JPMORGAN CHASE & CO
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Pricing Supplement

JPMorgan Chase Financial Company LLC Registration Statement Nos. 333-222672 and 333-222672-01

Dated April 29, 2019

Filed pursuant to Rule 424(b)(2)

STRUCTURED INVESTMENTS

Opportunities in U.S. and International Equities

Contingent Income Auto-Callable Securities due May 5, 2020

All Payments on the Securities Based on the Worst Performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index Principal at Risk Securities

Fully and Unconditionally Guaranteed by JPMorgan Chase & Co.

Contingent Income Auto-Callable Securities do not guarantee the payment of interest or the repayment of principal. Instead, the securities offer the opportunity for investors to earn a contingent quarterly payment equal to 2.125% of the stated principal amount with respect to each determination date on which the closing level of each of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index is **greater than or equal to** 80% of its initial index value, which we refer to as a downside threshold level. However, if, on **any** determination date, the closing level of **any underlying index** is less than its downside threshold level, you will not receive any contingent quarterly payment for the related quarterly period. In addition, if the closing level of each underlying index is greater than or equal to its initial index value on any determination date (other than the final determination date), the securities will be automatically redeemed for an amount per security equal to the stated principal amount *plus* the contingent quarterly payment with respect to that determination date. If the securities have not been automatically redeemed prior to maturity and the final index value of **each** underlying index is greater than or equal to its downside threshold level, the payment at maturity due on the securities will be the stated principal amount and the contingent quarterly payment with respect to the final determination date. If, however, the securities have not been automatically redeemed prior to maturity and the final index value of **any underlying index** is less than its downside threshold level, you will be exposed to the decline in the worst performing of the underlying indices, as compared to its initial index value, on a 1-to-1 basis and will receive a cash payment at maturity that is less than 80% of the stated principal amount of the securities and could be zero. The securities are for investors who are willing to risk their principal and seek an opportunity to earn interest at a potentially above-market rate in exchange for the risk of receiving few or no contingent quarterly payments and also the risk of receiving a cash payment at maturity that is significantly less than the stated principal amount of the securities and could be zero. **Accordingly, investors could lose their entire initial investment in the securities**. Because all payments on the securities are based on the worst performing of the underlying indices, a decline of any underlying index below its downside threshold level will result in few or no contingent quarterly payments and/or significant loss of your initial investment, even if the other underlying indices appreciate or have not declined as much. Investors will not participate in any appreciation of any underlying index. The securities are unsecured and unsubordinated obligations of JPMorgan Chase Financial Company LLC, which we refer to as JPMorgan Financial, the payment on which is fully and unconditionally guaranteed by JPMorgan Chase &

Co., issued as part of JPMorgan Financial's Medium-Term Notes, Series A, program. **Any payment on the securities is subject to the credit risk of JPMorgan Financial, as issuer of the securities, and the credit risk of JPMorgan Chase & Co., as guarantor of the securities.**

FINAL TERMS

Issuer:	JPMorgan Chase Financial Company LLC, an indirect, wholly owned finance subsidiary of JPMorgan Chase & Co.
Guarantor:	JPMorgan Chase & Co.
Underlying indices:	Russell 2000® Index (the "RTY Index"), S&P 500® Index (the "SPX Index") and EURO STOXX 50® Index (the "SX5E Index") (each an "underlying index")
Aggregate principal amount:	$11,766,000
Early redemption:	If, on any of the determination dates (other than the final determination date) the closing level of each underlying index is greater than or equal to its initial index value, the securities will be automatically redeemed for an early redemption payment on the first contingent payment date immediately following the related determination date. No further payments will be made on the securities once they have been redeemed. **The securities will not be redeemed early on any contingent payment date if the closing level of any underlying index is below its initial index value on the related determination date.**
Early redemption payment:	The early redemption payment will be an amount equal to (i) the stated principal amount *plus* (ii) the contingent quarterly payment with respect to the related determination date.
Contingent quarterly payment:	If, on any determination date, the closing level of each underlying index is greater than or equal to its downside threshold level, we will pay a contingent quarterly payment of $21.25 (2.125% of the stated principal amount) per security on the related contingent payment date. If, on any determination date, the closing level of **any underlying index** is less than its downside threshold level, no contingent quarterly payment will be payable with respect to that determination date. It is possible that one or more of the underlying indices will be below their respective downside threshold levels on most or all of the determination dates so that you will receive few or no contingent quarterly payments.
Payment at maturity:	If the final index value of **each** underlying index is **greater than or equal to** its downside threshold level: (i) the stated principal amount *plus*, (ii) the contingent quarterly payment with respect to the final determination date. If the final index value of **any underlying index** is less than its downside threshold level: (i) the stated principal amount *times* (ii) the index performance factor of the worst performing underlying index. This cash payment will be less than 80% of the stated principal amount of the securities and could be zero.
Downside threshold level:	With respect to the RTY Index: 1,278.6848, which is equal to 80% of its initial index value With respect to the SPX Index: 2,354.424, which is equal to 80% of its initial index value With respect to the SX5E Index: 2,801.552, which is equal to 80% of its initial index value
Stated principal amount:	$1,000 per security
Issue price:	$1,000 per security (see "Commissions and issue price" below)
Pricing date:	April 29, 2019
Original issue date (settlement date):	May 2, 2019
Maturity date:	

May 5, 2020, subject to postponement in the event of certain market disruption events and as described under "General Terms of Notes — Postponement of a Payment Date" in the accompanying product supplement

Agent: J.P. Morgan Securities LLC ("JPMS")

Terms continued on the following page

Commissions and issue price:	Price to public[1]	Fees and commissions	Proceeds to issuer
Per security	$1,000.00	$12.50[2] $5.00[3]	$982.50
Total	$11,766,000	$205, 905	$11,560,095

(1) See "Additional Information about the Securities — Supplemental use of proceeds and hedging" in this document for information about the components of the price to public of the securities.

(2) JPMS, acting as agent for JPMorgan Financial, will pay all of the selling commissions of $12.50 per $1,000 stated principal amount security it receives from us to Morgan Stanley Smith Barney LLC ("Morgan Stanley Wealth Management"). See "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement.

(3) Reflects a structuring fee payable to Morgan Stanley Wealth Management by the agent or its affiliates of $5.00 for each $1,000 stated principal amount security.

The estimated value of the securities on the pricing date was $973.90 per $1,000 stated principal amount security. See "Additional Information about the Securities — The estimated value of the securities" in this document for additional information.

Investing in the securities involves a number of risks. See "Risk Factors" beginning on page PS-10 of the accompanying product supplement, "Risk Factors" beginning on page US-1 of the accompanying underlying supplement and "Risk Factors" beginning on page 9 of this document.

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of the securities or passed upon the accuracy or the adequacy of this document or the accompanying product supplement, underlying supplement, prospectus supplement and prospectus. Any representation to the contrary is a criminal offense.

The securities are not bank deposits, are not insured by the Federal Deposit Insurance Corporation or any other governmental agency and are not obligations of, or guaranteed by, a bank.

You should read this document together with the related product supplement, underlying supplement, prospectus supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see "Additional Information about the Securities" at the end of this document.

Product supplement no. MS-1-I dated April 5, 2018:
http://www.sec.gov/Archives/edgar/data/19617/000095010318004523/dp87526_424b2-ms1i.pdf

Underlying supplement no. 1-I dated April 5, 2018:
http://www.sec.gov/Archives/edgar/data/19617/000095010318004514/crt_dp87766-424b2.pdf

Prospectus supplement and prospectus, each dated April 5, 2018:
http://www.sec.gov/Archives/edgar/data/19617/000095010318004508/dp87767_424b2-ps.pdf

JPMorgan Chase Financial Company LLC

Contingent Income Auto-Callable Securities due May 5, 2020

Based on the Worst Performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

Principal at Risk Securities

Terms continued from previous page:

Initial index value:	With respect to the RTY Index: 1,598.356, which is its closing level on the pricing date With respect to the SPX Index: 2,943.03, which is its closing level on the pricing date With respect to the SX5E Index: 3,501.94, which is its closing level on the pricing date
Final index value:	With respect to each underlying index, the closing level on the final determination date
Worst performing underlying index:	The underlying index with the worst index performance factor
Index performance factor:	With respect to each underlying index, the final index value *divided by* the initial index value
Determination dates:	July 29, 2019, October 29, 2019, January 29, 2020 and April 29, 2020, subject to postponement for non-trading days and certain market disruption events
Contingent payment dates:	August 1, 2019, November 1, 2019, February 3, 2020 and the maturity date, subject to postponement in the event of certain market disruption events and as described under "General Terms of Notes — Postponement of a Payment Date" in the accompanying product supplement
CUSIP/ISIN:	48132CDB6 / US48132CDB63
Listing:	The securities will not be listed on any securities exchange.

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Contingent Income Auto-Callable Securities due May 5, 2020

Based on the Worst Performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

Principal at Risk Securities

Investment Summary

The Contingent Income Auto-Callable Securities due May 5, 2020 Based on the Worst Performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index, which we refer to as the securities, do not provide for the regular payment of interest. Instead, the securities provide an opportunity for investors to earn a contingent quarterly payment, which is an amount equal to $21.25 (2.125% of the stated principal amount) per security, with respect to each quarterly determination date on which the closing level of each underlying index is greater than or equal to 80% of its initial index value, which we refer to as a downside threshold level. The contingent quarterly payment, if any, will be payable quarterly on the contingent payment date immediately following the related determination date. However, if the closing level of any underlying index is less than its downside threshold level on any determination date, investors will receive no contingent quarterly payment for the related quarterly period. It is possible that the closing level of one or more underlying indices could be below their respective downside threshold levels on most or all of the determination dates so that you will receive few or no contingent quarterly payments during the term of the securities. We refer to these payments as contingent, because there is no guarantee that you will receive a payment on any contingent payment date. Even if all of the underlying indices were to be at or above their respective downside threshold levels on some quarterly determination dates, one or more underlying indices may fluctuate below their respective downside threshold level(s) on others.

If the closing level of each underlying index is greater than or equal to its initial closing value on any determination date (other than the final determination date), the securities will be automatically redeemed for an early redemption payment equal to the stated principal amount *plus* the contingent quarterly payment with respect to the related determination date. If the securities have not previously been redeemed and the final index value of each underlying index is greater than or equal to its downside threshold level, the payment at maturity will be the sum of the stated principal amount and the contingent quarterly payment with respect to the final determination date. However, if the securities have not previously been redeemed and the final index value of any underlying index is less than its downside threshold level, investors will be exposed to the decline in the worst performing underlying index, as compared to its initial index value, on a 1-to-1 basis. Under these circumstances, the payment at maturity will be (i) the stated principal amount *times* (ii) the index performance factor of the worst performing underlying index, which will be less than 80% of the stated principal amount of the securities and could be zero. Investors in the securities must be willing to accept the risk of losing their entire principal and also the risk of receiving few or no contingent quarterly payments over the term of the securities. In addition, investors will not participate in any appreciation of the underlying indices.

Supplemental Terms of the Securities

For purposes of the accompanying product supplement, each underlying index is an “Index.”

JPMorgan Chase Financial Company LLC

Contingent Income Auto-Callable Securities due May 5, 2020

Based on the Worst Performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

Principal at Risk Securities

Key Investment Rationale

The securities do not provide for the regular payment of interest. Instead, the securities offer investors an opportunity to earn a contingent quarterly payment equal to 2.125% of the stated principal amount with respect to each determination date on which the closing level of each underlying index is **greater than or equal to** 80% of its initial index value, which we refer to as a downside threshold level. The securities may be redeemed prior to maturity for the stated principal amount per security *plus* the applicable contingent quarterly payment, and the payment at maturity will vary depending on the final index value of each underlying index, as follows:

This scenario assumes that, prior to early redemption, each underlying index closes at or above its downside threshold level on some determination dates but one or more of the underlying indices closes below their respective downside threshold levels on the others. On the 2nd determination date, the closing level of each underlying index is greater than or equal to its initial index value.

Scenario 1

Investors receive the contingent quarterly payment for the quarterly periods in which the closing level of each underlying index is at or above its downside threshold level on the related determination date.

On the contingent payment date immediately following the 2nd determination date, the securities will be automatically redeemed for the stated principal amount *plus* the contingent quarterly payment with respect to the related determination date.

