

VIRAGEN INC  
Form PRE 14A  
January 09, 2004

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**SCHEDULE 14A  
(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- |                                                                                          |                                                                                                            |
|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> x Preliminary Proxy Statement                        | <input type="checkbox"/> o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input type="checkbox"/> o Definitive Proxy Statement                                    |                                                                                                            |
| <input type="checkbox"/> o Definitive Additional Materials                               |                                                                                                            |
| <input type="checkbox"/> o Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12 |                                                                                                            |

Viragen, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(4) Date Filed:

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**VIRAGEN**  
865 S.W. 78<sup>th</sup> Avenue, Suite 100  
Plantation, Florida 33324

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**To be held on February 11, 2004**

To the Stockholders of Viragen, Inc.

PLEASE TAKE NOTICE that Viragen, Inc., a Delaware corporation, will hold its 2003 annual meeting of stockholders at the Renaissance Plantation Hotel located at 1230 Pine Island Road, Plantation, Florida, on Wednesday, February 11, 2004 at 3:00 P.M., local time, or at any and all adjournments for the following purposes:

1. To elect four directors to the board of directors, one who will be classified as a class B director and three who will be classified as class C directors, to serve for the term of their designated class and until their successors have been elected and qualified;
2. To authorize the possible issuance of more than 19.9% of our common stock in a June 2003 financing transaction in which Viragen received gross proceeds of \$5,554,122 through the sale of its convertible debentures and common stock purchase warrants to five institutional investors;
3. To authorize the issuance of more than 19.9% of our common stock in a September 2003 financing transaction in which Viragen received gross proceeds of \$4,775,000 through the sale of its common stock and common stock purchase warrants to eight institutional investors;
4. To authorize the issuance of more than 19.9% of our common stock in a December 2003 financing transaction in which Viragen received gross proceeds of \$4,550,000 through the sale of its common stock and common stock purchase warrants to six institutional investors;
5. To ratify the appointment of Ernst & Young LLP, as our independent auditors; and
6. To transact other business that may properly come before the meeting or any adjournment.

A copy of our proxy statement, which is being first mailed to stockholders on or about January 19, 2004, is attached.

The board of directors has fixed the close of business on December 31, 2003, as the record date for the determination of stockholders entitled to notice of, and to vote at, the meeting. Viragen's financial statements for the fiscal year ended June 30, 2003 are contained in the accompanying annual report on Form 10-K. Viragen's financial statements for the quarterly period ended September 30, 2003 are contained in the accompanying quarterly report on Form 10-Q. Neither the annual report nor the quarterly report form any part of the material for the solicitation of proxies. If you do not expect to be present at the meeting, you are urged to complete, date, sign and return the enclosed proxy. No postage is required if the enclosed envelope is used and mailed in the United States. You may also vote electronically via the internet or by telephone.

By Order of the Board of Directors,

/s/ Dennis W. Healey

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Dennis W. Healey, Secretary

Plantation, Florida  
January 8, 2004

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**This is an important meeting, and you are cordially invited to attend the meeting in person. If you are unable to attend in person, please execute and return the enclosed proxy card, or vote electronically via the internet or by telephone at your earliest convenience. Promptness in returning the executed proxy card will be appreciated. If you vote by proxy, you may nevertheless attend the meeting, revoke your proxy and vote your shares in person.**

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**VIRAGEN**

865 S.W. 78<sup>th</sup> Avenue, Suite 100  
Plantation, Florida 33324

**PROXY STATEMENT  
FOR  
ANNUAL MEETING OF STOCKHOLDERS**

This proxy statement is being furnished to you by the board of directors of Viragen, Inc., a Delaware corporation, in connection with a solicitation of proxies for use at our 2003 annual meeting of stockholders. We will hold our annual meeting at the Renaissance Plantation Hotel located at 1230 Pine Island Road, Plantation, Florida, on Wednesday, February 11, 2004 at 3:00 P.M., local time, or at any and all adjournments. Viragen will bear the cost of this solicitation. Viragen's annual report on Form 10-K for the fiscal year ended June 30, 2003 and our quarterly report for the quarterly period ended September 30, 2003 are being mailed together with this proxy statement and form of proxy. The date of mailing of this proxy statement and form of proxy is approximately January 19, 2004.

