VIRAGEN INC
Form 10-K405
September 28, 2001
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 0-10252

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

DELAWARE	59-2101668
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
865 SW 78TH AVENUE, SUITE 100, PLANTATION, FLORIDA (Address of principal executive offices)	33324 (Zip Code)

Registrant's telephone number, including area code: (954) 233-8746

Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK, $.01 PAR VALUE

Securities registered pursuant to Section 12(g) of the Act:

NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item

405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant based upon the closing price of the common stock on September 28, 2001 was approximately $127,545,000.

As of September 28, 2001, Viragen, Inc. had outstanding 99,786,099 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Risk Factors included in registration statement on Form S-3, File No. 333-63246, filed on June 18, 2001, incorporated by reference into Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

VIRAGEN, INC. AND SUBSIDIARIES

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PART I

ITEM 1. BUSINESS

INTRODUCTION

Viragen, Inc. (which may be referred to as we, us or our) is a Delaware corporation organized in 1980. We are a biotechnology company engaged in the business of researching, developing and manufacturing innovative technologies for the treatment of life-threatening illnesses. We are also in the business of developing innovative technologies aimed at improving the manufacturing processes used to manufacture certain medical therapies. Specifically, we are primarily focused on three fields of research and development:

- human leukocyte derived interferon;

- avian transgenics technologies; and

- oncological therapies.

We operate through:

- Viragen, Inc. -- parent company;

- ViraGenics, Inc. -- 100% owned by Viragen, Inc.;

- Viragen (Europe) Ltd. -- 87% owned by Viragen, Inc.;

- Viragen (Scotland) Ltd. -- 100% owned by Viragen (Europe) Ltd.; and

- BioNative AB -- 100% owned by Viragen (Europe) Ltd.

You can learn more about us by visiting our web site at www.viragen.com. The information on our website is neither incorporated into, nor a part of, this report.

Interferon

We produce a natural interferon product named Omniferon (TM) from human white blood cells, also known as leukocytes. Natural interferon stimulates and modulates the human immune system. In addition, interferon may stop the growth of various viruses including those involved with diseases like hepatitis, cancer, multiple sclerosis, and HIV/AIDS.

As a result of our acquisition of BioNative AB on September 28, 2001, we also produce a natural interferon product in Sweden named Alfanative(R). BioNative is currently conducting Phase III clinical trials in Germany with Alfanative for the treatment of melanoma, a potentially lethal form of skin cancer.

Neither the United States Food and Drug Administration nor the European Union regulatory authorities have approved Omniferon for sale to the public. Alfanative is currently approved for use in Sweden in the treatment of hairy cell leukemia and chronic myelogenous leukemia in patients who have failed recombinant therapy.

Avian Transgenics

Our avian transgenic project is designed to enable Viragen to produce

protein-based drugs, including monoclonal antibodies, inside the eggs of specially developed chickens. Our goal is to develop a technology which will enable us to meet the large-scale production requirements for our own therapeutic protein products. We also believe that this technology will allow us to offer to others in the biopharmaceutical industry an alternate faster method of production of their protein based products with higher capacity at lower costs.

Avian transgenics offers a potential solution to the production bottleneck currently limiting the growth and contributing to the high cost of protein drugs. Existing protein production technologies are often inefficient and costly. In addition, the explosion in protein drug approvals together with protein-based drugs in pre-clinical and Phase I or Phase II clinical trials has created a worldwide shortage of production capacity.

We believe our avian transgenics project will offer a rapid and cost effective way to produce large volumes of therapeutic proteins. As well as meeting the current and future alternative production demands of the biopharmaceutical industry and generating significant revenues for Viragen, this project could also accelerate the progress of several life-saving drugs to the market at an affordable cost.

Oncology Therapies

Viragen believes that no single approach or method is likely to effectively treat all cancers. Different tumors have many different defective genes. We have approached the treatment of targeted cancers from several directions which we believe will increase our likelihood of clinical success.

- In collaboration with the Memorial Sloan-Kettering Cancer Center, we have initiated the production of human monoclonal antibodies for the treatment of melanoma and certain other cancers.

- In collaboration with the UK's Cancer Research Campaign Technology, we are developing a vaccine designed to block the protective effect of the protein CD55 from the surface of tumor cells. The protein CD55 is one of a number of proteins which protect normal healthy cells from being destroyed by the human immune system. The problem arises when cancer cells also express this control protein to camouflage themselves from the immune system. Under a worldwide exclusive commercial license granted to us, we are researching a vaccine to remove this protection from tumor cells. A successful vaccine could also offer protection against cancer spreading. We believe this technology would be useful in the treatment of colorectal, breast, ovarian and certain bone cancers.

- Under a worldwide exclusive license from the U.S. National Institute of Health, we are researching the clinical applications of a monoclonal antibody that recognizes the Notch-1 protein. Cells usually die when they get infected or have outlived their useful purpose. This occurs when a signal is sent to a gene in the cell which then produces Notch proteins. One of these proteins, Notch-1, regulates apoptosis or programmed cell death. We believe this process may be interrupted by expression of the Notch-1 protein. An antibody to the Notch-1 protein could bind to the tumor cell and permit the tumor cells to die. Initial potential targets for this program are cervical, breast and lung cancers.

RECENT DEVELOPMENTS

Interferon

On September 28, 2001, Viragen and Viragen (Europe) signed a stock purchase agreement to acquire 100% of BioNative AB, a privately-held Swedish company, initially in exchange for approximately 3 million common shares, or 7.8%, of Viragen (Europe)'s equity. An additional 20.5 million common shares of Viragen (Europe) may be issued upon BioNative meeting certain performance milestones following the closing of the transaction. If all of the additional shares are issued, the former owners of BioNative could own up to approximately 40% of Viragen (Europe).

BioNative's facilities are located in Umea, Sweden where we manufacture our human leukocyte interferon (alpha) product, Alfanative. Alfanative is approved in Sweden for the treatment of patients with hairy cell leukemia or chronic myelogenous leukemia, who did not respond to treatment with recombinant (synthetic) interferon. The product is also approved for sale in:

- the Czech Republic,

- Indonesia,

- Hong Kong,

- Burma,

- Thailand, and

- as purified bulk product in Egypt.

BioNative is also conducting European Phase III clinical trials in Germany with Alfanative in the treatment of malignant melanoma.

Avian Transgenics

On November 15, 2000, Viragen entered into a development, license and collaboration agreement with the Roslin Institute (Edinburgh). The agreement provides for joint continued development of transgenics technology in birds. The technology will be used to create chickens which produce eggs containing targeted new drugs to treat many serious diseases, including cancer. We believe this technology promises a much faster and cost effective method of production for many promising biopharmaceutical products.

On May 14, 2001, we entered into an option agreement with Geron Corporation. This agreement provides Viragen the option to enter into a license agreement with Geron, during the three-year option period ending May 14, 2004. The license, if entered into, would be for rights to certain nuclear transfer and transgenesis technology owned by Geron. We believe that Geron's technology may enhance the technology which we license from the Roslin Institute (Edinburgh).

OPERATIONS

In July 1999, Viragen (Scotland) Ltd. received regulatory approval of its Clinical Trial Exemption Application to begin Phase I/II human clinical trials of its Omniferon product, initially for the treatment of hepatitis C. We began our clinical trials in the fourth calendar quarter of 1999. Through BioNative, we are currently conducting Phase III clinical trials of Alfanative in Germany for the treatment of melanoma, a form of skin cancer.

Pending the outcome of certain negotiations and contingent upon the

approval of regulatory and governmental authorities of a foreign country, management will evaluate whether or not to pursue the current EU clinical trials of Omniferon and/or to proceed to Phase III. This decision, will, in part, be based upon that government's decision to permit us to conduct a Phase III clinical trial based upon prior Phase I/II data. Unlike the current EU trial, we would be reimbursed for all costs connected with that trial. Further, the regulatory authorities may permit us to market through a representative distributor during the Phase III clinical trial period, thereby generating revenues. During the anticipated one year period of this trial, marketing would be limited to a specified number of hepatitis C patients.

In the event management decides to continue European clinical trials, we will require significant additional financing to continue to conduct and complete clinical trials for the purpose of obtaining European Union and/or U.S. Food and Drug Administration approvals of any product. Clinical testing toward European Union and/or Food and Drug Administration approval is an expensive process that is expected to take several years to complete, with no assurance that regulatory approvals will eventually be obtained.

STRATEGIC ALLIANCES AND SUPPLY AGREEMENTS

Interferon

We have entered into a series of strategic alliances and supply agreements with major worldwide suppliers of blood products. These agreements secure reliable and safe sources of human white blood cells, also known as leukocytes, which are critical to the production of interferon. During 1998, we entered into agreements with the American Red Cross and America's Blood Centers. Between them, they collect annually a substantial majority of the U.S. blood supply. We also entered into a series of agreements covering a majority of the blood supply in Germany, a major European supplier.

In July 1998, we entered into a strategic alliance and supply agreement with America's Blood Centers for the supply of human white blood cells. America's Blood Centers is a national network of non-profit, independent community blood centers operating in 45 states. America's Blood Centers' members annually collect over 45% of the U.S. blood supply through member blood donation centers and mobile collection facilities. Under the America's Blood Centers agreement, we have first and preferential access to all leukocytes produced by America's Blood Centers members who have elected to participate in the program.

We pay a fixed cost for the leukocytes provided during the first two years of the agreement. After the first two years, the price may vary based upon increased costs incurred by participating America's Blood Centers members. In September 2000, the initial two-year term of the agreement was extended for a third year under the same terms.

The America's Blood Centers agreement also provides for a royalty payment to be paid for each leukocyte provided under this agreement. The royalty is based on the higher of:

- a percentage of net revenues realized by Viragen,
- the estimated net revenues that could have been realized, based on the sale of Omniferon, using the America's Blood Centers leukocytes provided, or
- a fixed dollar amount for the leukocytes.

No minimum order requirement exists under this agreement. However, we have agreed that, prior to the date that a New Drug Approval Application becomes approved by the Food and Drug Administration, we will negotiate in good faith to reach an agreement on a minimum leukocyte purchase commitment.

In August 1998, we entered into a fifteen-year agreement with the American Red Cross for the supply of leukocytes. The American Red Cross collects approximately half of the U.S. blood supply. The American Red Cross agreement provides for us to purchase leukocytes, consistent with agreed upon specifications, based on quarterly forecasts. We may pay for the leukocytes in cash or our common stock at the option of the American Red Cross. The valuation of shares will be based on the average closing price of our shares for the five days prior to the payment due date less a discount. The American Red Cross agreement also contains an initial price per leukocyte modified by a volume discount pricing schedule and rebate program. This pricing schedule may change based on periodic renegotiations. Upon execution of the agreement we issued a warrant to the American Red Cross to purchase up to 500,000 shares of our common stock with exercise prices ranging from $5.50 to $11.00 per share. We also entered into a stockholder's agreement and registration rights agreement. These agreements relate to shares underlying the warrant and shares received in lieu of cash for leukocyte purchases.

In November 1998, Viragen signed an exclusive supply and distribution agreement with AGC, a Pakistan-based, multinational conglomerate. This agreement provides for the purchase and distribution of Omniferon. Under this agreement, AGC's designated territories include:

- India,
- Pakistan,
- Saudi Arabia,
- Kuwait,
- Yemen,
- Oman,
- UAE,
- Brunei, and
- other Middle Eastern countries.

AGC must purchase a minimum of $20 million of Omniferon over five years. The purchase minimums become binding on AGC if and when:

- AGC receives the required regulatory approvals for product commercialization in the targeted territories, and
- we receive the regulatory approvals to export Omniferon from our commercial manufacturing facility in Edinburgh, Scotland.

AGC has agreed to provide Viragen with its projected annual requirements to be updated quarterly. Projected requirements in excess of agreed purchase minimums are binding on AGC. The purchase minimums, if contractually triggered, will be secured by a $1 million irrevocable revolving letter of credit. AGC and Viragen have agreed that if and when we obtain regulatory approval for

commercialization of Omniferon in the United States and/or Europe, both parties will negotiate in good faith an amendment to the agreement which could modify the purchase minimums and selling price.

Under the AGC agreement, AGC is responsible for clinical and regulatory costs to obtain approvals for commercialization of Omniferon in their designated territories. AGC is also responsible for all subsequent sales, marketing and distribution activities. AGC is required to build, own and operate, at their expense, a pharmaceutical distribution facility in a mutually agreeable location within the territories. AGC has informed us that they initially intend to focus on distribution for hepatitis B and C. These diseases are at epidemic proportions in the designated territories. In light of the current political climate, this agreement may be modified or substantially changed in accordance with any new laws, rules or regulations.

In July 1999, Viragen entered into a letter of intent with Drogsan Healthcare, a Turkish pharmaceutical company. The letter of intent outlines the terms of a supply and exclusive distribution agreement between Viragen and Drogsan for natural interferon in Turkey. These terms are similar to the AGC agreement. The final agreement has not yet been completed but negotiations continue.

Oncological Therapies

In December 1999, through Viragen (Scotland) Ltd., we entered into a collaborative agreement with the Memorial Sloan-Kettering Cancer Center in New York City. The agreement is for the development of a human monoclonal antibody which may be used in conjunction with our Omniferon product, for the treatment of melanoma, a potentially fatal skin cancer. This technology could also prove useful in the treatment of certain other cancers.

In July 2000, Viragen entered into an agreement with the United Kingdom's Cancer Research Campaign Technology and the University of Nottingham to develop a new cancer vaccine therapy for the treatment of several indications including breast, ovarian and colorectal cancers. The development work is taking place primarily at the Cancer Research Campaign's Department of Clinical Oncology at the University of Nottingham in England.

Under the Cancer Research Campaign Agreement, we were granted an exclusive worldwide commercial license by the Cancer Research Campaign to develop, manufacture and commercialize their patent pending technology based on a tumor-associated antigen. The licensed technology covers the tumor-associated antigen, CD55, the method of its isolation and its potential medical uses, including cancer vaccines.

In September 2000, we obtained an exclusive worldwide license from the U.S. National Institute of Health to use and further develop a monoclonal antibody potentially useful in the treatment of certain cancers. The antibody or antibody fragment recognizes the Notch-1 protein. The Notch-1 protein is over-expressed in certain tumors including cervical, breast and lung cancers. This project centers on the development of a drug that attacks cancer cells by inducing them to commit suicide, a process that is known as apoptosis.

Other

In August 1998, we entered into a strategic alliance with Inflammatics, Inc., a private drug development company, headquartered in Philadelphia, PA. At the same time, we purchased a 10% equity interest in Inflammatics, which is focused on the development of LeukoVAX, an immunomodulating therapy derived from leukocytes. LeukoVAX has conducted Food and Drug Administration Phase I/II clinical trials for rheumatoid arthritis.

In the fourth fiscal quarter 2000, we received initial Phase I/II data which suggests no statistically significant difference in outcomes between patients who had received LeukoVAX and those who have not. We have announced that we will maintain our 10% equity position and exclusive manufacturing rights.

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THE PRODUCTS

Viragen derives its human leukocyte interferon from human white cells also known as leukocytes. Natural interferon is one of the body's natural defensive responses to foreign substances like viruses. It is so named because it "interferes" with viral growth. Natural interferon consists of protein molecules that induce antiviral, antitumor and immunomodulatory responses within the body. Medical studies indicate that interferons may inhibit malignant cell and tumor growth without affecting normal cell activity.

There are two industrial sources of interferon for medical use. They are differentiated primarily by their source products, method of manufacture and resulting composition. The first, as produced by Viragen, is a multi-species natural, human leukocyte-derived alpha interferon. This is produced by cultivated human white blood cells. The introduction of a harmless agent induces the cells to produce natural interferon. Natural interferon is then separated from other natural proteins and purified to produce a highly concentrated product for clinical use. The second type of interferon is recombinant or synthetic interferon (alpha or beta). This is a genetically engineered interferon. Generally, it is produced from a single human gene in bacterial cells by recombinant DNA techniques.

Clinical studies indicate that there may be significant therapeutic differences between the use of natural interferon and synthetic interferon. We believe that treatment with synthetic interferon may cause an immunological response through the production by the human immune system of neutralizing and/or binding antibodies. These antibodies are believed to reduce the effectiveness of the treatment or may cause adverse side effects. Studies suggest that the production of neutralizing and/or binding antibodies may be essentially non-existent in patients treated with natural interferon. Furthermore, primarily due to biological differences, the side effects of treatment with natural interferon may be milder than with a recombinant or synthetic interferon.

THE INTERFERON INDUSTRY

Prior to 1985, natural interferon was the only type of interferon available. Research institutions and other biomedical companies like Viragen were working to solve the problem of the high cost related to the industrial-scale production of natural interferon. In 1985, Hoffman-LaRoche, Inc. and Schering-Plough Corporation, two major pharmaceutical companies, successfully developed synthetic interferon using recombinant DNA technology. They subsequently received Food and Drug Administration approval to produce and market their recombinant alpha interferon products for numerous indications.

After the emergence of recombinant or synthetic alpha interferon, the medical community's interest in natural interferon diminished. This was due primarily to the limited availability and its higher cost of production. Most clinical studies thereafter utilized a synthetic product.

Hoffman-LaRoche, Inc. and Schering-Plough Corporation continue to actively market their products and promote the therapeutic benefits of their synthetic interferon products. In 1993, Chiron Corp. received Food and Drug Administration

approval of BetaSeron(TM), its recombinant beta interferon, for the treatment of relapsing/remitting multiple sclerosis. In 1996, Biogen, Inc. received Food and Drug Administration approval for Avonex(TM), its recombinant beta interferon, for relapsing/remitting multiple sclerosis. In 1997, Teva Pharmaceuticals received Food and Drug Administration approval of its peptide chemical compound, Copaxone(TM), for relapsing/remitting multiple sclerosis.

APPLICATIONS OF INTERFERON

Human leukocyte interferon is a naturally occurring protein which serves to enhance the body's immune response to viral infections. Viragen believes interferons can arrest the progress of viral based infections, reducing symptoms and disease-related complications with a minimum of side effects.

Hepatitis C

The hepatitis C virus is a major worldwide cause of acute and chronic hepatitis. Hepatitis C, previously known as "non-A, non-B hepatitis", affects an estimated 4 million Americans and 5 million Europeans.

Approximately 30,000 new cases are diagnosed each year in the U.S. and is responsible for an estimated 8,000 deaths annually. Hepatitis C is currently a leading cause of liver transplantation in the United States. Based on a review of published literature and evaluation by our scientific staff and advisors, we believe that our natural interferon product may prove effective in the treatment of this indication. The Food and Drug Administration has approved certain interferons for the treatment of hepatitis C including:

- Hoffman-LaRoche's Roferon(TM),
- Schering-Plough's Intron A(TM), and
- Amgen's Infergen(TM).

We are currently conducting Phase II clinical trials in the European Union for the treatment of hepatitis C.

Hepatitis B

Approximately 45% of the world's population live in areas with a high prevalence of hepatitis B infection. In many of these areas, the lifetime risk of infection can exceed 60%. Most infections in these areas are acquired at birth or during early childhood, when the risk of developing chronic infection is highest. The United States is not in a high prevalence area. Here approximately 300,000 cases of acute hepatitis B are diagnosed annually. Between 2% and 10% of these patients develop chronic infections. These infections put the patients at risk of progressive liver disease possibly leading to cirrhosis and/or hepatocellar carcinoma.

Synthetic interferon alpha is the only U.S. Food and Drug Administration approved drug for hepatitis B. It has proven to be effective in the treatment of some cases. Viragen believes that our human leukocyte interferon may also prove effective in the treatment of hepatitis B.

Melanoma

Melanoma is a type of cancer which originates in the melanocytes, the cells containing skin color. Over 30,000 cases per year are diagnosed in the United States alone. Melanoma has one of the fastest growing occurrence rates, increasing at a rate in excess of 4% per year. An American's lifetime risk of

developing melanoma is currently approximately one in 75 and it is the most commonly occurring cancer in women between the ages of 25 and 29. Melanoma is second only to breast cancer in women ages 30 to 34.

Through a collaboration agreement with Memorial Sloan-Kettering Cancer Center, we are developing a monoclonal antibody which we intend to be used in conjunction with our interferon product for treatment against this growing concern.

BioNative is currently conducting a Phase III clinical trial in Germany with Alfanative for the treatment of melanoma.

Chronic Myelogenous Leukemia

Chronic myelogenous leukemia is one of a group of diseases called myeloproliferative disorders. It is usually recognized by a distinctive cytogenetic abnormality, known as the Philadelphia chromosome. The current treatment for chronic myelogenous leukemia is high dose chemotherapy with bone marrow transplantation. Interferon therapy has emerged as a possible effective initial treatment in this disease. This kind of therapy affects both the presence of leukemia cells as well as the number of bone marrow cells having the Philadelphia chromosome.

Through BioNative we are approved in Sweden to manufacture and distribute Alfanative for the treatment of patients with chronic myelogenous leukemia who did not respond to treatment with recombinant interferon.

Multiple Sclerosis

Multiple sclerosis is a chronic, often disabling disease of the central nervous system. This disease often attacks young adults. It is estimated that there are approximately 350,000 patients in the U.S. and a similar number in Europe.

In June 2001, the UK's Medicines Central Agency approved our application to commence human clinical trials with Omniferon for the treatment of multiple sclerosis. These trials have not yet started. Completion of clinical trials for multiple sclerosis is expected to take several years and require significant additional funding.

HIV/AIDS

In March 1996, Viragen, in collaboration with Biodoron, a Hollywood, Florida based clinic, received approval from Florida's Health and Rehabilitative Services under Florida's Investigational Drug Program to conduct an investigational study in Florida of our Alpha Leukoferon product, an interferon product we no longer produce. This approval was for the treatment of HIV/AIDS in hemophiliacs. Viragen entered into an agreement with Quantum Health Resources, Inc., which contributed $330,000 toward to the cost of the study. Quantum, a subsidiary of Olsten Services Corp., is a national provider of alternate site therapies and support services for people affected by chronic disorders, including hemophilia. The study began in March 1996. A total of 35 patients enrolled to receive Alpha Leukoferon for a minimum of six months in combination with a comprehensive HIV/AIDS treatment program. While the study suggested that Alpha Leukoferon was safe and well-tolerated, the overall study results proved to be inconclusive due to the smaller than anticipated number of patients that finished the protocol.

