

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 17, 1998
REGISTRATION NO. _____

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

NOVAVAX, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

22-2816046
(I.R.S. Employer
Identification Number)

8320 GUILFORD ROAD, COLUMBIA, MD 21046
(301) 854-3900
(Address, including zip code, and telephone number, including area code, of
registrant's principal executive offices)

RICHARD F. MARADIE
NOVAVAX, INC.
8320 GUILFORD ROAD
COLUMBIA, MD 21046
(301) 854-3900

(Name, address, including zip code, and telephone number, including area
code, of agent for service of process)

With a copy to:

DAVID A. WHITE, ESQ.
WHITE & MCDERMOTT, P.C.
65 WILLIAM STREET, SUITE 209
WELLESLEY, MA 02181
(781) 431-1700

Approximate date of commencement of proposed sale to the public: As soon
as practicable and from time to time after the effective date of this
Registration Statement.

If the only securities being registered on this Form are being offered
pursuant to dividend or interest reinvestment plans, please check the following
box. []

If any of the securities being registered on this Form are to be offered
on a delayed or continuous basis pursuant to Rule 415 under the Securities Act
of 1933, other than securities offered only in connection with dividend or
interest reinvestment plans, check the following box. [X]

If this Form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, please check the following box
and list the Securities Act registration statement number of the earlier
effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c)
under the Securities Act, check the following box and list the Securities Act
registration statement number of the earlier effective registration statement
for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule
434, please check the following box. []

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock (\$\$.01 par value)	2,206,350 shares (1)	\$ 5.09 (2)	\$11,230,321.50	\$3,312.94

(1) Includes (i) shares of Common Stock to be issued upon conversion of the Company's Series A Custom Convertible Preferred Stock (the "Series A Preferred Stock") and (ii) an indeterminate number of additional shares of Common Stock as may from time to time become issuable upon conversion of the Series A Preferred Stock by reason of stock splits, stock dividends and other similar transactions, which shares are registered hereunder pursuant to Rule 416 under the Securities Act.

(2) Estimated solely for the purpose of determining the registration fee and computed pursuant to Rule 457(c), based upon the average of the high and low sale prices on February 12, 1998, as reported by the American Stock Exchange.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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NOVAVAX, INC.
 CROSS REFERENCE SHEET PURSUANT TO ITEM 501(b)
 OF REGULATION S-K SHOWING LOCATION IN PROSPECTUS OF
 INFORMATION REQUIRED BY ITEMS OF FORM S-3

FORM S-3 REGISTRATION
 STATEMENT ITEM AND HEADING

LOCATION IN PROSPECTUS

1. Forepart of Registration Statement and Outside Front Cover Page of Prospectus.....	Facing Page of Registration Statement; Cross-Reference Sheet; Outside Front Cover Page of Prospectus
2. Inside Front and Outside Back Cover Pages of Prospectus.....	Inside Front Cover and Outside Back Cover of Prospectus; Available Information; Incorporation by Reference
3. Summary Information, Risk Factors and Ratio of Earnings to Fixed Charges.....	Risk Factors; Available Information
4. Use of Proceeds.....	Use of Proceeds
5. Determination of Offering Price.....	*
6. Dilution.....	*
7. Selling Security Holders.....	Selling Stockholders
8. Plan of Distribution.....	Plan of Distribution

9. Description of Securities to be Registered	*
10. Interests of Named Experts and Counsel...	Legality of Common Stock; Experts
11. Material Changes.....	*
12. Incorporation of Certain Documents by Reference.....	Incorporation of Certain Documents by Reference
13. Disclosure of Commission Position on Indemnification for Securities Act Liabilities	Indemnification

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* Item is omitted because it is either not required or inapplicable.

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INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED FEBRUARY 17, 1998

PROSPECTUS
NOVAVAX, INC.
2,206,350 SHARES OF COMMON STOCK (\$.01 PAR VALUE)

This Prospectus relates to the offer and sale of shares (the "Shares") of Novavax, Inc. (the "Company" or "Novavax") Common Stock, \$.01 par value, issuable upon conversion of the Company's Series A Custom Convertible Preferred Stock (the "Series A Preferred Stock") acquired by certain persons listed herein as "Selling Stockholders" (the "Selling Stockholders") on January 28, 1998, consisting of up to 2,206,350 shares of Common Stock to be issued upon conversion of the Series A Preferred Stock and an indeterminate number of additional shares of Common Stock as may from time to time become issuable upon conversion of the Series A Preferred Stock by reason of stock splits, stock dividends and other similar transactions, which shares are registered hereunder pursuant to Rule 416 under the Securities Act of 1933, as amended (the "Securities Act"). The Shares may be offered by the Selling Stockholders or by pledgees, donees, transferees or other successors in interest that receive such Shares as a gift, partnership distribution or other non-sale related transfer. The Series A Preferred Stock and the Common Stock issuable upon conversion of the Series A Preferred Stock have been and will be issued in transactions exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof. See "Recent Developments," "Selling Stockholders," and "Plan of Distribution." The Shares are being registered by the Company pursuant to registration rights granted to the Selling Stockholders.

The Shares may be offered and sold by the Selling Stockholders from time to time in open market or privately negotiated transactions at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The Selling Stockholders may effect such transactions by selling the Shares to or through broker-dealers and such broker-dealers may receive compensation in the form of discounts, concessions or commissions from the Selling Stockholders or the purchasers of the Shares for whom such broker-dealers may act as agent or to whom they sell as principal or both (which compensation to a particular broker-dealer might be in excess of customary commissions). See "Plan of Distribution."

None of the proceeds from the sale of the Shares by the Selling Stockholders will be received by the Company. The Company has agreed to bear certain expenses (other than selling commissions) in connection with the registration and sale of the Shares being offered by the Selling Stockholders, estimated at \$34,000. The Company has agreed to indemnify the Selling Stockholders against certain liabilities, including certain liabilities under

the Securities Act.

The Common Stock of the Company is listed for quotation on the American Stock Exchange under the symbol NOX. On February 12, 1998, the closing sale price of the Common Stock, as reported by the American Stock Exchange, was \$5.13 per share.

The Selling Stockholders and any broker-dealers or agents that participate with the Selling Stockholders in the distribution of the Shares may be deemed to be "underwriters" within the meaning of the Securities Act, and any commissions received by them and any profit on the resale

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of the Shares purchased by them may be deemed to be underwriting commission or discounts under the Securities Act.

AN INVESTMENT IN THE SECURITIES REGISTERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" COMMENCING ON PAGE 9.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH IN THIS PROSPECTUS OR IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF. NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES IN ANY JURISDICTION OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH JURISDICTION.

The date of this Prospectus is February 17, 1998.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed with the Securities and Exchange Commission (the "Commission") are incorporated herein by reference:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996;
2. The Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1997;
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1997;
4. The Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1997;
5. The Company's definitive Proxy Statement, dated April 8, 1997 relating to the Annual Meeting of Stockholders held on May 15, 1997; and
6. The description of the Common Stock contained in the Company's Registration Statement on Form 10, File No. 0-26770 filed on

September 14, 1995, filed pursuant to Section 12(b) of the Exchange Act.

All reports and other documents filed by the Company with the Commission pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), subsequent to the date hereof and prior to the filing of a post-effective amendment which indicates that all securities covered by this Prospectus have been sold or which deregisters all such securities then remaining unsold, shall be deemed to be incorporated by reference herein and to be a part hereof from the date of the filing of such reports and documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide without charge to each person to whom a copy of this Prospectus is delivered, upon written or oral request of any such person, a copy of any or all of the documents which are incorporated herein by reference, except for certain exhibits to such documents. Requests should be directed to the principal executive offices of the Company, 8320 Guilford Road, Columbia, MD 21046, Attention: Brenda L. Fugagli, Vice President, Finance, telephone: (301) 854-3900.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Exchange Act, and in accordance therewith, files reports and other information with the Commission. Reports, proxy and information statements and other information filed by the Company with the Commission pursuant to the informational requirements of the Exchange Act may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549 and at the Commission's regional offices located at Seven World Trade Center, 13th Floor, New York, New York 10048, and at Citicorp Center, 500 West Madison

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Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such materials also may be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549 at prescribed rates. In addition, the Commission maintains a World Wide Web site that contains reports, proxy and information statements and other information filed electronically by the Company since May 1996 at the following address: <http://www.sec.gov>. The Company has filed with the Commission in Washington, D.C. a registration statement (herein, together with all amendments and exhibits, referred to as the "Registration Statement") under the Securities Act with respect to the securities offered hereby. This Prospectus does not contain all the information included in the Registration Statement, certain items of which are omitted in accordance with the rules and regulations of the Commission. For further information pertaining to the Company and the Common Stock offered hereby, reference is made to such Registration Statement and the exhibits thereto.

The Company's Common Stock is listed on the American Stock Exchange. Reports, proxy and information statements and other information concerning the Company can be examined at the American Stock Exchange Inc., 86 Trinity Place, New York, New York 10006.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements under the captions "The Company," "Recent Developments" and "Risk Factors" contained in this Prospectus or as may

otherwise be incorporated by reference herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Forward-looking statements include, but are not limited to, statements regarding future product development and related clinical trials and statements regarding future research and development. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following: general economic and business conditions; competition; technological advances; ability to obtain rights to technology; ability to obtain and enforce patents; ability to commercialize and manufacture products; results of preclinical studies; results of research and development activities; business abilities and judgment of personnel; availability of qualified personnel; changes in, or failure to comply with, governmental regulations; ability to obtain adequate financing in the future; and other factors referenced in this Prospectus. See "Risk Factors." All forward-looking statements included in this document are based on information available to the Company on the date hereof and the Company assumes no obligation to update any such forward-looking statements.

THE COMPANY

Novavax, Inc. ("Novavax" or the "Company") is a biopharmaceutical company focusing on the research and development of proprietary topical and oral drug delivery technologies and the applications of those technologies. The Company's technology platforms involve the use of proprietary microscopic organized lipid structures as vehicles for the delivery of a wide variety of drugs and other therapeutic products, including certain hormones, anti-bacterial and anti-viral products and vaccine adjuvants. The Company's three lead product candidates are ESTRASORB(TM), a topical estrogen cream, ANDROSORB(TM), a topical testosterone cream and Helicore(TM), an oral anti-bacterial preparation for the treatment of Helicobacter pylori infection.

All three products are in various stages of clinical and pre-clinical trials as set forth below:

- The Company has completed pre-clinical and human safety studies for both ESTRASORB and ANDROSORB.

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- The Company is nearing completion of an ESTRASORB multiple dose, dose ranging study and a multiple dose, placebo-controlled pharmacokinetic study.
- The Company is currently completing a multiple dose pharmacokinetic study with ANDROSORB which began in the third quarter of 1997.
- The Company currently has several formulations of Helicore in pre-clinical and human safety studies.

THE NOVAVAX TECHNOLOGY PLATFORMS

Novavax has developed proprietary topical and oral drug delivery technologies using organized lipid structures (collectively, the "Novavax Technologies"). To date, the Company has utilized its technology in the development of Novasome lipid vesicles and micellar nanoparticles, which are sub-micron size lipid structures that also possess encapsulation capabilities. These structures may help with targeted delivery and controlled release. The Company believes its technologies may allow for the delivery of a wide variety of drugs and other therapeutics in a more cost effective manner than phospholipid liposomes and other delivery vehicles. Its technologies may be preferred over other transdermal delivery systems because of the potential reduction in side effects, primarily skin irritation. Additionally, future

applications may show advantages over injectable delivery technologies which may be invasive, inconvenient and/or painful.

Most commercial liposomes are composed of delicate phospholipids. Due to their inherent lack of stability and carrying capacity limitations, a limited number of drugs may be used with phospholipid liposomes. While capable of encapsulating certain (principally water soluble) drugs, phospholipid liposomes have a number of significant disadvantages including their expense and the need to use potentially hazardous organic solvents in their manufacture. In addition, the standard, multi-step phospholipid manufacturing process yields relatively small quantities of liposomes.

Novasome(R) lipid vesicles

Novasome lipid vesicles are proprietary organized lipid structures in which drugs or other materials can be encapsulated for delivery into the body topically or orally. Novasome lipid vesicles are made using the Company's patented manufacturing process from a variety of readily available chemicals called amphiphiles, which include fatty alcohols and acids, ethoxylated fatty alcohols and acids, glycol esters of fatty acids, glycerol fatty acid mono and diesters, ethoxylated glycerol fatty acid esters, glyceryl ethers, fatty acid diethanolamides and dimethyl amides, fatty acyl sarcosinates, "alkyds" and phospholipids. In December 1995, the Company entered into a licensing agreement with IGI, Inc. ("IGI"), the Company's former parent, entitling IGI to the exclusive use of the Novavax Technologies in certain fields. Currently, IGI uses Novasome lipid vesicles in a wide variety of cosmetic applications, including products sold by Estee Lauder and Revlon. The Company retains all rights to Novasome lipid vesicle technologies for use in pharmaceuticals.