**OUTSTANDING STOCK AND VOTING RIGHTS**

The board of directors has fixed the close of business on December 31, 2003 as the record date for determining the stockholders entitled to notice of, and to vote at, the annual meeting. Only stockholders of record on that date will be entitled to vote. If you submit your proxy on the accompanying form, you have the power to revoke it by notice of revocation directed to the proxy holder at any time before it is voted. Unless you withhold authority in writing, proxies, which are properly executed, will be voted for the proposals. Although you may have given your proxy, you may nevertheless attend the meeting, revoke your proxy and vote in person. The election of the directors nominated requires the affirmative vote of a plurality of the shares of Viragen's common stock voting at the annual meeting in person or by proxy.

As of December 31, 2003, the record date for determining our stockholders entitled to notice of, and to vote at, the annual meeting, 358,566,420 shares of our common stock, \$.01 par value, were outstanding. Each share of common stock outstanding entitles the holder to one vote on all matters brought before the annual meeting. The quorum necessary to conduct business at the annual meeting consists of a majority of the shares of common stock outstanding (179,283,211 shares) as of the record date. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum at the annual meeting.

Directors are elected by a plurality of votes cast. The adoption of each of Proposals Two, Three, Four and Five requires the affirmative vote of a majority of the shares of our common stock voting at the annual meeting in person or by proxy. Broker non-votes have no effect on the election of directors or on the adoption of Proposals Two, Three, Four or Five. Abstentions have no effect on the election of directors but have the effect of a vote against Proposals Two, Three, Four and Five.

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**Table of Contents****DIRECTORS AND EXECUTIVE OFFICERS**

On February 28, 1997, we amended our certificate of incorporation and set up a classified board of directors commencing 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 and their second term expired after the 2001 annual meeting; the term of the class B directors initially expired after the 1999 annual meeting and their second term expired after the 2002 annual meeting; and the term of the class C directors initially expired after the 2000 annual meeting.

At each annual meeting of stockholders, directors of 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. At the 2003 annual meeting, stockholders will be asked to elect one class B director and three class C directors, to hold office until their successors are elected at the 2006 annual meeting of stockholders.

The following table lists Viragen's directors and officers:

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>	<u>Served as Officer and/or Director Since</u>	<u>Class</u>
Carl N. Singer	87	Chairman of the Board	1997	C
Robert C. Salisbury	60	Chief Executive Officer	1998	A
		President	2003	
		Director	2003	
Dennis W. Healey	55	Chief Financial Officer	1980	
		Treasurer	1980	
		Executive Vice President	1993	
		Secretary	1994	
Douglas Lind	43	Director	2002	B
Per-Erik Persson	67	Director	2003	C
Randolph A. Pohlman	59	Director	2003	B
Melvin Rothberg	57	Executive Vice President	1999	
Charles J. Simons	85	Director	1998	A
C. Richard Stafford	68	Director	2003	C
Nicholas M. Burke	32	Controller	2001	

Carl N. Singer was elected a director in August 1997 and currently serves as chairman of the board of directors and chairman of the executive committee. From January 2003 to December 2003, Mr. Singer served on our nominating and governance committee. 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 chairman of the board, chief executive officer, president and director of Viragen International, Inc.



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Robert C. Salisbury was appointed chief executive officer and president of Viragen in January 2003. Mr. Salisbury has been a director of Viragen since December 1998 and serves on the executive committee. Mr. Salisbury served on the audit and finance committee and compensation committee from January 1999 to December 2003 and on our nominating and governance committee from January 2003 to December 2003. 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 president and a director 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.

Dennis W. Healey is a certified public accountant. He has served as chief financial officer and treasurer since 1980. In May 1993, Mr. Healey became executive vice president and he was appointed secretary in 1994. Mr. Healey is also executive vice president, treasurer, secretary and a director of Viragen International, Inc.