MANUFACTURE OF INTERFERON

Human white blood cells, also known as leukocytes, and a stimulating agent are needed to produce human leukocyte-derived interferon. These raw materials are readily available to us. A stimulating agent, which is harmless to humans, is introduced into the white blood cell culture, which induces the cell to produce interferon. The interferon is then separated from other proteins, extracted and purified. Currently we are manufacturing human leukocyte interferon in our Scottish and Swedish facilities.

Production methods that we have developed, as well as enhanced methods currently under development, we believe will reduce our costs of production and, ultimately, the market price of human leukocyte derived interferon to patients. However, we cannot assure you that any new manufacturing technology will achieve the desired level of manufacturing proficiency and product improvement.

RESEARCH AND DEVELOPMENT

The entire process of research, development and European Union and/or Food and Drug Administration approvals of a new biopharmaceutical drug can take 10 to 15 years. It also requires substantial funding. In July 1999, Viragen received approval of its European Clinical Trial Exemption Application to begin clinical trials of Omniferon.

We are currently evaluating the relative merits of the Omniferon and Alfanative manufacturing processes. Our focus is to evaluate and ultimately adopt the most efficient manufacturing methodologies targeting cell stimulation, purification techniques, product purity and production yields. We expect that our continued evaluation will result in lower production costs and a more competitive sales price of our human leukocyte derived interferon product.

Research and development costs totaled $7,069,432, $4,836,753 and $5,152,748 for the fiscal years ended June 30, 2001, 2000 and 1999, respectively. It is not usual to spend $100 million to $500 million to take a product from the test tube through clinical trials and to market.

ROYALTY AGREEMENT

Viragen and Medicore, Inc., a former affiliate, have a royalty agreement. It provides for a maximum cap on royalties to be paid to Medicore of $2,400,000. It includes a schedule of royalty payments of:

- 5% of the first $7,000,000 of sales of interferon and related products,

- 4% of the next $10,000,000, and

- 3% of the next $55,000,000

until the total of $2,400,000 royalty is paid. The agreement also states that royalties of approximately $108,000 previously accrued as payable to Medicore will be the final payment. As we have had no interferon sales, no royalty expense has been recognized for the three fiscal years ended June 30, 2001. Management believes that the terms and conditions contained in the royalty agreement will ultimately render the agreement moot and that no royalty payments will be paid.

INTELLECTUAL PROPERTY

Viragen believes both its and BioNative's production techniques are unique and are capable of yielding a superior quality product. We believe that their

production techniques will allow us to offer human leukocyte interferon at a price competitive with the recombinant interferons.

Viragen has filed three patent applications covering Omniferon production techniques. Our BioNative subsidiary has filed 4 patents relating to Alfanative and related production processes. We have also submitted several foreign patent applications relating to natural interferon for topical use. Several of these patents have been granted. During fiscal 1999, our patent issued in Japan for the topical use of interferon was challenged by a Japanese company. We successfully defended our patent position.

Under a license agreement between Viragen and Viragen (Europe) Ltd. dated July 12, 1995, Viragen (Europe) has exclusive rights to Viragen's technologies. These include technologies covered by patent for all countries in the European Union. In addition, we granted Viragen (Europe) the non-exclusive rights to Viragen's technology throughout the world, excluding the United States and its territories. Viragen (Europe) will pay Viragen a licensing fee ranging from 10% to 5% of sales, with a minimum of $2 million per year, subsequently modified to $167,000 per month. Viragen had deferred the minimum licensing payment in cash until Viragen (Europe) has the necessary cash flow to meet this payment. In June 2001, accrued licensing fees of $5,333,333 owed to Viragen were paid by Viragen (Europe) through the issuance of 6,274,510 common shares. The initial term of this agreement is 15 years and automatically renews for two successive 15-year periods.

In August 2000, the World Intellectual Property Organization published our international patent application related to methods of isolating highly purified natural type 1 interferons.

United States and European Union patents have been issued to others for genetically engineered and human-derived interferons. In the event of valid claims, Viragen may have to negotiate license agreements with patent holders to use some processes and products. We believe that we do not infringe upon any current patent. Also, no one has alleged patent infringement by Viragen.

Someone can challenge the validity and enforceability of a patent by litigation after its issuance. If the outcome is against the owner of the patent, other parties may be free to use the subject matter of the patent. Protection provided by foreign patents may be different than in the United States. The actual protection we receive from a foreign patent may vary from one country to another. Protection realized may also depend on the type of patent, scope of coverage granted and the legal remedies available in each country. We cannot assure you that any future patents will offer substantial protection or commercial benefit to us.

REGULATION

United States and European Union

Viragen's activities, products and processes are subject to substantial government regulation in the United States and within the European Union. The European Union, Food and Drug Administration, state and local agencies regulate the manufacturing, advertising, labeling and sale of biologic substances and pharmaceutical products. Regulatory authorities have stringent mandatory procedures and standards, which apply to the clinical testing, marketing and manufacture of any biologic products, including ours. European Union and/or Food and Drug Administration approvals for commercialization of any new product can take significant time and capital, since it involves extensive testing procedures and lengthy clinical trials. These trials involve the measurement of

product safety and efficacy under specific protocols. The process of obtaining European Union and/or Food and Drug Administration approvals requires extensive animal testing to demonstrate product safety. Human tests are then performed to show and to document findings as to safety and effectiveness. Data is then gathered and evaluated, followed by the submission of all information and data to the regulatory authorities. This process takes several years and substantial funding.

Viragen, through Viragen (Scotland), completed the preclinical studies of its Omniferon product in the European Union. In July 1999, we received approval of our UK Clinical Trial Exemption application to begin clinical trials on humans. We began the clinical trials during the fourth calendar quarter of 1999. Management is considering submitting an Investigative New Drug Application to the Food and Drug Administration for use of our human leukocyte interferon in the U.S. To help us during the anticipated approval process, we assembled a clinical advisory committee. It consists of scientists, medical researchers and clinicians. They are acting in an advisory capacity to assist us in developing the medical, scientific and clinical aspects in support of our clinical trials, initially within the European Union and eventually in the United States.

Beginning in 1998, approval of a new drug for use in the entire EU became possible through the European Medicine Evaluation Agency's Mutual Recognition Procedure. The use of this process may allow for product approval across the EU member status. Subject to the successful completion of clinical trials, we believe this would be the most efficient method of distributing an approved product. The European Medicines Evaluation Agency does not, however, have jurisdiction over product pricing. Product pricing and patent reimbursement guidelines are dictated by the EU member status and are subject to change.

In Europe and the United States, human clinical trial programs generally involve a three phase process. Typically, Phase I trials are conducted in healthy volunteers to determine any early side effects and the pattern of drug distribution and metabolism. Phase II trials are conducted in groups of patients afflicted with the target disease to provide sufficient data for the statistical proof of effectiveness and safety required by regulatory agencies. If Phase II evaluations indicate potential effectiveness with an acceptable safety profile, Phase III trials are performed. Phase III is performed to conclusively demonstrate clinical effectiveness and safety within an expanded patient population from multiple clinical study sites. Regulatory authorities may also require Phase IV studies to track patients after a product is approved for commercial sale.

American pharmaceutical manufacturers who sell outside of the United States are also subject to Food and Drug Administration jurisdiction. Semi-finished drugs may be shipped, under controlled circumstances, for further processing, packaging, labeling and distribution to third parties in approved foreign countries. This controlled distribution is also subject to the laws that apply in the importing countries. For Viragen to conduct this type of sale, we must first comply with all Food and Drug Administration rules and regulations.

It is possible that the EU regulatory authorities or the Food and Drug Administration could modify or expand their approval criteria or reporting requirements. These changes could significantly increase the time and expense to develop a new product and bring that product to market.

License and Manufacturing Agreement

In July 1995, Viragen (Scotland) entered into a license and manufacturing agreement with the Common Services Agency of Scotland to secure a sufficient source of needed raw materials. We also wanted their expertise in the area of blood-derived products and the regulatory approval process. The agency is an adjunct

of the Scottish Government which acts on behalf of the National Health Service in Scotland and the Scottish National Blood Transfusion Service. The agency owns and operates a blood fractionation facility in Edinburgh, Scotland. It has the physical and technical capacity to supply leukocytes and manufacture alpha interferon from human leukocytes using our processes. We believe that securing a sufficient qualified long-term source of blood-derived raw materials within the European Union is critical for us to conduct European Union clinical trials as well as providing a sufficient source of raw materials for future subsequent commercial manufacturing.

During fiscal 1998, we were notified that, due to concerns over the possible presence of Mad Cow disease in the UK blood supply, human leukocytes collected in Scotland would not be approved for use in our clinical trials or potential commercial production. This prohibition is still in place and will remain until the European regulatory authorities are satisfied that the risk of contamination has been minimized or eliminated. Due to this situation, we have been using leukocytes collected in Germany under our preferential access German Red Cross contractual arrangements, as well as other approved sources.

In February 2001, we entered into a new agreement with the Common Services Agency of Scotland. This agreement replaced the July 1995 license and manufacturing agreement.

Under the terms of the new agreement, the Common Services Agency, acting through the Scottish National Blood Transfusion Service, agreed to supply specific services to us in connection with the manufacture of Omniferon. The services to be provided include:

- manufacturing management;

- dispensing, capping, coding and inspection;

- clinical waste management;

- engineering and validation services;

- quality control and regulatory services; and

- quality assurance and regulatory affairs consulting.

The agreement provides for a pre-negotiated pricing structure for all services.

Any or all services may be terminated with three months notice by either party except for dispensing, capping, coding and inspection which requires six months notice.

We agreed to supply the Scottish National Blood Transfusion Service, for medical use by National Health Service patients in Scotland, up to 10% of our Scottish based production per year. This percentage could be increased through a formula to 20% if all leukocytes utilized in our facility were sourced through the Scottish National Blood Transfusion Services. We have agreed to this provision for a period of seven years from the date we receive UK marketing authorization for Omniferon. We have agreed to charge them the lesser of 100% of our manufacturing costs or the UK retail price for the product provided.

In the event the restrictions on the UK blood supply are removed, the Scottish National Blood Transfusion Service has agreed to supply us exclusively

with all available white cells collected by them at their cost. We have agreed to pay them $11,000 per year for this provision. We have the exclusive access to these white cells for the longer of seven years or the duration of our commitment to provide them with a portion of our production.

Under the terms of the agreement with the German Red Cross, our subsidiary, Viragen (Germany) GmbH, has the right to receive, on a preferential basis, leukocytes produced by the German Red Cross. Viragen (Germany) has a right to receive 1,000,000 leukocytes per year with deliveries to be ordered on a quarterly basis. During the initial two-year period of the agreement, Viragen (Germany) may determine its annual order quantity up to 1,000,000 leukocytes. After the initial two-year period, the annual order quantity will be 1,000,000 leukocytes plus or minus 15%. Under this agreement, we will pay the German Red Cross a percentage of sales of Omniferon attributable to Viragen (Germany) leukocytes. The German Red Cross will

also be entitled to receive priority distributions of Omniferon from German sourced leukocytes. Leukocytes provided by the German Red Cross have been approved for use in our Scottish and Swedish facilities.

COMPETITION

Competition in the research, development and production of interferon, transgenic and oncological products and other immunological products is intense and growing. Our competition includes many major, well-established and well-financed pharmaceutical and commercial entities, as well as major educational and scientific institutions. Many researchers, some of whom have substantial private and government funding, are involved with interferon production, including production of interferon through synthetic DNA technology. A number of large companies, including Hoffman-LaRoche, Inc., Schering-Plough Corporation, Biogen, Inc., Chiron Corp., Berlex Laboratories and Ares-Serono are producing, selling and conducting clinical trials with their recombinant interferons (alpha and beta) and other immunological products. These relate to the treatment of cancer and viral infections, including hepatitis C, our first targeted use of Omniferon.

Alfa Wassermann is presently producing a natural alpha interferon product with distribution primarily in Italy. Interferon Sciences, Inc. a New Jersey based company, is believed to be unable to manufacture its natural interferon product at a competitive cost and believe them not to be a competitive factor in the market.

We believe that competition is also based on production ability, technological superiority and administrative and regulatory expertise in obtaining governmental approvals for testing, manufacturing and marketing of the product.

The timing of the entry of a new pharmaceutical product into the market is an important factor in determining that product's eventual success. Early marketing has advantages in gaining product acceptance and market share. Our ability to develop products, complete clinical studies and obtain governmental approvals in the past had been hampered by a lack of adequate capital. We are not presently a competitive factor in the biopharmaceutical industry.

EMPLOYEES

As of September 25, 2001, we have 80 employees. Of these, 58 are research and development, manufacturing and quality assurance/quality control personnel. The remaining 22 employees are management, regulatory and/or administrative

personnel.

ITEM 2. PROPERTIES

In November 1996, Viragen entered into a ten year lease for 14,800 square feet in Plantation, Florida. This location contains our domestic administrative international marketing and executive offices. The lease contains an option for up to two additional five-year terms. Base lease payments on the facility total $15,700 per month plus common area maintenance charges. Our administrative offices are located at 865 SW 78th Avenue, Suite 100, Plantation, Florida 33324; phone (954) 233-8746.

In November 1996, through Viragen (Scotland), we entered into a five year lease agreement in a biotechnology park in the Edinburgh area of Scotland. This facility, consisting of approximately 13,000 square feet, contains laboratory and production facilities. The annual base lease rate for the facility is 88,000 UK pounds or approximately US$125,000 plus adjustment for common area maintenance charges. Viragen (Scotland) has the right to renew the lease for four additional five-year terms. We intend to exercise our first option to extend in October 2001. This will extend our lease through October 2006.

Through BioNative we lease approximately 12,000 square feet of laboratory, production and office facilities in Umea, Sweden. This space is covered by three separate leases. The initial term of these leases has expired and each is renewable on a year-by-year basis at a total lease cost of approximately $22,500 per month.

BioNative also owns a 21,500 square foot building which is currently under renovation. This building was purchased to provide expanded production capacity and is intended to eventually house all of BioNative's

research, production and administrative facilities. This facility carries a 25 year mortgage held by a Swedish bank for approximately $610,000.

We believe our properties are in good condition, well-maintained and generally suitable and adequate to carry on our business. We also believe that we maintain sufficient insurance coverage on all of our real and personal property.

ITEM 3. LEGAL PROCEEDINGS

In October 1997, Viragen, the company's president and Cytoferon Corp., a former affiliate of the president, were named as defendants in a civil action brought in the United States District Court for the Southern District of Florida (Walter L. Smith v Cytoferon Corp. et al; Case No: 97-3187-CIV-MARCUS). The plaintiff is a former Viragen stockholder and investor in Cytoferon Corp. The suit alleged the defendants violated federal and state securities laws, federal and state RICO statutes, fraud, conspiracy, breach of fiduciary duties and breach of contract. The plaintiff was seeking an unspecified monetary judgement and the delivery of 441,368 shares of common stock. Viragen filed a motion to dismiss denying the allegations and requesting reimbursement of its costs.

In November 1997, the plaintiff filed a notice of voluntary dismissal with the federal court concurrently notifying Viragen of his intent to refile a complaint in circuit court in the state of Florida.

In December 1998, the U.S. District Court awarded us reimbursement of attorneys' fees and expenses under Rule 11 of the Federal Rules of Civil Procedure and the Private Securities Litigation Reform Act. We recovered $31,000

during fiscal 2000.

In November 1997, the plaintiff filed a complaint in the Circuit Court of the 11th Judicial Circuit for Miami-Dade County, Florida (Case No: 97-25587 CA30) naming the same defendants. The suit alleges breach of contract, fraud, violation of Florida's RICO statute and breach of fiduciary duties. It sought an unspecified monetary judgment and specific performance delivery of 441,368 shares of common stock. The plaintiff claimed that he was entitled to additional shares of common stock under a consulting agreement. He also claimed that Viragen's president breached his fiduciary duty to Cytoferon Corp. by not achieving sufficient financing for Viragen, which would have entitled Cytoferon Corp. to additional shares. He also claimed misrepresentations in connection with the previous Cytoferon financings.

In March 1998, the Circuit Court granted Viragen's motion to dismiss the complaint. Subsequently, the plaintiff filed an amended complaint alleging breach of contract, fraud, violation of Florida's RICO Act and breach of fiduciary duties and seeking an unspecified monetary judgement and specific performance delivery of 441,368 shares of common stock. In April 1998, Viragen filed a motion to dismiss plaintiff's amended complaint which was denied by the court.

In August 2000, counsel for plaintiff indicated that they desired to withdraw as counsel. In January 2001, the Circuit Court ruled in favor of Viragen on all counts related to the Circuit Court Case (No.: 97-25587 CA30). No further claims against Viragen are pending in this matter. Viragen has submitted to the Circuit Court a request for reimbursement of related litigation costs. While Viragen has prevailed as a defendant in this suit, Mr. Gerald Smith, Viragen's president, and Cytoferon Corp. continue to be named as defendants. We have agreed to indemnify Mr. Smith for any losses that he may incur personally, as a result of this suit. Mr. Smith denies the allegations of the complaint and intends to continue to vigorously defend the claims. Motions seeking summary judgment have been filed on behalf of Mr. Smith and Cytoferon and will be heard by the Court in the near future.

We cannot determine at this point, the ultimate liability, if any, resulting from this litigation. No accrual for loss has been recorded.

In January 2001, Viragen and its co-plaintiffs the Roslin Institute and Dr. Helen Sang filed suit against AviGenics, Inc. in the Superior Court of California for San Mateo County (Case No.: 415458). The lawsuit was brought in response to allegations by AviGenics that a restrictive covenant contained in a consulting agreement that Dr. Helen Sang, who works at the Roslin Institute, had entered into with AviGenics precluded

her and Roslin from doing business with Viragen. In its lawsuit, Viragen sought a judicial declaration that (i) Dr. Sang's restrictive covenant was void and unenforceable, (ii) Viragen, Roslin and Dr. Sang had the right to do business together, and (iii) no trade secret information belonging to AviGenics was implicated by Viragen's business relationship with the Roslin Institute and Dr. Sang. The lawsuit also sought damages against AviGenics for tortuously interfering in Viragen's business relationship with the Roslin Institute and Dr. Sang and for attempting to enforce an invalid restrictive covenant.

By order dated March 30, 2001 that lawsuit was dismissed on forum non convenience grounds. The order of dismissal is the subject of a pending appeal to the Court of Appeal of the State of California, First Appellate District, Division Three (Case No.: A094759).

In March 2001, AviGenics, Inc. filed suit against Viragen and its co-defendants Roslin Institute and Dr. Helen Sang in the Superior Court of Athens-Clarke County, Georgia (Case No.: SU-01-CV-0468-S). In its amended complaint, AviGenics alleges that Viragen and its co-defendants breached contractual duties of confidentiality, conspired to and did misappropriate AviGenics' relationships with Dr. Sang and Roslin.

Viragen's motion to dismiss AviGenics' lawsuit in its entirety for lack of jurisdiction over Viragen in the State of Georgia is pending before the court. Viragen believes AviGenics' lawsuit to be entirely without substantive merit, and Viragen possesses valid and significant legal defenses to AviGenics' claims. Viragen is vigorously defending against AviGenics' claims, and, while the eventual outcome cannot be assured, anticipates that those claims either will be dismissed for lack of jurisdiction over Viragen or else will ultimately be resolved in Viragen's favor. No accrual for loss has been recorded in this matter.

In February 2001, Viragen filed a lawsuit, (Viragen, Inc. v. Walter Larry Smith, W. Richard Leuck, Roland St. Louis, Jr., Esq., Juan C. Martinez, Esq., St. Louis, Guerra, Auslander, P.A. and John Does Nos. 1-10, Case No. 01-3842 CA 01) in a malicious prosecution and conspiracy action against the above mentioned parties in a attempt to recapture the losses incurred by Viragen, Inc. as a result of having to disclose the lawsuit Walter L. Smith v. Gerald Smith, Cytoferon Corp., Viragen, Inc. and John Does Nos. 1-10, Case No. 97-25587 CA (30) ("Smith Litigation") as well as the attorneys' fees and costs expended by Viragen, Inc. in defending this action. The Smith Litigation wrongfully alleged that Viragen, Inc. engaged in, among other things, fraud and RICO violations during the course of a 1992 stock offering done by Cytoferon, Corp. In the Smith Litigation, the Court granted final summary judgment in favor of Viragen, Inc., specifically finding that there was no evidence connecting Viragen, Inc. in any way to the allegations made against it in the complaint in that action.

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

No matter was submitted during the fourth quarter of our fiscal year to a vote of security holders through the solicitation of proxies or otherwise.

PART II

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

Viragen's common stock traded on the over-the-counter bulletin board from June 29, 1999 through April 16, 2000, under the symbol "VRGN." Our common stock began trading on the American Stock Exchange on April 17, 2000, under the symbol "VRA." The following table lists the high and low closing quotations for our common stock since July 1, 1999.

	HIGH	LOW
2000 -- 2001		
First quarter ended 9/30/00	$2.75	$1.38
Second quarter ended 12/31/00	2.50	1.25
Third quarter ended 3/31/01	1.69	1.12
Fourth quarter ended 6/30/01	1.26	1.07
1999 -- 2000		
First quarter ended 9/30/99	$1.05	$ .48

Second quarter ended 12/31/99.....	1.59	.55
Third quarter ended 3/31/00.....	4.75	1.09
Fourth quarter ended 6/30/00.....	3.00	1.31

These quotations represent prices between dealers, and do not include retail mark-ups, markdowns or commissions. These quotations may not necessarily represent actual transactions.

As of September 28, 2001, we had approximately 2,600 stockholders of record. On September 28, 2001, the closing price of the common stock was $1.34 per share.

We have never paid any dividends on our common stock. We do not anticipate paying any cash dividends in the foreseeable future because:

- we have experienced losses since inception,
- we have significant capital requirements in the future, and
- we presently intend to retain future earnings, if any, to finance the expansion of our business.

Future dividend policy will depend on:

- our earnings, if any,
- capital requirements,
- expansion plans,
- financial condition, and
- other relevant factors.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

In the table below, we provide you with selected historical consolidated financial data of Viragen, Inc. We have prepared this information using Viragen Inc.'s audited consolidated financial statements for the five years ended June 30, 2001.