This scenario assumes that each underlying index closes at or above its downside threshold level on some determination dates but one or more of the underlying indices closes below their respective downside threshold levels on the others, and each underlying index closes below its initial index value on all the determination dates prior to the final determination date. On the final determination date, each underlying index closes at or above its downside threshold level.

Scenario 2

Consequently, the securities are not automatically redeemed, and investors receive a contingent quarterly payment for the quarterly periods in which the closing level of each underlying index is at or above its downside threshold level on the related determination date. At maturity, investors will receive the stated principal amount and the contingent quarterly payment with respect to the final determination date.

Scenario 3

This scenario assumes that each underlying index closes at or above its downside threshold level on some determination dates but one or more of the underlying indices closes below their respective downside threshold levels on the others, and each underlying index closes below its initial index value on all the

determination dates prior to the final determination date. On the final determination date, one or more of the underlying indices close below their downside threshold levels.

Consequently, the securities are not automatically redeemed, and investors receive a contingent quarterly payment for the quarterly periods in which the closing level of each underlying index is at or above its downside threshold level on the related determination date. At maturity, investors will receive the stated principal amount times the index performance factor of the worst performing underlying index, which will be less than 80% of the stated principal amount and could be zero.

Investors will lose some and may lose all of their principal in this scenario.

JPMorgan Chase Financial Company LLC

Contingent Income Auto-Callable Securities due May 5, 2020

Based on the Worst Performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

Principal at Risk Securities

How the Securities Work

The following diagrams illustrate the potential outcomes for the securities depending on (1) the closing levels of the underlying indices and (2) the final index values of the underlying indices.

Diagram #1: Determination Dates (Other Than the Final Determination Date)

Diagram #2: Payment at Maturity if No Automatic Early Redemption Occurs

For more information about the payment upon an early redemption or at maturity in different hypothetical scenarios, see "Hypothetical Examples" starting on page 6.

JPMorgan Chase Financial Company LLC

Contingent Income Auto-Callable Securities due May 5, 2020

Based on the Worst Performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

Principal at Risk Securities

Hypothetical Examples

The following hypothetical examples illustrate how to determine whether a contingent quarterly payment is payable with respect to a determination date, whether the securities will be automatically redeemed on any determination date prior to the final determination date and how to calculate the payment at maturity if the securities have not been redeemed early. The following examples are for illustrative purposes only. Whether you receive a contingent quarterly payment or whether the securities will be automatically redeemed will be determined by reference to the closing level of each underlying index on each quarterly determination date and the amount you will receive at maturity, if any, will be determined by reference to the final index value of each underlying index. The hypothetical initial index value of each underlying index of 100.00 has been chosen for illustrative purposes only and does not represent the actual initial index value of any underlying index. The actual initial index value of each underlying index is the closing level of that underlying index on the pricing date and is specified on the cover of this pricing supplement. For historical data regarding the actual closing levels of each underlying index, please see the historical information set forth under "Russell 2000® Index Overview," "S&P 500® Index Overview," and "EURO STOXX 50® Index Overview," as applicable, in this pricing supplement. The actual downside threshold level of each underlying index are specified on the cover of this pricing supplement. Any payment on the securities is subject to our and JPMorgan Chase & Co.'s credit risks. The numbers in the hypothetical examples below may have been rounded for the ease of analysis.

The examples below are based on the following assumed terms:

Contingent quarterly payment:	A contingent quarterly payment of $21.25 per quarter per security will be paid on the securities on each contingent payment date **but only if** the closing level of each underlying index is at or above its downside threshold level on the related determination date.
Early redemption:	If the closing level of each underlying index is greater than or equal to its initial index value on any quarterly determination date (other than the final determination date), the securities will be automatically redeemed for an early redemption payment equal to the stated principal amount *plus* the contingent quarterly payment with respect to the related determination date.
Payment at maturity (if the securities have not been automatically redeemed early):	If the final index value of each underlying index is **greater than or equal to** its downside threshold level: the stated principal amount and the contingent quarterly payment with respect to the final determination date. If the final index value of any underlying index is less than its downside threshold level: (i) the stated principal amount *times* (ii) the index performance factor of the worst performing underlying index
Stated principal amount:	$1,000 per security
Hypothetical initial index value:	With respect to the RTY Index: 100.00 With respect to the SPX Index: 100.00

	With respect to the SX5E Index: 100.00 With respect to the RTY Index: 80.00, which is 80% of the hypothetical initial index value for such index
Hypothetical downside threshold level:	With respect to the SPX Index: 80.00, which is 80% of the hypothetical initial index value for such index With respect to the SX5E Index: 80.00, which is 80% of the hypothetical initial index value for such index

JPMorgan Chase Financial Company LLC

Contingent Income Auto-Callable Securities due May 5, 2020

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Principal at Risk Securities

How to determine whether a contingent quarterly payment is payable with respect to a determination date:

	Closing level			Contingent quarterly payment
	RTY Index	SPX Index	SX5E Index	
Hypothetical Determination Date 1	85 (**at or above** downside threshold level)	90 (**at or above** downside threshold level)	95 (**at or above** downside threshold level)	$21.25
Hypothetical Determination Date 2	55 (**below** downside threshold level)	90 (**at or above** downside threshold level)	60 (**below** downside threshold level)	$0
Hypothetical Determination Date 3	85 (**at or above** downside threshold level)	55 (**below** downside threshold level)	50 (**below** downside threshold level)	$0
Hypothetical Determination Date 4	50 (**below** downside threshold level)	45 (**below** downside threshold level)	40 (**below** downside threshold level)	$0

On hypothetical determination date 1, each underlying index closes at or above its downside threshold level. Therefore, a contingent quarterly payment of $21.25 is payable on the relevant contingent payment date.

On each of the hypothetical determination dates 2 and 3, one underlying index closes at or above its downside threshold level but the other underlying indices close below their respective downside threshold levels. Therefore, no contingent quarterly payment is payable on the relevant contingent payment date.

On hypothetical determination date 4, each underlying index closes below its downside threshold level and, accordingly, no contingent quarterly payment is payable on the relevant contingent payment date.

You will not receive a contingent quarterly payment on any contingent payment date if the closing level of any underlying index is below its downside threshold level on the related determination date.

How to determine whether the securities will be automatically redeemed on any determination date prior to the final determination date:

	Closing level			Early redemption payment
	RTY Index	SPX Index	SX5E Index	
Hypothetical Determination Date 1	110 (**at or above** initial index value)	90 (**below** initial index value)	80 (**below** initial index value)	n/a (securities are not redeemed early)
Hypothetical Determination Date 2	90 (**below** initial index value)	80 (**below** initial index value)	70 (**below** initial index value)	n/a (securities are not redeemed early)
Hypothetical Determination Date 3	110 (**at or above** initial index value)	120 (**at or above** initial index value)	105 (**at or above** initial index value)	$1,021.25 (the stated principal amount *plus* the contingent quarterly payment with respect to the related determination date)

On hypothetical determination date 1, one underlying index closes at or above its initial index value but the other underlying indices close below their respective initial index values. Therefore, the securities remain outstanding and are not redeemed early.

On hypothetical determination date 2, each underlying index closes below its initial index value. Therefore, the securities remain outstanding and are not redeemed early.

JPMorgan Chase Financial Company LLC

Contingent Income Auto-Callable Securities due May 5, 2020

Based on the Worst Performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

Principal at Risk Securities

On hypothetical determination date 3, each underlying index closes at or above its initial index value. Therefore, the securities are automatically redeemed and you receive an early redemption payment equal to the stated principal amount *plus* the contingent quarterly payment with respect to the related determination date. No further payments will be made on the securities once they have been redeemed.

How to calculate the payment at maturity (if the securities have not been automatically redeemed early):

	Final index value			Payment at maturity
	RTY Index	SPX Index	SX5E Index	
Example 1:	100 (**at or above** downside threshold level)	90 (**at or above** downside threshold level)	90 (**at or above** downside threshold level)	$1,021.25 (the stated principal amount *plus* the contingent quarterly payment with respect to the final determination date)
Example 2:	110 (**at or above** downside threshold level)	50 (**below** downside threshold level)	60 (**below** downside threshold level)	$1,000 × index performance factor of the worst performing underlying index = $1,000 × (50 /100) = $500.00
Example 3:	40 (**below** downside threshold level)	55 (**below** downside threshold level)	45 (**below** downside threshold level)	$1,000 × (40 / 100) = $400.00
Example 4:	30 (**below** downside threshold level)	40 (**below** downside threshold level)	30 (**below** downside threshold level)	$1,000 × (30 / 100) = $300.00

In example 1, the final index value of each underlying index is at or above its downside threshold level. Therefore, you receive at maturity the stated principal amount of the securities and the contingent quarterly payment with respect

to the final determination date.

In example 2, the final index value of one underlying index is at or above its downside threshold level but the final index values of the other underlying indices are below their respective downside threshold levels. Therefore, you are exposed to the downside performance of the worst performing underlying index at maturity and receive a cash payment at maturity equal to the stated principal amount times the index performance factor of the worst performing underlying index.

Similarly, in examples 3 and 4, the final index value of each underlying index is below its downside threshold level, and you receive a cash payment at maturity equal to the stated principal amount *times* the index performance factor of the worst performing underlying index.

If the final index value of ANY underlying index is below its downside threshold level, you will be exposed to the downside performance of the worst performing underlying index at maturity, and your payment at maturity will be less than 80% of the stated principal amount per security and could be zero.

The hypothetical returns and hypothetical payments on the securities shown above apply **only if you hold the securities for their entire term or until early redemption.** These hypotheticals do not reflect fees or expenses that would be associated with any sale in the secondary market. If these fees and expenses were included, the hypothetical returns and hypothetical payments shown above would likely be lower.

JPMorgan Chase Financial Company LLC

Contingent Income Auto-Callable Securities due May 5, 2020

Based on the Worst Performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

Principal at Risk Securities

Risk Factors

The following is a non-exhaustive list of certain key risk factors for investors in the securities. For further discussion of these and other risks, you should read the sections entitled "Risk Factors" of the accompanying product supplement and the accompanying underlying supplement. We urge you to consult your investment, legal, tax, accounting and other advisers in connection with your investment in the securities.

The securities do not guarantee the return of any principal and your investment in the securities may result in a loss. The terms of the securities differ from those of ordinary debt securities in that the securities do not guarantee the return of any of the principal amount at maturity. Instead, if the securities have not been automatically redeemed prior to maturity and if the final index value of **any** of the underlying indices is less than its downside threshold level, you will be exposed to the decline in the closing level of the worst performing underlying index, as compared to its initial index value, on a 1-to-1 basis. Under these circumstances, you will receive for each security that you hold at maturity a cash payment equal to the stated principal amount *times* the index performance factor of the worst performing underlying index. **In this case, your payment at maturity will be less than 80% of the stated principal amount and could be zero.**

You will not receive any contingent quarterly payment for any quarterly period if the closing level of any underlying index on the relevant determination date is less than its downside threshold level. The terms of the securities differ from those of ordinary debt securities in that the securities do not guarantee the payment of regular interest. Instead, a contingent quarterly payment will be made with respect to a quarterly period only if the closing level of each underlying index on the relevant determination date is greater than or equal to its downside threshold level. If the closing level of any underlying index is below its downside threshold level on any determination date, you will not receive a contingent quarterly payment for the relevant quarterly period.

It is possible that the closing level of one or more underlying indices could be below their respective downside threshold levels on most or all of the determination dates so that you will receive few or no contingent quarterly payments. If you do not earn sufficient contingent quarterly payments over the term of the securities, the overall return on the securities may be less than the amount that would be paid on one of our conventional debt securities of comparable maturity.

The contingent quarterly payment is based solely on the closing levels of the underlying indices on the specified determination dates. Whether the contingent quarterly payment will be made with respect to a determination date will be based on the closing level of each underlying index on that determination date. As a result, you will not know whether you will receive the contingent quarterly payment until the related determination date. Moreover, because the contingent quarterly payment is based solely on the closing level of each underlying index on a specific determination date, if the closing level of any of the underlying indices on that determination date is below its downside threshold

level, you will not receive any contingent quarterly payment with respect to that determination date, even if the closing level of that underlying index was higher on other days during the related quarterly period.