Micellar Nanoparticles

Micellar nanoparticles ("MNPs") are submicron-sized, water miscible lipid structures that have different structural characteristics and are generally smaller than Novasome lipid vesicles. MNPs, like Novasome lipid vesicles, are derived from amphiphile molecules.

Novavax scientists have demonstrated the ability to incorporate alcohol soluble drugs and pesticides, vaccine adjuvants, proteins, whole viruses, flavors, fragrances and colors into MNPs. MNPs have the ability to entrap ethanol or methanol soluble drugs and to deliver certain of these drugs through intact skin. The MNP formulations used for the transdermal delivery of drugs have

cosmetic properties like creams and lotions. There may be inherent advantages over injectable delivery systems, which may be more invasive and/or inconvenient, and patch transdermal delivery systems, which may cause skin irritation.

NOVAVAX PRODUCT CANDIDATES

Topical Drug Delivery

The Company is using its micellar nanoparticle technology in the development of ESTRASORB, a cream designed for the delivery of 17B estradiol (estrogen) through the skin. Estrogen replacement therapy is currently used worldwide by menopausal (and post-menopausal) women to prevent osteoporosis, cardiovascular disease and other menopausal symptoms (e.g. "hot flashes"). Current estrogen replacement products include oral tablets or, more recently, transdermal patches. Oral estrogen tablets, however, have been associated with side effects primarily resulting from fluctuating blood hormone levels. Because of these side effects, transdermal patches for estrogen replacement were developed. While these patches help reduce blood hormone fluctuations, they may cause skin irritation and patient inconvenience associated with wearing and changing an external patch.

The Company believes that ESTRASORB may offer several advantages over existing therapies used for estrogen replacement. ESTRASORB is a lotion that may be applied to the skin much like a typical cosmetic cream. The Company believes ESTRASORB will be able to deliver a continuous amount of estrogen to the patient without the fluctuations in blood hormone levels associated with oral tablets. In addition, ESTRASORB does not contain materials that may cause the skin irritation associated with transdermal patches.

In 1995, the Company completed preclinical testing of ESTRASORB in a primate model. Results of this study demonstrated that ESTRASORB can be utilized to deliver estradiol through intact skin with maintenance of therapeutic serum estradiol levels for six days after a single topical application. Based on these results, the Company initiated a Phase I human trial of ESTRASORB involving 10 symptomatic menopausal women. In this study, each woman received a single topical application of ESTRASORB. This study was completed in the fourth quarter of 1996 with no significant adverse experiences noted. The Company is in the process of completing two additional human studies with ESTRASORB. The first is a multiple-dose, dose ranging, pharmacokinetic study begun in the second quarter of 1997. The second is a multiple-dose, pharmacokinetic, placebo controlled study begun in the third quarter of 1997 and currently being completed.

In September 1996, the Company completed the animal testing of ANDROSORB (testosterone) in its MNP transdermal drug delivery platform. In these tests, peak blood levels of testosterone were approximately three times higher than testosterone dissolved in ethanol. After a single topical cream application, peak serum levels of testosterone were as high as 35 nanograms per milliliter and persisted in the therapeutic range for 48 hours. The Company completed the human safety studies and submitted the results to the FDA in the third quarter of 1997. A multiple dose, pharmacokinetic human study which began in the third quarter of 1997 is currently being completed.

Testosterone replacement therapy is currently used by males who are testosterone deficient as a result of either primary or secondary hypogonadism. Testosterone in males is required to maintain sexual function and libido, maintain lean body mass, increase hemoglobin synthesis and maintain bone density. Current testosterone replacement therapy products include deep intramuscular injections or transdermal patches. The injections require frequent visits to a physician and may be associated with pain at the injection site and abscess. The transdermal

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patches may cause skin irritation and patient inconvenience associated with wearing and changing two to three external patches per day.

The Company believes that ANDROSORB may offer several advantages over current testosterone replacement therapies. ANDROSORB is a lotion that may be applied to the skin. This would eliminate the need for intramuscular injections. In addition, ANDROSORB does not contain materials that may cause the skin irritation associated with transdermal patches.

The Company has developed several other applications of technology in its MNP transdermal drug delivery technology platform. These product applications are for hormone replacement therapies and are in various stages of development and pre-clinical testing. The applications include Lo-ANDROSORB(TM), PROGESTSORB(TM), ALPROSORB(TM) and PROESTRASORB(TM), each of which is briefly described below:

- Lo-ANDROSORB(TM) - a low dose testosterone replacement therapy for women.
- PROGESTSORB(TM) - a progesterone replacement therapy for women.
- ALPROSORB(TM) - a cream designed for the delivery of Prostaglandin E(1) for men suffering from erectile dysfunction.

- PROESTRASORB(TM) - a combination progesterone and estrogen hormone replacement therapy for women.

The Company believes its MNP and other technologies are suitable for the delivery of additional alcohol soluble drugs.

Helicore Microbicidal Preparations

The Company has developed proprietary lipid structure formulations that it is using in the development of a non-antibiotic anti-bacterial preparation for the treatment of Helicobacter pylori ("H. pylori") infection in humans. H. pylori was recognized in 1994 by the National Institutes of Health as a causative agent of peptic ulcer disease, antral gastritis and certain types of gastric cancer. It is estimated that 30-80 million adults in the U.S. are infected with H. pylori. Each year the treatment of complications of H. pylori infections (i.e. peptic ulcer disease) in the U.S. alone costs in excess of five billion dollars. Current therapies for the treatment of H. pylori include the use of antibiotics alone or antibiotics in combination with drugs that inhibit acid production in the stomach. Problems associated with such therapies include, but are not limited to, cost, toxicity, failure to sufficiently eradicate all the bacteria, and acquired resistance to the antibiotic.

In 1995 the Company began to test formulations of Helicore(TM) in both animal studies and human safety studies. Results from studies completed in 1996 were submitted to the FDA. A multiple-dose, dose ranging study which began in the second quarter of 1997 is currently being completed. Additional pre-clinical studies on various formulations are still in process.

Vaccine Adjuvants

Adjuvants are substances that make vaccines more effective. The Company believes that certain of its organized lipid structures (e.g., Novasome lipid vesicles and MNPs) may provide effective and safe adjuvant carrier systems for a variety of vaccines. The Company believes both Novasome lipid vesicles and MNPs may be used as vaccine adjuvants and protective carriers in a variety of circumstances, including: (i) encapsulation and protection of delicate antigenic materials from destruction by the body's normal enzymatic processes; (ii) encapsulation of toxic materials, such as endotoxins and other potent toxins, for gradual releases, thereby providing protection of the body from the toxin while generating an immune response to the toxic antigen; (iii) presentation of small peptide antigens to elicit a heightened cellular immune response; and (iv) delivery of genes and other molecules into targeted cells.

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The Company has entered into several research contracts to provide vaccine products, services, and adjuvant technologies. These contracts accounted for \$229,678 of revenue for the nine months ended September 30, 1997.

Patents

The Company has 45 issued and 8 pending United States patents and 53 issued and 73 pending international patents covering the composition, manufacture and use of its organized lipid structures and related technologies.

Incorporation and Spin-off

The Company was incorporated in Delaware in 1987. Its principal executive offices are currently located at 8320 Guilford Road, Columbia, Maryland. On December 12, 1995, the Company's former parent, IGI, Inc., distributed its majority interest in Novavax to the IGI stockholders (the "Distribution").

The primary focus of Novavax is the development of human pharmaceuticals and drug delivery technologies. Historically, the focus of the Company was on the development of human vaccines, vaccine adjuvants, drug delivery technologies (such as ESTRASORB and ANDROSORB) and anti-infective pharmaceuticals (such as Helicore). Novavax has developed several oral vaccines, two of which (ECOVAX 0157(TM) and Shigella flexneri 2a) completed Phase I human studies. The Company's three lead product candidates are ESTRASORB(TM), a topical estrogen cream, ANDROSORB(TM), a topical testosterone cream, and Helicore(TM), an oral anti-bacterial preparation for the treatment of Helicobacter pylori infections. These products are in various phases of development. The Company has completed animal and human safety studies for both ESTRASORB and ANDROSORB and has other clinical studies underway. Currently, several formulations of Helicore are in animal and human safety studies.

Although the Company began development of its pharmaceutical product candidates later than, and as byproducts of, its vaccine development, its primary emphasis is now on these pharmaceutical product candidates for the following reasons:

- Much larger potential markets
- Lower estimated clinical development costs
- Measurements of clinical efficacy are more easily defined
- Current financial resources do not permit concurrent development of both multiple vaccine and pharmaceutical programs

Consistent with prudent use of the Company's limited cash resources, the clinical development programs for both oral active vaccine immunization programs have been presently suspended in favor of the development of its three lead pharmaceutical product candidates. The Company submitted clinical study plans for ESTRASORB, ANDROSORB and Helicore to the FDA in 1997. Those studies are in various stages of completion. The Company has the potential, dependent upon future capital, to develop other human pharmaceutical products utilizing its proprietary drug delivery platform technologies. It has several such products in various stages of pre-clinical development.

Issuance of Series A Custom Convertible Preferred Stock

On January 23, 1998, the Company entered into Subscription Agreements (the "Subscription Agreements") with each of the named Selling Stockholders to effectuate the private placement (the "Private Placement") of 6,500 shares of the Series A Preferred Stock. The closing of the sale of the Series A Preferred Stock occurred on January 28, 1998 (the "Issuance Date") at an aggregate purchase price of \$6,500,000. The Company received the proceeds therefor and paid Diaz & Altschul Capital, LLC a fee of \$425,233 in consideration for its services as placement agent. The Shares being registered hereunder represent shares underlying the 6,500 shares of the Series A Preferred Stock issued to the Selling Stockholders pursuant to the Subscription Agreements. The Series A Preferred Stock, with a purchase price of \$1,000 per share, is convertible into shares of Common Stock at a conversion price equal to (i) during a period of 90 days following the Issuance Date, 100% of the lowest arithmetic average of the lowest sale price of the Common Stock on each of two consecutive trading days during the 25 consecutive trading days immediately preceding the conversion date as reported on the American Stock Exchange (the "Two Day Average Trading Price") or (ii) during the period on and after the date which is 91 days after the Issuance Date, 94% of the Two Day Average Trading Price (the "Conversion Price"). The Conversion Price has a ceiling price of \$6.33 per share and, within the first 180 days after the Issuance Date, applicable floor prices based on conversion dates.

In evaluating the Company and its business, prospective investors should carefully consider the following risk factors in addition to the other information appearing in or incorporated by reference in this Prospectus.

Early Stage of Product Development. Novavax has not yet completed the development of any products and has not begun to generate any revenue from the commercialization of products. All of Novavax's potential products are in research, development or early-stage clinical trials. The development of products, if any, will require significant additional research, development, preclinical and clinical testing, regulatory approval and investment prior to commercialization, which may never occur. None of Novavax's pharmaceuticals or other products is expected to be commercially available for at least several years.

Success in the pharmaceuticals market depends on Novavax's ability to complete satisfactorily the development of pharmaceuticals based on the Novavax Technologies that will be safe and efficacious and will have benefits not available in competitive products; and no assurance can be given that it will be successful in doing so. Novavax's potential products are subject to the risks of failure inherent in the development of pharmaceutical products based on new technologies. These risks include the possibilities that Novavax's approach will not be successful; that any or all of Novavax's potential products will be found to be unsafe, ineffective or otherwise fail to meet applicable regulatory standards or receive necessary regulatory clearances; that the potential products, if safe and effective, will be difficult to develop into commercially viable products or manufacture on a large scale, be uneconomical to market, or fail to obtain acceptance by the medical community; that proprietary rights of third parties will preclude Novavax from marketing such products; or that third parties will market superior or equivalent products. There can be no assurance that any of these products will be successfully developed and, whether produced by Novavax or by its licensees or partners, will meet applicable regulatory standards, obtain required regulatory approvals, be capable of being produced in commercial quantities at reasonable costs or be successfully marketed.

Absence of Revenue from Products. Novavax's future growth will depend on its ability to commercialize its Novavax Technologies for human pharmaceutical applications. To date, despite

entering into research contracts to provide vaccine products, services and adjuvant technologies, Novavax has not generated any revenue from the sale of pharmaceuticals. During the years ended December 31, 1994, 1995 and 1996 and the nine months ended September 30, 1997, Novavax incurred net losses of \$5,690,036, \$8,494,358, \$5,494,985, and \$3,482,481 respectively. The losses have resulted from expenses incurred in the Company's research and development programs, protection of intellectual property and, to a lesser extent, from other general, administrative and operating expenses. Novavax expects cumulative losses will increase in the near-term as it conducts additional clinical trials and seeks regulatory approval for its product candidates. Payments from collaborative partners, if any, and investment income are expected to be the only sources of revenue for the foreseeable future and revenues from commercial sales of products are not expected for a number of years, if at all. There can be no assurance that the Company will be successful in entering into strategic alliances or collaborative arrangements that will result in significant revenues. Novavax expects to continue to incur substantial operating losses unless and until such time, if ever, as product sales, licensing fees and royalty payments generate sufficient revenue to fund its continuing operations. The time required to reach profitability is highly uncertain. There can be no assurance that the Company will be able to achieve profitability on a sustained basis, if at all.