When you read this selected historical consolidated financial data, it is important that you read along with it the historical consolidated financial statements and related notes included in our annual reports, as well as the section of our annual reports titled "Management's Discussion and Analysis of Financial Condition and Results of Operations." Our annual reports are filed with the Securities and Exchange Commission.

CONSOLIDATED STATEMENT OF OPERATIONS DATA

YEAR ENDED JUNE 30,				
2001	2000	1999	1998	1997
(IN THOUSANDS, EXCEPT PER SHARE DATA)				

Revenues	$ 718	$ 171	$ 374	$ 1,143	$ 1,40
Net loss	(11,008)	(12,311)	(10,651)	(7,856)	(4,77
Loss attributable to common stock	(11,010)	(12,316)	(11,653)	(10,354)	(14,67
Loss per average common share	(0.12)	(0.16)	(0.19)	(0.21)	(0.3
Weighted average common shares outstanding	95,117	78,453	60,109	50,503	39,13

CONSOLIDATED BALANCE SHEET DATA

	JUNE 30,				
	2001	2000	1999	1998	1997
	(IN THOUSANDS)				
Working capital (deficit)	$ 6,178	$ 7,006	$(2,290)	$ 7,842	$29,33
Total assets	12,821	14,450	8,529	15,895	37,46
Long-term debt	25	658	352	7,466	23
Stockholders' equity	10,292	11,816	3,836	5,887	32,14

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

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

This document and other documents we may file with the Securities and Exchange Commission contain forward-looking statements. Also our company management may make forward-looking statements orally to investors, analysts the media and others.

Forward-looking statements express our expectations or predictions of future events or results. They are not guarantees and are subject to many risks and uncertainties. They are a number of factors -- many beyond our control -- they could cause actual events or results to be significantly different from those described in the forward-looking statement. Any or all of our forward-looking statements in this report or in any other public statements we make may turn out to be wrong.

Forward-looking statements might include one or more of the following:

- projections of future revenue;
- anticipated clinical trial commencement dates, completion timelines or results;
- descriptions of plans or objectives of management for future operations, products or services;
- forecasts of future economic performance; and
- descriptions or assumptions underlying or relating to any of the above items.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate", "estimate", "expect", "project", "intend", "plan", "believe" or words of similar meaning. They may also use words such as "well", "would", "should", "could" or "may".

Factors that may cause actual results to differ materially include the risks discussed below, as well as in the "Risk Factors" section included in our registration statement on Form S-3 (File No. 333-63246) as filed with the Securities and Exchange Commission on June 18, 2001. We are incorporating these "Risk Factors"

by reference. You should read them. You should also read the risk factors listed from time to time in our reports on Form 10-Q, S-1, S-3 or 10-K and amendments, if any, to these reports. Viragen will provide you with any copy of any or all of these reports at no charge.

Among the uncertainties that may cause our results to differ materially from our projections are:

- whether the efficacy, price and timing of our human leukocyte interferon will enable us to compete with other well established, highly capitalized, biopharmaceutical companies;

- whether our patents applications result in the issuance of patent, or whether patents and other intellectual property rights provide adequate protections in the event of misappropriation or infringement by third parties;

- whether clinical testing confirms the efficacy of our proposed products, and results in the receipt of regulatory approvals;

- whether we are able to secure sufficient funding to complete product development, including clinical trials;

- whether we can generate revenues sufficient to offset our historical losses, or achieve profitability; and

- whether we can absorb BioNative's operations successfully;

- whether, despite receipt of regulatory approvals, our products are accepted as a treatment superior to that of our competitors.

Viragen has incurred operational losses and operated with negative cash flows since its inception in December 1980. Losses have totaled $11,007,809, $12,310,895 and $10,650,832 for the fiscal years ended June 30, 2001, 2000 and 1999, respectively.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2001, Viragen had on-hand approximately $7,659,000 in cash. Between July 1, 2001 and September 28, 2001, we have raised $333,000 in additional equity capital, net of finders fees and issuances costs. We believe that our current cash balances, coupled with planned fundings under our investment banking agreement with Ladenburg Thalmann & Co., Inc. will provide sufficient capital to fund our planned operations, including clinical trials, for at least the next 12 months.

Our working capital totaled approximately $6,178,000 on June 30, 2001, a decrease in working capital of $828,000 from the previous year end balance. This decrease in working capital is primarily attributable to the use of cash to fund operations totaling approximately $9,916,000 and additions to property, plant and equipment of $381,000. These decreases were offset, however, by the sale of approximately 7,787,000 shares of common stock for $9,515,000, net of related

fees, during fiscal 2001. Additionally, the decreases were offset by capital raised through stock option and warrant exercises totaling approximately $459,000.

While subject to significant limitations, Viragen, at June 30, 2001, has available approximately $38.5 million in net tax operating loss carryforwards expiring between 2002 and 2021. We can use these carryforwards to offset taxable income, if any, during those periods. Our ability to generate revenues during future periods is dependent upon obtaining regulatory approvals for commercialization of our different projects. As we cannot determine that we will be successful in obtaining the necessary regulatory approvals, we are unable to conclude that realization of benefits from our deferred tax assets is more likely than not, as prescribed by Statement of Financial Accounting Standards No. 109. As a result, we have recognized a valuation allowance to offset 100% of the deferred tax assets related to these carryforwards.

We began our clinical trials for Omniferon in the European Union during the fourth calendar quarter of 1999. We cannot assure you that we will be able to obtain approval of this project or our oncology and avian transgenics projects since they are subject to the successful completion of lengthy and costly clinical trials. The completion of these projects also depends on our ability to raise significant additional investment capital.

We estimate that we will may require funding of approximately $25 million, over the next two years. These funds would be used to fund operations including clinical trials. We will also use future funding, if any, for continued product development, general working capital purposes, including administrative support functions, and possible equity investments in businesses complementary to our operations.

In September 2001, we acquired 100% ownership of BioNative, AB, a privately held Swedish company, initially in exchange for approximately 3 million common shares of Viragen (Europe). An additional 20.5 million common shares of Viragen (Europe) may be issued upon BioNative meeting certain performance milestones. These milestones are tied to progressive regulatory approvals of BioNative's Alfanative interferon product.

BioNative has had limited sales in the past, primarily to Italy under a contractual arrangement. We intend to expand our productive capacity in Sweden through the renovation of a 21,500 square foot facility purchased by BioNative prior to our acquisition. The facility carries a 25 year mortgage for approximately $610,000. We estimate the cost of renovation to be approximately $3 million, incurred over an 18 month period.

In December 1999, we retained the investment banking firm of Ladenburg Thalmann & Co., Inc. to aid us in raising up to $60 million in additional investment capital, on a best effort basis. In March 2000, the Securities and Exchange Commission declared our related shelf registration on Form S-3 (File No. 333-32306) effective. During fiscal 2000, we raised approximately $8,335,000 in investment capital, net of fees and other costs amounting to approximately $590,000, under this agreement. During fiscal 2001, we raised an additional $9,515,000, net of fees and related costs totaling approximately $416,000.

We intend to continue financing our operations for the foreseeable future from cash on hand and additional investment placements under the Ladenburg Thalmann agreement. As of September 28, 2001, we had drawn down placed approximately $19.2 million of the total $60 million available under this agreement. The Ladenburg Thalmann agreement expires on December 31, 2001.

RESULTS OF OPERATIONS

Viragen recognized no sales revenue or related costs for the fiscal years ended June 30, 2001, 2000 or 1999. We have had limited potential for sales prior to receiving the necessary regulatory approvals from the U.S. Food and Drug Administration and/or comparable European authorities for the commercialization of our projects. As a result of our acquisition of BioNative in September 2001, we now have a licensed product, Alfanative(R). Alfanative is a human leukocyte derived interferon, licensed for sale in Sweden for the treatment of hairy cell leukemia and chronic myelogenous leukemia in patients who have failed therapy with recombinant (synthetic) interferon.

2001 Compared to 2000

Research and development costs totaled approximately $7,069,000 during fiscal 2001. This represents an increase of $2,233,000, when compared to fiscal 2000. This increase reflects significant research and development costs related to the development, scale-up and clinical trial projects associated with our Omniferon product. We have also realized an overall increase in our research and development costs because of collaborative agreements entered into with the Roslin Institute (Edinburgh), the Memorial Sloan-Kettering Cancer Center, Cancer Research Campaign Technology Ltd., and the National Institute of Health. We have entered into these collaborative agreements in order to more fully develop the potential applications of our Omniferon product, as well as broaden our future product offerings including those utilizing transgenics technologies and monoclonal antibodies. The increase in research and development costs is consistent with the increase in the research related activity described. During the year ended June 30, 2001, research salaries and support fees increased by $1,817,000, when compared to the previous year. During fiscal 2001, repairs and maintenance expense increased by $149,000. Research related travel expenses increased by $197,000. These increases were offset by a decrease in laboratory supplies expense of $70,000. This decrease in laboratory supplies expense is related to the closing of our domestic research facility during fiscal 2000. This decrease,

however, is temporary, as research activity in our Scottish and Swedish facilities is expected to increase and will eventually offset domestic savings.

General and administrative expenses totaled approximately $5,317,000 and $6,067,000 during fiscal years 2001 and 2000, respectively. This represents a decrease of approximately $749,900 (12%) between years. We realized decreases in stock-based compensation expense and penalties attributable to convertible promissory notes during fiscal 2001. Stock-based compensation expense decreased by $1,868,000, while penalties decreased by $332,000, when compared to the preceding year. During the third quarter of fiscal 2000, the company modified the terms of stock options held by Viragen's president resulting in a charge of $941,000. No similar charge was recognized during the current fiscal year. Additionally, we recognized an adjustment of $329,000 during the fourth quarter to reduce stock-based compensation. During that quarter, a consultant's warrants to acquire 322,220 shares of common stock expired without vesting. The decrease in penalties is attributable to penalties incurred during the preceding year relating to the 8% convertible promissory notes outstanding at that time. No penalties were incurred during the current year. These decreases were offset by increases in other costs between fiscal years 2001 and 2000. During the year, administrative salaries and support fees increased by $276,000 and legal fees increased by $791,000. The increase in administrative salaries and support fees related specifically to consulting fees paid to administrative consultants. The increase in legal fees is related to contract negotiations for research collaborations and patent activity. Viragen has also incurred legal fees in its

successful defense against claims in the case, Walter L. Smith v Cytoferon Corp., et al (Case No. 97-3187-CIV-MARCUS).

During fiscal 2001, we recognized approximately $19,000 in losses related to our investment in Inflammatics, Inc. down from $653,000 in the prior year. These losses reflected 100% of the losses incurred by Inflammatics associated with the clinical testing of LeukoVAX and the expensing of our excess investment costs. During the first quarter of fiscal 2001, we completed expensing our investment in Inflammatics.

The significant decrease in interest expense is related to debt instruments that were outstanding during fiscal 2000, but not outstanding during fiscal 2001. Specifically, during fiscal 2000, Viragen had outstanding 8% convertible promissory notes with a principal balance of $2,000,000 and a short-term promissory note totaling $600,000. We incurred approximately $700,000 of additional interest expense on reset shares issued to investors upon the conversion of the 8% convertible promissory notes. Additionally, we had two convertible promissory notes, each for $1,000,000 in principal, which were issued in February and March 2000. Both promissory notes were converted into common stock in June 2000.

Our management anticipates operational losses will continue for the foreseeable future as we broaden the focus of our research activities. In January 1999, we began implementing a cost-reduction plan. Planned cost reductions implemented in calendar 1999 were expected to save approximately $2.4 million annually in operating expenses. The reductions included the elimination of administrative and research positions in the U.S. saving approximately $1.6 million. We also closed our Florida-based research facility consolidating these operations in our Scottish facility and saving approximately an additional $800,000 annually. We sold our Florida-based research facility in August 2000. These changes in operations reflect the shift from developing Omniferon in our domestic laboratories to scale-up development and conducting clinical research in the European Union. As a result, while significant savings will be realized in the U.S., particularly in general and administrative expenses, these savings will be more that offset by increasing expenses in our Scottish and Swedish facilities. Research and development related to our oncology and avian transgenics projects are also being conducted in Scotland.

2000 Compared to 1999

Research and development costs totaled approximately $4,837,000 for fiscal 2000 compared to $5,153,000 for the previous year. This represents a decrease of $316,000 in research related costs between years.

In November 1999, we ceased all research projects being conducted in our Florida laboratory facility. All research related projects, including research related to production scale-up, were shifted to our Edinburgh, Scotland facility. We believe that this consolidation step will improve and streamline our scientific

development efforts, as well as reduce operating costs by consolidating operations in one facility. During fiscal 2000, domestic laboratory supplies expense and research related salaries and support fees decreased by $609,000 and $503,000, respectively, when compared to the previous year, while foreign laboratory supplies expense and research related salaries and support fees increased by $171,000 and $647,000, respectively, when compared to the previous year. The increase in foreign research costs also reflects the additional costs associated with our clinical trials for hepatitis C, which began in Europe during fiscal 2000.

General and administrative expenses totaled approximately $6,067,000 for fiscal 2000, an increase of approximately $538,000 over the preceding year. This increase reflects an increase in compensation expense on stock options and warrants granted or modified of $1,485,000 offset by a decrease in administrative salaries and support fees of $694,000 due to the implementation of our cost reduction program. Also, legal fees decreased between the years by $275,000, primarily due to reduced litigation fees and higher fees in the prior year associated with contract negotiations completed in fiscal 1999.

On February 7, 2000, the board of directors voted to modify the terms of an option to purchase 1.4 million shares of common stock which had been granted to Viragen's president during October 1995. The board of directors extended the expiration of this common stock option by three years. Under the modified terms, the common stock option will now expire on October 5, 2003. No other terms were changed. Under the provisions of APB No. 25, we recognized compensation expense of $941,000 relating to the modification of the grant.

We recognized approximately $653,000 in losses related to our investment in Inflammatics, Inc. during fiscal 2000. This is down from $757,000 in the prior year. This loss reflects 100% of the losses incurred by Inflammatics associated with the clinical testing of LeukoVAX. The loss also includes the amortization of the related capitalized finders fee and warrant costs. These costs are being amortized in proportion to the losses incurred by Inflammatics as compared to our initial cash capital contribution to Inflammatics.

The significant increase in interest expense is related to debt instruments that were outstanding during fiscal 2000, but not outstanding during the prior year. Specifically, Viragen had outstanding 8% convertible promissory notes with a principal balance of $2,000,000 during the first quarter of fiscal 2000. Also, Viragen incurred approximately $700,000 of interest expense on reset shares issued to investors upon the conversion of the promissory notes during the first fiscal quarter. Viragen also borrowed $1,000,000 during the current fiscal year through two short-term promissory notes. During February and March 2000, Viragen borrowed an additional $2,000,000 by issuing convertible notes to Active Investors Ltd. II and AMRO International, S.A. bearing interest rates of 8% and 9.5%, respectively. Viragen recognized $440,000 in additional interest expense, due to a beneficial conversion rate on these promissory notes. The conversion rates on the notes were discounted 18% from the then current market price of our common stock.

During fiscal 2000, we spent approximately $50,000 on year 2000 computer related projects. During that period and subsequent to our year end, we did not experience any significant year 2000 related disruptions.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk generally represents the risk of loss that may result from the potential change in value of a financial instrument as a result of fluctuations in interest rates and market prices. We have not traded or otherwise transacted in derivatives nor do we expect to do so in the future. We have established policies and internal processes related to the management of market risks which we use in the normal course of our business operations.

Interest Rate Risk

The fair value of long-term interest rate debt is subject to interest rate risk. As we had a minimal amount of long-term debt at June 30, 2001, a change in interest rates would not have a material impact on our future operating results or cash flows.

Foreign Currency Exchange Risk

We believe our foreign currency risk is not material. At the present time, we do not have sales revenues or related receivables. Also, we do not purchase foreign currencies on a regular basis. Transfers of funds to our foreign subsidiary in Scotland are infrequent and are transferred at the then current exchange rate.

We were not impacted by the European Union's adoption of the "Euro" currency. Our foreign operations to date have been located in Scotland, and the United Kingdom which are not participating in the adoption of the Euro. The United Kingdom does not have a scheduled date for the eventual adoption of the Euro.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is submitted as a separate section to this report.

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

Not applicable.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

NAME	AGE	POSITION WITH THE COMPANY	SERVED AS OFFICER AND/OR DIRECTOR SINC
Gerald Smith	70	Chairman of the Board	1994
		Chief Executive Officer	1998
		President	1993
Dennis W. Healey	53	Chief Financial Officer	1980
		Treasurer	1980
		Director	1984
		Executive Vice President	1993
		Secretary	1994
D. Magnus Nicolson, Ph.D	41	Chief Operating Officer	1999
Melvin Rothberg	54	Executive Vice President	1999
Carl N. Singer	85	Director	1997
Peter D. Fischbein	61	Director	1981
Charles J. Simons	83	Director	1998
Robert C. Salisbury	57	Director	1998
Abraham Cohen	65	Director	2001
E. Donald Shapiro	70	Director	2001

On February 28, 1997, we amended our Certificate of Incorporation and set up a classified board of directors with the 1997 annual meeting. Following that meeting, we divided directors into three subclasses consisting of class A, class B and class C. The initial term of the class A directors expired after the 1998 annual meeting of stockholders; the term of the class B directors initially expired after the 1999 annual meeting; and the term of the class C directors

initially expired after the 2000 annual meeting.

At each annual meeting of stockholders, directors for the respective class whose term has expired will be elected. The directors chosen to succeed those whose terms have expired will be elected to hold office for a term to expire at the third ensuing annual meeting of stockholders after their election, and until their respective successors are elected and qualified. Terms of our directors expire as follows:

- class A -- after our 2001 annual meeting of stockholders;

- class B -- after our 2002 annual meeting of stockholders; and

- class C -- after our 2003 annual meeting of stockholders

Gerald Smith became president of Viragen in May 1993. Since 1982, Mr. Smith was a principal stockholder, president, chief executive officer and a director of Business Development Corp. Business Development has served as a managing entity and consultant to several high technology ventures including Compupix Technology Joint Venture. From August 1991 to December 1991, Mr. Smith was the chief executive officer of Electronic Imagery, Inc., a company engaged in the development of imaging software. Mr. Smith was also the president, chief executive officer and a director of Cinescopic Corporation and International Database Service, Inc. These are computer-oriented companies which developed database technology using the personal computer for audio, video, animation and real time communication. Mr. Smith discontinued the operations of Business Development Corp. in order to devote all of his time to Viragen. Mr. Smith is also chairman of the board and president of Viragen (Europe) Ltd.

Dennis W. Healey is a certified public accountant. He was appointed chairman of the board and chief executive officer on April 13, 1993. In June 1994, Mr. Healey relinquished his position as chairman of the board to Mr. Smith. In July 1994, he relinquished the position of chief executive officer. Upon Gerald Smith becoming president in May 1993, Mr. Healey became executive vice president. He has served as chief financial officer and treasurer since 1980. Mr. Healey was appointed secretary in 1994. Mr. Healey is also executive vice president, treasurer, secretary and a director of Viragen (Europe).

D. Magnus Nicolson, Ph.D. was appointed chief operating officer of Viragen and Viragen (Europe) in July 1999 and August 1999, respectively. Dr. Nicolson was elected a director of Viragen (Europe) in 1997. He has served as the managing director of Viragen (Scotland) since April 1996. From 1992 to 1995, Dr. Nicolson was employed by Scottish Enterprise, an agency of the Scottish government responsible for generating economic development in Scotland. During his time at Scottish Enterprise, he served as:

- technology manager for Locate in Scotland (1995),

- senior executive (1993 to 1995), and

- contractor, healthcare liaison office of Dunbartonshire Enterprise (1992 to 1993).

From 1990 to 1992, Dr. Nicolson conducted various market research projects for a variety of public and private enterprises as an independent marketing consultant. In 1988, Dr. Nicolson was awarded a Doctorate in Immunology from the University of Strathclyde. He earned a Masters Degrees in both Immunology and Business in 1985 and 1992, respectively. Dr. Nicolson is a Fellow of the Royal Society of Medicine, a Member of the Royal Society of Chemistry, and a Member of the Chartered Institute of Marketing.

Melvin Rothberg joined Viragen as chief executive officer of Viragen U.S.A. in April 1998. In April 1999, Mr. Rothberg assumed the position of an executive vice president of Viragen. Prior to joining Viragen, Mr. Rothberg served as a vice president of Althin Medical, Inc., a U.S. subsidiary of a Swedish medical company, from 1990 to 1998. Mr. Rothberg served as a director and manager of a number of divisions of C.D. Medical, a division of the Dow Chemical Company, from 1983 to 1990. Mr. Rothberg also serves as a director of Viragen (Europe).

Carl N. Singer was elected a director in August 1997 and currently serves as chairman emeritus. He currently serves as chairman of the executive committee and as a member of the compensation committee of the board of directors. Since 1981, Mr. Singer has served as chairman of Fundamental Management Corporation, a Florida-based institutional investment fund. During fiscal 2000, a fund managed by Fundamental Management Corporation invested a total of $2,000,000 in Viragen, in two separate transactions, receiving 1,800,016 shares of common stock. Mr. Singer has also served as a director, president and CEO of Sealy, Inc., Scripto, Inc. and the BVD Company. Mr. Singer also serves as a director of Viragen (Europe).

Peter D. Fischbein is an attorney who has been practicing law for approximately 36 years. Mr. Fischbein has served as a director of Viragen since 1981. Mr. Fischbein served as Viragen's secretary between May and December 1994. Mr. Fischbein was appointed to serve on the audit and finance committee in November 2000. His former law firm on occasion represented Viragen and the Viragen Research Associates Limited Partnership, which has contracts with Viragen, Inc. Mr. Fischbein has been general partner of several limited partnerships engaged in oil exploration and real estate development.