Douglas Lind served as our senior advisor for corporate strategy from June 2002 through June 2003. On, June 15, 2003, Dr. Lind entered into a consulting agreement with Viragen. Dr. Lind has been a director of Viragen since June 2002. Douglas Lind formerly served as Senior Biotechnology Analyst for the brokerage firms of Morgan Stanley from 1997 through 2002 and Paine Webber from 1995 to 1997. Previously, he was Managing Director and founder of Lind & Co., a Boston-based biotechnology investment research firm serving institutional clients, which he founded in 1991. He was a practicing physician in Brookline, Massachusetts and served as an attending physician at St. Elizabeth's Hospital in Boston, a major teaching affiliate of Tufts University School of Medicine, where he completed his clinical residency in Internal Medicine. Dr. Lind has served on numerous national health policy bodies.

Per-Erik Persson was appointed to the board of directors in November 2003. Prior to his retirement in 1996, Mr. Persson had served since 1993 as Director of Seeds Division and Member of the Group Management of Sandoz AG and President and CEO of Sandoz Seeds Ltd., Switzerland. From 1975 through 1993, Mr. Persson served in several managerial positions with Hillehog AG including Managing Director and CEO of Hillehog AB and President Director General of Hillehog NK, France. Mr. Persson also serves as a director of Viragen International. Mr. Persson also serves on the compensation committee.

Randolph A. Pohlman, PhD., was appointed to the board of directors in December 2003. Since 1995, Dr. Pohlman has served as the Dean of the H. Wayne Huizenga School of Business and Entrepreneurship at Nova Southeastern University. Prior to his arrival at Nova Southeastern University, Dr. Pohlman served as a senior executive at Koch Industries, the second-largest privately held company in the United States from 1990 to 1995. Prior to his tenure at Koch Industries, Dr. Pohlman was associated with Kansas State University (KSU), where for fourteen years, he served KSU in a variety of administrative and faculty positions, including holding the L.L. McAninch Chair of Entrepreneurship and Dean of the College of Business. Dr. Pohlman also served as a Visiting Research Scholar at the University of California, Los Angeles in 1983, and was a member of the Executive Education Advisory Board of the Wharton School of the University of Pennsylvania.

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Melvin Rothberg joined Viragen in April 1998. In April 1999, Mr. Rothberg assumed the position of an executive vice president. 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 International, Inc.

Charles J. Simons was elected to the board of directors in July 1998. He currently serves as chairman of the audit and finance, nominating and compensation committee, and serves on the executive committee of the board of directors. In addition, 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 the vice-chairman of the board of G.W. Plastics, Inc., a plastic manufacturer. Mr. Simons is also a director of Diasa Inc., Excalibur Corporation and Preferred Care Partners. In addition, 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.

C. Richard Stafford was appointed to the board of directors in June 2003. He currently serves a member of the audit and finance and nominating committees. From 1977 to 2001, Mr. Stafford was vice president responsible for worldwide mergers and acquisitions for Carter-Wallace, Inc., a former New York Stock Exchange listed international pharmaceutical, diagnostics and toiletries company. From 1974 to 1977, Mr. Stafford was president of Caithness Corporation, an oil, gas and mineral exploration firm. From 1971 to 1974, he served as a vice president of corporate finance at the global investment banker, Bear Stearns. Mr. Stafford also served as director of corporate development of the Bristol-Myers Company from 1966 to 1971, and as an associate at Milbank, Tweed, Hadley & McCloy from 1960 to 1965. He is a cum laude graduate of Harvard College and a graduate of Harvard Law School.

Nicholas M. Burke is a certified public accountant and joined Viragen as its controller in October 2001. Prior to joining Viragen, Mr. Burke served as corporate controller of SmartDisk Corporation a Florida-based computer peripherals technology company from 1999 to 2001. From 1994 until 1999, Mr. Burke was a senior member of the audit staff of Ernst & Young LLP, Viragen's independent audit firm, concentrating his practice in the computer technology and biotechnology industries.