You are exposed to the price risk of all three underlying indices, with respect to all the contingent quarterly payments, if any, and the payment at maturity, if any. Your return on the securities is not linked to a basket consisting of the underlying indices. Rather, it will be contingent upon the independent performance of each underlying index. Unlike an instrument with a return linked to a basket of underlying assets in which risk is mitigated and diversified among all the components of the basket, you will be exposed to the risks related to each underlying index. The performance of the underlying indices may not be correlated. Poor performance by **any underlying index** over the term of the securities may negatively affect your return and will not be offset or mitigated by any positive performance by the other underlying indices. Accordingly, your investment is subject to the risk of decline in the closing level of each underlying index.

To receive **any** contingent quarterly payments, **each** underlying index must close at or above its downside threshold level on the applicable determination date. In addition, if **any underlying index** has declined to below its downside threshold level as of the final determination date, you will be **fully exposed** to the decline in the worst performing underlying index, as compared to its initial index value, on a 1-to-1 basis, even if the other underlying indices have appreciated. Under this scenario, the value of any such payment will be less than 80% of the stated principal amount and could be zero.

Because the securities are linked to the performance of the worst performing underlying index, you are exposed to greater risks of no contingent quarterly payments and sustaining a significant loss on your investment than if the securities were linked to just one underlying index. The risk that you will not receive any contingent quarterly payments, or that you will suffer a significant loss on your investment is greater if you invest in the securities than if you invest in substantially similar securities that are linked to the performance of just one underlying index. With **three** underlying indices, it is more likely that any one underlying index will close below its downside threshold level on any determination date than if the securities were linked to only one underlying index. In addition, you will not benefit from the performance of any underlying index other than the worst performing underlying index. Therefore it is more likely that you will not receive any contingent quarterly payments and that you will suffer a significant loss on your investment.

JPMorgan Chase Financial Company LLC

Contingent Income Auto-Callable Securities due May 5, 2020

Based on the Worst Performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

Principal at Risk Securities

The securities are subject to the credit risks of JPMorgan Financial and JPMorgan Chase & Co., and any actual or anticipated changes to our or JPMorgan Chase & Co.'s credit ratings or credit spreads may adversely affect the market value of the securities. Investors are dependent on our and JPMorgan Chase & Co.'s ability to pay all amounts due on the securities. Any actual or anticipated decline in our or JPMorgan Chase & Co.'s credit ratings or increase in our or JPMorgan Chase & Co.'s credit spreads determined by the market for taking that credit risk is likely to adversely affect the market value of the securities. If we and JPMorgan Chase & Co. were to default on our payment obligations, you may not receive any amounts owed to you under the securities and you could lose your entire investment.

As a finance subsidiary, JPMorgan Financial has no independent operations and has limited assets. As a finance subsidiary of JPMorgan Chase & Co., we have no independent operations beyond the issuance and administration of our securities. Aside from the initial capital contribution from JPMorgan Chase & Co., substantially all of our assets relate to obligations of our affiliates to make payments under loans made by us or other intercompany agreements. As a result, we are dependent upon payments from our affiliates to meet our obligations under the securities. If these affiliates do not make payments to us and we fail to make payments on the securities, you may have to seek payment under the related guarantee by JPMorgan Chase & Co., and that guarantee will rank pari passu with all other unsecured and unsubordinated obligations of JPMorgan Chase & Co.

Investors will not participate in any appreciation of any underlying index. Investors will not participate in any appreciation of any underlying index from its initial index value, and the return on the securities will be limited to the contingent quarterly payment that is paid with respect to each determination date on which the closing level of each underlying index is greater than or equal to its downside threshold level, if any.

An investment in the securities is subject to risks associated with small capitalization stocks with respect to the RTY Index. The stocks that constitute the RTY Index are issued by companies with relatively small market capitalization. The stock prices of smaller companies may be more volatile than stock prices of large capitalization companies. Small capitalization companies may be less able to withstand adverse economic, market, trade and competitive conditions relative to larger companies. Small capitalization companies are less likely to pay dividends on their stocks, and the presence of a dividend payment could be a factor that limits downward stock price pressure under adverse market conditions.

The securities are subject to risks associated with securities issued by non-U.S. companies, with respect to the SX5E Index. The equity securities included in the SX5E Index have been issued by non-U.S. companies. Investments in securities linked to the value of such non-U.S. equity securities involve risks associated with the securities markets in the home countries of the issuers of those non-U.S. equity securities, including risks of volatility in those markets, governmental intervention in those markets and cross shareholdings in companies in certain countries. Also, there is generally less publicly available information about companies in some of these jurisdictions than there is about U.S. companies that are subject to the reporting requirements of the SEC, and generally non-U.S. companies are subject to accounting, auditing and financial reporting standards and requirements and securities trading rules different from

those applicable to U.S. reporting companies.

The securities are not directly exposed to fluctuations in foreign exchange rates with respect to the SX5E Index. The value of your securities will not be adjusted for exchange rate fluctuations between the U.S. dollar and the currencies upon which the equity securities included in the SX5E Index are based, although any currency fluctuations could affect the performance of the SX5E Index. Therefore, if the applicable currencies appreciate or depreciate relative to the U.S. dollar over the term of the securities, you will not receive any additional payment or incur any reduction in any payment on the securities.

Early redemption risk. The term of your investment in the securities may be limited to as short as approximately three months by the automatic early redemption feature of the securities. If the securities are redeemed prior to maturity, you will receive no more contingent quarterly payments and may be forced to reinvest in a lower interest rate environment and you may not be able to reinvest the proceeds from an investment in the securities at a comparable return for a similar level of risk.

Economic interests of the issuer, the guarantor, the calculation agent, the agent of the offering of the securities and other affiliates of the issuer may be different from those of investors. We and our affiliates play a variety of roles in connection with the issuance of the securities, including acting as calculation agent and as an agent of the offering of the securities, hedging our obligations under the securities and making the assumptions used to determine the pricing of the securities and the estimated value of the securities, which we refer to as the estimated value of the securities. In performing these duties, our and JPMorgan Chase & Co.'s economic interests and the economic interests of the calculation agent and other affiliates of ours are potentially adverse to your interests as an investor in the securities. The calculation agent has determined the initial index values, the downside threshold levels and will determine the final index values and whether the closing level of each underlying index on any determination date is greater than or equal to its initial index value or is below its downside threshold level. Determinations made by the calculation agent, including with respect to the occurrence or non-occurrence of market disruption events, may affect the payment to you at maturity or whether the securities are redeemed early.

JPMorgan Chase Financial Company LLC

Contingent Income Auto-Callable Securities due May 5, 2020

Based on the Worst Performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

Principal at Risk Securities

In addition, JPMorgan Chase & Co. is currently one of the companies that make up the SPX Index. JPMorgan Chase & Co. will not have any obligation to consider your interests as a holder of the securities in taking any corporate action that might affect the value of the SPX Index or the securities.

Moreover, our and JPMorgan Chase & Co.'s business activities, including hedging and trading activities, could cause our and JPMorgan Chase & Co.'s economic interests to be adverse to yours and could adversely affect any payment on the securities and the value of the securities. It is possible that hedging or trading activities of ours or our affiliates in connection with the securities could result in substantial returns for us or our affiliates while the value of the securities declines. Please refer to "Risk Factors — Risks Relating to Conflicts of Interest" in the accompanying product supplement for additional information about these risks.

The estimated value of the securities is lower than the original issue price (price to public) of the securities. The estimated value of the securities is only an estimate determined by reference to several factors. The original issue price of the securities exceeds the estimated value of the securities because costs associated with selling, structuring and hedging the securities are included in the original issue price of the securities. These costs include the selling commissions, the structuring fee, the projected profits, if any, that our affiliates expect to realize for assuming risks inherent in hedging our obligations under the securities and the estimated cost of hedging our obligations under the securities. See "Additional Information about the Securities — The estimated value of the securities" in this document.

The estimated value of the securities does not represent future values of the securities and may differ from others' estimates. The estimated value of the securities is determined by reference to internal pricing models of our affiliates. This estimated value of the securities is based on market conditions and other relevant factors existing at the time of pricing and assumptions about market parameters, which can include volatility, dividend rates, interest rates and other factors. Different pricing models and assumptions could provide valuations for the securities that are greater than or less than the estimated value of the securities. In addition, market conditions and other relevant factors in the future may change, and any assumptions may prove to be incorrect. On future dates, the value of the securities could change significantly based on, among other things, changes in market conditions, our or JPMorgan Chase & Co.'s creditworthiness, interest rate movements and other relevant factors, which may impact the price, if any, at which JPMS would be willing to buy securities from you in secondary market transactions. See "Additional Information about the Securities — The estimated value of the securities" in this document.

The estimated value of the securities is derived by reference to an internal funding rate. The internal funding rate used in the determination of the estimated value of the securities may differ from the market-implied funding rate for vanilla fixed income instruments of a similar maturity issued by JPMorgan Chase & Co. or its affiliates. Any difference may be based on, among other things, our and our affiliates' view of the funding value of the securities as well as the higher issuance, operational and ongoing liability management costs of the securities in comparison to those costs for the conventional fixed income instruments of JPMorgan Chase & Co. This internal funding rate is

based on certain market inputs and assumptions, which may prove to be incorrect, and is intended to approximate the prevailing market replacement funding rate for the notes. The use of an internal funding rate and any potential changes to that rate may have an adverse effect on the terms of the securities and any secondary market prices of the securities. See "Additional Information about the Securities — The estimated value of the securities" in this document.

The value of the securities as published by JPMS (and which may be reflected on customer account statements) may be higher than the then-current estimated value of the securities for a limited time period. We generally expect that some of the costs included in the original issue price of the securities will be partially paid back to you in connection with any repurchases of your securities by JPMS in an amount that will decline to zero over an initial predetermined period. These costs can include selling commissions, the structuring fee, projected hedging profits, if any, and, in some circumstances, estimated hedging costs and our internal secondary market funding rates for structured debt issuances. See "Additional Information about the Securities — Secondary market prices of the securities" in this document for additional information relating to this initial period. Accordingly, the estimated value of your securities during this initial period may be lower than the value of the securities as published by JPMS (and which may be shown on your customer account statements).

Secondary market prices of the securities will likely be lower than the original issue price of the securities. Any secondary market prices of the securities will likely be lower than the original issue price of the securities because, among other things, secondary market prices take into account our internal secondary market funding rates for structured debt issuances and, also, because secondary market prices (a) exclude the structuring fee and (b) may exclude selling commissions, projected hedging profits, if any, and estimated hedging costs that are included in the original issue price of the securities. As a result, the price, if any, at which JPMS will be willing to buy securities from you in secondary market transactions, if at all, is likely to be lower than the original issue price. Any sale by you prior to the maturity date could result in a substantial loss to you. See the immediately following risk factor for information about additional factors that will impact any secondary market prices of the securities.

The securities are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your securities to maturity. See "— Secondary trading may be limited" below.

JPMorgan Chase Financial Company LLC

Contingent Income Auto-Callable Securities due May 5, 2020

Based on the Worst Performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

Principal at Risk Securities

Secondary market prices of the securities will be impacted by many economic and market factors. The secondary market price of the securities during their term will be impacted by a number of economic and market factors, which may either offset or magnify each other, aside from the selling commissions, structuring fee, projected hedging profits, if any, estimated hedging costs and the closing level of each underlying index, including:

- any actual or potential change in our or JPMorgan Chase & Co.'s creditworthiness or credit spreads;
- customary bid-ask spreads for similarly sized trades;
- our internal secondary market funding rates for structured debt issuances;
- the actual and expected volatility in the prices of the underlying index;
- the time to maturity of the securities;
- whether the closing level of any underlying index has been, or is expected to be, less than its downside threshold level on any determination date;
- the likelihood of an early redemption being triggered;
- the dividend rates on the equity securities included in the underlying indices;
- the actual and expected positive or negative correlation between the underlying indices, or the actual or expected absence of any such correlation;
- interest and yield rates in the market generally;
- the exchange rates and the volatility of the exchange rates between the U.S. dollar and each of the currencies in which the equity securities included in the SX5E Index trade and the correlation among those rates and the levels of the SX5E Index; and

a variety of other economic, financial, political, regulatory and judicial events.