Charles J. Simons was elected to the board of directors in July 1998. He currently serves as chairman of the audit and finance committee and the compensation committees of the board of directors. Mr. Simons is the vice-chairman of the board of G.W. Plastics, Inc., a plastic manufacturer. Also, he is an independent management and financial consultant. From 1940 to 1981, he was employed by Eastern Airlines, last serving as vice chairman, executive vice president and as a director. Mr. Simons is a director of Veridian Corporation, an aerospace company, and a number of private companies. He was also a director of Home Intensive Care, Inc. from 1988 until July 1993. Mr. Simons is also a director of MedWaste, Inc., Diasa Inc. and Excalibur Corporation. Mr. Simons is an investor in Active Investors II, a fund managed by Fundamental Management Corporation. During fiscal 2000, Active Investors II invested a total of $2,000,000 in Viragen in two separate transactions, in exchange for 1,800,016 shares of our common stock.

Robert C. Salisbury was appointed a director of Viragen in December 1998. From 1974 to 1995, Mr. Salisbury was employed by the Upjohn Company serving in several financial related positions. These positions included manager of cash management, internal control and corporate finance from 1975 to 1981. He also served as a vice president from 1985 to 1990, senior vice president from 1991 to 1994, and executive vice president for finance and chief financial officer from 1994 to 1995. Following the merger of Pharmacia and Upjohn, Inc. in 1995, Mr. Salisbury served as executive vice president and chief financial officer until 1998.

Mr. Salisbury also serves as a director of Packard Bio-Science Company, a leading supplier of instruments to the life sciences research and nuclear industries. Mr. Salisbury also serves as a director and investor in Fundamental Management Corporation, a Florida-based institutional investment fund. During fiscal 2000, a fund managed by Fundamental Management Corporation invested a

total of $2,000,000 in Viragen, in two separate transactions, receiving 1,800,016 shares of common stock.

Mr. Abraham Cohen was elected by our board of directors, during March 2001, to serve as a class B director. Mr. Cohen currently serves as a director of Akzo Corporation (Netherlands), Teva Pharmaceutical Industries Ltd. (Israel), Gen-Probe, Inc., and Smith Barney -- Mutual Funds. Previously, Mr. Cohen served as President of the Merck Sharp & Dohme International Division and as Senior Vice President of Merck & Co.

Mr. E. Donald Shapiro was elected by our board of directors, during March 2001, to serve as a class B director. Mr. Shapiro currently serves as a director of Loral Space & Communications, United Industrial Corporation, Frequency Electronics, Inc., Vasomedical, Inc. and Group Health Inc. He is also the Dean and Professor Emeritus of the New York Law School. Previously, Mr. Shapiro has served as a visiting Professor at Harvard Medical School, New York University School of Medicine and Law, Cleveland-Marshall College and The University College at Buckingham School of Law, England.

There is no family relationship between any of the officers and directors.

In September 2000, Robert H. Zeiger resigned his position as a director of Viragen and member of the executive committee. His resignation was due to health reasons. Sidney Dworkin, Ph.D., a director of Viragen and member of the audit and finance committee died on October 17, 2000. During September 2001, Jose I. Ortega resigned his position as controller of Viragen and Viragen (Europe).

During fiscal 2001, Viragen's board of directors met on 5 occasions. Viragen has an executive committee, an audit and finance committee and a compensation committee.

Executive Committee

The executive committee acts for the full board during intervals between board meetings, except on matters which by law may not be delegated. The executive committee will meet as necessary. All actions by the committee are reported at the next board of directors meeting. During fiscal 2001, the executive committee met on 4 occasions. The executive committee consists of Carl N. Singer (chairperson) and Gerald Smith.

Audit and Finance Committee

The audit and finance committee of the Viragen, Inc. board of directors was organized in February 1998. It is composed of three independent directors and operates under a written charter adopted by the board of directors in July 2000. The committee members are Charles J. Simons (chairperson), Robert C. Salisbury and Peter D. Fischbein. During fiscal 2001, the audit and finance committee met on 5 occasions.

The audit and finance committee reviews our financial reporting process on behalf of the board of directors. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls. In this context, the committee has met and held discussions with management and the independent auditors. Management represented to the committee that Viragen's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. The committee discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61 (Communication With Audit Committees).

In addition, the committee has discussed with the independent auditors, the

auditor's independence from the company and its management, including the matters in the written disclosures required by the Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees).

The committee discussed with our independent auditors the overall scope and plans for their respective audit. The committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of Viragen's internal controls, and the overall quality of our financial reporting.

In reliance on the reviews and discussions referred to above, the committee recommended to the board of directors, and the board has approved, that the audited consolidated financial statements be included in Viragen's annual report on Form 10-K for the year ended June 30, 2001, for filing with the Securities and Exchange Commission.

Compensation Committee

The compensation committee provides overall guidance for officer compensation programs, including salaries and other forms of compensation including all employee stock option grants and warrant grants to non-employees. The compensation committee consists of Charles J. Simons (chairperson), Carl N. Singer and Robert C. Salisbury.

AUDIT AND FINANCE COMMITTEE AND COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS

Currently, there are three members of the audit and finance committee and the compensation committee. All members are outside directors.

ITEM 11. EXECUTIVE COMPENSATION AND EMPLOYMENT AGREEMENTS

The following table includes information concerning the compensation and employment agreements of the chief executive officers of Viragen and the four other most highly compensated executive officers as of June 30, 2001.

SUMMARY COMPENSATION TABLE

					LONG TERM COMPENS	
					AWARDS	
		ANNUAL COMPENSATION			RESTRICTED	SECU UNDE
NAME AND PRINCIPAL POSITION	YEAR	SALARY($)	BONUS($)	OTHER ANNUAL COMPENSATION($)	STOCK AWARDS ($)	OPT S (
Gerald Smith.....	2001	$296,333	$ --	$ --	$ --	850
Chairman of the	2000	282,000	--	--	--	
Board, CEO and	1999	282,000	--	--	--	
President						
Dennis W. Healey.....	2001	252,000	--	--	--	150
Exec. V.P.,	2000	252,000	--	--	--	
Treasurer, CFO	1999	252,000	--	--	--	
and Director						
D. Magnus Nicolson.....	2001	170,000	--	--	--	

COO	2000	170,000	--	--	--	200
	1999	115,000	--	--	--	
Melvin Rothberg.....	2001	172,500	--	--	--	
Exec. V.P.	2000	160,000	--	--	--	350
	1999	150,000	--	--	--	

	LONG TERM COMPENSATION	
	PAYOUTS	
NAME AND PRINCIPAL POSITION	LTIP PAYOUTS($)	ALL OTHER COMPENSATION($)
Gerald Smith.....	$ --	$ --
Chairman of the	--	--
Board, CEO and	--	--
President		
Dennis W. Healey.....	--	--
Exec. V.P.,	--	--
Treasurer, CFO	--	--
and Director		
D. Magnus Nicolson.....	--	--
COO	--	--
	--	--
Melvin Rothberg.....	--	--
Exec. V.P.	--	--
	--	--

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Employment Agreements

On March 1, 1997, Mr. Smith entered into a two-year employment agreement. This agreement provided for:

- a salary of $190,000 and $200,000 for the first and second years, respectively,
- options to purchase 1,000,000 shares of common stock at $3.22 per share exercisable over five years,
- health and life insurance,
- similar employee benefits generally available to other employees,
- use of an automobile and related maintenance, and
- reimbursement of business related expenses.

On March 1, 1997, Mr. Smith also entered into a two year employment agreement with Viragen (Europe) Ltd. under terms similar to those of his Viragen employment agreement. The agreement provided for an annual salary of $10,000 and $20,000 for the first and second years. We amended the agreement on July 3, 1997, to provide for an annual salary of $72,000 for the year July 1, 1997 through June 30, 1998, and $82,000 per annum for the period from July 1, 1998 through February 28, 1999. Mr. Smith's employment agreements with both Viragen and Viragen (Europe) expired on March 1, 1999. On that date, he entered into a

single two year employment agreement with Viragen under terms similar to his previous agreements. This agreement provided for a total annual salary of $282,000.

On March 1, 2001, Mr. Smith renewed his two year employment agreement with Viragen. Under the new agreement, Mr. Smith is to receive an annual salary of $325,000. He also received options to purchase 850,000 shares of common stock at $1.35 per share. The options vest one-half on the date of grant and one-half on the first year anniversary. The options are exercisable over five years from the vest dates. Mr. Smith's employment agreement contains a provision that in the event Viragen were to spin-off or split-off any present or future subsidiaries, he would be entitled to receive a certain number of options in the spun-off company. The number of options he would receive would be based on a formula reflecting his then current option position relative to the fully diluted common stock of Viragen then outstanding. The pricing of the new options would be based on the relationship of the exercise price of his existing options with the fair market value of Viragen's stock at the date of the transaction. All other terms are similar to his previous agreements.

Mr. Smith continues to serve as the president and chairman of Viragen (Europe).

On March 1, 1997 Mr. Healey entered into a two-year employment agreement. The agreement, which was amended on July 1, 1997, provided for:

- a salary $190,000 and $195,000 for the first and second years,

- options to purchase 300,000 shares of common stock at $3.22 per share, exercisable over five years,

- health and life insurance,

- similar employee benefits generally available to other employees, and

- reimbursement of automobile and business related expenses.

On March 1, 1997, Mr. Healey entered into a two-year employment agreement with Viragen (Europe) Ltd., subsequently amended on July 3, 1997. This agreement was to run concurrent with Mr. Smith's Viragen (Europe) agreement and superceded all previous agreements. This agreement provided for a salary of $31,700 for the four month period ending June 30, 1997, $52,000 for the year ended June 30, 1998, and $38,000 for the eight month period ending February 28, 1998. Upon the expiration of Mr. Healey's employment agreements with Viragen and Viragen (Europe), on March 1, 1999, he entered into a single employment agreement with Viragen under terms similar to his previous agreements. The agreement provided for a total annual salary of $252,000.

On March 1, 2001, Mr. Healey renewed his two year employment agreement with Viragen. Under the new agreement, Mr. Healey is to receive an annual salary of $252,000. He also received options to purchase 150,000 shares of common stock at $1.35 per share. The options vest one-half on the date of grant and one-half on the first year anniversary. The options are exercisable over five years from the vest dates. Mr. Healey's employment agreement contains a provision that in the event Viragen were to spin-off or split-off any present or future subsidiaries, he would be entitled to receive a certain number of options in the spun-off company. The number of options he would receive would be based on a formula reflecting his then current option position relative to the fully diluted common stock of Viragen then outstanding. The pricing of the new options would be based on the relationship of the exercise price of his existing options with the fair

market value of Viragen's stock at the date of the transaction. All other terms are similar to his previous agreements.

Mr. Healey continues to serve as executive vice president, chief financial officer, secretary and director of Viragen (Europe).

On July 1, 1999, Dr. Nicolson entered into a two year employment agreement with Viragen. This agreement supercedes all previous agreements. The agreement provided for:

- an annual salary of $170,000,
- the grant of an option to acquire 200,000 shares of common stock at $.625, vesting one-third on the date of grant, one-third on the first anniversary of the grant date and one-third on the second anniversary,
- similar employee benefits generally available to executive officers,
- use of an automobile, and
- reimbursement of business related expenses.

On July 1, 2001, Dr. Nicolson renewed his two year employment agreement with Viragen. Under the new agreement, Dr. Nicolson is to receive an annual salary of $172,500. He also received options to purchase 50,000 shares of Viragen (Europe) Ltd. common stock at $0.85 per share. The options vest one-half on the date of grant and one-half on the first year anniversary. The options are exercisable over five years from the vest dates. All other terms are similar to his previous agreement.

On July 1, 1999, Mr. Rothberg entered into a two year employment agreement with Viragen. This agreement supercedes all previous agreements. The agreement provided for:

- an annual salary of $160,000 and $172,500 for the first and second years, respectively,
- the grant of an option to acquire 250,000 shares of common stock at $.625 per share, vesting one-half on the date of grant and one-half on the first year anniversary,
- health insurance,
- similar employee benefits generally available to executive employees,
- $400 per month auto allowance, and
- reimbursement of business related expenses.

In April 2000, Mr. Rothberg was granted an option to acquire 100,000 shares of common stock at $2.00 per share, vesting on the date of grant. These options were granted simultaneously with the cancellation of an option to acquire 100,000 shares of Viragen U.S.A., Inc. at $0.22 per share held by Mr. Rothberg. The potential replacement of Viragen U.S.A. options was addressed in Mr. Rothberg's April 28, 1998 option agreement.

On July 1, 2001, Mr. Rothberg renewed his two year employment agreement with Viragen. Under the new agreement, Mr. Rothberg is to receive an annual salary of $172,500. He also received options to purchase 50,000 shares of common stock at $1.25 per share. The options vest one-half on the date of grant and one-half

on the first year anniversary. The options are exercisable over five years from the vest dates. Mr. Rothberg's auto allowance was increased to $600 per month. All other terms are similar to his previous agreements.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

The following table includes information as to the grant of options to purchase shares of common stock during the fiscal year ended June 30, 2001 to each person named in the summary compensation table.

	INDIVIDUAL GRANTS				POTENTIA VALUE A ANNUAL
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED(#)	% OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE ($/SH)	EXPIRATION DATE	STOC APPRECI OPTI 5%
Gerald Smith.....	850,000	48.9%	$1.35	2/28/07	$352,750
Dennis W. Healey.....	150,000	8.6	1.35	2/28/07	103,750
D. Magnus Nicolson.....	--	--	--	--	--
Melvin Rothberg.....	--	--	--	--	--

OPTION EXERCISES AND HOLDINGS

The following table includes information as to the exercise of options to purchase shares of common stock during the fiscal year ended June 30, 2001 by each person named in the summary compensation table and the unexercised options held as of the end of the 2001 fiscal year.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR END OPTION VALUES

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY END(#)		
NAME	SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED($)	EXERCISABLE	UNEXERCISABLE	EXE
Gerald Smith.....	--	$ --	2,475,000	425,000	$7
Dennis W. Healey.....	100,000	94,000	425,000	75,000	
D. Magnus Nicolson.....	--	--	113,333	66,667	
Melvin Rothberg.....	--	--	225,000	--	

1997 AMENDED STOCK OPTION PLAN AND 1995 AMENDED STOCK OPTION PLAN

On May 15, 1995 the board of directors adopted, subject to approval by the stockholders, a stock option plan, called the 1995 stock option plan. On September 22, 1995, the board of directors amended the 1995 stock option plan to define certain terms and clarify the minimum exercise price of the non-qualified

options. The minimum exercise price of non-qualified options cannot be less than 55% of the fair market value. Viragen stockholders ratified the 1995 stock option plan at the annual meeting held on December 15, 1995.

On January 27, 1997 the board of directors adopted, subject to approval by the stockholders, a stock option plan called the 1997 stock option plan. The 1997 stock option plan contains terms and provisions similar to the 1995 stock option plan. Viragen stockholders ratified the 1997 stock option plan at the annual meeting held on February 28, 1997. On April 24, 1998 the board of directors adopted, subject to ratification by the stockholders, an amendment to the 1997 stock option plan. This amendment reserved an additional 1,000,000 shares of common stock for issuance under that plan. This amendment brought the total shares reserved under the 1997 stock option plan to 4,000,000 shares. On July 31, 1998, the stockholders ratified this amendment to the 1997 stock option plan.

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The audit and finance committee and the compensation committee of the board of directors and the board of directors currently administer the plans. Administration of the plan includes determining:

- the persons who will be granted plan options,

- the type of plan options to be granted,

- the number of shares subject to each plan options, and

- the plan options price.

Options granted under either the 1995 or the 1997 stock option plans may qualify as incentive stock options, under Section 422 of the Internal Revenue Code of 1986, as amended. In addition, the plans also include a reload option provision. This provision permits an eligible person to pay the exercise price of the plan option with shares of common stock owned by the eligible person. The person then receives a new plan option to purchase shares of common stock equal in number to the tendered shares. Any incentive option, which is granted under a plan must provide for an exercise price of not less than 100% of the fair market value of the underlying shares, on the date of such grant. The exercise price of any incentive option granted to an eligible employee owning more than 10% of our common stock must be at least 110% of the fair market value, as determined on the date of the grant. The board of directors, the audit and finance committee or the compensation committee determine the term of each plan option and the manner in which it may be exercised. No plan option may be exercisable more than 10 years after the date of its grant. In the case of an incentive option granted to an eligible employee owning more than 10% of Viragen's common stock, no plan option may be exercisable more than five years after the date of the grant.

Officers, directors, key employees and consultants of Viragen and its subsidiaries are eligible to receive non-qualified options under the stock option plans. Only officers, directors and employees who are employed by Viragen or by any of its subsidiaries are eligible to receive incentive options.

Incentive options are non-assignable and nontransferable, except by will or by the laws of descent and distribution during the lifetime of the optionee. Only the optionee may exercise incentive options. Under a recent amendment to the 1997 stock option plan, non-qualified options may be transferable under limited circumstances for estate planning, if authorized by the board of directors or the committee. If an optionee's employment is terminated for any reason, other than his death or disability, or if an optionee is not an employee but is a member of Viragen's board of directors and his service as a director is

terminated for any reason, other then death or disability, the plan option granted to him will lapse to the extent unexercised on the earlier of the expiration date or 30 days following the date of termination. If the optionee dies during the term of his employment, the plan option granted to him will lapse to the extent unexercised on the earlier of the expiration date of the plan option or the date one year following the date of the optionee's death. If the optionee is permanently and totally disabled, the plan option granted to him lapses to the extent unexercised on the earlier of the expiration date of the option or one year following the date of the disability.

The board of directors may amend, suspend or terminate the stock option plans at any time. However, no amendment can be made which changes the minimum purchase price, except in the event of adjustments due to changes in Viragen's capitalization. Unless the plans have been suspended or terminated by the board of directors, the 1995 stock option plan will terminate on May 15, 2005, and the 1997 stock option plan will terminate on January 27, 2007. The termination of either plan will not affect the validity of any plan options previously granted.

As of September 28, 2001, there were no additional options available under the 1995 or 1997 stock option plans.

OTHER OPTION GRANTS

On February 14, 2001, Viragen granted options to purchase an aggregate 315,000 shares of common stock to four directors and one officer. The options vest one-half on the date of grant and one-half on the first year anniversary. The options are exercisable over five years from the vest dates, at $1.35 per share. The options were allocated, as follows:

- Peter D. Fischbein -- 5,000 shares;

- Robert C. Salisbury -- 5,000 shares;

- Charles J. Simons -- 5,000 shares;

- Carl N. Singer -- 250,000 shares; and

- Jose I. Ortega -- 50,000 shares.

On March 21, 2001, we also granted options to purchase common stock to Abraham Cohen and E. Donald Shapiro. Both are directors of Viragen and received these options as compensation for additional consulting services being provided to us. Each received options to purchase 200,000 common shares at $1.20 per share. These options vest 50,000 shares at the date of grant and 50,000 shares every six months through September 2002. The options are exercisable over five years from the vest dates.

Additionally, Messrs. Cohen and Shapiro each received options to purchase 5,000 common shares at $1.16. These options were granted as compensation for participation in a board of directors meeting held on May 16, 2001. These options vest one-half on the date of grant and one-half on the first year anniversary. The options are also exercisable over five years from the vest dates.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows certain information regarding Viragen's common stock beneficially owned at September 28, 2001, by:

- each person who is known by us to own beneficially or exercise voting or dispositive control over 5% or more of Viragen's common stock,

- each of Viragen's directors, and

- all officers and directors as a group.

A person is considered a beneficial owner of any securities that the person has the right to acquire beneficial ownership of within 60 days. At September 28, 2001, there were 99,786,099 shares of common stock outstanding.

			COMMON SHARES BENEFICIALLY OW	
NAME OF BENEFICIAL OWNER	BENEFICIAL OWNERSHIP	PERCENT OF CLASS	CURRENTLY	ACQUI WITHIN
Gerald Smith	2,917,000	2.8%	17,000	2,475
Carl N. Singer	4,265,841	4.3	3,815,841	291
Dennis W. Healey	865,000	0.9	365,000	425
Peter D. Fischbein	405,000	0.4	350,000	52
Charles J. Simons	40,000	0.0	10,000	27
Robert C. Salisbury	30,000	0.0	30,000	2
Abraham Cohen	210,000	0.2	--	105
E. Donald Shapiro	210,000	0.2	--	105
Officers & Directors (as a Group of 10 persons)	9,418,141	9.0	4,603,141	3,914

The beneficial ownership figures include 3,836,341 common shares and warrants to acquire 100,000 common shares held by Fundamental Management Corporation, a Florida-based institutional investment fund, which have been attributed to Carl N. Singer. Mr. Singer is the chairperson of Fundamental

Management Corporation. Mr. Salisbury is also a director and investor in Fundamental Management Corporation.

BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than ten percent (10%) of a registered class of our equity securities, to file with the Securities and Exchange Commission initial reports of their ownership and reports of changes in their ownership of common stock and other equity securities of Viragen. Officers, directors and greater than ten percent (10%) stockholders are required by regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of these reports furnished to us and written representations that no other reports were required, during the fiscal year ended June 30, 2001, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent (10%) beneficial owners were completed and timely filed.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Gerald Smith and Dennis W. Healey, who are principal officers of Viragen, also serve as the principal officers of Viragen (Europe).

On September 1, 1998, Gerald Smith and Dennis W. Healey each exercised 250,000 options to purchase Viragen common stock. Both exercised their options through the issuance of promissory notes payable to Viragen totaling $300,000. Mr. Smith and Mr. Healey also entered into related pledge and escrow agreements. The promissory notes carried an interest rate of 5.47%, payable semi-annually, and were secured by the underlying common stock purchased. The purchased shares were being held in escrow, pending payment of the related notes pursuant to the provisions of the pledge and escrow agreements. Mr. Smith paid $100,000 of the principal on his promissory note, plus related interest, during January 2000. Mr. Healey paid-in-full the $150,000 principal, plus related interest, on his promissory note, during March 2000. Viragen released the collateral on the two promissory notes.