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

In December 2003, concurrent with the appointment of Dr. Pohlman, Mr. Healey resigned from the board of directors. Mr. Smith resigned from the board of directors in October 2003 following the appointment of Mr. Persson. In June 2003, Brian King resigned his position as director of Viragen and a member of the audit and finance committee due to personal reasons. In September 2002, Peter D. Fischbein resigned his position as a director of Viragen due to a potential of a conflict of interest as a result of his directorship with Medicare, Inc., the Company's former parent. Viragen had entered into litigation with Medicare over a disputed royalty agreement. This litigation was settled in July 2003. In September 2002, D. Magnus Nicolson resigned his positions as Chief Operating Officer of Viragen and Viragen International, director of Viragen International and managing director of Viragen (Scotland).

During fiscal 2003, Viragen's board of directors met on six occasions. During fiscal 2003, all of the directors attended at least 75% of the board meetings and meetings of board committees of which they were members.

Viragen has not adopted a formal policy on board members' attendance at our annual meeting of stockholders, although all board members are invited to attend. All board members attended our 2002 annual meeting of stockholders.

**Table of Contents****Security Holder Communications with our Board of Directors**

Viragen provides an informal process for security holders to send communications to our board of directors. Security holders who wish to contact the board of directors or any of its members may do so by writing to Viragen, Inc., 865 S. W. 78th Avenue, Suite 100, Plantation, Florida 33324. Correspondence directed to an individual board member is referred, unopened, to that member. Correspondence not directed to a particular board member is referred, unopened, to the Chairman of the Board.

**Committees of the Board of Directors**

Our board of directors has established an executive committee, an audit and finance committee, a compensation committee and a nominating and governance committee. The following table identifies the members of our board of directors who serve on each of those committees.

Name	Executive Committee	Audit and Finance Committee	Compensation Committee	Nominating and Governance Committee
Carl N. Singer	X*			
Robert C. Salisbury	X			
Douglas Lind				
Per-Erik Persson			X	
Randolph A. Pohlman		X	X	
Charles J. Simons	X	X*	X*	X*
C. Richard Stafford		X		X

\* Chairperson  
*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 2003, the executive committee met on nine occasions.

***Audit and Finance Committee***

The audit and finance committee was organized in February 1998, and operates under a written charter adopted by the board of directors in July 2000. A copy of the audit and finance committee charter is attached to this proxy statement as Appendix A and is available on our web site at [www.viragen.com](http://www.viragen.com).

The role of the audit and finance committee is to assist the board in monitoring (1) the integrity of our financial statements, (2) our compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, (4) the development, implementation and performance of our internal audit function and (5) the performance of our independent auditors. The audit and finance committee also prepares the report required by the rules of the Securities and Exchange Commission to be included in our annual proxy or information statement.

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In December 2003, following the adoption of new American Stock Exchange rules issued that same month, Mr. Salisbury resigned from the audit and finance committee and was replaced in this position by Dr. Pohlman.

Each member of our audit and finance committee is independent within the meaning of Rule 10A-3 under the Securities Exchange Act of 1934 and satisfies the independence standards of Section 121A of the Rules of the American Stock Exchange.

***Report of the Audit and Finance Committee***

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 accounting principles generally accepted in the United States, 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, 2003, for filing with the Securities and Exchange Commission. The committee and the board also have recommended, subject to shareholder approval, the selection of Ernst & Young, LLP, as our independent auditors.

Submitted by the audit and finance committee of the board of directors:

*Charles J. Simons*

*Robert C. Salisbury*

*C. Richard Stafford*

***Compensation Committee***

The compensation committee was organized in February 2001. Prior to the adoption of the compensation committee charter in December 2003, the committee operated without a written charter. A copy of the charter of the compensation committee is attached to this proxy statement as Appendix B and is available on our web site at [www.viragen.com](http://www.viragen.com)

Under its charter, the compensation committee is to consist of not less than two members. Each member of the compensation committee satisfies the independence standards of Section 121A of the Rules of the American Stock Exchange.

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The compensation committee was formed to discharge the board of director's responsibilities relating to (1) compensation payable to our executive officers and non-employee directors, (2) incentive and equity-based compensation plans, including stock option plans in which officers or employees are eligible to participate and (3) arrangements with executive officers and other key officers relating to their employment relationship with us.