Additionally, independent pricing vendors and/or third party broker-dealers may publish a price for the securities, which may also be reflected on customer account statements. This price may be different (higher or lower) than the price of the securities, if any, at which JPMS may onversion amount of approximately $1,310,000 was calculated and recorded as a discount on the principal amount of the debentures at the date of issuance. This discount was amortized to interest expense using the effective interest rate method over the life of the debentures. Due to subsequent reductions in the conversion price on the debentures from $0.085 to as low as $0.041, additional beneficial conversion of approximately $107,000 was calculated and charged to interest expense during the three months ended March 31, 2003.

We incurred costs of approximately $179,000 in connection with the debentures issued in the January 31, 2003 securities purchase agreement and the amendment to this agreement on February 27, 2003, which primarily consisted of the finder s fees, the fair value of warrants issued to the finder, and legal and accounting expenses. These costs were amortized to interest expense over the life of the debentures using the effective interest rate method.

As of June 30, 2003, the purchasers had converted the entire $2,475,000 of principal on the debentures resulting in the issuance of approximately 51.5 million shares of our common stock.

17

Table of Contents

NOTE F CONVERTIBLE DEBENTURES (Continued)

November 2002 Convertible Debentures

On November 8, 2002, we entered into a securities purchase agreement with three unrelated institutional investors for financing in the aggregate amount of $1,950,000. Under the terms of the agreement, we received $896,000, net of a 6.5% finder s fee and legal expenses on November 15, 2002, representing the first half of the financing. Subsequent to our related registration statement being declared effective by the SEC, we received an additional $911,625, net of a 6.5% finder s fee and miscellaneous expenses on December 13, 2002, representing the remaining half of the financing.

The convertible debentures issued on November 8, 2002 accrued interest at the rate of 5% per annum payable semi-annually and had a two-year term. The debentures were convertible immediately into shares of Viragen common stock. The conversion price was initially equal to $0.175, subject to reduction if certain events occurred with a floor of $0.125. In connection with the January 31, 2003 securities purchase agreement for additional financing in the form of convertible debentures, $300,000 of the remaining principal on the debentures issued in November and December became convertible into shares of our common stock at a conversion price equal to $0.085 and $675,000 of the remaining principal on the debentures issued in November and December became convertible into shares of our common stock at a conversion price equal to $0.0625. Resale of the shares issued upon conversion of the debentures and those issuable upon exercise of warrants are registered under our Form S-3 registration statement (File No. 333-101480) filed with the Securities and Exchange Commission, which was declared effective on December 5, 2002.

The securities purchase agreement also provided for the issuance of 604,500 common stock purchase warrants exercisable at a price of $0.20 per share, 744,500 common stock purchase warrants exercisable at a price of $0.25 per share, 604,500 common stock purchase warrants exercisable at a price of $0.30 per share, 1,625,000 common stock purchase warrants exercisable at a price of $0.40 per share and 1,300,000 common stock purchase warrants exercisable at a price of $0.60 per share. These warrants were exercisable during the three year period terminating November 14, 2005. The relative fair value of the warrants was calculated to be $326,260 using a Black-Scholes valuation model. The relative fair value of the warrants was recorded as a discount on the principal amount of the debentures and was amortized to interest expense using the effective interest rate method over the life of the debentures. Through March 31, 2003, we recognized all $326,260 as interest expense since the debentures were fully converted by March 31, 2003. Subsequent to the issuance of these warrants, and as a result of the securities purchase agreement for additional financing entered into on January 31, 2003, and the subsequent amendment on February 27, 2003, the exercise price of these warrants was reduced to $0.01.

As a result of the stock purchase warrants issued along with the debentures and the calculated effective conversion price of the debentures, a beneficial conversion amount of approximately $661,000 was calculated and charged to interest expense upon the issuance of the debentures. Due to the subsequent reductions in the conversion price on the debentures from $0.175 to $0.0625, additional beneficial conversion of approximately $427,000 was calculated and charged to interest expense during the three months ended December 31, 2002. The conversion price on the debentures was further reduced during January 2003 resulting in the recognition of additional interest expense totaling approximately $536,000 during the three months ended March 31, 2003. All of these items charged to interest expense were non-cash items.

Table of Contents

NOTE F CONVERTIBLE DEBENTURES (Continued)

We incurred costs of approximately $153,000 in connection with the debentures issued during November and December 2002, which consisted of the finder s fees, legal fees and the fair value of warrants issued to the finder. These costs were amortized to interest expense over the life of the debentures using the effective interest rate method. Through March 31, 2003, we recognized all $153,000 as interest expense from the amortization of these issuance costs since the debentures were fully converted by March 31, 2003.

As of March 31, 2003, the purchasers had converted the entire $1,950,000 of principal and related accrued interest on the debentures resulting in the issuance of approximately 22.2 million shares of our common stock.

August 2002 Note, as Amended

During August 2002, we executed a $500,000, 90 day Note with Isosceles Fund Limited. The Note bore interest at 8% and was secured by 2.5 million shares of our common stock. In connection with this transaction, we issued 53,868 common stock purchase warrants exercisable at $0.53 per share for a period of three years. In November 2002, the Note was amended to eliminate the fixed maturity date and make the Note payable within three business days following demand. The Note was also amended to provide for conversion of outstanding principal and interest into shares of our common stock at a price of $0.175 per share in lieu of cash at Isosceles option. As a result of our subsequent financing transactions, this conversion price was reduced to $0.056. Since Isosceles did not elect to convert the Note within 90 days of the amendment, we issued Isosceles 116,500 warrants at $0.25 per share, 116,500 warrants at $0.30 per share, 116,500 warrants at $0.35 per share, 406,250 warrants at $0.50 per share and 375,000 warrants at $0.60 per share. The warrants were exercisable for a three-year period. The fair value of the warrants, which was calculated to be $67,845, was charged to interest expense at the time of issuance. As a result of subsequent financing transactions, the exercise price of these warrants was reduced to $0.056. As a result of the stock purchase warrants issued and the calculated effective conversion price of the Note, a beneficial conversion amount of approximately $485,000 was calculated and charged to interest expense. All of these items charged to interest expense were non-cash items.

During the three months ended September 30, 2003, we issued 9.6 million shares upon conversion of the principal of the August 2002 Note and accrued interest totaling approximately $536,000. No further amounts are due on this Note. In addition, Isosceles converted all 1,184,618 warrants issued in connection with this Note resulting in net proceeds to us of approximately $66,300. Resale of the shares issued upon conversion of the Isosceles Note and exercise of warrants issued in connection with this Note as amended are registered under our Form S-3 registration statement (File No. 333-106536) filed with the Securities and Exchange Commission, which was declared effective on July 11, 2003.

Table of Contents

NOTE F CONVERTIBLE DEBENTURES (Continued)

January 2002 Convertible Debentures

On January 15, 2002, we entered into a securities purchase agreement with Elliott International, L.P. and Elliott Associates, L.P. (Elliott). Under the terms of this agreement, we issued two convertible debentures for a total principal amount of $2,500,000. The debentures carried an interest rate of 6% per annum. The principal and interest were payable commencing April 1, 2002 over nine equal monthly installments. We paid $176,000 for placement fees and expenses on the transaction. Resale of the shares issued upon conversion of the debentures and those issuable upon exercise of warrants or purchase option under this agreement are registered under the Form S-3 registration statement (File No. 333-82452) filed with the Securities and Exchange Commission, which was declared effective on February 26, 2002.

The monthly installments were payable in shares of our common stock or cash (with a 5% premium) at our option. The debentures were convertible into shares of common stock at a price equal to the Conversion Price ($1.29465 per share) or, with respect to monthly installments which we elected to pay in stock, the lesser of the Conversion Price or 90% of the arithmetic mean of the ten lowest volume weighted average prices during the twenty days preceding conversion, but not less than $0.75 per share. The agreement provided that if we requested to make a monthly payment with stock valued at less than $0.75 per share, Elliott could, at their option, waive the $0.75 per share minimum.

Under the securities purchase agreement, Elliott also received warrants to purchase a total of 405,515 shares of our common stock. The warrants were exercisable at $1.4796 per share through January 11, 2007. The warrants can be exercised on a cashless basis whereby the holder may surrender a number of warrants equal to the exercise price of the warrants being exercised. The relative fair value of the warrants was calculated to be $230,000 using a Black-Scholes valuation model. The value of the warrants was recorded as a discount on the principal amount of the debentures. The exercise price of these warrants is subject to adjustment in the event of stock dividends, mergers, certain distributions of common stock or issuance of common stock at less than the exercise price of the warrants on the date of issuance and less than the fair value of common stock at date of issuance, based on a mathematical calculation. We have sold stock to institutional investors at prices below the $1.4796 exercise price of these warrants and below the fair value of our common stock at the date of those sales, thus the exercise price on the warrants has been reduced to $0.56, and can continue to decrease.

Under the securities purchase agreement, Elliott had the option to purchase an additional 1,363,636 shares at a purchase price of $1.10 per share from May 11, 2002 through November 11, 2003, which expired unexercised. The relative fair value of this option was calculated to be $505,000 using a Black-Scholes valuation model. The value of the option was recorded as a discount on the principal amount of the debentures. The purchase price per share was subject to adjustment in the event of stock dividends, mergers, certain distributions of common stock or issuance of common stock at less than the Purchase Price of the option on the date of issuance and less than the fair value of common stock at date of issuance, based on a mathematical calculation.

Table of Contents

NOTE F CONVERTIBLE DEBENTURES (Continued)

As a result of the warrants, option to purchase additional shares and the effective conversion price of the debentures, a beneficial conversion rate was calculated, which resulted in additional discount on the debentures of approximately $1.34 million. The total discount on the debentures at the date of issuance was approximately $2.08 million and was composed of the value attributed to the warrants, the additional purchase option and the beneficial conversion feature on the convertible debentures. The discount was amortized to interest expense using the effective interest rate method over the life of the debentures. In addition, deferred finance costs of $176,000, were amortized to interest expense over the life of the debentures using the effective interest rate method. We recorded non-cash interest expense for the three months ended September 30, 2002 of approximately $688,000 on these convertible debentures.

On April 1, 2002, we issued 388,007 shares of our common stock as payment of the first monthly principal installment on the debentures plus interest accrued to date. The number of shares was based on a conversion price of approximately $0.80, which represented ninety percent of the average of the ten lowest volume weighted average prices of our common stock during the twenty trading days immediately preceding the conversion date. Subsequent to the April 1, 2002 installment, we made six cash payments totaling approximately $1.7 million, which represented the May through October monthly principal installments, plus interest accrued including a five percent premium. In November and December 2002, we issued 1,478,264 and 1,829,600 shares of our common stock representing payment of the November and December installments due on the convertible debentures, respectively. These debentures have been paid in full and no further amounts are due on these debentures.

NOTE G DEBT

Line of Credit and Short Term Borrowings

Through Viragen International s Swedish subsidiary, ViraNative, we may borrow up to approximately $1,104,000 under an overdraft facility with a bank in Sweden. Borrowings outstanding under this facility are at a floating rate of interest, which was approximately 7.4% at March 31, 2004. The facility renews annually and was renewed in December 2003. Outstanding borrowings under this agreement totaled approximately $875,000 and $999,000 as of March 31, 2004 and June 30, 2003, respectively. The overdraft facility is secured by certain assets of ViraNative including inventories and accounts receivable.

During July and August 2003, we obtained short term financing in the aggregate amount of approximately $301,000 bearing interest rates ranging from 5.19% to 6.45% for the purchase of certain corporate insurance policies. Principal and interest payments of approximately $38,000 were payable monthly. The outstanding balance on this short-term financing was approximately $8,000 as of March 31, 2004. The final payment on this short term financing will be in May 2004.

Table of Contents

NOTE G DEBT (Continued)

Long-Term Debt

Long-term debt includes a 25-year mortgage with a Swedish bank obtained to purchase one of our facilities in Sweden. The outstanding principal balance on this loan was approximately $692,000 and $680,000 at March 31, 2004 and June 30, 2003, respectively. This loan carries a floating rate of interest which was approximately 5.25% at March 31, 2004. We are required to make quarterly payments of principal and interest of approximately $9,000 under this agreement. This loan matures in September 2024 and is secured by the related land and building with a carrying value of approximately $880,000 as of March 31, 2004.