Carl N. Singer, a director of Viragen and the chairman of its executive committee, also exercised options for 50,000 shares on October 1, 1998. Peter Fischbein, a director, exercised options for 200,000 shares on October 8, 1998. Charles F. Fistel, a former officer, exercised options totaling 410,000 shares on May 3, 1999 and May 11, 1999. These options were all exercised through the issuance of promissory notes payable Viragen totaling $302,000, and related pledge and escrow agreements. The promissory notes bear interest at rates ranging between 5.06% and 5.15%, payable semi-annually, and are secured by the underlying common stock purchased. The purchased shares are being held in escrow, pending payment of the related notes pursuant to the provisions of the pledge and escrow agreements. During February 2000, Mr. Fischbein exercised options for an additional 25,000 common shares through the issuance of another promissory note and escrow agreement. Principal on the promissory note totals $12,500 and bears interest at 6.46%. Mr. Singer paid-in-full the $59,000 principal, plus related interest, on his promissory note, during March 2000. Mr. Singer's collateral was released from escrow upon receipt of his payment. Mr. Fistel paid $30,000 of the principal on his promissory notes, plus related interest, during March 2000. A pro-rated number of escrowed common shares were released to Mr. Fistel upon receipt of his payment.

During January 2000, we contracted Cameron Associates, Inc. to act as an investor relation's consultant. Cameron Associates received $6,000 per month through February 2000, subsequently reduced to $3,000 per month, as compensation for their services. They also received warrants to purchase 100,000 common shares of Viragen at $1.17 per share through January 2005. Mr. Singer serves as a director on Cameron Associates' board of directors and is a minority stockholder.

On February 7, 2000, the board of directors voted to modify the terms of an option to purchase 1.4 million shares of common stock, which had been granted to Mr. Smith, Viragen's president, during October 1995. The board of directors extended the expiration of this common stock option by three years. Under the modified

terms, the common stock option will now expire on October 5, 2003. No other terms were changed. Under the provisions of APB 25, we recognized compensation expense of $941,000 relating to this modification.

On February 18, 2000, we entered into a subscription agreement with Active Investors Ltd. II, an investment fund managed by Mr. Carl Singer, a director of Viragen, through Fundamental Management Corporation, a Florida-based institutional investment fund. Under the terms of the subscription agreement, we issued to Active Investors Ltd. II a convertible promissory note for the principal amount of $1,000,000. The promissory note had an interest rate of 9.5% per annum. The principal and interest were payable on February 17, 2001.

Active Investors Ltd. II could elect to convert the unpaid principal and interest, at any time, into common shares at the fixed rate of $1.00 per share. They also received a warrant to purchase 100,000 common shares. The warrant is exercisable at $2.00 per share through February 17, 2003. This note was converted into 1,015,716 shares of common stock, which included $35,400 in interest on June 30, 2000.

Active Investors Ltd. II has also participated as an investor under the shelf registration on Form S-3 dated March 21, 2000 (File No. 333-32306). Active Investors Ltd. II invested $1,000,000 in exchange for 784,300 shares of our common stock.

Mr. Robert Salisbury, a director of Viragen, also serve as a director and investor in Fundamental Management Corporation which manages the Active Investors II fund. Mr. Charles Simons, a director of Viragen, is an investor in the Active Investors II fund.

Between February and March 2000, Mr. Smith exercised options for 400,000 additional common shares through the issuance of two promissory notes and escrow agreements. Principal on the promissory notes totaled $200,000. Mr. Smith paid-in-full both notes during March 2000 and the escrowed shares were released.

During March 2000, Melvin Rothberg, an executive vice-president of Viragen, exercised options for 100,000 common shares through the issuance of a promissory note and related escrow agreement. Principal on the promissory note totaled $62,500. Mr. Rothberg paid-in-full the principal on his note during April 2000, and the escrowed shares were released.

Commencing in March 2000, Mr. Singer is receiving $100,000 per year for his services as a director and chairperson of the executive committee. He receives no other director fees. In addition, for these services on March 14, 2000, Mr. Singer was granted an option to acquire 100,000 shares of common stock. The option provides for:

- an exercise price of $3.75 per share,

- are exercisable for 5 years from the vesting date,

- an exercisable 33,333 shares on the grant date; 33,333 shares on the first anniversary of the grant date and 33,334 shares on the second anniversary of the grant date.

During fiscal 2001, Mr. Simons received $36,000 as compensation for serving as chairman of the audit and finance committee.

During October 2000, Dennis W. Healey and Sidney Dworkin, a former director of Viragen, each exercised 100,000 options to purchase common stock. Both exercised their options through the issuance of promissory notes payable to Viragen totaling $100,000. Messrs. Healey and Dworkin also entered into related pledge and escrow agreements. The promissory notes carry an interest rate of 6.00%, payable semi-annually, and are secured by the underlying common stock purchased. The purchased shares are being held in escrow, pending payment of the related notes pursuant to the provisions of the pledge and escrow agreements.

During March 2001, Abraham Cohen and E. Donald Shapiro entered into consulting agreements with Viragen. Each is to provide consulting services to Viragen for a two year period ending March 31, 2003. These consulting services are in addition to their service on the board of directors. As compensation, each was granted options to purchase 200,000 common shares at $1.20 per share. These options vest 50,000 shares at

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the date of grant and 50,000 shares every six months through September 2002. The options are exercisable over five years from the vest dates.

During May 2001, Robert C. Salisbury entered into a consulting agreement with Viragen. He is to provide consulting services to Viragen for a three year period ending May 31, 2004. These consulting services are in addition to his service on the board of directors. As compensation, he will be granted warrants to purchase up to 110,000 common shares. The warrants will be granted in tranches upon performance of specific criteria. The warrants will vest one-half on the first anniversary of the date of grant and one-half on the second anniversary of the date of grant. The warrants will be exercisable for five years from the vest dates, at 115% of the fair market value of Viragen's common stock on the dates of grant.

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PART IV

ITEM 14. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following is a list of documents filed as part of this annual report.

EXHIBIT NUMBER		DESCRIPTION
1.	--	All financial statements see Index to Consolidated Financial Statements.
2.	--	Exhibits
3.	--	Articles of Incorporation and By-Laws.
3.1	--	Articles of Incorporation and By-Laws (incorporated by reference to Viragen's registration statement on Form S-1 dated June 8, 1981, File No. 2-72691).
3.2	--	Certificate of Amendment of Certificate of Incorporation dated September 11, 1986 (incorporated by reference to Viragen's registration statement on Form S-2 dated October 24, 1986, File No. 33-9714).
3.3	--	Certificate of Amendment of Certificate of Incorporation dated April 8, 1987 (incorporated by reference to Viragen's current report on Form 8-K dated April 17, 2000, filed on April 13, 2000).
3.4	--	Certificate of Amendment of Certificate of Incorporation dated May 11, 1993 (incorporated by reference to Viragen's current report on Form 8-K dated April 17, 2000, filed on April 13, 2000).
3.5	--	Certificate of Amendment of Certificate of Incorporation dated February 28, 1997 (incorporated by reference to Viragen's current report on Form 8-K dated April 17, 2000, filed on April 13, 2000).
3.6	--	Certificate of Amendment of Certificate of Incorporation dated July 2, 1997 (incorporated by reference to Viragen's current report on Fort 8-K dated April 17, 2000, filed on April 13, 2000).
3.7	--	Certificate of Amendment of Certificate of Incorporation dated October 4, 1999 (incorporated by reference to

		Viragen's current report on Form 8-K dated April 17, 2000, filed on April 13, 2000).
3.8	--	Certificate of Amendment of Certificate of Incorporation dated August 28, 2001, filed on August 28, 2001.
4.	--	Instruments defining the rights of security holders, including indentures.
4.1	--	Form of common Stock Certificate (incorporated by reference to Viragen's registration statement on Form S-1 dated June 8, 1981, File No. 2-72691).
4.2	--	Certificate of Designation for Series A Preferred Stock, as amended (incorporated by reference to 1986 Form S-2, Part II, Item 16, 4.4).
4.3	--	Specimen Certificate for Unit (Series A Preferred Stock and Class A Warrant) (incorporated by reference to 1986 Form S-2, Part II, Item 15.
4.4	--	1995 Stock Option Plan (incorporated by reference to Viragen's Registration Statement on Form S-8 filed June 9, 1995).
4.5	--	1997 Stock Option Plan (incorporated by reference to Viragen's Registration Statement of Form S-8 filed April 17, 1998).
4.6	--	Subscription Agreement between Active Investors Ltd. II and Viragen, Inc. dated February 18, 2000 (incorporated by reference to Viragen's Registration Statement on Form S-3 filed May 19, 2000).
4.7	--	Loan and Escrow Agreement between AMRO International, S.A. and Viragen, Inc. dated March 1, 2000 (incorporated by reference to Viragen's Registration Statement on Form S-3 filed May 19, 2000).

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EXHIBIT NUMBER		DESCRIPTION
4.8	--	Common Stock Purchase Warrant issued to Equitable Equity Lending, Inc. dated November 1, 1999 (incorporated by reference to Viragen's Registration Statement on Form S-3 filed May 19, 2000).
4.9	--	Common Stock Purchase Warrant granted to Girmon Investment Co., Limited dated December 21, 1998 (incorporated by reference to Viragen's Registration Statement on Form S-8 filed May 19, 2000).
4.10	--	Common Stock Purchase Warrant granted to Robert Keller, M.D. dated November 1, 1999 (incorporated by reference to Viragen's Registration Statement on Form S-8 filed May 19, 2000).
4.11	--	Common Stock Purchase Warrant granted to David W. Kirchembaum dated November 1, 1999 (incorporated by reference to Viragen's Registration Statement on Form S-8 filed May 19, 2000).
4.12	--	Common Stock Purchase Warrant granted to Bradford J. Beilly dated November 1, 1999 (incorporated by reference to Viragen's Registration Statement on Form S-8 filed May 19, 2000).
4.13	--	Common Stock Purchase Warrant granted to Catherine Patrick dated November 1, 1999 (incorporated by reference to

		Viragen's Registration Statement on Form S-8 filed May 19, 2000).
4.14	--	Form of Common Stock Purchase Warrants granted to Pablo A. Guzman, M.D. between April 2, 1998 and November 4, 1999 (incorporated by reference to Viragen's Registration Statement on Form S-8 filed May 19, 2000).
4.15	--	Common Stock Purchase Warrant granted to Dunwoody Brokerage Services, Inc. dated December 28, 1999 (incorporated by reference to Viragen's Registration Statement on Form S-8 filed May 19, 2000).
4.16	--	Common Stock Purchase Warrant granted to David Squillacote dated July 1, 1999 (incorporated by reference to Viragen's Registration Statement on Form S-8 filed May 19, 2000).
4.17	--	Common Stock Purchase Warrant granted to Cameron Associates, Inc. dated January 17, 2000 (incorporated by reference to Viragen's Registration Statement on Form S-8 filed May 19, 2000).
4.18	--	Common Stock Purchase Warrant granted to Nassau Securities, Int'l. dated April 17, 2000 (incorporated by reference to Viragen's Registration Statement on Form S-8 filed May 19, 2000).
4.19	--	Stock Option Agreement between Viragen, Inc. and Gerald Smith dated February 7, 2000 (incorporated by reference to Viragen's Registration Statement on Form S-8 filed May 19, 2000).
10.	--	Material contracts.
10.1	--	Research Agreement between the Registrant and Viragen Research Associates Limited Partnership dated December 29, 1983 (incorporated by reference to Medicore's S-1, File No. 2-89390, dated February 10, 1984 ("Medicore's S-1"), Part II, Item 16(a)(10)(xxxiii)).
10.2	--	License Agreement between the Registrant and Viragen Research Associates Limited Partnership dated December 29, 1983 (incorporated by reference to Medicore's S-1, Part II, Item 16(a)(10)(xxxiv)).
10.3	--	Royalty Agreement between the Company and Medicore, Inc. dated November 7, 1986 (incorporated by reference to the November 1986 Form 8-K, Item 7(c)(i)).
10.4	--	Amendment to Royalty Agreement between the Company and Medicore, Inc. dated November 21, 1989 (incorporated by reference to the Company's Current Report on Form 8-K dated December 6, 1989, Item 7(c)(i)).

EXHIBIT NUMBER		DESCRIPTION
10.5	--	Agreement for Sale of Stock between the Company and Cytoferon Corp. dated February 5, 1993 (incorporated by reference to the Company's Current Report on Form 8-K dated February 11, 1993 Item 7(c)(28)).
10.6	--	Addendum to Agreement for Sale of Stock between the Company and Cytoferon Corp. dated May 4, 1993 (incorporated by reference to the Company's Current Report on Form 8-K dated May 5, 1993, Item 7(c)(28)(i)).
10.7	--	Amendment No. 2 to the Royalty Agreement between the Company

		and Medicore, Inc. dated May 11, 1993 (incorporated by reference to the Company's June 30, 1993 Form 10-K, Part IV, Item 14(a)(10)(xix)).
10.8	--	Marketing and Management Services Agreement between the Company and Cytoferon Corp. dated August 18, 1993 (incorporated by reference to the Company's June 30, 1993 Form 10-K, Part IV, Item 14(a)(10)(xxiii)).
10.9	--	Agreement for Sale of Stock between Cytoferon and the Company dated November 19, 1993 (incorporated by reference to the Company's June 30, 1994 Form 10-K, Part IV, Item 14(a)(10)(xxiv)).
10.10	--	Amendment No. 1 to Agreement for Sale of Stock with Cytoferon (incorporated by reference to the Company's 1995 Form SB-2, Part II, Item 27(10)(xxxii)).
10.11	--	License and Manufacturing Agreement with Common Services Agency (incorporated by reference to the Company's 1995 Form SB-2, Part II, Item 27(10)(xxxvi)).
10.12	--	Series H Convertible Preferred Stock, Form of Subscription Agreement dated February 17, 1998 and related Registration Agreement and Common Stock Purchase Warrants (incorporated By reference to the Company's Registration Statement on Form S-3 dated April 17, 1998).
10.13	--	Series I Convertible Preferred Stock, Form of Subscription Agreement dated April 2, 1998 and related Registration Rights Agreement and Common Stock Purchase Warrants (incorporated by reference to the Company's Registration Statement on Form S-3 dated April 17, 1998).
10.14	--	Cooperation and Supply Agreement between the Company, Viragen Deutschland GmbH and German Red Cross dated March 19, 1998 (Certain portions of this exhibit have been redacted pursuant to a Confidentiality Request submitted to The Securities and Exchange Commission).
10.15	--	Buffycoat Supply Agreement between America's Blood Centers and the Company dated July 15, 1998 (Certain portions of this exhibit have been redacted pursuant to a Confidentiality Request submitted to the Securities and Exchange Commission).
10.16	--	Agreement between the Company and the American Red Cross dated August 18, 1998 (Certain portions of this exhibit have been redacted pursuant to a Confidentiality Request submitted to the Securities and Exchange Commission).
10.17	--	Strategic Alliance Agreement between the Company and Inflammatics, Inc. and Inflammatics Inc. Series A Convertible Preferred Stock Purchase Agreement (incorporated By reference to the Company's Annual Report on Form 10-K for The year ended June 30, 1998).
10.18	--	Gerald Smith Pledge and Escrow Agreement for 200,000 shares dated September 1, 1998 (incorporated by reference to the Company's Annual Report on Form 10-K/A for the year ended June 30, 1998).
10.19	--	Gerald Smith Pledge and Escrow Agreement for 50,000 shares dated September 1, 1998 (incorporated by reference to the Company's Annual Report on Form 10-K/A for the year ended June 30, 1998).
10.20	--	Dennis W. Healey Pledge and Escrow Agreement for 200,000 Shares dated September 1, 1998 (incorporated by reference to The Company's Annual Report on Form 10-K/A for the year Ended June 30, 1998).

EXHIBIT NUMBER		DESCRIPTION
10.21	--	Dennis W. Healey Pledge and Escrow Agreement for 50,000 Shares dated September 1, 1998 (incorporated by reference to The Company's Annual Report on Form 10-K/A for the year Ended June 30, 1998).
10.22	--	Southern Health SDN. BHD Option to Purchase Master License dated March 23, 1998.
10.23	--	Placement Agreement, Placement Agent Warrant and Investor Warrant dated September 22, 1998 (incorporated by reference to Viragen's Annual Report on Form 10-K for the year ended June 30, 1998).
10.24	--	Purchase Agreement between the Registrant, the Isosceles Fund and Cefeo Investments Limited dated March 17, 1999 (incorporated by reference to Viragen's Amendment No. 1 to Registration Statement on Form S-3 filed on June 21, 1999, File No. 333-75749).
10.25	--	8% Redeemable Convertible Promissory Note to the Isosceles Fund dated March 17, 1999 (incorporated by reference to Viragen's Form S-3 registration statement filed April 6, 1999, File No. 333-75749).
10.26	--	8% Redeemable Convertible Promissory Note to Cefeo Investments Limited dated March 17, 1999 (incorporated by reference to Viragen's Form S-3 registration statement filed April 6, 1999, File No. 333-75749).
10.27	--	Common Stock Purchase Warrant issued to the Isosceles Fund Dated March 17, 1999 (incorporated by reference to Viragen's Form S-3 registration statement filed April 6, 1999, File No. 333-75749).
10.28	--	Supply and Distribution Agreement between Viragen and the Adamjee Group of Companies dated November 16, 1998 (incorporated by reference to the Viragen (Europe) Ltd. Annual Report on Form 10-K for the year ended June 30, 1999).
10.29	--	Employment Agreement between Viragen and Gerald Smith dated March 1, 1999 (incorporated by reference to Viragen's Annual Report on Form 10-K for the year ended June 30, 1999).
10.30	--	Employment Agreement between Viragen and Dennis W. Healey Dated March 1, 1999 (incorporated by reference to Viragen's Annual Report on Form 10-K for the year ended June 30, 1999).
10.31	--	Memorandum of Agreement between the Isosceles Fund and the Company dated March 17, 1999 (incorporated by reference to Viragen's Annual Report on Form 10-K for the year ended June 30, 1999).
10.32	--	Letter of Intent between the Company and Drogsan Healthcare Dated July 2, 1999 (incorporated by reference to the Viragen (Europe) Ltd. Annual Report on Form 10-K for the year ended June 30, 1999).
10.33	--	Common stock and Warrants Agreement. Stock Purchase Warrant and Registration Rights Agreement dated November 24, 1999 (incorporated by reference to Viragen's Current Report on Form 8-K dated December 9, 1999).
10.34	--	Carl N. Singer Promissory Note, Pledge and Escrow Agreement for 50,000 shares dated October 1, 1998 (incorporated by reference to Viragen's Form S-1/A registration statement filed December 22, 1999, File No. 333-75749).

10.35	--	Peter Fischbein Promissory Note, Pledge and Escrow Agreement for 200,000 shares dated October 8, 1998 (incorporated by reference to Viragen's Form S-1/A registration statement filed December 22, 1999, File No. 333-75749).
10.36	--	Employment Agreement, Stock Option Agreement between Viragen and Melvin Rothberg dated July 1, 1999 (incorporated by reference to Viragen's Form S-1/A registration statement filed December 22, 1999, File No. 333-75749).

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EXHIBIT NUMBER		DESCRIPTION
10.37	--	Employment Agreement, Stock Option Agreement between Viragen (Scotland) Ltd. and Dr. D. Magnus Nicolson dated July 1, 1999 (incorporated by reference to Viragen's Form S-1/A registration statement filed December 22, 1999, File No. 333-75749).
10.38	--	Promissory Note and Mortgage and Security Agreement dated August 10, 1999 (incorporated by reference to Viragen's Form S-1/A registration statement filed December 22, 1999, File No. 333-75749).
10.39	--	Mortgage and Security Agreement dated November 3, 1999 (incorporated by reference to Viragen's Form S-1/A registration statement filed December 22, 1999, File No. 333-75749).
10.40	--	Dennis W. Healey Promissory Note, Pledge and Escrow Agreement for 100,000 shares dated October 3, 2000.*
10.41	--	Development, License and Collaborative Agreement between Roslin Institute (Edinburgh) and Viragen, Inc. dated November 15, 2000 (incorporated by reference to Viragen's Form S-3 registration statement filed December 29, 2000, File No. 333-52996).
10.42	--	Employment Agreement, Stock Option Agreement between Viragen and Gerald Smith dated March 1, 2001.*
10.43	--	Employment Agreement, Stock Option Agreement between Viragen and Dennis W. Healey dated March 1, 2001.*
10.44..	--	Consulting Agreement, Stock Option Agreement between Viragen and E. Donald Shapiro dated March 21, 2001.*
10.45..	--	Consulting Agreement, Stock Option Agreement between Viragen and Abraham Cohen dated March 21, 2001.*
10.46..	--	Option Agreement between Geron Corporation and Viragen, Inc. Dated May 14, 2001 (incorporated by reference to Viragen's Form S-3 registration statement filed June 18, 2001, File No. 333-63246).
10.47..	--	Consulting Agreement between Viragen and Robert C. Salisbury dated May 23, 2001.*
10.48..	--	Agreement for the Acquisition of BioNative AB between Hakon Borg and others, Viragen (Europe) Limited and Viragen, Inc. dated September 28, 2001 (incorporated by reference to Viragen (Europe) Limited's annual report on Form 10-K filed September 28, 2001).
21.	--	Subsidiaries of the registrant.*
23.	--	Consent of Independent Certified Public Accountants.*

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* Filed herewith

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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.

VIRAGEN, INC.

By: /s/ GERALD SMITH

Gerald Smith
Chairman of the Board of Directors
and President

Dated: September 28, 2001

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

SIGNATURE	TITLE	DATE
/s/ GERALD SMITH Gerald Smith	Chairman of the Board of Directors, President and Principal Executive Officer	September 2
/s/ CARL N. SINGER Carl N. Singer	Director, Chairman Emeritus and Chairman of the Executive Committee	September 2
/s/ DENNIS W. HEALEY Dennis W. Healey	Executive Vice President, Treasurer, Principal Financial Officer, Principal Accounting Officer, Director and Secretary	September 2
/s/ CHARLES J. SIMONS Charles J. Simons	Director and Chairman of the Audit and Finance Committee	September 2
/s/ ABRAHAM COHEN Abraham Cohen	Director	September 2
/s/ PETER D. FISCHBEIN	Director	September 2

Peter D. Fischbein		
/s/ ROBERT C. SALISBURY Robert C. Salisbury	Director	September 2
/s/ E. DONALD SHAPIRO E. Donald Shapiro	Director	September 2

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FORM 10-K -- ITEM 8

VIRAGEN, INC. AND SUBSIDIARIES

LIST OF CONSOLIDATED FINANCIAL STATEMENTS

The following consolidated financial statements of Viragen, Inc. and subsidiaries are included:

All schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

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VIRAGEN, INC. AND SUBSIDIARIES

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Shareholders and Board of Directors
Viragen, Inc.