During fiscal 2003, the compensation committee met on one occasion.

***Nominating and Governance Committee***

The nominating and governance committee was organized in January 2003. Prior to the adoption of the nominating and governance committee charter in December 2003, the committee operated without a written charter. A copy of the charter of the nominating and governance committee is attached to the proxy statement as Appendix C and is available on our web site at [www.viragen.com](http://www.viragen.com).

Under its charter, the nominating and governance committee is to consist of not less than two members. Each member of the nominating committee satisfies the independence standards of Section 121A of the Rules of the American Stock Exchange. The executive committee with common members, met on behalf of the nominating and governance committee met on three occasions during fiscal 2003.

The nominating and governance committee is responsible for selecting those individuals to recommend to the entire board of directors for election to the board. The committee will consider candidates for directors proposed by security holders. The nominating and governance committee has no formal procedures for submitting candidates and, until otherwise determined, accepts written submissions that include the name, address and telephone number of the proposed nominee, along with a brief statement of the candidate's qualifications to serve as a director. If the proposed nominee is not the security holder submitting the name of the candidate, a letter from the candidate agreeing to the submission of his or her name for consideration should be provided at the time of submission.

The nominating and governance committee identifies director nominees through a combination of referrals, including by management, existing board members and security holders, and direct solicitations, where warranted. Once a candidate has been identified the nominating and governance committee reviews the individual's experience and background, and may discuss the proposed nominee with the source of the recommendation. If the committee believes it to be appropriate, committee members may meet with the proposed nominee before making a final determination whether to recommend the individual as a nominee to the entire board of directors to stand for election to the board.

Among the factors that the committee considers when evaluating proposed nominees are their experience in the biopharmaceutical industry, knowledge of and experience with regulatory processes, particularly those relating to the Food and Drug Administration and its international counterparts, and knowledge of and experience in business matters, finance, capital markets and mergers and acquisitions. The committee may request references and additional information from the candidate prior to reaching a conclusion. The committee is under no obligation to formally respond to recommendations, although as a matter of practice, every effort is made to do so.

The nominating and governance committee received no security holder recommendations for nomination to the board of directors in connection with the 2004 annual meeting of stockholders. There are three director nominees for the 2004 annual meeting of stockholders who are neither incumbent directors standing for reelection nor executive officers. Per-Erik Persson was known to the nominating and governance committee based upon his serving as a director of Viragen International, Inc. our

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majority-owned subsidiary. The nominating and governance committee identified C. Richard Stafford and Randolph A. Pohlman as a result of a referral by an existing board member.

***Compensation of Directors***

Commencing in March 2000, Mr. Singer is receiving \$100,000 per year for his services as a director and now chairperson of the board of directors and 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 Viragen common stock at a price of \$3.75 per share. The option vested: 33,333 shares exercisable 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 and are exercisable for 5 years from the vest dates.

Mr. Salisbury and Dr. Lind do not receive compensation for their attendance at meetings of the board of directors. All others receive \$2,000 (half if attendance is telephonic) for each meeting they attend. Beginning January 31, 2003, 60% of this fee was paid with shares of Viragen common stock valued at the closing price of the stock on the date of the meeting.

As chairperson of the audit and finance committee, Mr. Simons receives a monthly fee of \$3,000. For the 2003, 2002 and 2001 fiscal years, Mr. Simons received \$36,000 per year as compensation for serving as chairman of the audit and finance committee. Mr. Stafford receives a fee of \$1,000 (half if attendance is telephonic) for each meeting he attends. Beginning January 31, 2003, 60% of these fees are paid with shares of Viragen common stock valued at the closing price of the stock on the date of the meeting. Mr. Salisbury does not receive compensation for his attendance at meetings of the audit and finance committee.

Members of the executive, compensation and nominating committees do not receive compensation specific to their attendance at the meetings of those committees.

Directors receive a stock option grant to purchase 25,000 shares of Viragen common stock exercisable at the closing price of our common stock on the day they are appointed to the board of directors. At each subsequent annual meeting, directors receive an annual stock option grant to purchase 5,000 shares of Viragen common stock exercisable at the closing price of our common stock on the day of the annual meeting. These options vest half on the grant date and half on the anniversary of the grant date and are exercisable for 5 years from the vest dates.