Additional Financing Requirements and Access to Capital. Novavax will require substantial funds to continue its research and development, future preclinical and clinical trials, regulatory approvals, establishment of commercial-scale manufacturing capabilities, and marketing its products.

Novavax's capital requirements depend on numerous factors, including but not limited to the progress of its research and development programs, the progress of preclinical and clinical testing, the time and costs involved in obtaining regulatory approvals, the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, competing technological and market developments, changes in Novavax's existing research relationships, the ability of Novavax to establish collaborative arrangements, the development of commercialization activities and arrangements, and the purchase of additional facilities and capital equipment. Novavax estimates that its existing cash resources, together with the net proceeds of the Private Placement, will only be sufficient to finance its operations at its current level for approximately 18-24 months. There can be no assurance, however, that such estimate will be correct. Novavax will seek to obtain additional funds for these purposes through public or private equity or debt financings, collaborative arrangements with pharmaceutical companies or from other sources. If additional funds are raised by issuing equity securities of Novavax, dilution to then existing stockholders may result. There can be no assurance that additional funding or bank financing will be available at all or on acceptable terms to permit successful commercialization of the Novavax Technologies and products. If adequate funds are not available, Novavax may be required to significantly delay, reduce the scope of or eliminate one or more of its research or development programs, or seek other alternatives to avoid insolvency, including arrangements with collaborative partners or others that may require Novavax to relinquish rights to certain of its technologies, product candidates or products.

Uncertainty of Patents and Proprietary Rights. Although Novavax has 45 issued and 8 pending United States patents and 53 issued and 73 pending international patents, its success will depend, in large part, on its ability to maintain its existing patents, obtain new patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties or having third parties circumvent Novavax's rights. Novavax has U.S. and foreign patent rights covering its Novavax Technologies, including its Novamix production equipment. The patent positions of pharmaceutical companies can be highly uncertain and involve complex legal, scientific and factual questions. To date, no consistent policy has emerged regarding the breadth of biotechnology patent claims that are granted by the United States Patent and Trademark Office or enforced by the Federal courts. Thus, there can be no assurance that any of Novavax's existing patents will not be challenged or future patent applications will result in the issuance of patents, that Novavax will develop additional proprietary products that are patentable, that any patents issued to Novavax will provide Novavax with any competitive advantages or will not be challenged by any

third parties, that the patents of others will not impede the ability of Novavax to do business or that third parties will not be able to circumvent Novavax's patents. Furthermore, there can be no assurance that others will not independently develop or duplicate similar technology or products, or, if patents are issued to Novavax, design around the patents issued to Novavax. The failure of the Company or its licensors to obtain or maintain patent protection for the Company's products could have a material adverse effect on the Company.

Novavax may be required to obtain licenses from third parties to avoid infringing patents or other proprietary rights. No assurance can be given that any licenses required under any such patents or proprietary rights would be made available, if at all, on terms acceptable to Novavax. If Novavax does not obtain such licenses, it could encounter delays in product introductions, or could find that the development, manufacture or sale of products requiring such licenses could be prohibited. In addition, Novavax could incur substantial costs in defending itself in suits brought against Novavax on patents it might infringe or in filing suits against others to have such patents declared invalid.

Some of Novavax's know-how and technology may not be patentable. To protect its rights, Novavax requires employees, consultants, advisors and

collaborators to enter into confidentiality agreements. There can be no assurance, however, that these agreements will provide meaningful protection for Novavax's trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure. Further, Novavax's business may be adversely affected by competitors who independently develop competing technologies, especially if Novavax obtains no, or only narrow, patent protection.

Technological Change and Competition. The pharmaceutical industry is subject to rapid and substantial technological change and intense competition. Competitors of Novavax in the United States and abroad are numerous and include, among others, both large and small pharmaceutical companies, biotechnology firms, universities and other research institutions. There can be no assurance that Novavax's competitors will not succeed in developing technologies and products that are more effective than any which are being developed by Novavax or which would render Novavax's technologies and products obsolete or noncompetitive. Most of these competitors have substantially greater financial and technical resources and production and marketing capabilities than Novavax. In addition, many of Novavax's competitors have significantly greater experience than Novavax in conducting preclinical testing and clinical trials of human pharmaceuticals and obtaining FDA and other regulatory approvals of products for use in health care. Accordingly, Novavax's competitors may succeed in obtaining FDA approval for products more rapidly than Novavax. If Novavax commences significant commercial sales of any products, it will also be competing with respect to manufacturing efficiency and marketing capabilities, areas in which it has limited or no experience.

Need to Establish Collaborative Commercial Relationships; Dependence on Partners. Novavax's business strategy for its products is to enter into strategic alliances or licensing arrangements with corporate partners, primarily pharmaceutical companies, relating to the development and commercialization of certain products incorporating the Novavax Technologies for commercialization outside the United States. There can be no assurance that Novavax will be able to negotiate acceptable collaborative arrangements, that such collaborations will be available to Novavax on acceptable terms, that any such relationships, if established, will be scientifically or commercially successful or that any collaborative partner will have economic motivation to continue funding provided for under any such agreements or that such collaboration will be successful. Novavax expects that under certain of these arrangements, the collaborative partner will have the responsibility for conducting human clinical trials and the submission for regulatory approval of the product candidate with the appropriate regulatory agencies. Should the collaborative partner fail to develop a marketable product, Novavax's business may be adversely affected. There can be no assurance that Novavax's collaborative partners will not be pursuing

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alternative technologies either on their own or in collaboration with others, including Novavax's competitors, as a means for developing treatments for the diseases targeted by these collaborative programs. Novavax's business also will be affected by the success of its corporate partners in marketing any successfully developed products within the geographic areas in which such partners are granted marketing rights. Novavax may retain manufacturing rights for some of the products that it develops and licenses pursuant to arrangements with corporate partners. However, there can be no assurance that Novavax will be able to retain such rights on acceptable terms, if at all, or that Novavax will have the ability to produce the quantities of product required under the terms of such arrangements. Novavax's royalties from sales of products licensed to collaborators, if any, may be less than the revenues Novavax could have generated had it commercialized and marketed products itself.

Attraction and Retention of Key Employees and Scientific Collaborators. Novavax is highly dependent on the principal members of its scientific and managerial staff, the loss of whose services could have a material adverse effect on Novavax. Furthermore, recruiting and retaining qualified scientific

personnel to perform research and development work in the future will also be critical to Novavax's success. There can be no assurance that Novavax will be able to attract and retain such personnel on acceptable terms given the competition among numerous pharmaceutical companies, universities and non-profit research institutions for experienced scientists. Novavax's anticipated growth and expansion into areas and activities requiring additional expertise such as clinical testing, governmental approvals, production and marketing, are expected to place increased demands on Novavax's resources. These demands are expected to require the addition of new management personnel and the development of additional expertise by existing management personnel. The failure to acquire such services or to develop such expertise could materially adversely affect Novavax's business.

Limited Manufacturing Capability. The development and manufacture of Novavax's products are subject to current good laboratory practices ("GLP") and good manufacturing practices ("GMP") requirements prescribed by the FDA or other standards prescribed by the appropriate regulatory agency in the country of use. Novavax currently has the ability to produce quantities of Novasome lipid vesicles sufficient to support its current needs. Novavax also has the ability to produce quantities of its products sufficient to support its current research and development and early-stage clinical trial needs. However, Novavax will need to acquire additional manufacturing facilities and improve its manufacturing technology in order to meet the volume and cost requirements for later clinical trials and commercial production of its own pharmaceuticals if it elects to do so. If Novavax decides to establish additional manufacturing facilities, doing so will require substantial additional funds, the hiring and retention of significant additional personnel and compliance with extensive regulations applicable to such facilities. There can be no assurance that Novavax will be able to obtain or manufacture such products in a timely fashion at acceptable quality and prices, that it or its suppliers can comply with GLP or GMP, as applicable, or that it or its suppliers will be able to manufacture an adequate supply of product. If Novavax relies on collaborators, licensees or contract manufacturers for the commercial manufacture of its products, the Company will have only limited control over the commercial manufacturing of its products. There can be no assurance that Novavax will be able to enter into any such manufacturing arrangements on acceptable terms, if at all. If the Company is not able to enter into commercial manufacturing agreements or develop its own commercial manufacturing capacity, it could encounter delays in introducing its products into certain markets, or find that the manufacture of its products in these markets is adversely affected. There can be no assurance that the parties to the Company's future commercial manufacturing agreements will perform their obligations as expected, or that any revenue will be derived from these commercial manufacturing agreements.

Absence of Sales and Marketing Experience. Novavax expects to commercialize and sell certain of its products through co-marketing arrangements with third parties. In addition, Novavax

may build a small targeted direct sales group for products in markets that can be accessed with a small to medium size sales force, if and when such products approach FDA marketing approval. To date, though, Novavax has had no experience in sales, marketing or distribution of its products. In order to market its products directly, Novavax would need to develop a marketing staff and sales force with technical expertise. There can be no assurance that Novavax will be able to build such a marketing staff or sales force, that the cost of establishing such a marketing staff or sales force will not exceed any product revenue or that Novavax's direct sales and marketing efforts will be successful. In addition, if Novavax succeeds in bringing one or more products to market, it may compete with other companies that currently have extensive and well-funded marketing and sales operations. There can be no assurance that Novavax's marketing and sales efforts would compete successfully against such other companies. To the extent Novavax enters into co-marketing arrangements, any revenue received by Novavax will be dependent on the efforts of third parties and there can be no assurance that such efforts will be successful.

Government Regulation; Uncertainty of Clinical Trials. The production and marketing of Novavax's products and ongoing research and development activities are subject to regulation by numerous governmental authorities in the United States and other countries. Prior to marketing, any human pharmaceuticals developed by Novavax must undergo rigorous preclinical testing and clinical trials, as well as an extensive regulatory approval process mandated by the FDA and foreign regulatory agencies. These processes can take many years and require the expenditure of substantial resources. The rate of completion of clinical trials is dependent upon, among other factors, the rate of patient enrollment. Patient enrollment is a function of many factors, including the size of the patient population, the nature of the protocol, the Company's ability to manage the clinical trial, the proximity of patients to clinical sites and the eligibility criteria for the study. Several factors, such as delays in planned patient enrollment, may result in increased costs and delays or termination of clinical trials prior to completion, which could have a material adverse effect on Novavax. Clinical trials generally must meet requirements for institutional review board oversight and informed consent, as well as regulatory agency prior review, oversight and good clinical practice requirements. Data obtained from preclinical and clinical activities are susceptible to varying interpretations which could delay, limit or prevent regulatory approval. In addition, delays or rejections may be encountered based upon changes in the policies of regulatory authorities for drug approval during the period of product development and regulatory review of each submitted new drug application or product license application. Novavax may be required to demonstrate that the proposed product represents an improved form of treatment over existing therapies. Novavax has limited experience in conducting and managing the preclinical and clinical trials necessary to obtain government approvals. There can be no assurance that the results of such clinical trials will be consistent with the results obtained in preclinical studies or that the results obtained in later phases of clinical trials will be consistent with those obtained in earlier phases. A number of companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials, even after experiencing promising results in early animal and human testing. There also can be no assurance that any human pharmaceutical products will be shown to be safe and efficacious or that regulatory approval for any such product will be obtained on a timely basis, if at all. Delays in obtaining regulatory approvals would adversely affect the marketing of products developed by Novavax and Novavax's ability to receive product revenue or royalties. Moreover, if regulatory approval of a drug is granted, such approval is likely to entail limitations on the indicated uses for which it may be marketed. Further, even if such regulatory approval is obtained, a marketed drug and its manufacturer are subject to continual review, and discovery of previously unknown problems with a product or manufacturer may result in restrictions on such product or manufacturer, including withdrawal of the product from the market. There can be no assurance that Novavax will be able to obtain the clearances and approvals necessary for clinical testing or for manufacturing and marketing its products. Existing or additional government regulation could prevent or delay regulatory approval of Novavax's products or affect the pricing or marketing of such products.

Quarterly Fluctuations of Operating Results. Novavax's quarterly operating results are likely to vary significantly depending on factors such as the timing of new license agreements, the results of preclinical or clinical trials, the timing of collaborative agreements for the development of products, the timing of significant orders and the introduction of products by Novavax. Novavax's expense levels are based in part on its expectations as to future revenue. If revenue levels are below expectations, operating results will be adversely affected. Novavax believes that period-to-period comparisons of its operating results are not necessarily meaningful and should not be relied upon as indications of future performance. As a result of the foregoing factors, it is likely that in some future quarters, Novavax's revenue or operating results will be below the expectations of public market analysts and investors. In such event, the price of Novavax's Common Stock could be materially adversely affected.