Under the terms of a loan with a Swedish governmental agency that was obtained for the purposes of conducting clinical trials, we are required to make quarterly payments of principal and interest of approximately $30,000. The loan carries a floating rate of interest at the Stockholm Interbank Offered Rate (STIBOR) 90 plus 7%, which was approximately 9.90% as of March 31, 2004. This loan had an outstanding balance of approximately $532,000 and $505,000 at March 31, 2004 and June 30, 2003, respectively.

NOTE H CAPITAL STOCK

On December 23, 2003, we sold approximately 22.8 million shares of our common stock to institutional investors at $0.20 per share for an aggregate amount of approximately $4.55 million. In connection with this transaction, we also issued three-year warrants to purchase a total of 6.83 million shares of our common stock at a price of $0.26 per share. In connection with this transaction, we paid approximately $296,000 and issued a warrant to purchase 182,000 shares of our common stock at $0.20 per share as a fee to the finder for this transaction. The exercise prices of these warrants are subject to adjustment downward depending upon future equity transactions.

On September 29, 2003, we sold approximately 21.3 million shares of our common stock to institutional investors at $0.224 per share for an aggregate amount of approximately $4.78 million. In connection with this transaction, we also issued three-year warrants to purchase a total of 4.26 million shares of our common stock at a price of $0.28 per share. In connection with this transaction, we issued 1.4 million shares of our common stock and a warrant to purchase 191,000 shares of our common stock at $0.224 per share as a fee to the finder for this transaction. The exercise prices of these warrants are subject to adjustment downward depending upon future equity transactions.

During the six months ended December 31, 2003, we issued approximately 36.8 million shares of our common stock upon conversion of outstanding convertible debentures and a Note. These shares were issued at prices ranging from $0.056 to $0.3173. For the three months ended March 31, 2004, there were no issuances of our common stock upon conversion of convertible debentures as the previously outstanding debentures were satisfied as of December 31, 2003.

During the nine months ended March 31, 2004, we issued approximately 24.4 million shares of our common stock upon the exercise of common stock purchase warrants at prices ranging from $0.056 to $0.224 resulting in net proceeds to us of approximately $3.8 million.

Table of Contents

NOTE H CAPITAL STOCK (Continued)

As of May 7, 2004, there were 35,111,014 shares of our common stock issuable upon exercise or conversion of the following securities:

Convertible preferred stock, Series A	11,289
Officers, employees, and directors options (exercisable at an average price of $0.83 through March 2014)	4,107,000
Consultant warrants (exercisable at an average price of $2.56 through February 2009)	1,916,000
Debt and equity offering warrants (exercisable at an average price of $0.23 through June 2008)	29,076,725
	35,111,014

NOTE I COMPREHENSIVE LOSS

Comprehensive loss is comprised of our net loss and other comprehensive (loss) income. Other comprehensive (loss) income refers to revenue, expenses, gains and losses that under accounting principles generally accepted in the United States are included in comprehensive loss but are excluded from net loss as these amounts are recorded directly as an adjustment to stockholders equity. Our other comprehensive (loss) income is composed of foreign currency translation adjustments. The following table sets forth the computation of comprehensive loss for the periods indicated:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	**2003**	**2004**	**2003**
Net loss	$(3,047,550)	$(4,031,942)	$(14,288,599)	$(11,179,261)
Other comprehensive (loss) income:				
Currency translation adjustment	(632,517)	243,170	1,087,094	964,762
Comprehensive loss	$(3,680,067)	$(3,788,772)	$(13,201,505)	$(10,214,499)

23

Table of Contents

NOTE J ROYALTY AGREEMENT

We entered into a royalty agreement with respect to interferon, transfer factor and products using interferon and transfer factor in November 1986. The agreement was subsequently amended in November 1989 and May 1993. The amended agreement 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,

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

3% of the next $55,000,000

These royalties are to be paid until the total of $2,400,000 is achieved. The amended agreement also states that royalties of approximately $108,000 previously accrued by us prior to May 1993 under the agreement are payable to Medicore as the final payment. From May 1993 through September 2001, we paid royalties under the amended agreement totaling approximately $70,000. Royalties owed to Medicore based on our natural interferon sales from October 1, 2001 through June 30, 2003 are payable as follows: $30,000 by August 1, 2003; $30,000 by August 1, 2004; $30,000 by August 1, 2005. The payment of $30,000 due August 1, 2003 has been made. We will pay royalties to Medicore based on the sale of our natural human alpha interferon subsequent to June 30, 2003 on a quarterly basis in accordance with the terms of the amended agreement. For the three and nine months ended March 31, 2004, royalties due under the agreement totaled approximately $3,700 and $9,400, respectively.

NOTE K TRANSACTIONS WITH RELATED PARTIES

In October 1998, Peter Fischbein, a former director, exercised options to purchase 200,000 shares of Viragen common stock at $0.50 per share. These options were exercised through the payment of $2,000 cash and the issuance of a promissory note payable to Viragen totaling $98,000, and related pledge and escrow agreements. The promissory note bore interest at 5.06%, payable semi-annually, and is secured by the underlying common stock purchased. During February 2000, Mr. Fischbein exercised options to purchase an additional 25,000 shares of Viragen common stock at $0.50 per share through the issuance of another promissory note and escrow agreement. Principal on the promissory note totaled $12,500 and bore interest at 6.46%. The purchased shares are being held in escrow, pending payment of the related note pursuant to the provisions of the pledge and escrow agreements. The outstanding balance on these notes as of December 31, 2003 totaled approximately $115,000 including accrued interest. On December 31, 2003, we reserved the uncollaterized portion of these notes totaling approximately $64,000, based on the closing price of our stock on that date. In January 2004, Mr. Fischbein issued a new two year note for the outstanding principal and accrued interest totaling approximately $115,000.

Table of Contents

NOTE L RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, FASB issued Interpretation Number 46, *Consolidation of Variable Interest Entities* (FIN No. 46). This interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, provides guidance for identifying a controlling interest in a variable interest entity established by means other than voting interests. FIN No. 46 also requires consolidation of a variable interest entity by an enterprise that holds such a controlling interest. In December 2003, the FASB completed its deliberations regarding the proposed modification to FIN No. 46 and issued Interpretation Number 46R, *Consolidation of Variable Interest Entities an Interpretation of ARB No. 51* (FIN No. 46R). The decisions reached included a deferral of the effective date and provisions for additional scope exceptions for certain types of variable interests. Application of FIN No. 46R is required in financial statements of public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities (other than small business issuers) for all other types of entities is required in financial statements for periods ending after March 15, 2004. Adoption of FIN No. 46R did not have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* SFAS No. 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to existing financial instruments effective after the beginning of the first fiscal period after June 15, 2003. Adoption of this standard did not have a material impact on our consolidated financial position, results of operations or cash flows.

NOTE M SUBSEQUENT EVENTS

On April 1, 2004, we entered into purchase agreements for the issuance and sale of $20 million in 7% convertible promissory notes maturing in 2006 and common stock purchase warrants. The notes were placed with a group of new and returning institutional investors. The $20 million purchase price for the notes and warrants has been placed in escrow pending satisfaction of all conditions precedent to closing, including receipt of stockholder approval for the sale of the notes and warrants, as well as for a reverse split of our common stock. The proceeds of the financing are expected to be used to progress the research, development, and commercialization of our portfolio of healthcare products and technologies, including an allocation to fund clinical studies for the purpose of seeking FDA approval for *Multiferon,* our natural human alpha interferon which is currently approved for sale in certain international markets.

The purchase agreements provide that we pay interest on the escrowed purchase price at the rate of 10% per annum until the closing date, at which time, the interest rate on the escrowed funds will be reduced to 7% per annum. The notes will be convertible into shares of our common stock at the lesser of $0.20 and the average closing bid prices for our common stock during the five trading days immediately following the reverse split. Each purchaser will also receive three-year warrants in an amount equal to 40% of the number of shares issuable upon conversion of its note, exercisable at 120% of the conversion price of the note.

Table of Contents

NOTE M SUBSEQUENT EVENTS (Continued)

The notes may be prepaid at 110% of their face amount, plus the issuance to note holders of additional warrants to purchase the number of shares of our common stock into which the notes would otherwise have been convertible, at an exercise price equal to the prevailing conversion price of the notes. If issued on prepayment, the warrants may be exercised for the period that would have been the remaining life of the notes had they not been prepaid. Commencing one year after issuance, we also have the right to require note holders to convert their notes, subject to certain limitations; provided that our common stock has traded at 200% or more of the conversion price of the notes on each of the 30 trading days ending five days prior to the date fixed for conversion.

Our board of directors has authorized calling a special meeting of our stockholders in order to solicit the required approvals. The reverse stock split, which is expected to be at the rate of 1:10, would affect all shares of common stock outstanding, including those underlying stock options and warrants, immediately prior to the effective time of the reverse split. Closing of the sale of notes and warrants, at which the notes and warrants will be issued and the purchase price delivered, is expected to take place shortly after stockholder approval is obtained.

Table of Contents

Item 2. 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. There are a number of factors many beyond our control that 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:

anticipated debt or equity fundings;

projections of future revenue;

anticipated clinical trial commencement dates, completion timelines or results;

anticipated receipt of regulatory approvals;

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 mean may also use words such as will, would, should, could or may .

Factors that may cause actual results to differ materially include the risks and uncertainties discussed below, as well as in the Risk Factors section included in our Prospectus (File No. 333-112168) filed February 9, 2004 with the Securities and Exchange Commission. You should read them. You should also read the risk factors listed from time to time in our reports on Form 10-Q or 10-K, and registration statements on Form S-1 or S-3 and amendments, if any, to these documents. Viragen will provide you with a copy of any or all of these reports at no charge.

Our business, results of operations and financial condition could be adversely affected by a number of risks and uncertainties, including the following:

whether we are able to secure sufficient funding to maintain our operations, complete clinical trials and successfully market our product;

whether our stock price will enable us to conduct future financings;

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

whether clinical testing confirms the efficacy of our product, and results in the receipt of regulatory approvals. We have not sought the approval of our natural human alpha interferon product from the U.S. Food and Drug Administration or its European Union counterparts, except Sweden;

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

Table of Contents

whether our avian transgenics program will succeed in being able to produce targeted drugs in egg whites of transgenic chickens in commercially viable quantities;

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

whether we can generate revenue sufficient to offset our historical losses and achieve profitability.

Our natural human alpha interferon product was developed and is manufactured overseas in our Swedish facility. Our avian transgenic and oncology programs are also being researched and developed in Europe. Our dependence on foreign manufacturing and expected international sales exposes us to a number of risks, including:

unexpected changes in regulatory requirements;

tariffs and other trade barriers, including import and export restrictions;

political or economic instability;

compliance with foreign laws;

transportation delays and interruptions;

difficulties in protecting intellectual property rights in foreign countries; and

currency exchange risks.

Recent Developments

In April 2004, our Scottish subsidiary, Viragen (Scotland), was awarded a grant from the Scottish government for approximately $833,000 for the purpose of supporting the research and development of our anti-CD55 antibody, a monoclonal antibody designed for the treatment of a broad range of cancers, either alone or in combination with other anti-cancer antibodies.

In March 2004, Charles A. Rice was appointed president and chief executive officer. He replaces Robert C. Salisbury who will continue to serve as a member of our board of directors and as president and chief executive officer of our wholly-owned subsidiary, ViraGenics, Inc.

In March 2004, we entered into an agreement with RMR Technologies and the University of South Florida to obtain rights to a gene delivery technology to be evaluated in our collaboration with Roslin Institute to develop avian transgenic technology as an efficient and cost-effective biomanufacturing platform for the production of human therapeutic protein drugs.

In March 2004, we extended our agreement with the Roslin Institute to develop avian transgenic technology. The agreement, extended by two years, continues to provide Viragen with the worldwide exclusive rights to commercialize avian transgenic biomanufacturing technology, believed to be capable of producing therapeutic protein-based drugs on a large-scale with advantages that include lower costs, increased efficiency and quality of product.

In March 2004, we filed a patent application in the United States covering the use of our natural human leukocyte-derived alpha interferon for the treatment and prevention of severe acute respiratory syndrome (SARS). This represents our third patent application related to the SARS indication.