We have audited the accompanying consolidated balance sheets of Viragen, Inc. and subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the

three years in the period ended June 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Viragen, Inc. and subsidiaries at June 30, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

Miami, Florida
August 17, 2001, except for Note R
as to which the date is September 28, 2001

VIRAGEN, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	JUNE 30,	
	2001	2000
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,659,153	$ 8,094,448
Prepaid expenses	185,072	418,238
Other current assets	420,634	294,776
Total current assets	$ 8,264,859	$ 8,807,462
Property, Plant and Equipment:		
Land, building and improvements	2,341,557	3,557,486
Equipment and furniture	3,994,890	5,976,641
Construction in progress	--	59,026
	6,336,447	9,593,153
Less accumulated depreciation	(1,813,561)	(4,073,394)
	4,522,886	5,519,759
Investment in unconsolidated company	--	18,767
Deposits and other assets	33,206	103,938
	$ 12,820,951	$ 14,449,926

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	$ 1,440,322	$ 1,061,457
Accrued expenses and other liabilities	606,611	616,400
Current portion of long-term debt	39,490	123,400
Total current liabilities	2,086,423	1,801,257
Royalties payable	107,866	107,866
Long-term debt, less current portion	25,488	600,106
Minority interest	308,765	66,772
Put warrants, 100,000 common shares exercisable at $2.75 per share through June 20, 2001	--	58,000
Commitments and Contingencies:		
Stockholders' Equity:		
Convertible 10% Series A cumulative preferred stock, $1.00 par value. Authorized 375,000 shares; issued and outstanding 2,650 shares. Liquidation preference value: $10 per share, aggregating $26,500	2,650	2,650
Common stock, $.01 par value. Authorized 150,000,000 and 125,000,000 shares at June 30, 2001 and 2000, respectively; issued 100,259,174 and 91,397,402 shares at June 30, 2001 and 2000, respectively, of which 845,277 shares are held as treasury stock at June 30, 2001 and 2000	1,002,590	913,972
Capital in excess of par value	85,300,017	75,408,262
Treasury stock, at cost	(1,277,613)	(1,277,613)
Accumulated deficit	(73,847,731)	(62,837,272)
Accumulated other comprehensive loss	(620,308)	(231,213)
Notes due from directors	(267,196)	(162,861)
Total stockholders' equity	10,292,409	11,815,925
	$ 12,820,951	$ 14,449,926

See notes to consolidated financial statements which are an integral part of these statements.

VIRAGEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED JUNE 30,		
	2001	2000	1999
Income:			
Interest and other income	$ 717,567	$ 170,512	$ 374,064
	717,567	170,512	374,064
Costs and Expenses:			
Research and development costs	7,069,432	4,836,753	5,152,748
General and administrative expenses	5,316,842	6,066,784	5,528,410
Equity in losses of unconsolidated company	18,767	652,978	757,256
Interest expense	23,470	1,717,316	574,375

	12,428,511	13,273,831	12,012,789
Loss before minority interest	(11,710,944)	(13,103,319)	(11,638,725
Minority interest in loss of consolidated subsidiaries	703,135	792,424	987,893
NET LOSS	(11,007,809)	(12,310,895)	(10,650,832
Deduct required dividends on convertible preferred stock, series A	2,650	2,650	2,650
Deduct required dividends on convertible preferred stock, series H	--	--	676,498
Deduct required dividends on convertible preferred stock, series I	--	2,699	322,774
LOSS ATTRIBUTABLE TO COMMON STOCK	$(11,010,459)	$(12,316,244)	$(11,652,754
BASIC AND DILUTED LOSS PER COMMON SHARE, after deduction for required dividends on convertible preferred stock	$ (0.12)	$ (0.16)	$ (0.19
BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES	95,116,909	78,452,813	60,109,133

See notes to consolidated financial statements which are an integral part of these statements.

VIRAGEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	PREFERRED STOCK, SERIES A	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	TREASURY STOCK	ACCUMULA DEFICI
Balance at July 1, 1998	$2,650	$ 534,168	$45,686,143	$ (996,541)	$(39,624
Consulting fees paid with common stock		250	12,250		
Compensation expense on stock options and warrants			369,647		
Exercise of compensatory common stock options and warrants		500	49,500		
Exercise of compensatory common stock options with promissory notes		11,600	592,900		
Exercise of debt and equity offering warrants		2,785	200,704		
Sale of detachable warrants on convertible promissory notes			344,854		
Cost of warrants issued to finders on convertible promissory notes			24,078		

Private placement of common stock.....		27,500	1,347,500		
Purchase of treasury stock.....				(281,072)	
Accrued interest income on directors' notes.....					
Capitalized cost of warrants issued for investment in unconsolidated company.....			329,000		
Capital contribution to Viragen (Europe) Ltd.....			(788,641)		
Conversion of series H preferred stock.....		82,556	4,917,444		
Conversion of series I preferred stock.....		32,718	1,857,282		
Dividend on series A preferred stock.....					(2,
Accretion of series H and series I preferred stock.....					(242,
Accretion paid in common stock.....		7,058	410,544		
Foreign currency translation adjustment.....					
Unrealized gain on marketable securities, available for sale.....					
Net loss.....					(10,650,
Balance at June 30, 1999.....	$2,650	$ 699,135	$55,353,205	$(1,277,613)	$(50,521
Consulting fees paid with common stock.....		1,070	85,930		
Conversion of convertible promissory notes into common stock.....		61,529	4,054,832		
Reset shares issued on 8% convertible promissory notes..		10,981	686,265		
Beneficial conversion rate on convertible promissory notes.....			440,000		
Exercise of compensatory common stock options and warrants....		15,674	1,310,421		
Exercise of compensatory common stock options with promissory notes.....		5,250	269,750		
Exercise of debt and equity offering warrants.....		15,286	816,403		
Compensation expense on stock options and warrants.....			2,149,654		
Sale of detachable warrants on convertible promissory notes and short-term borrowings.....			166,250		
Private placement of common stock, net.....		102,281	10,485,867		
Collections on promissory notes issued for common stock exercises.....					
Dividend on series A preferred stock.....					(2,
Capital contribution to Viragen (Europe) Ltd.....			(532,512)		
Exercise of subsidiaries' common stock options.....			1,344		
Conversion of series I preferred					

stock		2,461	107,539		
Accretion of series I preferred stock					(2,
Accretion paid in common stock		305	13,314		
Accrued interest income on directors' notes					
Foreign currency translation adjustment					
Net loss					(12,310,
Balance at June 30, 2000	2,650	913,972	75,408,262	(1,277,613)	(62,837,
Consulting fees paid with common stock		2,667	334,833		
Compensation expense on stock options and warrants			513,533		
Private placement of common stock, net		77,868	9,436,986		
Exercise of compensatory common stock options and warrants		6,083	453,027		
Exercise of compensatory common stock options with promissory notes		2,000	98,000		
Capital contribution to Viragen (Europe) Ltd			(945,128)		
Exercise of subsidiaries' common stock options			504		
Dividend on series A preferred stock					(2,
Accrued interest income on directors' notes					
Foreign currency translation adjustment					
Net loss					(11,007,
Balance at June 30, 2001	$2,650	$1,002,590	$85,300,017	$(1,277,613)	$(73,847

See notes to consolidated financial statements which are an integral part of these statements.

VIRAGEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED JUNE 30,		
	2001	2000	1
Net loss	$(11,007,809)	$(12,310,895)	$(10,
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	610,894	682,009	
Consulting fees paid with common stock	337,500	47,000	
Compensation expense on stock options and warrants	513,533	2,149,654	

Minority interest in loss of subsidiary	(703,135)	(792,424)	(
Gain on sale of property, plant and equipment	(195,919)	--	
Impairment loss recognized on long-lived assets	--	101,859	
Amortization of discounts on convertible promissory notes and short-term borrowings	--	236,373	
Interest expense on reset shares	--	697,246	
Interest expense on beneficial conversion rate of convertible promissory notes	--	440,000	
Recovery of bad debts	--	(24,630)	
Bad debt expense	--	--	
Increase (decrease) relating to operating activities from:			
Prepaid expenses	198,024	(72,759)	
Other current assets	(125,858)	(43,713)	
Investment in unconsolidated company	18,767	652,977	
Deposits and other assets	70,732	223,801	
Accounts payable	378,865	(70,866)	
Accrued expenses and other liabilities	(7,139)	88,807	
Deferred income	--	--	(
Notes due from directors	(4,335)	7,481	
Net cash used in operating activities	(9,915,880)	(7,988,080)	(8,
Investing Activities:			
Additions to property, plant and equipment	(380,949)	(237,712)	(
Sale of property, plant and equipment	721,050	--	
Investment in unconsolidated company	--	--	(1,
Sale of marketable securities, available-for-sale	--	--	6,
Net cash provided by (used in) investing activities	340,101	(237,712)	4,
Financing Activities:			
Payments on long-term debt	(725,066)	(285,937)	(
Proceeds from private placements, net	9,514,854	10,588,148	1,
Proceeds from exercise of compensatory common stock options and warrants	459,110	1,326,095	
Proceeds from exercise of debt and equity offering warrants	--	831,689	
Collections on promissory notes issued for compensatory common stock option exercises	--	651,500	
Proceeds from sale of convertible promissory notes, net	--	1,772,985	1,
Proceeds from sale of detachable warrants with convertible promissory notes and short-term borrowings	--	166,250	
Proceeds from short-term borrowings, net	--	887,740	
Payments on short-term borrowings	--	(400,000)	
Preferred dividends paid to preferred stock series A	(5,300)	--	
Purchase of treasury stock	--	--	(
Proceeds from exercise of subsidiaries' common stock options	504	1,344	
Net cash provided by financing activities	9,244,102	15,539,814	3,
Effect of exchange rate fluctuations on cash	(103,618)	(275,161)	(
(Decrease) increase in cash and cash equivalents	(435,295)	7,038,861	(1,
Cash and cash equivalents at beginning of period	8,094,448	1,055,587	2,
Cash and cash equivalents at end of period	$ 7,659,153	$ 8,094,448	$ 1,

See notes to consolidated financial statements which are an integral part of these statements.

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VIRAGEN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED)

SUPPLEMENTAL CASH FLOW INFORMATION:

	YEAR ENDED JUNE 30,		
	2001	2000	1999
Interest paid	$23,470	$94,446	$299,644
Income taxes paid	--	--	--

During the years ended June 30, 2001, 2000 and 1999, Viragen had the following non-cash investing and financing activities:

	YEAR ENDED JUNE 30,		
	2001	2000	1999
Exercise of common stock options with promissory notes	$ 100,000	$ 275,000	$ 604,500
Contribution of intercompany balances as capital to Viragen (Europe) Ltd	(945,128)	(532,512)	(788,641)
Purchase of insurance with notes payable	22,858	33,422	94,627
Purchase of assets with notes payable	78,953	--	--
Settlement of note payable upon trade-in of asset	(33,916)	--	--
Cancellation of put warrants	(58,000)	--	--
Refinancing of short-term borrowings to long-term debt	--	600,000	--
Accrued consulting fees paid with common stock	--	40,000	--
Conversion of convertible notes and accrued interest into common stock	--	4,116,361	--
Issuance of put warrants for consulting fees	--	58,000	--
Conversion of preferred stock into common stock	--	110,000	6,890,000
Accretion paid in common stock	--	13,619	417,602
Equipment acquired through capital leases	--	--	4,809
Capitalized cost of warrants issued for investment in unconsolidated company	--	--	329,000
Cost of warrants issued to finders on convertible notes	--	--	24,078

See notes to consolidated financial statements which are an integral part of these statements.

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VIRAGEN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2001 AND 2000

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation: Viragen, Inc. and its subsidiaries are engaged in the research, development and manufacture of immunological products for commercial application. The consolidated financial statements include the parent company and all subsidiaries, including those operating outside the United States of America. All significant transactions between our businesses have been eliminated.

Viragen owns a 10% equity interest in Inflammatics, Inc., a biopharmaceutical company currently in the research and development stage. While we have the option to increase our ownership interest up to 80%, the financial accounts of Inflammatics are not consolidated with those of Viragen. We account for our investment under the equity method of accounting. The parties that own the remaining 90% equity in Inflammatics are not currently funding its research and development efforts. Accordingly, while Viragen only owns 10% of Inflammatics, it is recognizing 100% of the losses incurred by the unconsolidated company. Costs related to this transaction include finder's fees and warrants issued. These costs are being amortized in proportion to the losses incurred by Inflammatics as compared to our initial cash contribution to Inflammatics. During the first quarter of fiscal 2001, we completed expensing our investment in Inflammatics.

On September 28, 2001, subsequent to fiscal 2001, Viragen and Viragen (Europe) Ltd. purchased through the issuance of Viragen (Europe) Ltd. stock, 100% of BioNative AB, a privately-held Swedish corporation, engaged in the development, manufacture and distribution of human leukocyte derived interferon.

In preparing the financial statements, management must use some estimates and assumptions that may affect reported amounts and disclosures. Estimates are used when accounting for depreciation, amortization, and asset valuation allowances. We are also subject to risks and uncertainties that may cause actual results to differ from estimated results including changes in the health care environment, competition, foreign exchange and legislation.

Cash and Cash Equivalents: Cash equivalents include demand deposits, certificates of deposit and time deposits with maturity periods of three months or less when purchased.

Marketable Securities, Available-for-Sale: Viragen invests in debt securities, rated A or better, issued by the U.S. Treasury, other U.S. government agencies and corporations. These investments are classified as current assets, in accordance with ARB No. 43, at their fair market value based upon published quotations. Realized gains and losses are computed based on the cost of securities sold using the specific identification method.

Financial Instruments: The carrying amount of financial instruments including cash and cash equivalents, accounts payable, and accrued expenses and other liabilities approximate fair value as of June 30, 2001, due to their short-term nature. The carrying value of long-term debt approximates fair value as of June 30, 2001, based on the current interest rates and repayment terms.

Other Current Assets: Other current assets consisted of the following at June 30, 2001 and 2000:

	JUNE 30,	
	2001	2000

Note receivable	$115,885	$115,885
VAT tax refund receivable	222,965	143,104
Other current assets	81,784	35,787
	$420,634	$294,776

Property, Plant and Equipment: Property, plant and equipment is stated at the lower of cost or net realizable value. Depreciation was computed by using the straight-line method over the estimated useful life for financial reporting purposes and by using accelerated methods for income tax purposes. The estimated useful lives used for financial reporting purposes are:

Building and improvements	15-39 years
Equipment and furniture	5-10 years

Debt Issued with Stock Purchase Warrants: Viragen accounts for debt issued with stock purchase warrants in accordance with APB 14 -- "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants."

Accrued Expenses and Other Liabilities: Accrued expenses and other liabilities consisted of the following at June 30, 2001 and 2000:

	JUNE 30,	
	2001	2000
Accrued salaries	$ 49,951	$ 46,114
Accrued rent expense	129,943	129,249
Accrued accounting fees	20,000	156,867
Accrued legal fees	91,160	3,798
Other accrued expenses	315,557	280,372
	$606,611	$616,400

Sale of Stock by Subsidiaries: Viragen accounts for sales of stock by its subsidiaries as capital transactions for financial reporting purposes.

Foreign Currency Translation: For foreign operations, local currencies are considered their functional currencies. Viragen translates assets and liabilities to their U.S. dollar equivalents at rates in effect at the balance sheet date and records translation adjustments in stockholders' equity. Statement of operations accounts is translated at average rates for the period. Transaction adjustments, which are not material, are recorded in results of operations.

Research and Development Costs: Viragen accounts for research and development costs in accordance with SFAS No. 2 -- "Accounting for Research and Development Costs." Accordingly, all research and development costs are expensed as incurred.

Stock Based Compensation: Viragen accounts for stock-based compensation plans under the provisions of APB No. 25 -- "Accounting for Stock Issued to Employees" and, accordingly, recognizes no compensation expense for stock option grants where the exercise price equals or exceeds fair market value at date of grant. We have provided supplemental disclosures as required by the provisions of SFAS No. 123 -- "Accounting for Stock-Based Compensation."

Income Taxes: Deferred income taxes at the end of each period are determined by applying enacted tax rates applicable to future periods in which the taxes are expected to be paid or recovered to differences between financial accounting and tax basis of assets and liabilities.

Loss Per Common Share: Loss per common share has been computed based on the weighted average number of shares outstanding during each period, in accordance with SFAS No. 128 -- "Earnings per Common Share." The effects of convertible debt and equity securities, warrants, and options totaling 11,202,258 are antidilutive. As a result, diluted loss per share data does not include the assumed conversion of these instruments and has been presented jointly with basic loss per share. Loss attributable to common stock

reflects adjustments for cumulative preferred dividends, as well as embedded dividends arising from discounted conversion terms on convertible preferred stocks and related warrants.

Embedded dividends included in loss attributable to common stock during each fiscal year presented are:

	YEAR ENDED JUNE 30,		
PREFERRED STOCK	2001	2000	1999
Series H	$ --	$ --	$510,731
Series I	--	--	245,884

Comprehensive Loss: SFAS No. 130 -- "Reporting Comprehensive Income" establishes standards for reporting and display of comprehensive income and its components in financial statements. Viragen's comprehensive loss for fiscal years 2001, 2000, and 1999 totaled $11,396,904, $12,588,860 and $10,889,070, respectively.

Recent Pronouncements: In June 2001, the Financial Accounting Standards Board issued SFAS No. 141 -- "Business Combinations" and SFAS No. 142 -- Goodwill and Other Intangible Assets." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations. It also changes the criteria to recognize intangible assets apart from goodwill. SFAS No. 142 changes the method of accounting for goodwill and indefinite lived

intangible assets. The requirements of both SFAS Nos. 141 and 142 are effective for transactions occurring after June 30, 2001.

Management believes that the impact of SFAS 141 and SFAS 142 will not be significant to Viragen.

NOTE B. REDEEMABLE PREFERRED STOCK, SERIES H AND SERIES I

During the third and fourth fiscal quarters of 1998, Viragen closed $7 million in financing replacing a portion of the funds used to redeem previous preferred stock issuances. In February 1998, we received net proceeds of approximately $4,625,000 from the sale of 500 shares of series H convertible preferred stock with an aggregate stated value of $5 million. In April 1998, Viragen received net proceeds of approximately $1,840,000 from the sale of 200 shares of series I convertible preferred stock. We incorporated certain restrictions as part of the series H and series I preferred stock designations which, in the opinion of management, would facilitate a more orderly market relative to the underlying shares of our common stock. The series H and series I preferred stock did not bear dividends although, upon liquidation or conversion, an 8% accretion factor was included in the calculation for purposes of determining the liquidation and conversion amount.

Neither the series H preferred stock nor the series I preferred stock issuances were convertible until August 19, 1998, the six month anniversary of the Series H closing. The conversion price was the lower of (1) $1.59 per share, and (2) the variable conversion price which was equal to 82% of the market price at the date of conversion. Management retained the right to redeem both issuances of preferred stock at various prices upon receipt of a notice of conversion.

In addition, the right of conversion was further limited to a maximum of 15% of the aggregate principal amount of the series H and series I preferred stock issued to each holder for each one month period cumulatively to a maximum of not in excess of 25% for any month in the event the holder has converted less than 15% in any of the preceding months.

Pursuant to the terms of the subscription agreements, the holders of the series H and series I preferred stock also received Nine Month warrants, Twelve Month warrants and Fifteen Month warrants to purchase

shares of common stock of Viragen. The number of warrants and exercise price were to be determined at future dates during fiscal 1999.

During fiscal 1999, Viragen allocated the warrants reserved for the series H and I investors, as follows:

	H INVESTORS	I INVESTORS	TOTAL
Investor warrants reserved at June 30, 1998.....	1,948,052	779,221	2,727,273
Less warrants allocated to investors during fiscal 1999:			
Nine Month warrants (exercise price = $0.80/share)...	352,627	166,273	518,900
Twelve Month warrants (exercise price =			

$0.59/share)	193,221	114,406	307,627
Fifteen Month warrants (exercise price = $0.39/share)	--	56,410	56,410
Investor warrants cancelled during fiscal 1999	1,402,204	442,132	1,844,336

The Nine Month, Twelve Month, and Fifteen Month warrants are exercisable through February 17, 2003. During fiscal 1999, the series H and I investors exercised 189,490 of the Nine Month warrants. They also exercised 88,983 of the Twelve Month warrants during fiscal 1999.

During fiscal 2000, the series H and I investors exercised 216,469 of the Nine Month warrants. They also exercised 147,457 of the Twelve Month warrants during fiscal 2000. All of the Fifteen Month warrants were exercised during fiscal 2000. During fiscal 2001, the series H and I investors did not exercise any of their warrants. At June 30, 2001, there are 112,941 and 71,187 of the Nine Month and Twelve Month warrants outstanding, respectively.

The series H and series I placement agent received a commission of $490,000 for the placement of the series H preferred stock and H warrants and series I preferred stock and I warrants. In addition, the placement agent received placement agent warrants to purchase an aggregate of 402,052 shares of common stock, which were subsequently transferred to affiliates and employees of the placement agent. The placement agent warrants entitle the holders to exercise those warrants at an exercise price of $1.684 per share at any time between the date of their respective issuances and February 19, 2003; provided that if the date of exercise occurs after February 19, 1999, the exercise price of the placement agent warrants will be the lesser of $1.684 per share or the lowest reset price as calculated on each one year anniversary of the date of issuance during the warrant term. During fiscal 2000, these individuals exercised warrants for 109,064 shares of common stock. During fiscal 2001, these individuals did not exercise any of the remaining warrants. The H and I placement agents have 292,988 warrants remaining at June 30, 2001.

NOTE C. CAPITAL STOCK

PREFERRED STOCK, SERIES A

The series A preferred stock provides for a 10% cumulative dividend, payable at the option of Viragen, in either cash or common stock and is convertible into 4.26 shares of common stock. The holders of the series A preferred stock are not entitled to vote unless dividends are in arrears for five annual dividend periods. Management has the right to call the preferred stock for redemption, in whole or in part, if the closing bid for common stock is $6.00 per share or higher for a period of ten consecutive business days, at $11.00 per share for a period of five years from that date, and then at $10.00 per share.