Product Liability. Although Novavax is not currently a party to any product liability litigation, the testing, manufacturing, marketing and sale of human medical products entail potential product liability risks, including claims made by consumers, health care providers, pharmaceutical companies or others selling such products. There can be no assurance that substantial product liability claims will not be asserted against Novavax. Novavax currently has limited product liability coverage for the clinical research use of its product candidates. Novavax does not have product liability insurance for the commercial sale of its potential product candidates but intends to obtain such coverage if and when its products are commercialized. Such insurance, however, is expensive, difficult to obtain and may not be available in the future on acceptable terms, or at all. No assurance can be given that product liability insurance can be maintained in the future at a reasonable cost or in sufficient amounts to protect Novavax against losses due to liability. An inability to maintain insurance at an acceptable cost or to otherwise protect against potential product liability could prevent or inhibit the continued commercialization of Novavax's products. In addition, a product liability claim in excess of relevant insurance coverage, if any, or a product recall could have a material adverse effect on Novavax's business, financial condition and results of operations.

Hazardous Materials. Novavax's development and commercial activities may involve the controlled use of hazardous materials, chemicals, viruses, bacteria and other pathogens. Although Novavax believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by state, federal and local regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, Novavax could be held liable for any damages that result and any such liability could exceed the resources of Novavax. The Company may be required to incur significant costs to comply with environmental laws and regulations in the future.

Uncertainty of Third-Party Reimbursement. In both domestic and foreign markets, the ability of Novavax to commercialize its product candidates will depend, in part, on the availability of reimbursement from third-party payors, such as government health administration authorities, private health insurers and other organizations. Third-party payors are increasingly challenging the price and cost-effectiveness of medical products. There can be no assurance that Novavax-developed products will be considered cost effective. Significant uncertainty exists as to the reimbursement status of newly-approved healthcare products. There can be no assurance that adequate third-party insurance coverage will be available for Novavax to establish and maintain price levels sufficient for realization of an appropriate return on its investment in developing new therapies. Government and other third-party payors are increasingly attempting to contain medical costs by limiting both coverage and the level of reimbursement of new therapeutic products approved for marketing by the FDA and by refusing, in some cases, to provide coverage for uses of approved products for disease indications for which the FDA has not granted marketing approval. If adequate coverage and reimbursement levels are not provided by government or third-party payors for uses of Novavax's products, the market acceptance of these products would be

adversely affected, which could have a material adverse effect on Novavax's business, financial condition and results of operations.

Uncertainty Related to Medical Reform Measures. There have been a number of federal and state proposals during the last few years to subject the pricing of pharmaceuticals to government control and to make other changes to the medical care system of the United States. It is uncertain what legislative proposals will be adopted or what actions federal, state or private payors for medical goods and services may take in response to any medical reform proposals or legislation. Novavax cannot predict the effect these reforms may have on its business, and no assurance can be given that any such reforms will not have a material adverse effect on Novavax.

Volatility of Stock Price; Possible Delisting; Absence of Dividends. The market prices for securities of biotechnology and pharmaceutical companies, including Novavax, have historically been highly volatile, and it is likely that the market price of Novavax Common Stock will continue to be highly volatile. Since its listing on the American Stock Exchange ("AMEX"), the closing price of the Novavax Common Stock on the American Stock Exchange (the "AMEX") has ranged between a low of \$3.00 per share and a high of \$8.13 per share. Announcements of technological innovations or new commercial products by Novavax or its competitors, regulatory developments, disputes concerning patent or proprietary rights, publicity regarding actual or potential medical results relating to products under development by Novavax or its competitors, public concern as to the safety of Novavax's products, and economic and other external factors unrelated to Novavax's business or operations, as well as period-to-period fluctuations in financial results, may have a significant impact on the market price of Novavax Common Stock.

Novavax Common Stock is currently traded on the AMEX. A failure to continue to meet the AMEX's maintenance requirements may result in a delisting of the Novavax Common Stock. In particular, Novavax may have difficulty maintaining the minimum market capitalization requirements of the AMEX because such capitalization is dependent on the price at which the shares of Novavax Common Stock trade from time to time. The liquidity of delisted securities, which would probably trade in the over-the-counter markets, may be impaired, not only in the number of shares that could be bought or sold, but also through delays in the timing of transactions, reductions in security analysts' and the news media's coverage of Novavax, and lower prices than might otherwise be attained.

Novavax has never paid cash dividends on the Novavax Common Stock and does not anticipate paying any cash dividends in the foreseeable future.

Dilution. As of December 31, 1997, there were outstanding stock options for an aggregate of 3,414,637 shares of Novavax Common Stock at a weighted average exercise price of \$3.34 per share. In addition, as of December 31, 1997, there were outstanding warrants to purchase an aggregate of 1,300,000 shares of Novavax Common Stock at a weighted average exercise price of \$6.80 per share. The Private Placement also resulted in the adjustment to the number and exercise price of shares subject to the warrants described herein, which effect cannot be determined because the adjustment is based on a market price formula dependent upon the time the Series A Preferred Stock is converted and/or the time the warrant is exercised. Investors purchasing shares of Novavax Common Stock in this offering may incur dilution to the extent that the outstanding options and warrants are exercised.

Potential Conflicts of Interest. Dr. Hager, a director and Chairman of the Board and former Chief Executive Officer of Novavax, serves as a director and as Chairman of the Board and Chief Executive Officer of IGI. In addition, Dr. Hager's wife, Jane E. Hager, serves as a director of both Novavax and IGI. Dr. Hager and Mrs. Hager constitute two out of the nine members of the Novavax Board of Directors. The presence of individuals serving in decision-making roles in both companies may affect the ability of each company to receive the best arms' length result in

transactions between the two companies as well as the ability of the officers and directors to act in the best interests of both companies.

Novavax and IGI have entered into a variety of intercompany agreements, the terms of which were unilaterally established by IGI. In connection with the Distribution, IGI paid Novavax \$5,000,000 in return for a fully paid-up ten-year license entitling it to the exclusive use of the Novavax Technologies in certain fields. IGI has the option, exercisable in the last year of the ten-year term, to extend the License Agreement for an additional ten-year period for \$1,000,000. Novavax retains the right to use its Novavax Technologies for all

other applications, including most human pharmaceuticals. Novavax has agreed in a Tax Matters Agreement to use its best efforts not to engage in certain actions ("Post-Distribution Acts") which could render the Distribution taxable. If the Distribution is rendered taxable as a result of a Post-Distribution Act, then (x) the corporate level taxable gain would be recognized by the consolidated group of which IGI is the parent, (y) both IGI, as parent of that group, and Novavax as a former member of that group, would be severally liable for the corporate level tax on such gain and (z) each holder of IGI Common Stock who received shares of Novavax Common Stock in the Distribution would be treated as having received a taxable dividend. In addition, under a Transition Services Agreement, IGI provided certain administrative services to Novavax prior to June 30, 1996 and was paid \$230,000 for such services rendered.

Anti-takeover Provisions. Novavax's Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation"), requires that any action required or permitted to be taken by stockholders of Novavax must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing, and will require reasonable advance notice by a stockholder of a proposal or director nomination which such stockholder desires to present at any annual or special meeting of stockholders. Special meetings of stockholders may be called only by the Chief Executive Officer or, if none, the President of Novavax or the Board of Directors. The Certificate of Incorporation provides for a classified Board of Directors, and members of the Board of Directors may be removed only for cause upon the affirmative vote of holders of at least two-thirds of the shares of capital stock of Novavax entitled to vote. Novavax's By-Laws provide that, during any time in which the directors of Novavax who are affiliated with IGI shall constitute at least half of the membership of the Novavax Board of Directors, any matter requiring approval of the Novavax Board of Directors shall be subject to the approval of not less than two-thirds of the directors.

The Board of Directors also has the authority, without further action by the stockholders, to fix the rights and preferences of, and issue shares of, Preferred Stock, as evidenced by the purchase and sale of the Series A Preferred Stock. Furthermore, the Certificate of Designations of the Series A Preferred Stock requires the affirmative vote of the holders of a majority (and in some instances the unanimous vote) of outstanding shares of the Series A Preferred Stock, voting separately as a class, for any amendments or modifications to the Certificate of Incorporation which would materially and adversely affect the powers, preferences and rights of the Series A Preferred Stock or create and issue senior dividend or senior liquidation stock. These provisions, and other provisions of Novavax's Certificate of Incorporation and By-Laws, may have the effect of deterring hostile takeovers or delaying or preventing changes in control or management of Novavax, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices. In addition, these provisions may limit the ability of stockholders to approve transactions that they may deem to be in their best interests.

SELLING STOCKHOLDERS

The following table sets forth certain information with respect to the Selling Stockholders, including (i) the name of the Selling Stockholders, (ii) the number of shares of Common Stock owned by the Selling Stockholders prior to the offering and (iii) the maximum number of shares of

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such Common Stock to be offered hereby. Because the Selling Stockholders may offer and sell all or a portion or none of the Common Stock offered pursuant to this Prospectus, no estimate can be given as to the amount of Common Stock that will be held by the Selling Stockholders upon termination of the offering. See "Plan of Distribution."

The Shares being offered hereby by the Selling Stockholders may be

acquired, from time to time, upon the conversion of 6,500 shares of the Series A Preferred Stock which were acquired by them from the Company in the Private Placement. This Prospectus covers the resale by the Selling Stockholders of the Shares consisting of up to approximately 2,206,350 shares, plus, in accordance with Rule 416 under the Securities Act, such presently indeterminate number of additional shares as may be issuable upon conversion of the Series A Preferred Stock by reason of stock splits, stock dividends and other similar transactions, including fluctuations in the conversion price of the Series A Preferred Stock. The offer and sale by the Company of the Series A Preferred Stock pursuant to the Subscription Agreements were made pursuant to an exemption from registration under Section 4(2) of the Securities Act. See "Recent Developments."

The Shares covered by this Prospectus may be offered from time to time by the Selling Stockholders named below and the transferees, pledgees, donees and other successors thereof described under "Plan of Distribution":

Name of Selling Stockholder	Number of Shares Beneficially Owned Prior to Offering (1)(2)	Maximum Number of Shares Being Offered (2)
Delta Opportunity Fund, Ltd. (3)	1,272,894	1,272,894
Olympus Securities, Ltd. (4)	373,382	373,382
Nelson Partners (4)	305,495	305,495
OTATO Limited Partnership (5)	254,579	254,579
Total	2,206,350	2,206,350

(1) Pursuant to the Company's Certificate of Designation of the Series A Preferred Stock, no Selling Stockholder can convert Series A Preferred Stock to the extent such conversion would increase such Selling Stockholder's beneficial ownership of the Common Stock (other than shares so owned through ownership of the Series A Preferred Stock) to an amount in excess of 4.9%.

(2) Represents each Selling Shareholder's pro rata portion (based on their ownership of Series A Preferred Stock) of the 2,206,350 shares of Common Stock being registered hereby. The 2,206,350 shares of Common Stock represent approximately 1,508,120 shares which would be issuable to the Selling Stockholders upon conversion of all of the Series A Preferred Stock assuming a conversion price of \$4.31 (which represents 94% of the Two Day Average Trading Price during the 25 trading days prior to February 17, 1998 and is subject to fluctuations from time to time based on changes in the market price of the Common Stock) plus an additional 698,230 shares to equal the amount required to be registered by the Company pursuant to the Subscription Agreements. Does not include an indeterminate number of additional shares of Common Stock as may from time to time become issuable upon conversion of the Series A Preferred Stock by reason of stock splits, stock dividends and other similar transactions, which shares are registered hereunder pursuant to Rule 416 under the Securities Act.

(3) Diaz & Altschul Advisors, LLC, a New York limited liability company ("D&A Advisors"), serves as investment advisor to Delta Opportunity Fund, Ltd. ("Delta") and may be deemed to share beneficial ownership of the Shares beneficially owned by Delta by reason of shared power to dispose of the Shares beneficially owned by Delta. D&A Advisors disclaims beneficial ownership of the Shares beneficially owned by Delta.

(4) Citadel Limited Partnership is the managing general partner of Nelson Partners ("Nelson"), and the trading manager of Olympus Securities, Ltd. ("Olympus") and consequently has voting control and investment discretion over securities held by both Nelson and Olympus. The ownership information for Nelson does not include the Shares owned by Olympus and the ownership information for Olympus does not include the Shares owned by Nelson.

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(5) An affiliate of OTATO Limited Partnership serves as a trading consultant to Delta and may be deemed to share beneficial ownership of the Shares beneficially owned by such Selling Stockholder by reason of sharing power to dispose of the Shares beneficially owned by such Selling Stockholder. Such affiliate disclaims beneficial ownership of such Shares.

USE OF PROCEEDS

The Company will not receive any proceeds from the sale of the Shares by the Selling Stockholders.

PLAN OF DISTRIBUTION

The Company has filed with the Commission the Registration Statement, of which this Prospectus forms a part, with respect to the resale of the Shares from time to time by the Selling Stockholders in open market or privately negotiated transactions. Pursuant to the Subscription Agreements for the purchase and sale of the Series A Preferred Stock, the Company has agreed to keep the Registration Statement effective until the earlier of (i) the date on which no Selling Stockholder holds, or has any right to acquire, any of the shares of Common Stock offered hereby and (ii) the date which is three years from the Issuance Date. The Company intends to deregister any of the Shares not sold by the Selling Stockholders at the end of such period.