***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 three members of the compensation committee. All members of the audit and finance committee and compensation committee are independent within the meaning of Rule 10A-3 under the Securities Exchange Act of 1934 and satisfy the independence standards of Section 121A of the Rules of the American Stock Exchange. Accordingly, insiders do not participate in compensation decisions.

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**EXECUTIVE COMPENSATION AND EMPLOYMENT AGREEMENTS**

*Compensation Committee Report on Executive Compensation.* Under the rules established by the Securities and Exchange Commission, management is required to provide certain data and information in regard to the compensation and benefits provided to the chief executive officer and other executive officers. The disclosure requirements for the chief executive officer and executive officers include the use of tables and a report explaining the rationale and considerations that led to the fundamental compensation decision affecting those individuals.

*Compensation Report.* The compensation committee of the board of directors is responsible for establishing compensation levels and benefits for the executive officers of the company. The compensation committee is also responsible for reviewing recommendations made by management regarding compensation, including stock options, and benefits for other employees.

*Executive Compensation Policy.* For the last fiscal year, the goals established by the compensation committee for executive compensation are as follows:

to provide a compensation package which would attract and retain experienced, scientific pharmaceutical and administrative personnel;

to maintain reasonable yet competitive base salaries while conserving the liquid assets of the company;

to provide an environment where innovation, dedication and success are rewarded; and

to provide participation in stock appreciation as part of an incentive based compensation package.

The performance of executive officers is evaluated routinely by the compensation committee as well as by the board of directors as a whole. The compensation committee considers each employee's total compensation package, including base salary, stock options and other benefits as provided in their respective employment agreements.

*Chairman of the Board and Chief Executive Officer.* Robert C. Salisbury was appointed chief executive officer and president of Viragen on January 31, 2003. Mr. Salisbury has been a director of Viragen since December 1998. Mr. Salisbury has not entered into an employment agreement with Viragen nor does he receive a salary from the Company. On February 7, 2003, Mr. Salisbury was granted an option to purchase 350,000 shares of Viragen common stock at \$0.11 per share. The option vests one-half upon grant and one-half upon the first anniversary of the grant date. The option is exercisable for five years from vest date.

*Other Executive Officers.* As with the compensation of the chief executive officer, the compensation committee evaluates and establishes the compensation packages for other executive officers of the company. These executives are evaluated routinely based on the effectiveness of their efforts in their respective areas of responsibility as well as their contribution to achieving our overall goals. The compensation committee has structured compensation packages so that the base salaries are conservative by pharmaceutical industry standards. The emphasis is on compensation through the issuance of stock options. As a consequence, the executive officers may maximize their total compensation through the attainment of corporate goals as reflected in appreciated stock values.

**Table of Contents****Executive Compensation and Employment Agreements**

The following table includes information concerning the compensation and employment agreements of the chief executive officer of Viragen and the four other most highly compensated executive officers as of June 30, 2003.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Fiscal Year	Annual Compensation			Long Term Compensation		All Other Compensation (\$)
		Salary (\$)	Bonus Compensation (\$)	Other Annual Compensation (\$)	Awards	Payouts	
					Stock Awards (\$)	Securities Restricted Underlying Options/ SARs (#)	LTIP Payouts (\$)
Robert Salisbury CEO and President	2003	\$	\$	\$	\$	350,000	\$
	2002						
	2001						
Dennis W. Healey Executive V.P., Treasurer and CFO	2003	\$252,000					
	2002	252,000				350,000	
	2001	252,000				150,000	
Melvin Rothberg Executive V.P.	2003	\$181,500					
	2002	175,373				50,000	
	2001	172,500					
Gerald Smith Former CEO and President	2003	\$189,583					
	2002	325,000				1,050,000	
	2001	296,333				850,000	
D. Magnus Nicolson Former COO	2003	\$ 31,000					
	2002	172,500					
	2001	170,000					

*Employment Agreements*

On March 1, 1999 Mr. Healey entered into a two-year employment agreement with Viragen. The agreement provided for:

an annual salary \$252,000,

health and life insurance,

similar employee benefits generally available to other employees, and

reimbursement of automobile and business related expenses.