COMMON STOCK

During May 1999, Viragen completed a private placement for the sale of 2,750,000 shares of common stock. The common shares were sold to three accredited investors at $0.50 per share. Viragen received proceeds of $1,375,000 from the sale of these shares. During October 1999, Viragen issued the finder 37,500 shares of common stock for identifying the three investors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

On November 24, 1999, Viragen entered into a common stock and warrants purchase agreement with:

- AMRO International, S.A.,

- Markham Holdings, Limited, and

- Tashdale Ltd.

The agreement was for gross proceeds of $2.5 million. Viragen issued, in three tranches between November 24, 1999 and February 11, 2000, an aggregate 4,600,000 shares of common stock and warrants to purchase 375,000 shares of common stock. The warrants are exercisable at $1.15 per share and expire on November 30, 2002. We entered into this financing under Regulation S of the Securities Act of 1933.

In connection with this transaction, Viragen paid a fee of 7% of the amount invested to AMRO International in consideration of locating the other two investors, as well as other issuance costs. Total costs approximated $247,000. Net proceeds from this transaction totalled $2,253,000.

AMRO International also received warrants to purchase 125,000 shares of common stock. The warrants are exercisable at $1.15 per share through November 30, 2002. During fiscal 2000, the finder exercised 15,000 of these warrants.

In December 1999, Viragen retained the investment banking firm of Ladenburg Thalmann & Co., Inc. to aid us in raising up to $60 million in additional investment capital, on a best efforts basis. On March 21, 2000, the Securities and Exchange Commission declared our shelf registration on Form S-3 (File No. 333-32306) effective. Between April 1 and June 30, 2000, we raised approximately $8,335,000 in additional capital, net of a 7% finders fee and other issuance costs amounting to approximately $590,000, under the shelf registration. We issued an aggregate of 5,590,528 common shares, as a result of this financing activity. We also issued warrants, to the investors and to the finders, to purchase an aggregate 336,448 common shares. These warrants are exercisable at prices ranging between $1.70 and $2.55 per share, through June 2003.

Active Investors Ltd. II, an investment fund managed by Carl N. Singer through Fundamental Management Corporation, has participated as an investor under the shelf registration. Mr. Singer is a director of Viragen and the chairman of its executive committee. Robert C. Salisbury, also a director of Viragen, and member if its audit and finance committee and its compensation committee, is a director and investor in Fundamental Management Corporation. Charles J. Simons, a director of Viragen and the chairman of its audit and finance committee and its compensation committee, is an investor in Active Investors Ltd. II. Active Investors Ltd. II invested $1,000,000 in exchange for 784,300 shares of our common stock, as part of the above financing activity. We did not pay any finders fees on the investment by Active Investors Ltd. II. Also, no warrants were issued in this transaction.

During fiscal 2001, we continued to raise capital using our shelf registration on Form S-3. During the year, we raised approximately $9,515,000 in additional capital, net of finders fee and other issuance costs amounting to approximately $416,000. We issued an aggregate of 7,786,825 common shares and warrants to purchase an additional 426,738 common shares. These warrants are exercisable at prices ranging between $1.32 and $1.97 per share, through June 2004.

On February 14, 2001, our shareholders ratified an amendment to our Certificate of Incorporation increasing the number of authorized shares of our

common stock from 125,000,000 to 150,000,000.

OPTIONS AND WARRANTS

Under Viragen's 1995 stock option plan, 4,000,000 shares of common stock were reserved for issuance to officers, directors, employees and consultants of Viragen for stock options designated as incentive stock options within the meaning of Section 422 of the Internal Revenue Code. Options granted under the 1995 stock option plan have various vest dates and all options granted have five-year terms from the vesting date.

Viragen's 1997 stock option plan, adopted during February 1997, authorized the grant of options to officers, directors, employees and consultants for up to 3,000,000 shares of common stock. In April 1998, the 1997 stock option plan was amended increasing the number of common shares authorized to 4,000,000 shares. Options granted under the plan have various vest dates and all options granted have 5 year terms from the vesting date.

At June 30, 2001, no shares remain available for issuance under the 1995 and the 1997 stock option plans.

STOCK BASED COMPENSATION

Viragen has elected to follow APB No. 25 and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123 requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, Viragen recognized compensation expense in the amount of $1,600, $940,800 and $172,000 in 2001, 2000, and 1999, respectively, because the exercise price of a portion of the company's employee stock options was less than the market price of the underlying stock on the date of grant. During 2001, 2000 and 1999, we recognized approximately $512,000, $1,209,000 and $199,000, respectively, in compensation expense on warrants granted to consultants pursuant to SFAS 123.

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if we had accounted for our employee stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: dividend yield of zero percent for all periods; expected life of the option within a range of 1 to 15 years; risk-free interest rates within a range of 4.00% to 6.40%; and a volatility factor of the expected market price of Viragen's common stock of 1.04, 0.98 and 0.77 for 2001, 2000 and 1999, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because Viragen's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options and warrants.

Based on calculations using a Black-Scholes option valuation model, the

weighted average grant date fair value of options was $0.75, $0.80 and $0.57 in fiscal 2001, 2000 and 1999, respectively. The pro forma impact on Viragen's net loss per share had compensation cost been recorded as determined under the fair value method is shown below.

	2001	2000	1999
Pro forma net loss	$(11,867,275)	$(12,484,278)	$(11,122,679)
Pro forma loss attributable to common stock	(11,869,925)	(12,489,627)	(12,124,601)
Pro forma loss per common share	(0.12)	(0.16)	(0.20)

A summary of Viragen's stock option activity, and related information for the years ended June 30, follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE	WEIGHTED AVERAG EXERCISE PRICE
Outstanding at July 1, 1998	8,213,000	$1.62	7,379,500	$1.54
Granted	94,000	1.00		
Exercised	(1,210,000)	0.54		
Cancelled/Expired	(33,500)	2.21		
Outstanding at June 30, 1999	7,063,500	1.79	6,896,500	1.79
Granted	740,000	1.25		
Exercised	(1,651,100)	0.82		
Cancelled/Expired	(154,000)	1.00		
Outstanding at June 30, 2000	5,998,400	2.02	5,599,199	2.08
Granted	1,737,000	1.31		
Exercised	(540,000)	0.72		
Cancelled/Expired	(140,833)	2.30		
Outstanding at June 30, 2001	7,054,567	$1.94	5,705,266	$1.96

The following table summarizes information about stock options outstanding at June 30, 2001:

	STOCK OPTIONS OUTSTANDING			STOCK OPTIONS EXERCI	
RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED EXERCISE

$0.50.....	1,000,000	2.27	$0.50	1,000,000	$0.5
$0.61 -- $1.00.....	780,400	2.37	0.80	682,933	0.8
$1.16 -- $1.20.....	410,000	5.47	1.20	105,000	1.2
$1.31 -- $2.00.....	1,859,667	4.49	1.48	1,196,167	1.5
$2.06 -- $2.79.....	908,000	1.85	2.43	908,000	2.4
$3.06 -- $3.22.....	1,707,500	0.67	3.22	1,707,500	3.2
$3.69 -- $4.13.....	377,000	1.64	4.01	93,666	3.8
$7.13.....	12,000	1.58	7.13	12,000	7.1
$0.50 -- $7.13.....	7,054,567	2.58	$1.94	5,705,266	$1.9

A summary of Viragen's warrant activity, excluding warrants issued in conjunction with debt and equity offerings, and related information for the years ended June 30, is as follows:

	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE	WARRANTS EXERCISABLE	WEIGHTED AVERAG EXERCISE PRICE
Outstanding at July 1, 1998.....	635,256	$1.06	635,256	$1.06
Granted.....	1,500,000	3.67		
Exercised.....	--	--		
Cancelled/Expired.....	(305,000)	1.26		
Outstanding at June 30, 1999.....	1,830,256	3.12	405,256	1.26
Granted.....	809,500	1.24		
Exercised.....	(441,256)	0.54		
Cancelled/Expired.....	--	--		
Outstanding at June 30, 2000.....	2,198,500	2.94	1,226,280	1.38
Granted.....	1,010,000	1.47		
Exercised.....	(268,280)	0.64		
Cancelled/Expired.....	(629,120)	1.83		
Outstanding at June 30, 2001.....	2,311,100	$2.87	1,236,100	$1.61

The following table summarizes information about stock warrants, excluding warrants issued in conjunction with debt and equity offerings, outstanding at June 30, 2001:

	STOCK WARRANTS EXERCISABLE			STOCK WARRANTS OUTST	
RANGE OF EXERCISE PRICES	NUMBER OF WARRANTS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF WARRANTS	WEIGHTED EXERCISE

$0.50 - $ 0.86.....	96,000	3.19	$ 0.64	96,000	$0.6
$1.00 - $ 1.46.....	1,460,000	4.10	1.32	835,000	1.2
$1.78 - $ 2.75.....	342,600	2.20	1.84	242,600	1.8
$5.50 - $ 7.50.....	62,500	12.12	7.50	62,500	7.5
$9.00 - $11.00.....	350,000	12.12	10.14	--	-
$0.50 - $11.00.....	2,311,100	5.21	$ 2.87	1,236,100	$1.6

The weighted-average fair values of each Viragen warrant granted in fiscal 2001, 2000 and 1999 were $0.96, $0.63 and $1.00 respectively.

Viragen's majority owned subsidiary, Viragen (Europe) Ltd., has also granted stock options to one of its officers. The fair value of Viragen (Europe) options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: dividend yield of zero percent for all periods; risk-free interest rate of 5.69% for 2000; volatility factor of the expected market price of Viragen (Europe)'s common stock of 1.250 for 2000; and an expected life of the options of 3 years. The weighted average fair value of the Viragen (Europe) options granted in fiscal 2000 was $0.68 per share.

A summary of Viragen (Europe)'s stock option and warrant activity, and related information for the years ended June 30, follows:

	NUMBER OF OPTIONS AND WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS AND WARRANTS EXERCISABLE	WEIGHTED AVERA EXERCISE PRIC
Outstanding at July 1, 1998.....	125,000	$6.23	50,000	$7.00
Granted.....	--	--		
Exercised.....	--	--		
Cancelled/Expired.....	--	--		
Outstanding at June 30, 1999.....	125,000	6.23	87,500	6.45
Granted.....	216,500	0.95		
Exercised.....	(1,600)	0.84		
Cancelled/Expired.....	(2,000)	0.84		
Outstanding at June 30, 2000.....	337,900	2.90	246,000	3.68
Granted.....	--	--		
Exercised.....	(600)	0.84		
Cancelled/Expired.....	(30,000)	5.97		
Outstanding at June 30, 2001.....	307,300	$2.61	271,500	$2.84

The following table summarizes information about Viragen (Europe)'s stock options and warrants outstanding at June 30, 2001:

	STOCK OPTIONS AND WARRANTS OUTSTANDING			STOCK OPTIONS WARRANTS EXERC	
RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS AND WARRANTS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS AND WARRANTS	WEIGH EXER
$0.84 - $1.19.....	207,300	4.10	$0.95	171,500	
$5.72 - $7.00.....	100,000	2.20	6.04	100,000	
$0.84 - $7.00.....	307,300	3.45	$2.61	271,500	

Viragen's majority owned subsidiary, Viragen U.S.A., Inc., has also granted stock options to certain officers and employees. A summary of Viragen U.S.A.'s stock option activity, and related information for the years ended June 30 follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE	WEIGHTED AVERA EXERCISE PRIC
Outstanding at July 1, 1998.....	125,000	$0.22	--	$ --
Granted.....	--	--		
Exercised.....	--	--		
Cancelled.....	--	--		
Outstanding at June 30, 1999.....	125,000	0.22	50,000	0.22
Granted.....	--	--		
Exercised.....	--	--		
Cancelled.....	(125,000)	0.22		
Outstanding at June 30, 2000.....	--	--	--	--
Granted.....	--	--		
Exercised.....	--	--		
Cancelled.....	--	--		
Outstanding at June 30, 2001.....	--	$ --	--	$ --

COMMON SHARES RESERVED

Shares of our common stock reserved at June 30, 2001 for possible future issuance are as follows:

Convertible preferred stock, series A.....	11,289
Officers and directors options (exercisable through September 2007).....	6,538,267
Employee option plans (exercisable through February 2007)...	516,300
Consultant warrants (exercisable through August 2013).....	2,311,100
Debt and equity offering warrants (exercisable through October 2004).....	1,825,302
	11,202,258

NOTE D. PUT WARRANTS

During fiscal 2000, Viragen issued to a consultant warrants to purchase 100,000 common shares at $2.75 per share. The consultant could put the underlying shares to Viragen, upon exercise of the warrants. The warrants were exercisable through June 2001.

In accordance with Accounting Series Release 268, the put warrants were classified as temporary capital on the balance sheet. We valued the put warrants at $58,000 using a Black-Scholes valuation model.

During September 2000, we cancelled these put warrants upon terminating the related consulting agreement due to non-performance.

NOTE E. INVESTMENT IN UNCONSOLIDATED COMPANY

In August 1998, Viragen entered into a strategic alliance concurrent with the purchase of a 10% equity interest in Inflammatics, Inc., a private drug development company headquartered in Philadelphia, PA. Inflammatics is focused on the development of therapeutic drugs for autoimmune disorders. Its lead product is LeukoVAX, an immunomodulating leukocyte preparation currently in Food and Drug Administration Phase I/II clinical trials for rheumatoid arthritis.

Under the terms of the Inflammatics agreement, Viragen made an initial investment in the form of series A convertible preferred stock of Inflammatics for $1 million and warrants to purchase 250,000 shares of common stock at prices ranging between $1.00 and $1.78 per share. Viragen further obtained two options to acquire an additional 70% equity position in Inflammatics through two additional fundings to be made at our option. The first additional funding, subject to management's evaluation of the Phase I/II clinical trial results, provides for the issuance of 1,000,000 shares of common stock, the issuance of 300,000 common stock purchase warrants exercisable at $1.00 through August 14, 2003, and the underwriting of Phase III clinical trials, in exchange for an additional 36.3% equity interest. Preliminary estimates for the funding of Phase III clinical trials of LeukoVAX range between $6.0 million and $10.0 million. The second additional funding, subject to management's further evaluation of clinical trial results, provides for the issuance of an additional 2,000,000 shares of common stock in exchange for an additional 33.3% equity interest. During the fourth quarter of fiscal 2000, we received initial Phase I/II data which suggests no statistically significant difference in outcomes between patients who have received LeukoVAX and those who have not. We are still evaluating the results reflected in the Phase I/II data and have not yet reached a decision regarding additional funding, if any. We have announced that we will maintain our 10% equity position and exclusive manufacturing rights.

The investment in Inflammatics was capitalized at $1,429,000, which consisted of the $1,000,000 paid to Inflammatics, a $100,000 finders fee paid to Sumitomo Bank, and $329,000 in costs associated with the warrants issued, which were valued using a Black-Scholes valuation model.

Viragen recognized approximately $19,000, $653,000 and $757,000 in losses related to its investment in Inflammatics, Inc. during the fiscal years ended June 30, 2001, 2000 and 1999, respectively. These losses reflect 100% of the losses incurred by Inflammatics associated with the clinical testing of LeukoVAX. The losses also include the amortization of the capitalized finders fee and warrant costs. These costs were being amortized in proportion to the losses incurred by Inflammatics as compared to our initial cash capital contribution to Inflammatics. During the first quarter of fiscal 2001, we completed expensing our investment in Inflammatics.

NOTE F. CONVERTIBLE PROMISSORY NOTES WITH DETACHABLE WARRANTS

On March 17, 1999, we entered into a purchase agreement with the Isosceles Fund Limited and Cefeo Investments Limited, which was subsequently amended on June 16, 1999. Under the purchase agreement, we issued Isosceles and Cefeo 8% convertible promissory notes in the aggregate principal amount of $2,000,000 with detachable warrants to purchase 932,039 shares of our commons stock. Viragen received $1,861,820 from the issuance of the convertible notes and detachable warrants. The proceeds were net of $138,180 paid as finders' fees. As required by APB No. 14 -- "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants," we recorded the value of the detachable warrants as a discount on principal. We valued the warrants at $344,854 using a Black-Scholes valuation model.

One-half of the principal balance, which accrued interest at a rate of 8% annually, and accrued interest on the related principal converted automatically into 2,049,533 shares of our common stock on July 7, 1999. In addition, the remaining one-half of the principal balance and accrued interest on the notes converted automatically into 2,062,685 shares of our common stock on August 6, 1999. The conversion price was $0.50 per common share.

In addition to the shares issued on conversion of the notes, the note holders were entitled to receive additional shares of our common stock 30 days after each one-half of the notes converted into shares of our common stock, as required by a re-set provision. The purpose of this arrangement was to make sure that the note holders had a return of at least 20% on the shares received on the conversion of the first half of the notes and at least a 22% return on the conversion on the remaining half of the notes. The number of additional shares to which the note holders were entitled was calculated by dividing $0.644 by the lowest closing bid price of our common stock during the ten consecutive trading days preceding each re-set date.

On August 6, 1999, Isosceles and Cefeo received an aggregate amount of 546,990 additional common shares, based on the first re-set calculation. These shares were issued using a future price of $0.61 per share. On September 5, 1999, Isosceles and Cefeo received an aggregate amount of 551,203 additional common shares, based on the second re-set calculation. These shares were issued using a future price of $0.62 per share. Viragen recognized approximately $700,000 in interest expense, as a result of issuing these additional shares.

The warrants issued to Isosceles and Cefeo to purchase an aggregate of 932,039 shares of our common stock were exercisable until March 17, 2004 with an exercise price of $.50 per share. Isosceles and Cefeo exercised all of their warrants during fiscal 2000.

We also issued warrants to purchase an aggregate of up to 155,339 shares of our common stock at $.773 per share to certain parties in consideration for introducing Viragen to Isosceles and Cefeo. The warrants issued were exercisable currently until March 17, 2004. As we did not pre-pay the notes issued to Isosceles and Cefeo before July 7, 1999, one-half of these warrants were returned to Viragen. The remaining 77,670 warrants were exercised during fiscal 2000.

Events of default, on our obligations to Isosceles and Cefeo, included: default under the promissory notes, failure to maintain effectiveness of our registration under the Securities Act of 1933, delisting our stock from NASDAQ (which occurred), and failure to have our registration statement become effective by July 7, 1999 (which occurred).

Because the related registration statement (File No. 333-75749) was not effective by July 7, 1999, we began incurring $40,000 in penalties per month, until the registration statement became effective on February 11, 2000. We incurred $332,000 in penalties in that time. The penalties were paid during March 2000.

On February 18, 2000, we entered into a subscription agreement with Active Investors Ltd. II, an investment fund managed by Carl N. Singer through Fundamental Management Corporation. Mr. Singer is a director of Viragen and the chairman of its executive committee. Under the terms of the subscription agreement, we issued to Active Investors Ltd. II a convertible promissory note for the principal amount of $1,000,000. The promissory note had an interest rate of 9.5% per annum. The principal and accrued interest were payable on February 17, 2001. Robert C. Salisbury, also a director of Viragen and member of its audit and finance committee and its compensation committee, is a director and investor in Fundamental Management Corporation. Charles J. Simons, a director of Viragen and the chairman of its audit and finance committee and its compensation committee, is an investor in Active Investors Ltd. II. Under the subscription agreement, Active Investors Ltd. II also received warrants to purchase 100,000 common shares. The warrants are exercisable at $2.00 per share through February 17, 2003. We valued the warrants at $56,000 using a Black-Scholes valuation model. The value of the warrants was recorded as a discount on the principal amount of the convertible promissory note, as required by APB No. 14.

Active Investors Ltd. II could elect to convert the unpaid principal and interest, at any time, into common shares. Viragen recognized $220,000 in additional interest expense, due to a beneficial conversion rate on the promissory note. The conversion rate was discounted 18% from the current market price of our common stock. Active Investors Ltd. II elected to convert the entire principal balance and accrued interest of $35,400 into 1,015,716 common shares, on June 30, 2000.

On March 1, 2000, Viragen entered into a loan and escrow agreement with AMRO International, S.A. Under the terms of this agreement, we issued to AMRO International a convertible promissory note for the principal amount of $1,000,000. The promissory note had an interest rate of 8% per annum. The principal and accrued interest were payable on March 1, 2001. Viragen paid $70,000 for placement fees and expenses on the transaction. Under the subscription agreement, AMRO International also received warrants to purchase 100,000 common shares. The warrants are exercisable at $1.72 per share through March 1, 2004. We valued

the warrants at $96,000 using a Black-Scholes valuation model. The value of the warrants was recorded as a discount on the principal amount of the loan, as required by APB No. 14.

AMRO International could elect to convert the unpaid principal and interest, at any time, into common shares at the fixed rate of $1.00 per share. Viragen recognized another $220,000 in additional interest expense, due to a beneficial conversion rate on the promissory note. The conversion rate was discounted 18% from the current market price of our common stock. On June 20, 2000, AMRO International elected to convert the entire principal balance and accrued interest of $24,900 into 1,024,899 common shares.

NOTE G. SHORT-TERM BORROWINGS

On August 10, 1999, Viragen mortgaged its Florida-based research facility for $600,000. We were required to pay interest on the promissory note in eleven monthly installments, which began on September 10, 1999. Interest was calculated at the rate of 1% over the prime rate per annum, as quoted by the Wall Street Journal, and the rate was adjusted on a daily basis. The principal balance of $600,000 plus any unpaid interest were due on July 10, 2000. On June 16, 2000, we refinanced this note to be paid over five years. On August 15, 2000 this note was paid in full.

On November 3, 1999, Viragen secured a $400,000 short-term loan by pledging its domestic scientific equipment and a second mortgage on our Florida based research facility as collateral. We paid interest on the promissory note in 6 monthly installments, beginning on December 3, 1999. Interest was calculated at the rate of 12% per annum. The principal balance of $400,000 plus any unpaid interest was due on May 3, 2000. The lender also received 25,000 detachable warrants exercisable at $0.95 per share through October 31, 2004. We valued the warrants at $14,250 using a Black-Scholes valuation model. The value of the warrants was recorded as a discount on the principal amount of the promissory note, as required by APB No. 14. The note and accrued interest were paid in full on April 21, 2000.