The Company has been advised that the Selling Stockholders may sell the Shares from time to time in transactions on the AMEX, in the over-the-counter market, in negotiated transactions, or a combination of such methods of sale, at fixed prices which may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The Selling Stockholders may effect such transactions by selling the Shares to or through broker-dealers, including block trades in which brokers or dealers will attempt to sell the Shares as agent but may position and resell the block as principal to facilitate the transaction, or in one or more underwritten offerings on a firm commitment or best efforts basis. Sales of Selling Stockholders' Shares may also be made pursuant to Rule 144 under the Securities Act, where applicable.

To the extent required under the Securities Act, the aggregate amount of Selling Stockholders' Shares being offered and the terms of the offering, the names of any such agents, brokers, dealers or underwriters and any applicable commission with respect to a particular offering will be set forth in an accompanying Prospectus supplement. Any underwriters, dealers, brokers or agents participating in the distribution of the Shares may receive compensation in the form of underwriting discounts, concessions or commissions from the Selling Stockholders or the purchasers of the Shares for whom such underwriters or broker-dealers may act as agent or to whom they sell as principal, or both (which compensation to a particular underwriter or broker-dealer might be in excess of customary commissions). The Selling Stockholders will be responsible for all brokerage commissions and other amounts payable with respect to any sale of Shares with respect to such Selling Stockholders and any legal, accounting or other expenses incurred.

From time to time, one or more of the Selling Stockholders may pledge, hypothecate or grant a security interest in some of all of the Shares owned by them, and the pledgees, secured parties or person to whom such securities have been hypothecated shall, upon foreclosure in the event of default, be deemed to be Selling Stockholders hereunder. In addition, a Selling Stockholder may, from

time to time, sell short the Common Stock of the Company, and in such instances, this Prospectus may be delivered in connection with such short sales and the Shares offered hereby may be used to cover such short sales.

From time to time, one or more of the Selling Stockholders may transfer, pledge, donate or assign such Selling Stockholders' Shares to lenders or others and each of such persons will be deemed to be a "Selling Stockholder" for purposes of this Prospectus. The number of Selling

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Stockholders' Shares beneficially owned by those Selling Stockholders who so transfer, pledge, donate or assign Selling Stockholders' Shares will decrease as and when they take such actions. The plan of distribution for Selling Stockholders' Shares sold hereunder will otherwise remain unchanged, except that the transferees, pledgees, donees or other successors will be Selling Stockholders hereunder.

A Selling Stockholder may enter into hedging transactions with broker-dealers and the broker-dealers may engage in short sales of the Common Stock in the course of hedging the position they assume with such Selling Stockholder, including, without limitation, in connection with distributions of the Common Stock by such broker-dealers. A Selling Stockholder may also enter into options or other transactions with broker-dealers that involve the delivery of the Common Stock to the broker-dealers, who may then resell or otherwise transfer such Common Stock. A Selling Stockholder may also loan or pledge the Common Stock to a broker-dealer and the broker-dealer may sell the Common Stock so loaned or, upon a default, may sell or otherwise transfer the pledged Common Stock.

In order to comply with the securities laws of certain states, if applicable, the Shares will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states the Shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

The Selling Stockholders and any broker-dealers who act in connection with the sale of Shares hereunder may be deemed to be "underwriters," as such term is defined in the Securities Act, and any commissions received by them or profit on any resale of the Shares might be deemed to be underwriting discounts and commissions under the Securities Act.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the Shares may not bid for or purchase shares of Common Stock during a period which commences one business day (5 business days, if the Company's public float is less than \$25 million or its average daily trading volume is less than \$100,000) prior to such person's participation in the distribution, subject to exceptions for certain passive market making activities. In addition and without limiting the foregoing, each Selling Stockholder will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including without limitation, Regulation M, which provisions may limit the timing of purchases and sales of shares of the Company's Common Stock by such Selling Stockholder.

Pursuant to the Subscription Agreements, the Company agreed to register the Shares under the Securities Act and to indemnify and hold the Selling Stockholders harmless against certain liabilities, including certain liabilities under the Securities Act, that could arise in connection with the sale by the Selling Stockholders of the Shares. The Company has agreed to bear certain expenses (other than selling commissions) in connection with the registration and sale of the Shares being offered by the Selling Stockholders, estimated to be \$34,000.

Certain legal matters with respect to the shares of Common Stock offered hereby have been passed upon by White & McDermott, P.C., 65 William Street, Suite 209, Wellesley, Massachusetts 02181. David A. White, a shareholder of such firm, owns 10,000 shares of the Common Stock and is the Secretary of the Company.

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EXPERTS

The consolidated balance sheets as at December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1996, incorporated by reference into this Prospectus, have been incorporated herein in reliance on the report of Coopers & Lybrand L.L.P., independent accountants, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1996 given on the authority of that firm as experts in accounting and auditing.

INDEMNIFICATION

Article NINTH of the Company's Restated Certificate of Incorporation provides that a director or officer of the Company (a) shall be indemnified by the Company against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement incurred in connection with any litigation or other legal proceeding (other than an action by or in the right of the Company) brought against him by virtue of his position as a director or officer of the Company if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful and (b) shall be indemnified by the Company against all expenses (including attorneys' fees) and amounts paid in settlement incurred in connection with any action by or in the right of the Company brought against him by virtue of his position as a director or officer of the Company if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Company, except that no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the Company, unless a court determines that, despite such adjudication but in view of all of the circumstances, he is entitled to indemnification of such expenses. Notwithstanding the foregoing, to the extent that a director or officer has been successful, on the merits or otherwise, including, without limitation, the dismissal of an action without prejudice, he is required to be indemnified by the Company against all expenses (including attorneys' fees) incurred in connection therewith. Expenses shall be advanced to a director or officer at his request, provided that he undertakes to repay the amount advanced if it is ultimately determined that he is not entitled to indemnification for such expenses.

Indemnification is required to be made unless the Company determines that the applicable standard of conduct required for indemnification has not been met. In the event of a determination by the Company that the director or officer did not meet the applicable standard of conduct required for indemnification, or if the Company fails to make an indemnification payment within 60 days after such payment is claimed by such person, such person is permitted to petition the court to make an independent determination as to whether such person is entitled to indemnification. As a condition precedent to the right of indemnification, the director or officer must give the Company notice of the action for which indemnity is sought and the Company has the right to participate in such action or assume the defense thereof.

Article NINTH of the Company's Restated Certificate of Incorporation further provides that the indemnification provided therein is not exclusive, and provides that in the event that the Delaware General Corporation Law is amended to expand the indemnification permitted to directors or officers the Company must indemnify those persons to the fullest extent permitted by such law as so

amended.

Section 145 of the Delaware General Corporation Law provides that a corporation has the power to indemnify a director, officer, employee or agent of the corporation and certain other persons serving at the request of the corporation in related capacities against amounts paid and expenses incurred in connection with an action or proceeding to which he is or is threatened to be made a party by reason of such position, if such person shall have acted in good faith and in a

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manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal proceeding, if such person had no reasonable cause to believe his conduct was unlawful, provided that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the adjudicating court determines that such indemnification is proper under the circumstances.

The Company maintains insurance under which the insurers will reimburse the Company for amounts that it has paid to its directors and officers as indemnification for claims against such persons in their official capacities. The insurance also covers such persons as to amounts paid by them as a result of claims against them in their official capacities that are not reimbursed by the Company. The insurance is subject to certain limitations and exclusions.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

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NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF OR THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE SUCH DATE.

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NOVAVAX, INC.
2,206,350 SHARES OF COMMON STOCK
PROSPECTUS

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PART II
INFORMATION NOT REQUIRED IN PROSPECTUS - FORM S-3

Item 14. Other Expenses of Issuance and Distribution.

The expenses to be borne by the Company in connection with this offering are as follows:

SEC Registration Fee.....	\$ 3,312.94
AMEX Listing Fee.....	17,500.00
Legal Services and Expenses.....	8,500.00*
Accounting Services and Expenses.....	3,500.00*
Miscellaneous expenses.....	1,187.06* -----
Total	\$ 34,000.00*

*Estimated

Item 15. Indemnification of Directors and Officers.

Article NINTH of the Company's Restated Certificate of Incorporation provides that a director or officer of the Company (a) shall be indemnified by the Company against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement incurred in connection with any litigation or other legal proceeding (other than an action by or in the right of the Company) brought against him by virtue of his position as a director or officer of the Company if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful and (b) shall be indemnified by the Company against all expenses (including attorneys' fees) and amounts paid in settlement incurred in connection with any action by or in the right of the Company brought against him by virtue of his position as a director or officer of the Company if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Company, except that no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the Company, unless a court determines that, despite such adjudication but in view of all of the circumstances, he is entitled to indemnification of such expenses. Notwithstanding the foregoing, to the extent that a director or officer has been successful, on the merits or otherwise, including, without limitation, the dismissal of an action without prejudice, he is required to be indemnified by the Company against all expenses (including attorneys' fees) incurred in connection therewith. Expenses shall be advanced to a director or officer at his request, provided that he undertakes to repay the amount advanced if it is ultimately determined that he is not entitled to indemnification for such expenses.

Indemnification is required to be made unless the Company determines that the applicable standard of conduct required for indemnification has not been met. In the event of a determination by the Company that the director or officer did not meet the applicable standard of conduct required for indemnification, or if the Company fails to make an indemnification payment within 60 days after such payment is claimed by such person, such person is permitted to petition the court to make an independent determination as to whether such person is entitled to indemnification. As a condition precedent to the right of indemnification, the director or officer must give the Company notice of the action for which indemnity is sought and the Company has the right to participate in such action or assume the defense thereof.

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Article NINTH of the Company's Restated Certificate of Incorporation further provides that the indemnification provided therein is not exclusive, and provides that in the event that the Delaware General Corporation Law is amended to expand the indemnification permitted to directors or officers the Company must indemnify those persons to the fullest extent permitted by such law as so amended.

Section 145 of the Delaware General Corporation Law provides that a corporation has the power to indemnify a director, officer, employee or agent of the corporation and certain other persons serving at the request of the corporation in related capacities against amounts paid and expenses incurred in connection with an action or proceeding to which he is or is threatened to be made a party by reason of such position, if such person shall have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal proceeding, if such person had no reasonable cause to believe his conduct was unlawful, provided that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the adjudicating court determines that such indemnification is proper under the circumstances.

The Company maintains insurance under which the insurers will reimburse the Company for amounts that it has paid to its directors and officers as indemnification for claims against such persons in their official capacities. The insurance also covers such persons as to amounts paid by them as a result of claims against them in their official capacities that are not reimbursed by the Company. The insurance is subject to certain limitations and exclusions.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

Item 16. Exhibits.

See Exhibit Index, incorporated herein by reference.

Item 17. Undertakings.

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities

offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement.

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(iii) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the Company pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) The undersigned Registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X are not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Columbia, Maryland, on February 17, 1998.

NOVAVAX, INC.

By: /s/ Richard F. Maradie

Richard F. Maradie
Chief Executive Officer

POWER OF ATTORNEY

We, the undersigned officers and directors of Novavax, Inc., hereby severally constitute and appoint Richard F. Maradie and David A. White, and each of them singly, our true and lawful attorneys-in-fact, with full power to them in any and all capacities, to sign any amendments to this Registration Statement on Form S-3 (including Pre- and Post-Effective Amendments), and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Name ----	Title -----	Date ----
/s/ Richard F. Maradie Richard F. Maradie	Director and Chief Executive Officer	February 17, 1998
/s/ Brenda L. Fugagli Brenda L. Fugagli	Vice President, Finance and Chief Financial Officer	February 17, 1998
/s/ Wayne A. Downing Wayne A. Downing	Director	February 17, 1998
/s/ Edward B. Hager Edward B. Hager	Director	February 17, 1998
/s/ Jane E. Hager Jane E. Hager	Director	February 17, 1998
30 /s/ Mitchell J. Kelly Mitchell J. Kelly	Director	February 17, 1998
/s/ J. Michael Lazarus J. Michael Lazarus	Director	February 17, 1998
/s/ John O. Marsh, Jr. John O. Marsh, Jr.	Director	February 17, 1998
Ronald A. Schiavone	Director	February 17, 1998
/s/ Ronald H. Walker Ronald H. Walker	Director	February 17, 1998

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EXHIBIT INDEX

The exhibits marked with an asterisk are filed herewith. The remainder of the exhibits have heretofore been filed with the Commission and are incorporated herein by reference.

4.1 Restated Certificate of Incorporation of the Registrant. (Incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement File No. 0-26770 filed September 14, 1995 on Form 10 (the "Registration Statement").)

4.2* Certificate of Designations of Series A Custom Convertible Preferred Stock of the Registrant filed with the Delaware Secretary of State on January 28, 1998.

4.3 Restated By-laws of Registrant. (Incorporated by reference to Exhibit 3.2 to the Registration Statement.)

4.4 Specimen stock certificate for shares of Common Stock, par value \$.01 per share. (Incorporated by reference to Exhibit 4.1 to the Registration Statement.)

4.5* Form of Subscription Agreement dated January 23, 1998 between Novavax, Inc. and each of four named Selling Stockholders.