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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 Viragen common stock at \$1.35 per share. The options vested 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.

In February 2002, 300,000 options granted to Mr. Healey in conjunction with his 1997 employment agreement and 50,000 options granted to Mr. Healey in 1997 for serving as a director expired. In March 2002, Viragen granted Mr. Healey options to purchase 350,000 shares of Viragen common stock at \$1.04 per share. The options vested 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.

On February 14, 2003, Mr. Healey executed an addendum to his employment agreement which provided for the payment of 20% of his salary in the form of shares of Viragen common stock. On March 1, 2003, Mr. Healey again executed an amendment to his employment agreement which provided for the payment of 75% of his salary in the form of shares of Viragen common stock.

On March 1, 2003, Mr. Healey's employment agreement was automatically renewed for one year pursuant to the provisions in his March 1, 2001 agreement.

On June 30, 2003, Mr. Healey executed an addendum to his employment agreement whereby his annual salary of \$252,000 was reduced to \$200,000.

Mr. Healey continues to serve as executive vice president, chief financial officer, secretary and director of Viragen International, Inc.

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 Viragen common stock at \$0.625 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.

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 Viragen common stock at \$1.25 per share. The options vested 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. Effective February 28, 2002 Mr. Rothberg's annual salary was increased to \$181,500.

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On February 14, 2003, Mr. Rothberg executed an addendum to his employment agreement which provided for the payment of 20% of his salary in the form of shares of Viragen common stock which continued through June 30, 2003.

On July 1, 2003, Mr. Rothberg's employment agreement was automatically renewed for one year pursuant to the provisions in his July 1, 2001 agreement.

On March 1, 1999, Mr. Smith entered into a two-year employment agreement with Viragen. This agreement provided for:

an annual salary of \$282,000,

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, 2001, Mr. Smith renewed his two year employment agreement with Viragen. Under the new agreement, Mr. Smith received an annual salary of \$325,000. He also received options to purchase 850,000 shares of Viragen common stock at \$1.35 per share. The options vested one-half on the date of grant and one-half on the first year anniversary. The options were exercisable over five years from the vest dates. Mr. Smith's employment agreement contained 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.

In January 2003, Mr. Smith resigned his positions as chairman, president and chief executive officer of Viragen, Inc. and Viragen International. Upon his resignation, Mr. Smith received a one time payment of \$170,000. Mr. Smith also entered into a one-year consulting agreement related to our avian transgenics program. This agreement provides for annual compensation of \$155,000, health insurance and automobile related expenses. Mr. Smith remained a director of Viragen, Inc. and Viragen International until October 2003, at which time he resigned as a director of Viragen, Inc. and Viragen International to pursue outside business interests.

In February 2002, 1,000,000 options granted to Mr. Smith in conjunction with his 1997 employment agreement and 50,000 options granted to Mr. Smith in 1997 for serving as Chairman of the Board expired. In March 2002, Viragen granted Mr. Smith options to purchase 1,050,000 shares of Viragen common stock at \$1.04 per share. The options vested one-half on the date of grant and one-half on the first year anniversary. The options were exercisable over five years from the vest dates. However, as a result of his resignation as president and chief executive officer in January 2003, these 1,050,000 options and the 850,000 option granted to him in connection with his March 1, 2001 employment agreement will expire on January 31, 2004.

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On July 1, 1999, Dr. Nicolson entered into a two year employment agreement with Viragen. This agreement superceded all previous agreements. The agreement provided for an annual salary of \$170,000, employee benefits generally available to executive officers, use of an automobile and reimbursement of business related expenses. The agreement also provided for the grant of an option to acquire 200,000 shares of Viragen common stock at \$0.625, 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.

On July 1, 2001, Dr. Nicolson renewed his two year employment agreement with Viragen. Under the agreement, Dr. Nicolson received an annual salary of \$172,500