On May 15, 2000, Viragen was approved for a $500,000 unsecured line of credit. Interest was payable monthly at the prime rate, as quoted by The Wall Street Journal. The interest rate was adjustable daily. The outstanding principal plus unpaid interest is payable on May 15, 2001. The unsecured line of credit was renewed, under the same terms, through May 15, 2002. Viragen has never borrowed any funds using the unsecured line of credit.

NOTE H. LONG-TERM DEBT

Long-term debt at June 30, 2001 and 2000 is as follows:

	JUNE 30,	
	2001	2000
Mortgage note payable secured by Florida-based research facility. Payable in monthly installments of $2,500 plus accrued interest. The remaining principal and accrued interest are payable on June 16, 2005. Interest rate is		

based on prime rate +1% and is to be adjusted on a daily basis. Mortgage note payable was paid in full on August 15, 2000	$ --	$600,000
Notes payable resulting from purchase of insurance. Notes range in term up to 36 months, with interest rates ranging from 7.00% to 10.75%	27,677	105,723
Note payable resulting from purchase of company assets. Payable monthly over 36 months, with an effective interest rate of 8.40%. Note matures on May 17, 2004	37,301	--

	JUNE 30,	
	2001	2000
Unsecured loan from Scotland Regional Development Authority. Payable quarterly over 20 years, with an effective interest rate of 11.00%. Note matures on August 28, 2017. Note was paid in full on September 1, 2000	--	9,494
Capital lease obligations resulting from acquisition of equipment, with a cost totaling $217,939 capitalized from three to five years	--	8,289
	64,978	723,506
Less current portion	(39,490)	(123,400)
	$ 25,488	$600,106

Scheduled maturities of long-term debt at June 30, 2001 are: 2002 -- $39,490; 2003 -- $12,806; and 2004 -- $12,682.

NOTE I. INCOME TAXES

Viragen, Inc. and its majority-owned subsidiaries, as defined by the Internal Revenue Code, file consolidated federal and state income tax returns, except for Viragen (Europe) Ltd.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of Viragen's deferred tax liabilities and assets as of June 30, 2001 and 2000 are as follows:

	JUNE 30,	
	2001	2000
Deferred tax liabilities		

Tax over book depreciation	$ --	$ 57,000
Prepaid expenses and other	--	174,000
Total deferred tax liabilities	--	231,000
Deferred tax assets		
Net operating loss carryforwards	14,494,000	13,405,000
Research and development credit	756,000	645,000
Book over tax depreciation	25,000	--
Deferred compensation	1,205,000	1,069,000
Other	65,000	204,000
Total deferred tax assets	16,545,000	15,323,000
Valuation allowance for deferred tax assets	(16,545,000)	(15,092,000)
	--	231,000
Net deferred taxes	$ --	$ --

The change in the valuation allowance was a net increase of $1,453,000, $2,333,000 and $2,296,000 for the years ended June 30, 2001, 2000 and 1999, respectively.

Viragen has undergone two ownership changes, as defined by Internal Revenue Code Section 382, which will cause the utilization of the net operating losses and tax credits to be limited. The effects of these limitations have not been calculated at this time.

Viragen has net operating loss and tax credit carryforwards, with expiration dates, as follows:

NET OPERATING LOSSES	TAX CREDITS	EXPIRATION
291,$000.....	$127,000	2002
4,374,000.....	5,000	2003 -- 2005
2,539,000.....	--	2006 -- 2008
31,312,000.....	624,000	2009 -- 2021
38,5$16,000.....	$756,000	

For financial reporting purposes, a valuation allowance has been recognized to offset the deferred tax assets related to these carryforwards.

The reconciliation of income tax computed at the U.S. federal statutory rate applied to Viragen's net loss is as follows:

YEAR ENDED JUNE 30,

	2001	2000	1999
Tax at U.S. statutory rate	(34.00)%	(34.00)%	(34.00)%
State taxes, net of federal benefit	(3.63)	(3.63)	(3.63)
Non-deductible items	1.43	1.08	0.18
Change in valuation allowance	38.30	34.45	34.21
Other	(2.10)	2.10	3.24
	--%	--%	--%

Viragen (Europe) Ltd. was included in Viragen's consolidated federal and state income tax returns for the period December 8, 1995 through March 15, 1996, when Viragen, Inc.'s percentage ownership of Viragen (Europe) Ltd. exceeded 80%. Even though Viragen's ownership percentage of Viragen (Europe) exceeds 80% again as of December 31, 1998, Viragen (Europe) will continue filing separate income tax returns. Viragen (Scotland) Ltd., a wholly-owned subsidiary of Viragen (Europe), files separate income tax returns in the United Kingdom. Viragen (Germany) GmbH, also a wholly-owned subsidiary of Viragen (Europe), files separate income tax returns in Germany.

Deferred tax assets of Viragen (Europe)'s U.S. operations at June 30, 2001 and 2000 are as follows:

	JUNE 30,	
	2001	2000
Total deferred tax assets	$ 1,168,000	$ 1,077,000
Valuation allowance for deferred tax assets	(1,168,000)	(1,077,000)
	$ --	$ --

At June 30, 2001, Viragen (Europe) has net operating loss carryforwards totaling approximately $3,100,000, expiring between 2003 and 2021. Viragen (Scotland) has approximately $21,100,000 in net operating losses available to carry-forward at June 30, 2001.

For financial reporting purposes, net loss before income taxes includes the following components:

	YEAR ENDED JUNE 30,		
	2001	2000	1999
U.S.	$ (3,335,009)	$ (6,160,927)	$ (6,048,656)
Foreign	(7,672,800)	(6,149,968)	(4,602,176)
	$(11,007,809)	$(12,310,895)	$(10,650,832)

NOTE J. TRANSACTIONS WITH RELATED PARTIES

On July 31, 1998, we held our 1997 annual shareholders meeting. Certain directors did not seek re-election to serve as directors of the company. In appreciation of their past service, Viragen waived the requirement to exercise outstanding stock options within 90 days of their last day as directors. All outstanding stock options will expire under their normal terms. We recognized approximately $199,000 in compensation expense upon waiving the 90-day expiration clause.

During fiscal 1999, certain directors and a former officer exercised 1,160,000 options to purchase common stock at prices ranging between $0.30 and $1.19 per share. The options were exercised through the issuance of promissory notes payable to Viragen with related pledge and escrow agreements. The promissory notes bear interest at rates ranging between 5.06% and 5.47%, payable semi-annually and are secured by the underlying common stock purchased. The shares are being held in escrow pending payment of the related notes pursuant to the provisions of the pledge and escrow agreements. During fiscal 2000, Viragen collected $339,000 in related principal payments. Viragen released 650,000 shares from escrow upon receipt of the payments.

During January 2000, we contracted Cameron Associates, Inc. to act as an investor relations consultant. Cameron Associates receives $6,000 per month through February 2000, subsequently reduced to $3,000 per month as compensation for their services. This Agreement was terminated in June 2000. They also received warrants to purchase 100,000 common shares of Viragen at $1.17 per share through January 2005. Carl N. Singer, a director of Viragen, serves as a director on Cameron Associates' board of directors. He is also a minority stockholder of Cameron Associates.

On February 7, 2000, the board of directors voted to modify the terms of an option to purchase 1.4 million shares of common stock, which had been granted to Gerald Smith, Viragen's president, during October 1995. The board of directors extended the expiration of this common stock option by three years. Under the modified terms, the common stock option will now expire on October 5, 2003. No other terms were changed. Under the provisions of APB No. 25, we recognized compensation expense of approximately $941,000 relating to this modification.

During fiscal 2000, Active Investors II invested a total of $2,000,000 in Viragen, in two separate transactions, receiving 1,800,016 shares of common stock. The Active Investors II fund is managed through Fundamental Management Corporation, a Florida-based institutional fund. Mr. Carl N. Singer, a director of Viragen and chairman of its executive committee, serves as the chairman of Fundamental Management Corporation. Mr. Robert C. Salisbury, a director of Viragen, also serves as a director and investor in Fundamental Management Corporation. Mr. Charles J. Simons, a director of Viragen, is an investor in the Active Investors II fund.

During fiscal 2000, certain directors and an officer exercised 525,000 options to purchase common stock at prices ranging between $0.50 and $0.63 per share. The options were exercised through the issuance of promissory notes payable to Viragen with related pledge and escrow agreements. The promissory notes bear interest at rates ranging between 6.46% and 6.69%, payable semi-annually and are secured by the underlying common stock purchased. The shares are being held in escrow pending payment of the related notes, pursuant to the provisions of the pledge and escrow agreements. During fiscal 2000,

Viragen collected $262,500 in related principal payments. Viragen released 500,000 shares from escrow upon receipt of the payments.

During fiscal 2001, two directors exercised 200,000 options to purchase common stock at $0.50 per share. The options were exercised through the issuance of promissory notes payable to Viragen with related pledge and escrow agreements. The promissory notes bear interest at 6.00%, payable semi-annually and are served by the underlying common stock purchased. The shares are being held in escrow pending payment of the related notes, pursuant to the provisions of the pledge and escrow agreements.

During March 2001, two directors entered into consulting agreements with Viragen. Each is to provide consulting services to Viragen for a two year period ending March 31, 2003. These consulting services are in addition to their service on the board of directors. As compensation, each was granted options to purchase 200,000 common shares at $1.20 per share. These options vest 50,000 shares at the date of grant and 50,000 shares every six months through September 2002. The options are exercisable over five years from the vest dates. Because the options were granted for non-director services, compensation expense, on these option grants, is calculated pursuant to the provision of SFAS 123. During fiscal 2001, we recognized an aggregate $194,812, in compensation expense related to these options.

During May 2001, another director entered into a consulting agreement with Viragen. He is to provide consulting services to Viragen for a three year period ending May 31, 2004. These consulting services are in addition to his service on the board of directors. As compensation, he will be granted warrants to purchase up to 110,000 common shares. The warrants will be granted in tranches upon performance of specific criteria. The warrants will vest one-half on the first anniversary of the date of grant and one-half on the second anniversary of the date of grant. The warrants will be exercisable for five years from the vest dates, at 115% of the fair market value of Viragen's common stock on the dates of grant. Compensation expense on these grants will also be calculated pursuant to the provisions of SFAS 123.

NOTE K. COST REDUCTION PLAN

During fiscal 1999, Viragen began implementing a cost-reduction plan targeted to reduce domestic research costs. These changes in operations reflected our shift from developing our product in our domestic laboratories to scale-up development and clinical research in our European facility. We closed our Florida-based research facility during November 1999, and consolidated these operations in our Scottish facility.

EITF 94-3 -- "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity" requires restructuring costs to be accrued under specific guidelines. SFAS No. 121 -- "Accounting for the Impairment of Long-Lived Assets" requires impairment losses to be recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less then the assets' carrying amount.

Viragen recognized no exit costs, because the criteria for recognizing exit costs, as specified in EITF 94-3, were not met. Personnel reductions came from the elimination of positions where employment agreements had expired. Accordingly, these individuals did not receive severance pay.

Upon termination of research activities in our domestic facility, equipment considered to be useful to our Scottish operations was transferred to our Scottish facility, where it is being used in continuing research activity, as well as manufacturing and quality assurance operations.

At June 30, 2000, Viragen recognized a loss totaling $101,859 due to impairment of some of our long-lived plant equipment and furniture held for sale. This loss was included in general and administrative expenses in the statements of operations. These items had been used in the Florida-based research facility. The plant equipment and furniture were sold for the highest bid, during August 2000. We recognized an additional loss of approximately $75,000, upon the disposal of these items.

In August 2000, Viragen also completed the sale of its Florida-based research facility. The land, building and related improvements were sold for $699,000, net of $61,000 in settlement costs. A gain on the sale of the facility, totaling $279,000, was recognized during the first quarter of fiscal 2001. The related mortgage note was paid in full at the time of the sale.

NOTE L. LICENSE AND MANUFACTURING AGREEMENTS

Through a fifteen-year license agreement granted by Viragen, Viragen (Europe) Ltd. and its wholly-owned subsidiary, Viragen (Scotland) Ltd., secured certain rights to engage in the research, development, and manufacture of certain proprietary products and technologies that relate to the therapeutic application of human leukocyte-derived interferon for various diseases that affect the human immune system.

Under the terms of our license, Viragen (Scotland) was to prepay $2 million to Viragen, within six months of the July 12, 1995 effective date. Beginning one year from the effective date, Viragen (Scotland), was to pay to Viragen fees, as follows: the greater of $2 million annually or 10% of gross revenues until the sum of $18 million has been paid; 8% of gross revenues until the sum of $25 million has been paid; and 5% of gross revenues going forward. The license will renew automatically for two consecutive fifteen-year terms.

Both parties modified the license deferring the initial payment until the date when Viragen transferred the processes and technology, as defined by the license, to Viragen (Scotland). Viragen had substantially transferred the processes and technology to Viragen (Scotland) by the end of May 1997. At that time, Viragen required the initial royalty payment be made. Completion of the transfer occurred on November 1, 1997.

In April 1998, Viragen entered into an option agreement with Southern Health SDN.DHD, a private Malaysian/Australian-based healthcare investment group. The option agreement initially provided Southern Health the right to acquire, through September 30, 1998, subsequently extended to March 31, 1999, an exclusive, private-label manufacturing and distribution license covering Malaysia, Indonesia, the Philippines, Thailand, Taiwan, Korea, Singapore, Australia and New Zealand, for our proprietary natural interferon production process in exchange for an initial cash licensing fee of $20 million and a continuing royalty of 12% of Southern Health's related revenues. Southern Health paid a $200,000 option fee.

On March 31, 1999, the option agreement expired, without being exercised.

We recognized one-half of the fee, or $100,000, as revenue, and the balance was refunded to Southern Health during April 1999.

NOTE M. RESEARCH AND DEVELOPMENT AGREEMENTS

Viragen has a contract with Viragen Research Associated Limited Partnership, for Viragen to perform the research and development with respect to two therapeutic products for the topical treatment of herpes virus infections. Pursuant to the contract, we assigned all of our patent rights to the processes and topical products to Viragen Research Associated in exchange for an exclusive worldwide licensing agreement. Viragen Research Associated is to receive 5% of the gross revenues of topical products until it has received approximately $900,000 and, thereafter, it is to receive 2% of the gross revenues of topical products.

NOTE N. ROYALTY AGREEMENT

Viragen has a royalty agreement with Medicore, Inc. that will pay Medicore a maximum of $2,400,000 in royalties. Royalties are to be paid as follows: 5% on the first $7 million of sales of interferon and related products; 4% of the next $10 million of sales; and 3% on the next $55 million of sales up to the maximum of $2,400,000 in royalty payments. Royalties incurred in prior years under the agreement, totaling approximately $108,000, are included in royalties payable. This amount will be paid as the final payment under the royalty agreement.

NOTE O. COMMITMENTS

In November 1996, Viragen (Scotland) Ltd. executed a five-year lease on property located in Edinburgh, Scotland that will serve as our laboratory and production facilities. Base monthly rental on the property is approximately $10,400. In addition, Viragen (Scotland) may extend the term of the lease at its option, for four

five-year periods. We will be exercising our first option to extend in October 2001. This will extend our lease through October 2006.

In November 1996, Viragen entered into a ten-year lease on property in Plantation, Florida. This facility contains our executive and administrative offices. Monthly rental on the property is approximately $15,700. The lease contains provisions for two additional five-year periods at the Company's option.

During the years ended June 30, 2001, 2000 and 1999, Viragen recognized rent expense and related charges of $318,000, $274,000 and $298,000, respectively for its Plantation, Florida property lease and $296,000, $208,000 and $195,000 respectively, attributable to its Edinburgh, Scotland facility. Future minimum lease payments on the two facilities are: 2002 -- $225,219; 2003 -- $200,913; 2004 -- $207,945; 2005 -- $215,223; and 2006 and thereafter $394,171.

Upon extension of the Viragen (Scotland) lease, future minimum lease payments on the facility will be at least $125,000 per year, through October 2006. This rate may increase based on local markets at the time of renewal.

Viragen has entered into employment agreements with its officers and key employees. These agreements represent a commitment to pay an aggregate amount of

approximately $922,000, per year in salaries to these individuals.

NOTE P. CONTINGENCIES

In October 1997, Viragen, the company's president and Cytoferon Corp., a former affiliate of the president, were named as defendants in a civil action brought in the United States District Court for the Southern District of Florida (Walter L. Smith v Cytoferon Corp. et al; Case No: 97-3187-CIV-MARCUS). The plaintiff is a former Viragen stockholder and investor in Cytoferon Corp. The suit alleged the defendants violated federal and state securities laws, federal and state RICO statutes, fraud, conspiracy, breach of fiduciary duties and breach of contract. The plaintiff was seeking an unspecified monetary judgement and the delivery of 441,368 shares of common stock. Viragen filed a motion to dismiss denying the allegations and requesting reimbursement of its costs.

In August 2000, counsel for plaintiff indicated that they intended to withdraw as counsel.

In January 2001, the Circuit Court ruled in favor of Viragen on all counts related to the Circuit Court Case (No.: 97-25587 CA30). No further claims against Viragen are pending in this matter.

Viragen has submitted to the Circuit Court a request for reimbursement of related litigation costs.

While Viragen has prevailed as a defendant in this suit, Mr. Gerald Smith, Viragen's president, and Cytoferon Corp. continue to be named as defendants. We have agreed to indemnify Mr. Smith for any losses that he may incur personally, as a result of this suit. Mr. Smith denies the allegations of the complaint and intends to continue to vigorously defend the claims. Motions seeing summary judgment have been filed on behalf of Mr. Smith and Cytoferon and will be heard by the Court in the near future.

We cannot determine at this point, the ultimate liability, if any, resulting from this litigation. No accrual for loss has been recorded.

In January 2001, Viragen and its co-plaintiffs, the Roslin Institute and Dr. Helen Sang, filed suit against AviGenics, Inc. in the Superior Court of California for San Mateo County (Case No.: 415458). The lawsuit was brought in response to allegations by AviGenics that a restrictive covenant contained in a consulting agreement that Dr. Helen Sang, who works at the Roslin Institute, had entered into with AviGenics precluded her and Roslin from doing business with Viragen. In its lawsuit, Viragen sought a judicial declaration that (i) Dr. Sang's restrictive covenant was void and unenforceable, (ii) Viragen, Roslin and Dr. Sang had the right to do business together, and (iii) no trade secret information belonging to AviGenics was implicated by

Viragen's business relationship with the Roslin Institute and Dr. Sang. The lawsuit also sought damages against AviGenics for tortuously interfering in Viragen's business relationship with the Roslin Institute and Dr. Sang. The lawsuit also sought damages against AviGenics for tortuously interfering in Viragen's relationships with its co-plaintiffs, and for attempting to enforce an invalid restrictive covenant in violation of Cal. Bus. & Prof. Code sec. 17200.

By order dated March 30, 2001 that lawsuit was dismissed on forum non convenience grounds. The order of dismissal is the subject of a pending appeal

to the Court of Appeal of the State of California, First Appellate District, Division Three (Case No.: A094759).

In March 2001, AviGenics, Inc. filed suit against Viragen and its co-defendants, Roslin Institute and Dr. Helen Sang in the Superior Court of Athens-Clarke County, Georgia (Case No.: SU-01-CV-0468-S). In its amended complaint, AviGenics alleges that Viragen and its co-defendants breached contractual duties of confidentiality, conspired to and did misappropriate AviGenics' relationships with Dr. Sang and Roslin.

Viragen's motion to dismiss AviGenics' lawsuit in its entirety for lack of jurisdiction over Viragen in the State of Georgia is pending before the court. Viragen believes AviGenics' lawsuit to be entirely without substantive merit, and Viragen possesses valid and significant legal defenses to AviGenics' claims. Viragen is vigorously defending against AviGenics' claims, and, while the eventual outcome cannot be assured, anticipates that those claims either will be dismissed for lack of jurisdiction over Viragen or else will ultimately be resolved in Viragen's favor. No accrual for loss has been recorded in this matter.

NOTE Q. GEOGRAPHIC INFORMATION

Identifiable assets in Scotland totaled approximately $4,435,000 and $9,192,000 at June 30, 2001 and 2000, respectively. Identifiable assets represent those assets used in the operations of the geographic area.

NOTE R. SUBSEQUENT EVENTS

On September 28, 2001, Viragen and Viragen (Europe) entered into an agreement to acquire 100% of BioNative AB, a privately-held Swedish company. The agreement provides for the initial purchase of all of BioNative's ownership shares in exchange for approximately 3 million Viragen (Europe) shares. Up to an additional 20.5 million Viragen (Europe) shares may also be issued upon BioNative meeting certain performance milestones following the closing of the transaction.

BioNative's facilities are located in Umea, Sweden where they manufacture their human leukocyte interferon (alpha) product, Alfanative(R). Alfanative is approved in Sweden for the treatment of patients with hairy cell leukemia or chronic myelogenous leukemia, who did not respond to treatment with recombinant (synthetic) interferon. The product is also approved for sale in:

- the Czech Republic,
- Indonesia,
- Hong Kong,
- Burma,
- Thailand, and
- as purified bulk in Egypt.

BioNative is also conducting European Phase III clinical trials with Alfanative in the treatment of malignant melanoma.

QUARTERLY FINANCIAL DATA (UNAUDITED)

NOTE S. UNAUDITED QUARTERLY FINANCIAL INFORMATION

The following summarizes certain quarterly operating data:

	SEPTEMBER 30	DECEMBER 31	MARCH 31	JUNE 3
FISCAL 2000				
Revenues	$ 19,948	$ 15,276	$ 27,077	$ 108,
Net loss	(2,862,529)	(2,509,570)	(3,653,227)	(3,285,
Loss per share basic and diluted	(0.04)	(0.03)	(0.05)	(0
FISCAL 2001				
Revenues	$ 322,973	$ 143,926	$ 137,104	$ 113,
Net loss	(1,672,816)	(3,033,652)	(2,700,564)	(3,600,
Loss per share basic and diluted	(0.02)	(0.03)	(0.03)	(0