5.1* Opinion and Consent of White & McDermott, P.C.

23.1* Consent of Coopers & Lybrand L.L.P., Independent Accountants.

23.2* Consent of White & McDermott, P.C. (Contained in its opinion filed as Exhibit 5.1 to this Registration Statement.)

24.1* Power of Attorney. (Included in the signature pages hereto.)

NOVAVAX, INC.

CERTIFICATE OF DESIGNATIONS
OF
SERIES A CUSTOM
CONVERTIBLE PREFERRED STOCK

(Pursuant to Section 151 of the General Corporation
Law of the State of Delaware)

Novavax, Inc., a Delaware corporation (the "Corporation"), in accordance with the provisions of Section 103 of the General Corporation Law of the State of Delaware DOES HEREBY CERTIFY:

That pursuant to authority vested in the Board of Directors of the Corporation (the "Board of Directors" or the "Board") by the Certificate of Incorporation, as amended, of the Corporation, the Board of Directors, at a meeting duly called and held on December 4, 1997, adopted a resolution providing for the creation of a series of the Corporation's Preferred Stock, \$.01 par value, which series is designated "Series A Custom Convertible Preferred Stock", which resolution is as follows:

RESOLVED, that pursuant to authority vested in the Board of Directors by the Certificate of Incorporation, as amended, the Board of Directors does hereby provide for the creation of a series of the Preferred Stock, \$.01 par value (hereafter called the "Preferred Stock"), of the Corporation, and to the extent that the voting powers and the designations, preferences and relative, participating, optional or other special rights thereof and the qualifications, limitations or restrictions of such rights have not been set forth in the Amended and Restated Certificate of Incorporation, as amended, of the Corporation, does hereby fix the same as follows:

SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK

SECTION 1. CERTAIN DEFINED TERMS. (a) All the agreements or instruments defined in this Certificate of Designations shall mean such agreements or instruments as the same may from time to time be supplemented or amended or the terms thereof waived or modified to the extent permitted by, and in accordance with, the terms thereof and of this Certificate of Designations.

(b) The following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Accrual Amount" means with respect to any share of Series A Preferred Stock on any date an amount calculated at the rate of five percent per annum of the Accrual Value of such share from the issuance date to the date of determination.

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"Accrual Value" means \$1,000.00 per share of Series A Preferred Stock.

"Affiliate" means, with respect to any Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or under common control with the subject Person. For purposes of the term "Affiliate," the term "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, direct or

indirect, of the power to direct or to cause the direction of the management and policies of a Person, whether through the ownership of securities, by contract or otherwise.

"Aggregated Person" means, with respect to any holder of shares of Series A Preferred Stock, any Person whose beneficial ownership of shares of Common Stock would be aggregated with such holder's beneficial ownership of shares of Common Stock for purposes of Section 13(d) of the 1934 Act and Regulation 13D-G thereunder.

"AMEX" means the American Stock Exchange, Inc.

"Board of Directors" or "Board" means the Board of Directors of the Corporation.

"Business Combination Redemption Percentage" means with respect to a redemption of shares of Series A Preferred Stock in accordance with Section 10(b)(6), the applicable percentage determined with respect to the date of payment of the redemption price as follows:

Date of Payment -----	Business Combination Redemption Percentages -----
Issuance Date through 360th day thereafter	125%
On or after 361st day after the Issuance Date	130%

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

"Cash and Cash Equivalent Balances" of any Person on any date shall be determined from such Person's books maintained in accordance with Generally Accepted Accounting Principles, and means, without duplication, the sum of (1) the cash accrued by such Person and its subsidiaries on a consolidated basis on such date and available for use by such Person and its subsidiaries on such date and (2) all assets which would, on a consolidated balance sheet of such Person and its subsidiaries prepared as of such date in accordance with Generally Accepted Accounting Principles, be classified as cash or cash equivalents.

"Common Stock" means the Common Stock, \$.01 par value, of the Corporation.

"Conversion Agent" means Boston EquiServe, or its duly appointed successor who shall be serving as transfer agent and registrar for the Common Stock and who shall have been authorized by the Corporation to act as conversion agent for the Series A Preferred Stock in accordance with the Conversion Agent Agreement and the name, address and telephone number of which shall have been given to the holder of the Series A Preferred Stock by notice from the Corporation.

"Conversion Agent Agreement" means the Conversion Agent Agreement, dated as of January 28, 1998, by and among the Corporation, the Conversion Agent and the original holders of the shares of Series A Preferred Stock.

"Conversion Date" means the date on which a Conversion Notice is actually received by the Conversion Agent, whether by mail, courier, personal service, telephone line facsimile transmission or other means, in case of a conversion at the option of a holder of shares of Series A Preferred Stock pursuant to Section 10(a).

"Conversion Floor Percentage" means, with respect to each Conversion Date on or before the date which is 180 days after the Issuance Date, the applicable percentage determined with respect to such Conversion Date as

follows:

Conversion Date -----	Conversion Floor Percentage -----
Issuance Date through 30th day thereafter	105%
31st through 60th day after Issuance Date	100%
61st through 90th day after Issuance Date	95%
91st through 120th day after Issuance Date	90%
121st through 150th day after Issuance Date	85%
151st through 180th day after Issuance Date	80%

"Conversion Notice" means a Notice of Conversion of Series A Custom Convertible Preferred Stock substantially in the form set forth in Section 14(a).

"Conversion Price" for any Conversion Date

(1) during the period commencing on the Issuance Date and ending on the date which is 90 days after the Issuance Date, means 100% of the lowest Two-Day Average Trading Price during the applicable Measurement Period for such Conversion Date; and

(2) on and after the date which is 91 days after the Issuance Date, shall mean 94% of the lowest Two-Day Average Trading Price during the applicable Measurement Period for such Conversion Date;

provided, however, that on any date on or before the 180th day after the Issuance Date, the Conversion Price shall not be less than the product obtained by multiplying (a) \$5.403125 (subject to equitable adjustments from time to time on terms reasonably acceptable to the Majority Holders for (1) stock splits, (2) stock dividends, (3) combinations, (4) capital reorganizations (5) issuance to all holders of Common Stock rights or warrants to purchase shares of Common Stock, (6) the distribution by the Corporation to all holders of Common Stock of evidences of indebtedness of the Corporation or cash (other than regular quarterly cash dividends), and (7) similar events relating to the Common Stock, in each such case which occur, or with respect to which "ex-" trading of the Common Stock begins on or after the date of filing of this Certificate of Designations with the Secretary of State of the State of Delaware and on or before the applicable Conversion Date, in each case on a basis consistent with the adjustments set forth in the definition of Trading Price) times (b) the Conversion Floor Percentage applicable to the Conversion Date for which the Conversion Price is being

determined; provided further, however, that the Conversion Price shall not be greater than \$6.33 (subject to equitable adjustments from time to time on terms reasonably acceptable to the Majority Holders for (1) stock splits, (2) stock dividends, (3) combinations, (4) capital reorganizations (5) issuance to all holders of Common Stock rights or warrants to purchase shares of Common Stock, (6) the distribution by the Corporation to all holders of Common Stock of evidences of indebtedness of the Corporation or cash (other than regular quarterly cash dividends), and (7) similar events relating to the Common Stock, in each such case which occur, or with respect to which "ex-" trading of the Common Stock begins on or after the date of filing of this Certificate of Designations with the Secretary of State of the State of Delaware and on or before the applicable Conversion Date, in each case on a basis consistent with the adjustments set forth in the definition of Trading Price).

"Corporation Notice" means a Corporation Notice substantially in the form set forth in Section 14(h).

"Generally Accepted Accounting Principles" for any Person means the generally accepted accounting principles and practices applied by such Person from time to time in the preparation of its audited financial statements.

"Holder Notice" means a Holder Notice substantially in the form set forth in Section 14(i).

"Holder Registration Redemption Notice" means a Holder Registration Redemption Notice substantially in the form set forth in Section 14(j).

"Inconvertibility Day" means any Trading Day on which the Corporation would not have been required to convert in accordance with Section 10(a) any shares of Series A Preferred Stock of any holder of shares of Series A Preferred Stock as a consequence of the limitations set forth in Section 7(a)(1) had all outstanding shares of Series A Preferred Stock held by such holder on such Trading Day, other than such holder's Stockholder Approval Portion in the case of any Trading Day on or before June 30, 1998, been converted into Common Stock on such Trading Day, determined at the Conversion Price applicable on such Trading Day and without regard to the limitation, if any on such holder contained in the second sentence of Section 10(a).

"Inconvertibility Notice" means a notice from the Corporation to a holder of shares of Series A Preferred Stock in the form set forth in Section 14(b) or a notice from a holder of shares of Series A Preferred Stock to the Corporation in the form set forth in Section 14(c).

"Indebtedness" as used in reference to any Person means all indebtedness of such Person for borrowed money, the deferred purchase price of property, goods and services and obligations under leases which are required to be capitalized in accordance with Generally Accepted Accounting Principles and shall include all such indebtedness guaranteed in any manner by such Person or in effect guaranteed by such Person through a contingent agreement to purchase and all indebtedness for the payment or purchase of which such Person has contingently agreed to advance or supply funds and all indebtedness secured by mortgage or other lien upon property owned by such Person, although such Person has not assumed or become liable for the payment of such indebtedness, and, for all purposes hereof, such indebtedness shall be treated as though it has been assumed by such Person.

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"Issuance Date" means the first date of original issuance of any shares of Series A Preferred Stock.

"Junior Dividend Stock" means, collectively, the Common Stock and any other class or series of capital stock of the Corporation ranking junior as to dividends to the Series A Preferred Stock.

"Junior Liquidation Stock" means, collectively, the Common Stock and any other class or series of capital stock of the Corporation ranking junior as to liquidation rights to the Series A Preferred Stock.

"Liquidation Preference" means, for each share of Series A Preferred Stock, the sum of (i) an amount equal to the Accrual Amount thereon to the date of final distribution to the holders of shares of Series A Preferred Stock in connection with the liquidation, dissolution or winding up of the Corporation plus (ii) \$1,000.

"Majority Holders" means at any time the holders of shares of Series A Preferred Stock which shares constitute a majority of the outstanding shares of Series A Preferred Stock.

"Mandatory Redemption Waiver" means an agreement of the Corporation

and a holder of shares of Series A Preferred Stock in the form set forth in Section 14(e).

"Market Price" of any security on any date means the closing bid price of such security on such date on the AMEX or such other securities exchange or other market on which such security is listed for trading which constitutes the principal securities market for such security, as reported by Bloomberg, L.P.

"Maximum Share Amount" means 2,406,350 shares, or such greater number of shares of Common Stock as shall be authorized and reserved for issuance and as permitted by the rules of the AMEX or such other principal securities exchange on which the Common Stock is listed at such time (such amount to be subject to equitable adjustment from time to time on terms reasonably acceptable to the Majority Holders for stock splits, stock dividends, combinations, capital reorganizations and similar events relating to the Common Stock occurring after the date of filing this Certificate of Designations with the Secretary of State of the State of Delaware), of Common Stock.

"Maximum Share Amount Inconvertibility" means the occurrence of five or more Inconvertibility Days within any period of ten consecutive Trading Days which occurs on or after the fifth Trading Day after the Issuance Date and prior to the date the Stockholder Approval shall have been obtained from the stockholders of the Corporation or waived by the AMEX (or such other principal securities exchange on which the Common Stock is listed at such time).

"Measurement Period" means with respect to any Conversion Date, the period of 25 consecutive Trading Days ending one Trading Day prior to such Conversion Date.

"NASD" means the National Association of Securities Dealers, Inc.

"Nasdaq" means the Nasdaq National Market.

"Net Cash and Cash Equivalent Balances" of any Person on any date means the consolidated Cash and Cash Equivalent Balances of such Person and its subsidiaries less the sum of (1) the amount of any outstanding Indebtedness of such Person or any of its subsidiaries which, directly or indirectly, is secured in whole or in part by, or restricts the use of, the consolidated Cash and Cash Equivalent Balances of such Person and its subsidiaries plus (2) the

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maximum amount which is not outstanding and which may be borrowed pursuant to any revolving credit facility or any commitment to lend of or to such Person or any of its subsidiaries which at the time it becomes outstanding will be secured in whole or in part by, or will so restrict, Cash and Cash Equivalent Balances.

"1934 Act" means the Securities Exchange Act of 1934, as amended.

"1933 Act" means the Securities Act of 1933, as amended.

"NYSE" means the New York Stock Exchange, Inc.

"Optional Redemption Date" means the date which is three Business Days after a holder of shares of Series A Preferred Stock who is entitled to redemption rights under Section 11(a) and 11(b) gives a Holder Notice.