In February 2004, we filed a patent application with the British Patent Office covering the use of natural, multi-subtype alpha interferon for human treatment and prevention of avian influenza virus, commonly known as avian flu. Avian influenza is an infectious viral disease of birds caused by type A influenza strain. The type A influenza group of viruses has certain characteristics that make them of particular concern to the human population. They have a tendency to undergo mutation, resulting in new variants for which no vaccine is available. In addition, such viruses have the potential to combine with viruses from other species, leading to pandemics due to the resulting difficulties in developing effective treatments or preventative measures.

Table of Contents

While no studies are currently planned or ongoing, we believe that Multiferon is a prime candidate for evaluation in avian influenza studies. We are contacting those international research organizations which are conducting studies in this area and offering samples of our product for in vitro and human evaluations.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. On an on-going basis, we evaluate our estimates, including those related to inventories, depreciation, amortization, asset valuation allowances, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

Inventories. Inventories consist of raw materials and supplies, work in process and finished product. Finished product consists of purified natural human alpha interferon. Our inventories are stated at the lower of cost or market (estimated net realizable value). Raw materials and supplies cost is determined on a first-in, first-out basis. Work in process and finished product costs consisting of raw materials, labor and overhead are recorded at a standard cost (which approximates actual cost). Excess/idle capacity costs are expensed in the period in which they are incurred. If the cost of the inventories exceeds their expected market value, provisions are recorded currently for the difference between the cost and the market value. These provisions are determined based on estimates. The valuation of inventories also requires us to estimate excess inventories and inventories that are not saleable. The determination of excess or non-saleable inventories requires us to estimate the future demand for our product and consider the shelf life of the inventory. If actual demand is less than our estimated demand, we could be required to record inventory reserves, which would have an adverse impact on our results of operations.

Long-lived assets. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* we review our long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of our asset based on our estimate of its undiscounted future cash flows. If these estimated future cash flows are less than the carrying value of the asset, an impairment charge is recognized for the difference between the asset s estimated fair value and its carrying value. As of the date of these financial statements, we are not aware of any items or events that would cause us to adjust the recorded value of our long-lived assets, including intangible assets, for impairment.

Table of Contents

Goodwill. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* goodwill is not amortized. Goodwill is reviewed for impairment on an annual basis or sooner if indicators of impairment arise. All of our goodwill arose from the acquisition of ViraNative in September 2001 and the subsequent achievement of certain milestones defined in the acquisition agreement. We periodically evaluate that acquired business for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions, and the operational performance of the acquired business. During the fourth quarter of fiscal 2003, we completed our annual impairment review of our goodwill with the assistance of an independent valuation firm. The impairment review indicated that our goodwill was not impaired. Future changes in the estimates used to conduct the impairment review, including revenue projections or the fair market value of Viragen International s common stock, could cause our analysis to indicate that our goodwill is impaired in subsequent periods and result in a write-off of a portion or all of our goodwill. Our next annual impairment review will occur during the fourth quarter of fiscal 2004.

Stock-based compensation. Our employee stock option plans are accounted for under Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees,* and related interpretations. We grant stock options for a fixed number of shares to employees with an exercise price equal to the fair market value of the shares at the date of grant. In accordance with APB 25, we recognize no compensation expense for these stock option grants. We account for our stock-based compensation arrangements with non-employees in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* and related guidance, including Emerging Issues Task Force (EITF) No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. Accordingly, we recognize as expense the estimated fair value of such instruments as calculated using the Black-Scholes valuation model. The estimated fair value is re-determined each quarter using the methodologies allowable by SFAS No. 123 and EITF No. 96-18 and the expense is amortized over the vesting period of each option or the recipient s contractual arrangement, if shorter.

Convertible Debt Issued with Stock Purchase Warrants: Viragen accounts for convertible debt issued with stock purchase warrants in accordance with APB No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*, EITF No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios,* and EITF No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*. The determination of the relative fair value of the components of our convertible debentures issued with common stock purchase warrants requires the use of estimates. Changes in those estimates would result in different relative values being attributed to the components, which could result in more or less discount on the principal amount of the debentures.

Revenue recognition. We recognize revenue from sales of our natural human alpha interferon product when title and risk of loss has been transferred, which is generally upon shipment. Moreover, recognition requires persuasive evidence that an arrangement exists, the price is fixed and determinable, and collectibility is reasonably assured.

Litigation and other contingencies. We monitor the status of our litigation and other contingencies for purposes of loss accrual. If we believed a loss to be probable and reasonably estimated, as required by SFAS No. 5, *Accounting for Contingencies*, we would establish an appropriate accrual. We would base our accruals on information available at the time of such determination. Information may become available to us after that time, for which additional accruals may be required.

Table of Contents

Liquidity and Capital Resources

As of March 31, 2004, we had on-hand approximately $7,967,000 in cash. As of March 31, 2004, we had working capital of approximately $10,089,000, compared to working capital of approximately $2,475,000 as of June 30, 2003. The increase in cash of approximately $2,024,000 compared to the previous fiscal year end balance was due primarily to approximately $12,743,000 raised through private equity placements and exercises of private placement warrants. Cash used to fund operations during the nine months ended March 31, 2004 totaling approximately $9,347,000, including the reduction in our accounts payable and other accrued expenses balance by approximately $788,000. For the nine months ended March 31, 2004, capital expenditures included approximately $980,000 mainly related to the build-out of our production facility in Sweden and financing expenditures included the repayment of convertible debentures, short-term borrowings and long-term debt of approximately $563,000.

On December 23, 2003, we sold approximately 22.8 million shares of our common stock to institutional investors at $0.20 per share for an aggregate amount of approximately $4.55 million. In connection with this transaction, we also issued three-year warrants to purchase a total of 6.83 million shares of our common stock at a price of $0.26 per share. In connection with this transaction, we paid approximately $296,000 and issued a warrant to purchase 182,000 shares of our common stock at $0.20 per share as a fee to the finder for this transaction. The exercise prices of these warrants are subject to adjustment downward depending upon the price we may issue on our shares in future equity transactions.

On September 29, 2003, we sold approximately 21.3 million shares of our common stock to institutional investors at $0.224 per share for an aggregate amount of approximately $4.78 million. In connection with this transaction, we also issued three-year warrants to purchase a total of 4.26 million shares of our common stock at a price of $0.28 per share. In connection with this transaction, we issued 1.4 million shares of our common stock and a warrant to purchase 191,000 shares of our common stock at $0.224 per share as a fee to the finder for this transaction. The exercise prices of these warrants are subject to adjustment downward depending upon the price we may issue our shares in future equity transactions.

During the nine months ended March 31, 2004, we issued approximately 24.4 million shares of our common stock upon the exercise of common stock purchase warrants at prices ranging from $0.056 to $0.224 resulting in net proceeds to us of approximately $3.8 million.

As of December 31, 2003, there was no principal balance outstanding on our convertible debentures, as the previously outstanding debentures were satisfied either by payment of the outstanding obligation or through the issuance of shares of Viragen common stock upon conversion of the debentures. During the six months ended December 31, 2003, we issued approximately 36.8 million shares of our common stock upon conversion of outstanding convertible debentures and a Note. These shares were issued at prices ranging from $0.056 to $0.3173. As of June 30, 2003, the outstanding principal balance of convertible debentures consisted of the outstanding principal of the June 2003 convertible debentures, the April 2003 convertible debentures, and the August 2002 Note totaling approximately $5.55 million, $1.24 million, and $0.5 million, respectively.

We have experienced losses and a negative cash flow from operations since inception. During the three and nine months ended March 31, 2004, we incurred losses of approximately $3,048,000 and $14,289,000, respectively. For the fiscal years ended June 30, 2003, 2002 and 2001 we incurred losses of approximately $17,349,000, $11,089,000, and $11,008,000, respectively. At March 31, 2004 we had an accumulated deficit of approximately $116,581,000. Management anticipates additional future losses as it commercializes its natural human alpha interferon product and conducts additional research activities and clinical trials to obtain additional regulatory approvals. Management believes we have enough cash to support operations through December 31, 2004. However, we will require substantial additional funding to support our operations subsequent to December 31, 2004. Management s plans include obtaining additional capital through equity and debt financings.

31

Table of Contents

On April 1, 2004, we entered into purchase agreements for the issuance and sale of an aggregate of $20 million in 7% convertible promissory notes maturing in 2006 and common stock purchase warrants. The notes were placed with a group of new and returning institutional investors. The $20 million purchase price for the notes and warrants has been placed in escrow pending satisfaction of all conditions precedent to closing, including receipt of stockholder approval for the sale of the notes and warrants, as well as for a reverse split of our common stock. A special meeting of our stockholder has been called for June 11, 2004 in order to solicit the required approvals. No assurance can be given that we will obtain the required stockholder approval for the transaction or that additional capital will be available when required or upon terms acceptable to us.

Our future capital requirements are dependent upon many factors, including: revenue generated from the sale of our natural human alpha interferon product, progress with future and ongoing clinical trials; the costs associated with obtaining regulatory approvals; the costs involved in patent applications; competing technologies and market developments; and our ability to establish collaborative arrangements and effective commercialization activities. For all of fiscal 2004, we anticipate the need of approximately $10.0 to $11.0 million for operating activities, $1.5 million for investing activities and $1.0 million to service our financing obligations.

Manufacturing of our natural human alpha interferon at our leased facility in Umea, Sweden, has been suspended since March 31, 2003. This planned break in routine manufacturing was necessary to allow for certain steps of the production process to be segregated and transferred to our owned facility, which is also located in Umea, Sweden, which is in the process of being renovated. Renovation of this facility commenced in 2003 and is in line with our plan to expand our productive capacity of our natural human alpha interferon. The estimated total cost of this initial phase is $1.5 million and it is scheduled to be completed during 2004. As of March 31, 2004, we have invested approximately $832,000 on the renovation of this facility and the project is proceeding according to plan. We believe that our current inventory levels are sufficient to meet our current sales forecasts during the period in which routine production is planned to be suspended. We plan to expand the use of our owned facility in phases based on product demand and available financing. Maximum expansion, if warranted, could cost up to an additional $10 million.

Off Balance Sheet Arrangements

As of the date of this quarterly report, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term off-balance sheet arrangement generally means any transaction, agreement or other contractual arrangement involving an unconsolidated entity, under which we have (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

Table of Contents

Results of Operations

Product sales

For the three months ended March 31, 2004, product sales totaled approximately $77,000 compared to product sales of approximately $48,000 for the three months ended March 31, 2003. This increase in product sales of approximately $29,000 for the three months ended March 31, 2004 is primarily attributed to sales of our natural human alpha interferon in Indonesia totaling approximately $31,000 with no corresponding sales during the quarter ended March 31, 2003.

For the nine months ended March 31, 2004, product sales totaled approximately $188,000 compared to approximately $520,000 for the nine months ended March 31, 2003. The decrease in product sales of approximately $331,000 for the nine months ended March 31, 2004 is primarily attributed to the absence of sales of bulk interferon product to Alfa Wasserman under a contractual arrangement which expired in December 2002. For the nine months ended March 31, 2003, sales to Alfa Wasserman totaled approximately $378,000.

During 2002 and 2003, we entered into several agreements for the distribution of our natural human alpha interferon, *Multiferon*, in various countries. To date, we have not recognized revenue from many of these agreements. The majority of these agreements require that the distributor obtain the necessary regulatory approvals, which are yet to be obtained. Regulatory approval is a mandatory step in the marketing of a drug, but it is by no means the final challenge in marketing a biopharmaceutical product. *Multiferon* is a critical care product that is typically administered in a hospital setting. Therefore, in certain instances, it must be part of a hospital s approved formulary to enable physicians to be able to prescribe the product. This may include becoming approved within a nationalized network of hospitals. Also, the physicians must be educated as to the potential merits and advantages of the product.

There are other challenges associated with international marketing activities including: language and cultural barriers, poorly organized regulatory infrastructure and/or compliance, performance of assigned distributors, government s willingness to promote cheaper generic products and the general population s inability to afford private care drug products. It may take significant time to overcome these challenges with no assurance that a particular market will ever be effectively penetrated.

Cost of Sales

Cost of sales and excess/idle production costs totaled approximately $620,000 and $1,521,000 for the three and nine months ended March 31, 2004, respectively. The increases in cost of sales of approximately $295,000 and $774,000 for the three and nine months ended March 31, 2004, respectively, and the resulting negative margins are attributed to excess/idle capacity costs. Excess/idle capacity costs represent fixed production costs incurred at our Swedish manufacturing facility, which were not absorbed as a result of the suspension of routine manufacturing as of March 31, 2003. This planned break in routine manufacturing was necessary to allow for certain steps of our production process to be segregated and transferred to our owned facility also located in Umea, Sweden, which is currently being renovated. We will continue to incur excess/idle production costs until we resume production at normal operating levels that absorb our fixed production costs.

