By: /s/ UNA S. RYAN
Name: Una S. Ryan, Ph.D.
Title: President and Chief Executive Officer

Date: March 16, 2006

By: /s/ AVERY W. CATLIN
Name: Avery W. Catlin
Title: Senior Vice President and Chief Financial Officer