"Optional Redemption Event" means any one of the following events:

(1) For any period of five consecutive Trading Days following the Issuance Date there shall be no reported sale price of the Common Stock on any of the AMEX, the Nasdaq or the NYSE;

(2) The Common Stock ceases to be listed for trading on the AMEX, the Nasdaq or the NYSE;

(3) Any consolidation or merger of the Corporation or any subsidiary of the Corporation with or into another entity (other than a merger or consolidation of a subsidiary of the Corporation into the Corporation or a wholly-owned subsidiary of the Corporation) where the stockholders of the Corporation immediately prior to such transaction do not collectively own at least 51% of the outstanding voting securities of the surviving corporation of such consolidation or merger immediately following such transaction or the common stock of such surviving corporation is not listed for trading on the NYSE, the AMEX or the Nasdaq; or the sale of all or substantially all of the assets of the Corporation and its subsidiaries;

(4) The taking of any action, including any amendment to the Certificate of Incorporation of the Corporation (other than any certificate designating a series of preferred stock of the Corporation) which materially and adversely affects the rights of the holders of shares of Series A Preferred Stock;

(5) The inability for a period of 30 days (whether or not consecutive) of any holder of shares of Series A Preferred Stock to sell shares of Common Stock issued upon conversion of shares of Series A Preferred Stock pursuant to the Registration Statement (1) by reason of the requirements of the Act, the 1934 Act or any of the rules or regulations under either thereof or (2) due to the Registration Statement containing any untrue statement of material fact or omitting to state a material fact required to be stated therein or necessary to make the statements therein not misleading or any other failure of the Registration Statement to comply with the rules and regulations of the SEC; or

(6) The Corporation shall fail or default in the timely performance of any material obligation to a holder of shares of Series A Preferred Stock under the terms of this Certificate of Designations or under the Subscription Agreement with such holder or any other agreement or document entered into in connection with the issuance of shares of Series A Preferred Stock, as such agreements and instruments may be amended from time to time.

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"Optional Redemption Percentage" means, with respect to each Optional Redemption Payment Date, the applicable percentage determined with respect to such date as follows:

Optional Redemption Payment Date -----	Optional Redemption Percentage -----
Issuance Date through 90th day thereafter	115.0%
91st through 270th day after Issuance Date	117.5%
271st Day after Issuance Date and thereafter	120.0%

"Optional Redemption Price" means an amount in cash equal to the product obtained by multiplying (a) the sum of (i) \$1,000 plus (ii) an amount equal to the Accrual Amount on the share of Series A Preferred Stock to be redeemed to the applicable Optional Redemption Date times (b) the Optional Redemption Percentage for the applicable Optional Redemption Date.

"Option Share Surrender" means the surrender of shares of Common Stock to the Corporation in payment of the exercise price or tax obligations incurred in connection with the exercise of a stock option granted by the Corporation to any of its employees, directors or consultants.

"Parity Dividend Stock" means any class or series or the

Corporation's capital stock ranking, as to dividends, on a parity with the Series A Preferred Stock.

"Parity Liquidation Stock" means any class or series of the Corporation's capital stock having parity as to liquidation rights with the Series A Preferred Stock.

"Permitted Indebtedness" means

(1) Indebtedness not in excess of \$250,000 aggregate principal amount which would be reflected on a consolidated balance sheet of the Corporation and its subsidiaries in accordance with Generally Accepted Accounting Principles;

(2) Indebtedness other than for borrowed money, including, without limitation, Indebtedness, whether or not required to be capitalized, incurred in the ordinary course of business of the Corporation and its subsidiaries, including, without limitation, trade payables, expense accruals, taxes, wages, salaries and employee benefit programs, acquisition of property, guaranties or other contingent liabilities, lease or rental obligations and loss contingencies;

(3) Indebtedness other than Indebtedness permitted under clause (1) of this definition, incurred after the Issuance Date and in an amount outstanding at any time not in excess of the product of (A) \$540,000 times (B) the number of full calendar months following the Issuance Date to the date of determination, but not in excess of \$6,480,000 aggregate principal amount outstanding at any time;

(4) guaranties by the Corporation of Indebtedness of subsidiaries of the Corporation, so long as the Indebtedness of such subsidiaries so guaranteed by the Corporation is permitted under this Certificate of Designations;

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(5) guaranties by the Corporation or any subsidiary of the Corporation arising out of the sale of accounts receivable by the Corporation or such subsidiary; and

(6) contingent liabilities of the Corporation or any subsidiary of the Corporation represented by endorsements of negotiable instruments for collection of deposit in the ordinary course of business of the Corporation or such subsidiary.

"Person" means an individual, partnership, corporation, limited liability company, trust, incorporated organization, unincorporated association or joint stock company.

"Quarterly Cash Requirements" on any date means the consolidated net cash used in operating activities of the Corporation and its subsidiaries for the most recent fiscal quarter for which, at such date, the Corporation has published a consolidated statement of cash flows, prepared in accordance with Generally Accepted Accounting Principles, as shown on such statement.

"Redemption Date" means (1) January 28, 2000; provided, however, that if on such date the Corporation is not permitted to redeem shares of Series A Preferred Stock solely by reason of an Optional Redemption Event as provided in clause (y) of Section 9(a), then the date provided in this clause (1) shall be March 29, 2000, and (2) January 29, 2001.

"Redemption Election" means (1) a notice by a holder of Series A Preferred Stock to the Corporation substantially in the form set forth in Section 15(d) or (2) a notice by a holder of Series A Preferred Stock to the Corporation included in paragraph 3 of the form of Inconvertibility Notice set forth in Section 15(c).

"Redemption Election Period" means, with respect to a particular Maximum Share Amount Inconvertibility or Registration Restriction Inconvertibility, the period of ten Business Days after the later of (x) the date an Inconvertibility Notice with respect to such Maximum Share Amount Inconvertibility or Registration Restriction Inconvertibility is given or (y) the date such Inconvertibility Notice was required to have been given by the Corporation.

"Redemption Notice" means a Redemption Notice substantially in the form set forth in Section 14(g).

"Redemption Price" means

(1) in the case of a Redemption Date on January 28, 2000 (or March 29, 2000, as the case may be), an amount in cash equal to the greater of (A) the product obtained by multiplying (i) the sum of (a) \$1,000 plus (b) an amount equal to the Accrual Amount on the share of Series A Preferred Stock to be redeemed to the date of payment of the Redemption Price times (ii) 110% and (B) an amount equal to the product obtained by multiplying (x) the number of shares of Common Stock which would, but for the redemption pursuant to Section 9(a), be issuable on conversion in accordance with Section 10(a) of one share of Series A Preferred Stock if a Conversion Notice were given by the holder of such share of Series A Preferred Stock on the Redemption Date (determined without regard to any limitation on beneficial ownership contained in the second sentence of Section 10(a)) times (y) the greater of (aa) the Market Price of the Common Stock on the Trading Day immediately preceding the Redemption Date and (bb)

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the arithmetic average of the Market Price of the Common Stock for the five Trading Days ending on the Trading Day immediately preceding the Redemption Date; and

(2) in the case of a Redemption Date on January 29, 2001, an amount in cash equal to the product obtained by multiplying (i) the sum of (x) \$1,000 plus (y) an amount equal to the Accrual Amount on the shares of Series A Preferred Stock to be redeemed to the date of payment of the Redemption Price times (ii) 105%.

"Registration Redemption Event" means the occurrence of either of the following events:

(a) the Corporation fails to file the Registration Statement within the 15-day period provided in Section 8(a)(1) of the Subscription Agreements; or

(b) the SEC Effective Date shall not have occurred on or before the date which is 90 days after the Issuance Date.

"Registration Redemption Price" means an amount in cash equal to the product obtained by multiplying (A) the sum of (i) \$1,000 plus (ii) an amount equal to the Accrual Amount on the share of Series A Preferred Stock to be redeemed to the date of such redemption in accordance with Section 11(c) times (B) 112.5%.

"Registration Restriction Inconvertibility" means that (1) if, notwithstanding Rule 416 under the 1933 Act or the provisions of Section 8(b) of the Subscription Agreements, the Registration Statement is not deemed to cover such indeterminate number of additional shares of Common Stock as shall be issuable upon conversion of the shares of Series A Preferred Stock held by any holder of shares of Series A Preferred Stock based on changes from time to time in the Conversion Price, and (2) on any five Trading Days ending on or after the SEC Effective Date within any period of ten consecutive Trading Days the number of shares of Common Stock issuable upon conversion of all shares of Series A Preferred Stock held by any holder of shares of Series A Preferred Stock had all shares of Series A Preferred Stock held by such holder been converted in full

into Common Stock on each such Trading Day, determined at the Conversion Price applicable on each such Trading Day and without regard to the limitation, if any, on such holder contained in the second sentence of Section 10(a), would exceed the number of shares of Common Stock covered by the Registration Statement and available for sale by such holder pursuant to the Registration Statement.

"Registration Statement" means the Registration Statement required to be filed by the Corporation with the SEC pursuant to Section 8 of the Subscription Agreement.

"SEC" means the United States Securities and Exchange Commission.

"SEC Effective Date" means the date on which the Registration Statement is first ordered effective by the SEC.

"Securities" shall have the meaning, for purposes of the definition of the term Trading Price, set forth in clause (iv) of the first proviso to the definition of the term Trading Price.

"Senior Dividend Stock" means any class or series of capital stock of the Corporation ranking senior as to dividends to the Series A Preferred Stock.

"Senior Liquidation Stock" means any class or series of capital stock of the Corporation ranking senior as to liquidation rights to the Series A Preferred Stock.

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"Series A Preferred Stock" means the Series A Custom Convertible Preferred Stock of the Corporation.

"Share Limitation Redemption Date" means each date on which the Corporation is required to redeem shares of Series A Preferred Stock as provided in Section 7(a).

"Share Limitation Redemption Price" means an amount in cash equal to the product obtained by multiplying (a) the sum of (i) \$1,000 plus (ii) an amount equal to the Accrual Amount on the share of Series A Preferred Stock to be redeemed to the applicable Share Limitation Redemption Date times (b) 115%.

"Stockholder Approval" means the approval by a majority of the votes cast by the holders of shares of Common Stock (in person or by proxy) at a meeting of the stockholders of the Corporation (duly convened at which a quorum was present), or a written consent of holders of shares of Common Stock entitled to such number of votes given without a meeting, of the issuance by the Corporation of 20% or more of the Common Stock of the Corporation outstanding on the Issuance Date for less than the greater of the book or market value of the Common Stock on conversion of the Series A Preferred Stock, as and to the extent required under Rule 713 of the AMEX as in effect from time to time or any successor or replacement provision or any other similar requirement of the principal securities exchange on which the Common Stock is listed from time to time.

"Stockholder Approval Portion" means two-thirteenths of the shares of Series A Preferred Stock represented by each certificate for shares of Series A Preferred Stock upon original issuance thereof, which amount shall be noted on each certificate for shares of Series A Preferred Stock in accordance with Section 7(a)(1).

"Stockholder Approval Redemption Date" means the date which is five Business Days after a Stockholder Approval Redemption Notice is given.

"Stockholder Approval Redemption Notice" means a Stockholder Approval Redemption Notice substantially in the form set forth in Section 14(f).

"Stockholder Approval Redemption Price" means an amount in cash equal to the product obtained by multiplying (a) the sum of (i) \$1,000 plus (ii) an amount equal to the Accrual Amount on the share of Series A Preferred Stock to be redeemed to the applicable Stockholder Approval Redemption Date times (b) 105%.

"Subscription Agreements" means the several Subscription Agreements, dated as of January 23, 1998, by and between the Corporation and the holders of shares of Series A Preferred Stock pursuant to which the shares of Series A Preferred Stock were issued.

"Tender Offer" means a tender offer as defined for purposes of Regulation 14D and Rule 13e-4 under the 1934 Act.

"Trading Day" means a day on whichever of (x) the national securities exchange or (y) the Nasdaq which at the time constitutes the principal securities market for the Common Stock is open for general trading.