Research and Development Costs

Research and development costs include scientific salaries and support fees, laboratory supplies, consulting fees, contracted research and development, equipment rentals, repairs and maintenance, utilities and research related travel. Research and development costs totaled approximately $951,000 for the three months

33

ended March 31, 2004 compared to approximately $887,000 for the three months ended March 31, 2003. This increase of approximately $64,000 is mainly attributed to an increase in costs related to our avian transgenic project totaling approximately $96,000. Also contributing to the increase in research and development costs for the three months ended March 31, 2004 were costs incurred in the development of potential commercial applications of our natural human alpha interferon product and an increase in consulting fees incurred at our Florida headquarters totaling approximately $96,000 and $34,000, respectively. These increases were offset in part by a decrease in costs related to our oncology projects totaling approximately $208,000.

For the nine months ended March 31, 2004, research and development costs totaled approximately $2,577,000 compared to approximately $2,633,000 for the nine months ended March 31, 2003. This decrease of approximately $56,000 is mainly attributed to a decrease in costs related to oncology projects of approximately $730,000. This decrease was offset in part by increases in costs related to our avian transgenic project and costs incurred in the development of potential commercial applications of our natural human alpha interferon product totaling approximately $290,000 and $199,000, respectively.

We expect our overall research and development costs to decrease as we focus our efforts on containing costs and directing resources to priority programs. We will continue incurring research and development costs for additional clinical trial projects associated with *Multiferon* as well as other projects to more fully develop potential commercial applications of our natural human alpha interferon product, as well as broaden our potential product lines in the areas of avian transgenics and oncology. Our ability to successfully conclude additional clinical trials, a prerequisite for expanded commercialization of any product, is dependent upon our ability to raise significant additional funding.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include administrative personnel salaries and related expenses, office and equipment leases, utilities, repairs and maintenance, insurance, legal, accounting, consulting, depreciation and amortization. Selling, general and administrative expenses totaled approximately $1,909,000 for the three months ended March 31, 2004 compared to approximately $1,928,000 for the three months ended March 31, 2003. This decrease of approximately $19,000 or 1% is mainly attributed to decreases in payroll related expenses and legal fees incurred at our Florida headquarters totaling approximately $296,000 and $56,000, respectively. These decreases were offset in part by personnel-related termination costs at our Swedish Subsidiary totaling approximately $238,000. Other increases in selling general and administrative expenses during the three months ended March 31, 2004 included increases in insurance expense and consulting fees incurred at our Florida headquarters totaling approximately $36,000 and $30,000, respectively.

For the nine months ended March 31, 2004, selling, general and administrative expenses totaled approximately $5,103,000 compared to approximately $5,375,000 for the nine months ended March 31, 2003. This decrease of approximately $273,000 is mainly attributed to decreases in payroll related expenses and legal fees at our Florida headquarters totaling approximately $524,000, and $117,000, respectively. These decreases were partially offset by increases in insurance expense and a reserve recorded on notes receivable associated with a former director at our Florida headquarters totaling approximately $106,000 and $57,000, respectively. Other increases in selling general and administrative expenses during the nine months ended March 31, 2004 included personnel-related termination costs at our Swedish subsidiary totaling approximately $238,000.

We expect our overall selling, general and administrative expenses to decrease in the foreseeable future as a result of cost cutting efforts to reduce overall administrative expenses, which will be partially offset by additional costs related to the commercialization of *Multiferon*. Our successful commercialization of *Multiferon* will require additional marketing and promotional activities which is dependent upon our ability to raise significant additional funding.

34

Table of Contents

Amortization of Intangible Assets

Amortization of intangible assets includes the amortization of the purchase price allocated to separately identified intangible assets obtained in the acquisition of ViraNative in September 2001. The separately identified intangible assets consist of developed technology and a customer contract. The developed technology is being amortized over its estimated useful life of approximately 14 years. The customer contract was amortized over the term of the contract, which expired in December 2002. For the three and nine months ended March 31, 2004, amortization of intangible assets totaled approximately $42,000 and $119,000, respectively, compared to approximately $34,000 and $149,000 during the three and nine months ended March 31, 2003. The decrease of approximately $30,000 for the nine months ended March 31, 2004 is primarily the result of the acquired customer contract being fully amortized as of December 2002.

Interest and Other Income

The primary components of interest and other income are interest earned on cash and cash equivalents, grant income from government agencies in Scotland, sublease income on certain office space in our facility in Scotland, transaction gains or losses on foreign exchange, gains or losses on the disposal of property, plant and equipment, and income generated from research and development support services provided by our Swedish subsidiary. Interest and other income for the three and nine months ended March 31, 2004, totaled approximately $2,000 and $478,000, respectively. Interest and other income increased approximately $98,000 during the nine months ended March 31, 2004. This increase is primarily attributed to an increase in income generated from research and development support services provided by our Swedish subsidiary and interest earned on cash and cash equivalent totaling approximately $117,000 and $61,000, respectively. Also contributing to this increase in interest and other income is an increase in sub-lease income at our Scottish facility totaling approximately $42,000. These increases in interest and other income were offset in part by losses in the disposition of property, plant and equipment totaling approximately $126,000.

Interest Expense

Interest expense for the three months ended March 31, 2004 totaling approximately $42,000 mainly consisted of interest incurred on the debt facilities maintained by our Swedish subsidiary. This represented a decrease in interest expense of approximately $1,466,000 when compared to the three months ended March 31, 2003. This decrease is attributed to non-cash interest expense on our convertible debentures totaling approximately $1,450,000 during the three months ended March 31, 2003.

Interest expense for the nine months ended March 31, 2004 totaling approximately $6,729,000 primarily consists of interest expense on our convertible debentures of approximately $6,598,000. Approximately $6,279,000 of this amount represents non-cash interest expense for the nine months ended March 31, 2004. Interest expense for the nine months ended March 31, 2003 totaling approximately $4,262,000 included approximately $4,100,000 in non-cash interest expense on previously outstanding convertible debentures. This non-cash interest expense is comprised of the amortization of the discounts on the debentures, which arose from detachable warrants and shares of common stock issued with the debentures, as well as the debentures beneficial conversion feature.

Table of Contents

Included in interest expense for the nine months ended March 31, 2004, is an adjustment to record non-cash interest expense totaling approximately $1.4 million as a result of the revaluation of the warrants issued in connection with the April and June 2003 convertible debentures. At the time of issuance the warrants were valued using their expected lives, which was less than their contractual lives. Ernst & Young LLP, our independent auditors, concurred with this approach. In January 2004, we were informed by Ernst & Young LLP that they had revaluated their interpretation of the accounting literature as it relates to the accounting for common stock purchase warrants issued in connection with financing transactions. As a result of this subsequent interpretation, we and Ernst & Young LLP determined that valuing the warrants issued in connection with our April and June 2003 securities purchase agreements using their expected lives was not correct. By using the expected lives of the warrants, less value was attributed to them than if we had used the contractual lives. Thus, an additional discount of approximately $1,423,000 would have been recorded on the convertible debentures issued under the April and June 2003 securities purchase agreements by using the contractual lives on the warrants. This additional discount associated with the convertible debentures resulted in an understatement of our non-cash interest expense of approximately $436,000 in the quarter ended June 30, 2003 and $477,000 in the quarter ended September 30, 2003. After consideration of all of the facts and circumstances, we recognized the full amount of the prior period non-cash interest expense in the quarter ended December 31, 2003, as management believes it is not material to any period affected. Also, we recorded additional non-cash interest expense of approximately $509,000 in the quarter ended December 31, 2003 relating to this matter.

Also included in interest expense for the nine months ended March 31, 2004 is interest incurred on the debt facilities maintained by our Swedish subsidiary totaling approximately $126,000. These credit facilities have interest rates ranging from 5.25% to 9.90%.

Income Tax Benefit

We are subject to tax in the United States, Sweden, and the United Kingdom. These jurisdictions have different marginal tax rates. For the nine months ended March 31, 2004 and March 31, 2003, income tax benefit totaled approximately $33,000 and $50,000, respectively. Income tax benefit for these periods is primarily related to the amortization expense on certain intangible assets. Due to the treatment of the identifiable intangible assets under Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*, our balance sheet reflects a deferred tax liability of approximately $511,000 as of March 31, 2004, all of which is related to our developed technology intangible asset acquired on September 28, 2001.

Research and Development Projects

Avian Transgenics

Our avian transgenic project is designed to enable Viragen to produce protein-based drugs, including monoclonal antibodies, inside the egg whites of transgenic 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 a higher capacity and at a lower cost.

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 anticipated 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 for these protein-based products.

Table of Contents

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

For the three and nine months ended March 31, 2004, costs incurred related to the avian transgenics project totaled approximately $357,000 and $833,000, respectively. For the fiscal years ended 2003, 2002, and 2001, we incurred costs related to the avian transgenics project totaling approximately $949,000, $778,000 and $477,000, respectively. Since the date of inception of this project, we have incurred approximately $3,037,000 in research and development costs.

While we have reached several key milestones with our avian transgenics project, we can not estimate when and if we may be able to begin commercialization of this technology. Additional work is necessary to be able to express the targeted proteins in the egg whites of transgenic chickens in sufficient quantities to make the process commercially viable. There can be no assurance as to if, or when, this target will be met. Additional costs to be incurred through commercialization are estimated at a minimum of $2.0 million. However, as research is ongoing, total costs that could be incurred through commercialization are not determinable. Future material net cash inflows, if any, are not reasonably certain and are not determinable at this time. This is a new technology and there is no precedent to be used to estimate the size of the potential market or the demand for this technology.

Oncology

Our research and development projects in the field of oncology are focused on the development of therapeutic proteins for the treatment of targeted cancers as follow:

Anti-CD55 Antibody

In collaboration with Cancer Research UK, we are developing a monoclonal antibody designed to block the protective effect of the protein CD55 on 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 complement system, part of the human immune system response against disease. The problem arises when cancer cells also express this control protein to camouflage themselves from the immune system. The anti-CD55 antibody is designed to remove the tumor s protective mechanism and, in theory, may boost patient response rates either as a stand-alone therapy or in combination with other antibodies. Under a worldwide exclusive commercial license granted to us, we are developing an antibody to remove this protection from tumor cells. A successful therapy could also offer protection against cancer spreading. We believe this technology may prove useful in the treatment of colorectal, breast, ovarian and certain bone cancers.

For the three and nine months ended March 31, 2004, costs incurred related to the CD55 project totaled approximately $49,000 and $137,000, respectively. For the fiscal years ended 2003, 2002, and 2001, we incurred costs related to the CD55 project totaling approximately $144,000, $298,000 and $258,000, respectively. Since the date of inception of this project, we have incurred approximately $837,000 in research and development costs.

The anti-CD55 antibody project has not reached clinical trials and we do not expect to commence clinical trials during calendar year 2004, if at all.

Table of Contents

IEP 11

We entered into an agreement with the University of Miami s Sylvester Comprehensive Cancer Center to develop anti-cancer technology. The joint project is designed to develop a novel form of an immune enhancing drug that has shown promise by inhibiting tumor growth in rats for a broad range of cancers. This drug is a novel 11 amino acid peptide called IEP 11, which was derived from a tumor transmembrane glycoprotein. It possesses anti-cancer vaccine properties both prophylactically and therapeutically.

For the three and nine months ended March 31, 2004, costs incurred related to the IEP 11 project totaled approximately $5,000 and $10,000, respectively. For the fiscal year ended 2003 we incurred costs related to the IEP 11 project totaling approximately $85,000. Since the date of inception of this project, we have incurred approximately $95,000 in research and development costs.

It is too early too determine if and when this project will reach clinical trials.

R24 Monoclonal Antibody

In collaboration with Memorial Sloan-Kettering Cancer Center, we have initiated research on monoclonal antibodies targeting ganglioside GD3 for the treatment of melanoma and possibly certain other cancers. Monoclonal antibodies are laboratory-produced, highly specialized therapeutic proteins designed to locate and bind to targeted cancer cells.

For the nine months ended March 31, 2004, costs incurred related to the R24 project totaled approximately $15,000. For the fiscal years ended 2003, 2002, and 2001, we incurred costs related to the R24 project totaling approximately $598,000, $629,000 and $218,000, respectively. Since the date of inception of this project, we have incurred approximately $1,553,000 in research and development costs.

It is too early too determine if and when this project will reach clinical trials.

Notch-1 Monoclonal Antibody

Under a worldwide exclusive license from the U.S. National Institutes of Health (NIH), we were researching the clinical applications of a monoclonal antibody that recognizes the Notch-1 protein. Binding of the antibody to the protein signals the immune response to activate lymphocytes, modulating immunity. The antibody may also be useful in adjuvant therapies. During fiscal 2003, we suspended research and related expenditures on this project to explore scientific issues related to the license from the NIH. Subsequent to our fiscal year end, we terminated the license.

For the nine months ended March 31, 2004, costs incurred related to the Notch-1 project totaled approximately $7,000. For the fiscal years ended 2003, 2002, and 2001, we incurred costs related to the Notch-1 project totaling approximately $2,000, $586,000 and $497,000, respectively. Since the date of inception of this project, we have incurred approximately $1,092,000 in research and development costs.

Table of Contents

Estimated completion dates, completion costs, and future material net cash inflows, if any, for the above oncological projects are not reasonably certain and are not determinable at this time. The timelines and associated costs for the completion of biopharmaceutical research and product development programs are difficult to accurately predict for various reasons, including the inherent exploratory nature of the work. The achievement of project milestones is dependent on issues which may impact development timelines and can be unpredictable and beyond our control. These issues include; availability of capital funding, presence of competing technologies, unexpected experimental results which may cause the direction of research to change, accumulated knowledge about the intrinsic properties of the candidate product, the availability of contract cell banking and manufacturing slots for the preparation of Good Manufacturing Practices grade material, results from preclinical and clinical studies, potential changes in prescribing practice and patient profiles and regulatory requirements.

The completion of all of the above research and development projects is dependent upon our ability to raise significant additional funding or our ability to identify potential collaborative partners that would share in project costs. Our future capital requirements are dependent upon many factors, including: revenue generated from the sale of our natural human alpha interferon product, progress with future clinical trials; the costs associated with obtaining regulatory approvals; the costs involved in patent applications; competing technologies and market developments; and our ability to establish collaborative arrangements and effective commercialization activities.

Recent Accounting Pronouncements

In January 2003, FASB issued Interpretation Number 46, *Consolidation of Variable Interest Entities* (FIN No. 46). This interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, provides guidance for identifying a controlling interest in a variable interest entity established by means other than voting interests. FIN No. 46 also requires consolidation of a variable interest entity by an enterprise that holds such a controlling interest. In December 2003, the FASB completed its deliberations regarding the proposed modification to FIN No. 46 and issued Interpretation Number 46R, *Consolidation of Variable Interest Entities an Interpretation of ARB No. 51* (FIN No. 46R). The decisions reached included a deferral of the effective date and provisions for additional scope exceptions for certain types of variable interests. Application of FIN No. 46R is required in financial statements of public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities (other than small business issuers) for all other types of entities is required in financial statements for periods ending after March 15, 2004. Adoption of FIN No. 46R did not have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* SFAS No. 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to existing financial instruments effective after the beginning of the first fiscal period after June 15, 2003. Adoption of this standard did not have a material impact on our consolidated financial position, results of operations or cash flows.

Table of Contents

Item 3. ***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 debt is subject to interest rate risk. While changes in market interest rates may affect the fair value of our fixed-rate long-term debt, we believe a change in interest rates would not have a material impact on our financial condition, future results of operations or cash flows.

Foreign Currency Exchange Risk

We conduct operations in several different countries. The balance sheet accounts of our operations in Scotland and Sweden are translated to U.S. dollars for financial reporting purposes and resulting adjustments are made to stockholders equity. The value of the respective local currency may strengthen or weaken against the U.S. dollar, which would impact the value of stockholders investment in our common stock. Fluctuations in the value of the British Pound and Swedish Krona against the U.S. dollar have occurred during our history, which have resulted in unrealized foreign currency translation gains and losses, which are included in accumulated other comprehensive income and shown in the equity section of our balance sheet.

While most of the transactions of our U.S. and foreign operations are denominated in the respective local currency, some transactions are denominated in other currencies. Since the accounting records of our foreign operations are kept in the respective local currency, any transactions denominated in other currencies are accounted for in the respective local currency at the time of the transaction. Upon settlement of this type of transaction, any foreign currency gain or loss results in an adjustment to income.

Our results of operations may be impacted by the fluctuating exchange rates of foreign currencies, especially the British Pound and Swedish Krona, in relation to the U.S. dollar. Most of the revenue and expense items of our foreign subsidiaries are denominated in the respective local currency. An unfavorable change in the exchange rate of the foreign currency against the U.S. dollar will result in lower revenue when translated into U.S. dollars. Operating expenses would also be lower in these circumstances.

During the nine months ended March 31, 2004, the U.S. dollar has experienced adverse fluctuations against the British Pound and the Swedish Krona. Based on the foreign currency exchange rates as of March 31, 2004, the U.S. dollar has lost approximately 10.66% and 5.53% of its value against the British Pound and Swedish Krona, respectively, since June 30, 2003. The weakening of the U.S. dollar has resulted in greater revenues, operating expenses, assets and liabilities of our foreign subsidiaries when translated to U.S. dollars.

We do not currently engage in hedging activities with respect to our foreign currency exposure. However, we continually monitor our exposure to currency fluctuations. We have not incurred significant realized losses on exchange transactions. If realized losses on foreign transactions were to become significant, we would evaluate appropriate strategies, including the possible use of foreign exchange contracts, to reduce such losses.

We were not adversely impacted by the European Union s adoption of the Euro currency. Our foreign operations to date have been located in Scotland and Sweden, which have not participated in the adoption of the Euro as of March

31, 2004.

Table of Contents

Item 4. ***Controls and Procedures***

Quarterly Controls Evaluation and Related CEO and CFO Certifications

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (Disclosure Controls) as of the end of the period covered by this Quarterly Report. The controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

Attached as exhibits to this Quarterly Report are certifications of the CEO and the CFO, which are required in accord with Rule 13a-14 of the Exchange Act. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Definition of Disclosure Controls

Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our Disclosure Controls include components of our internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with accounting principles generally accepted in the United States.

Limitations on the Effectiveness of Controls

Our management, including the CEO and CFO, does not expect that our Disclosure Controls or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Conclusions

Based upon the controls evaluation, our CEO and CFO have concluded that, subject to the limitations noted above, as of the end of the period covered by this Quarterly Report, our Disclosure Controls were effective to provide reasonable assurance that material information relating to Viragen and its consolidated subsidiaries is made known to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Table of Contents

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules13a-15(f) of the Exchange Act) that occurred during the quarter ended March 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 4. ***Submission of Matters to a Vote of Security Holders***

We held our annual stockholders meeting in Plantation, Florida on March 12, 2004. Stockholders voted:

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; and

5. To ratify the appointment of Ernst & Young LLP, as our independent auditors.

With a majority (88%) of the outstanding shares voting either by proxy or in person, the stockholders approved the proposals, voting as follows:

Proposal 1.	**For**	**Withhold**
Election of directors:		
Carl N. Singer	310,203,607	7,025,068
Per-Erik Persson	310,488,735	6,739,940
Randolph A. Pohlman	309,796,300	7,433,375
C. Richard Stafford	310,800,860	6,427,815

Proposal 2.	**For**	**Against**	**Abstain**
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	60,358,854	8,744,862	870,326

Proposal 3.	**For**	**Against**	**Abstain**
	60,200,910	8,899,614	873,248

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	

Table of Contents

Proposal 4.	For	Against	Abstain
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	60,073,651	8,986,824	913,297

Proposal 5.	For	Against	Abstain
To ratify the appointment of Ernst & Young LLP, as our independent auditors	314,898,706	1,735,197	594,772

Item 5. ***Other Information***

In March 2004, Charles A. Rice was appointed president and chief executive officer. He replaces Robert C. Salisbury who will continue to serve as a member of our board of directors and as president and chief executive officer of our wholly-owned subsidiary, ViraGenics, Inc.

Subsequent to the end of the fiscal quarter ended March 31, 2004, we entered into purchase agreements for the issuance and sale of $20 million in 7% convertible promissory notes maturing in 2006 and common stock purchase warrants. The notes were placed with a group of new and returning institutional investors. The $20 million purchase price for the notes and warrants has been placed in escrow pending satisfaction of all conditions precedent to closing, including receipt of stockholder approval for the sale of the notes and warrants, as well as for a reverse split of our common stock. The proceeds of the financing are expected to be used to progress the research, development, and commercialization of our portfolio of healthcare products and technologies, including an allocation to fund clinical studies for the purpose of seeking FDA approval for *Multiferon,* our natural human alpha interferon which is currently approved for sale in certain international markets.

The purchase agreements provide that we pay interest on the escrowed purchase price at the rate of 10% per annum until the closing date, at which time, the interest rate on the escrowed funds will be reduced to 7% per annum. The notes will be convertible into shares of our common stock at the lesser of $0.20 and the average closing bid prices for our common stock during the five trading days immediately following the reverse split. Each purchaser will also receive three-year warrants in an amount equal to 40% of the number of shares issuable upon conversion of its note, exercisable at 120% of the conversion price of the note.

The notes may be prepaid at 110% of their face amount, plus the issuance to note holders of additional warrants to purchase the number of shares of our common stock into which the notes would otherwise have been convertible, at an exercise price equal to the prevailing conversion price of the notes. If issued on prepayment, the warrants may be exercised for the period that would have been the remaining life of the notes had they not been prepaid. Commencing one year after issuance, we also have the right to require note holders to convert their notes, subject to certain limitations; provided that our common stock has traded at 200% or more of the conversion price of the notes on each of the 30 trading days ending five days prior to the date fixed for conversion.

Table of Contents

Our board of directors has authorized calling a special meeting of our stockholders in order to solicit the required approvals. The reverse stock split, which is expected to be at the rate of 1:10, would affect all shares of common stock outstanding, including those underlying stock options and warrants, immediately prior to the effective time of the reverse split. Closing of the sale of notes and warrants, at which the notes and warrants will be issued and the purchase price delivered, is expected to take place shortly after stockholder approval is obtained.

Item 6. ***Exhibits and Reports on Form 8-K***

(a) Exhibits:

10.98	Development, License and Collaboration Agreement between Roslin Institute (Edinburgh), ViraGenics, Inc. and Viragen, Inc. executed March 4, 2004, effective December 1, 2003.
10.99	Employment Agreement, Stock Option Agreements between Viragen and Charles A. Rice dated March 29, 2004.
10.100	Form of Securities Purchase Agreement dated as of April 1, 2004 between Viragen, Inc. and each of eight institutional investors (incorporated by reference to Exhibit 99.2 of Viragen, Inc. s Form 8-K filed with the Securities and Exchange Commission on April 5, 2004)
10.101	Form of convertible promissory note issuable at closing of Securities Purchase Agreement dated as of April 1, 2004 (incorporated by reference to Exhibit 99.4 of Viragen, Inc. s Form 8-K filed with the Securities and Exchange Commission on April 5, 2004)
10.102	Form of common stock purchase warrant accompanying notes issuable at closing of Securities Purchase Agreement dated as of April 1, 2004 (incorporated by reference to Exhibit 99.5 of Viragen, Inc. s Form 8-K filed with the Securities and Exchange Commission on April 5, 2004)
10.103	Form of common stock purchase warrant issuable upon prepayment of notes issuable at closing of Securities Purchase Agreement dated as of April 1, 2004 (incorporated by reference to Exhibit 99.6 of Viragen, Inc. s Form 8-K filed with the Securities and Exchange Commission on April 5, 2004)
31.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

Current Report on Form 8-K, filed April 5, 2004, listing items 5 and 7 as they relate to the Securities Purchase Agreement entered into on April 1, 2004.

45

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Viragen, Inc.

By: /s/ Dennis W. Healey
Dennis W. Healey
Executive Vice President and Principal Financial Officer

By: /s/ Nicholas M. Burke
Nicholas M. Burke
Vice President, Controller and Principal Accounting Officer

Date: May 7, 2004