"Trading Price" of the Common Stock on any date means the lowest sale price (regular way) for one share of Common Stock on such date, in a trade in which, in the case of the use of the term Trading Price to determine the Conversion Price in connection with any conversion of shares of Series A Preferred Stock by a holder of shares of Series A Preferred

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Stock neither such holder nor any Affiliate of such holder is a buyer or seller, on the first applicable among the following: (a) the national securities exchange on which the shares of Common Stock are listed which constitutes the principal securities market for the Common Stock or (b) the Nasdaq, in either such case as reported by Bloomberg, L.P.; provided, however, that if during any Measurement Period:

(i) The Corporation shall declare or pay a dividend or make a distribution to all holders of the outstanding Common Stock in shares of Common Stock or fix any record date for any such action, then the Trading Price of the Common Stock for each day in such Measurement Period prior to the earlier of (1) the date fixed for the determination of stockholders entitled to receive such dividend or other distribution and (2) the date on which ex-dividend trading in the Common Stock with respect to such dividend or distribution begins shall be reduced by multiplying the Trading Price (determined without regard to this proviso) for each such day in such Measurement Period by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the earlier of (1) the record date fixed for such determination and (2) the date on which ex-dividend trading in the Common Stock with respect to such dividend or distribution begins and the denominator shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution;

(ii) The Corporation shall issue rights or warrants to all holders of its outstanding shares of Common Stock, or fix a record date for such issuance, which rights or warrants entitle such holders (for a period expiring within forty-five (45) days after the date fixed for the determination of stockholders entitled to receive such rights or warrants) to subscribe for or purchase shares of Common Stock at a price per share less than the Trading Price (determined without regard to this proviso) for any day in such Measurement Period which is prior to the end of such 45-day period, then the Trading Price for such day shall be reduced so that the same shall equal the price determined by multiplying the Trading Price (determined without regard to this proviso) by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the record date fixed for the determination of stockholders entitled to receive such rights or warrants plus the number of shares which the aggregate offering price of the total number of shares

so offered would purchase at such Trading Price, and of which the denominator shall be the number of shares of Common Stock outstanding on the close of business on such record date plus the total number of additional shares of Common Stock so offered for subscription or purchase. In determining whether any rights or warrants entitle the holders to subscribe for or purchase shares of Common Stock at less than the Trading Price (determined without regard to this proviso), and in determining the aggregate offering price of such shares of Common Stock, there shall be taken into account any consideration received for such rights or warrants, the value of such consideration, if other than cash, to be determined in good faith by a resolution of the Board of Directors of the Corporation;

(iii) The outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock or a record date for any such subdivision shall be fixed, then the Trading Price of the Common Stock for each day in such Measurement Period prior to the earlier of (1) the day upon which such subdivision becomes effective and (2) the date on which ex-dividend trading in the Common Stock with respect to such subdivision begins shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Trading Price for each day in such Measurement Period prior to the earlier of (1) the date on which such combination becomes effective and (2) the date on which trading in the Common Stock on a basis which gives effect to such combination begins, shall be proportionately increased;

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(iv) The Corporation shall, by dividend or otherwise, distribute to all holders of its Common Stock shares of any class of capital stock of the Corporation (other than any dividends or distributions to which clause (i) of this proviso applies) or evidences of its indebtedness, cash or other assets (including securities, but excluding any rights or warrants referred to in clause (ii) of this proviso and dividends and distributions paid exclusively in cash and excluding any capital stock, evidences of indebtedness, cash or assets distributed upon a merger or consolidation) (the foregoing hereinafter in this clause (iv) of this proviso called the "Securities"), or fix a record date for any such distribution, then, in each such case, the Trading Price for any day in such Measurement Period prior to the earlier of (1) the record date for such distribution and (2) the date on which ex-dividend trading in the Common Stock with respect to such distribution begins shall be reduced so that the same shall be equal to the price determined by multiplying the Trading Price (determined without regard to this proviso) by a fraction of which the numerator shall be the Trading Price (determined without regard to this proviso) on such date less the fair market value (as determined in good faith by resolution of the Board of Directors of the Corporation) on such date of the portion of the Securities so distributed or to be distributed applicable to one share of Common Stock and the denominator shall be the Trading Price (determined without regard to this proviso); provided, however, that in the event the then fair market value (as so determined) of the portion of the Securities so distributed applicable to one share of Common Stock is equal to or greater than the Trading Price (determined without regard to this clause (iv) of this proviso) on any such day, in lieu of the foregoing adjustment, adequate provision shall be made so that the holders of shares of Series A Preferred Stock shall have the right to receive in payment of dividends on the shares of Series A Preferred Stock or upon conversion of the shares of Series A Preferred Stock, as the case may be, the amount of Securities the holders of shares of Series A Preferred Stock would have received had the number of shares of Common Stock to be issued in payment of such dividends on the shares of Series A Preferred Stock, or had the holders of shares of Series A Preferred Stock converted the shares of Series A Preferred Stock, in either such case immediately prior to the record date for such distribution. If the Board of Directors of the Corporation determines the fair market value of any distribution for purposes of this clause (iv) by reference to the actual or when issued

trading market for any securities comprising all or part of such distribution, it must in doing so consider the prices in such market on the same day for which an adjustment in the Trading Price is being determined.

For purposes of this clause (iv) and clauses (i) and (ii) of this proviso, any dividend or distribution to which this clause (iv) is applicable that also includes shares of Common Stock, or rights or warrants to subscribe for or purchase shares of Common Stock to which clause (i) or (ii) of this proviso applies (or both), shall be deemed instead to be (1) a dividend or distribution of the evidences of indebtedness, assets, shares of capital stock, rights or warrants other than such shares of Common Stock or rights or warrants to which clause (ii) of this proviso applies (and any Trading Price reduction required by this clause (iv) with respect to such dividend or distribution shall then be made) immediately followed by (2) a dividend or distribution of such shares of Common Stock or such rights or warrants (and any further Trading Price reduction required by clauses (i) and (ii) of this proviso with respect to such dividend or distribution shall then be made), except that any shares of Common Stock included in such dividend or distribution shall not be deemed "outstanding at the close of business on the date fixed for such determination" within the meaning of clause (i) of this proviso; or

(v) The Corporation or any subsidiary of the Corporation shall (x) by dividend or otherwise, distribute to all holders of its Common Stock cash in (or fix any record date for any such distribution), or (y) repurchase or reacquire shares of its Common Stock

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(other than an Option Share Surrender) for, in either case, an aggregate amount that, combined with (1) the aggregate amount of any other such distributions to all holders of its Common Stock made exclusively in cash after the Issuance Date and within the twelve (12) months preceding the date of payment of such distribution, and in respect of which no adjustment pursuant to this clause (v) has been made and (2) the aggregate amount of any cash plus the fair market value (as determined in good faith by a resolution of the Board of Directors of the Corporation) of consideration paid in respect of any repurchase or other reacquisition by the Corporation or any subsidiary of the Corporation of any shares of Common Stock (other than an Option Share Surrender) made after the Issuance Date and within the twelve (12) months preceding the date of payment of such distribution or making of such repurchase or reacquisition, as the case may be, and in respect of which no adjustment pursuant to this clause (v) has been made, exceeds 10% of the product of the Trading Price (determined without regard to this proviso) on any day in such Measurement Period prior to the earlier of (1) the record date with respect to such distribution and (2) the date on which ex-dividend trading in the Common Stock with respect to such distribution begins or the date of such repurchase or reacquisition, as the case may be, times the number of shares of Common Stock outstanding on such date, then, and in each such case, the Trading Price for such day shall be reduced so that the same shall equal the price determined by multiplying the Trading Price (determined without regard to this proviso) for such day by a fraction (i) the numerator of which shall be equal to the Trading Price (determined without regard to this proviso) for such day less an amount equal to the quotient of (x) the excess of such combined amount over such 10% and (y) the number of shares of Common Stock outstanding on such day and (ii) the denominator of which shall be equal to the Trading Price (determined without regard to this proviso) on such day; provided, however, that in the event the portion of the cash so distributed or paid for the repurchase or reacquisition of shares (determined per share based on the number of shares of Common Stock outstanding) applicable to one share of Common Stock is equal to or greater than the Trading Price (determined without regard to this clause (v) of this proviso) of the Common Stock on any such day, in lieu of the foregoing adjustment, adequate provision

shall be made so that the holders of shares of Series A Preferred Stock shall have the right to receive in payment of dividends on shares of Series A Preferred Stock or upon conversion of shares of Series A Preferred Stock, as the case may be, the amount of cash the holders of shares of Series A Preferred Stock would have received had the number of shares of Common Stock to be issued in payment of such dividends on shares of Series A Preferred Stock, or had the holders of shares of Series A Preferred Stock converted shares of Series A Preferred Stock, in either such case, immediately prior to the record date for such distribution or the payment date of such repurchase, as applicable;

provided further, however, that if on any date there shall be no reported lowest sale price (regular way) of such security, the "Trading Price" on such date shall be the lowest sale price (regular way), in a trade in which, in the case of the use of the term Trading Price to determine the Conversion Price in connection with any conversion of shares of Series A Preferred Stock by a holder of shares of Series A Preferred Stock, neither such holder nor any Affiliate of such holder is a buyer or seller, of such security on the date next preceding such date on which a lowest sale price (regular way) for such security has been so reported.

"Two-Day Average Trading Price" means, during any period, the lowest arithmetic average of the Trading Price on each of two consecutive Trading Days during such period.

SECTION 2. DESIGNATION AND AMOUNT. The shares of such series shall be designated as "Series A Custom Convertible Preferred Stock", and the number of shares constituting the Series A Preferred Stock shall be 6,500, and shall not be subject to increase.

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SECTION 3. SERIES A PREFERRED STOCK CAPITAL. The amount to be represented in the capital account for the Series A Preferred Stock at all times for each outstanding share of Series A Preferred Stock shall be an amount equal to the product obtained by multiplying (1) the sum of (A) \$1,000 plus (B) an amount equal to the Accrual Amount on such share of Series A Preferred Stock to the date of determination times (2) the Optional Redemption Percentage which would be applicable to a redemption of a share of Series A Preferred Stock pursuant to Sections 11(a) and 11(b) on the date of determination if such share were required to be redeemed by the Corporation pursuant to Sections 11(a) and 11(b) on such date.

SECTION 4. RANK. The shares of Series A Preferred Stock shall rank senior to the Common Stock and any shares of any other series of Preferred Stock or any shares of any other class of preferred stock of the Corporation, now or hereafter issued, as to payment of dividends and distribution of assets upon liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary.

SECTION 5. DIVIDENDS AND DISTRIBUTIONS. (a) The holders of shares of Series A Preferred Stock shall be entitled to receive, when, as, and if declared by the Board of Directors out of funds legally available for such purpose, dividends in such amounts as determined from time to time by the Board of Directors. Dividends on the shares of Series A Preferred Stock shall not be cumulative.

If at any time any dividend on any Senior Dividend Stock shall be in default, in whole or in part, no dividend shall be paid or declared and set apart for payment on the Series A Preferred Stock unless and until all accrued and unpaid dividends with respect to the Senior Dividend Stock, including the full dividends for the then current dividend period, shall have been paid or declared and set apart for payment, without interest. No dividends shall be paid or declared and set apart for payment on any Parity Dividend Stock for any period unless a dividend in the same amount per share shall have been, or contemporaneously are, paid or declared and set apart for such payment on the

Series A Preferred Stock. No dividends shall be paid or declared and set apart for payment on the Series A Preferred Stock for any period unless all accrued but unpaid dividends have been, or contemporaneously are, paid or declared and set apart for payment on the Parity Dividend Stock for all dividend periods terminating on or prior to the date of payment of such full dividends.

Any references to "distribution" contained in this Section 5 shall not be deemed to include any stock dividend or distributions made in connection with any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary.

(b) Neither the Corporation nor any subsidiary of the Corporation shall redeem, repurchase or otherwise acquire in any one transaction or series of related transactions any shares of Common Stock, Junior Dividend Stock or Junior Liquidation Stock if the number of shares so repurchased, redeemed or otherwise acquired in such transaction or series of related transactions (excluding any Option Share Surrender) is more than either (x) 5.0% of the number of shares of Common Stock, Junior Dividend Stock or Junior Liquidation Stock, as the case may be, outstanding immediately prior to such transaction or series of related transactions or (y) 1% of the number of shares of Common Stock, Junior Dividend Stock or Junior Liquidation Stock, as the case may be, outstanding immediately prior to such transaction or series of related transactions if such transaction or series of related transactions is with any one Person or group of affiliated Persons, unless (x) at the time of such redemption, repurchase or acquisition the Registration Statement is effective and available for use by the holders of shares of Series A Preferred Stock named as selling stockholders in the Registration Statement, (y) no Optional Redemption Event or Registration Repurchase Event shall have occurred and (z) the Corporation or such subsidiary offers to purchase for cash from each holder of shares of Series A Preferred

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Stock at the time of such redemption, repurchase or acquisition the same percentage of such holder's shares of Series A Preferred Stock as the percentage of the number of outstanding shares of Common Stock, Junior Dividend Stock or Junior Liquidation Stock, as the case may be, to be so redeemed, repurchased or acquired at a purchase price per share of Series A Preferred Stock equal to the product obtained by multiplying (1) the sum of (A) \$1,000 plus (B) an amount equal to the Accrual Amount on such share of Series A Preferred Stock to the date of repurchase pursuant to Section 5(b) times (2) the Optional Redemption Percentage which would be applicable to a redemption of a share of Series A Preferred Stock pursuant to Sections 11(a) and 11(b) on the date of repurchase pursuant to this Section 5(b) if such share were required to be redeemed by the Corporation pursuant to Sections 11(a) and 11(b) on the date of repurchase pursuant to this Section 5(b).

(c) Neither the Corporation nor any subsidiary of the Corporation shall (1) make any Tender Offer for outstanding shares of Common Stock, unless the Corporation contemporaneously therewith makes an offer, or (2) enter into an agreement regarding a Tender Offer for outstanding shares of Common Stock by any Person other than the Corporation or any subsidiary of the Corporation, unless such Person agrees with the Corporation to make an offer, in either such case to each holder of outstanding shares of Series A Preferred Stock to purchase for cash at the time of purchase in such Tender Offer the same percentage of shares of Series A Preferred Stock held by such holder as the percentage of outstanding shares of Common Stock offered to be purchased in such Tender Offer at a price per share of Series A Preferred Stock equal to the greater of (i) the sum of (a) the sum of (1) \$1,000 plus (2) an amount equal to the Accrual Amount on such share of Series A Preferred Stock to the date of purchase pursuant to this Section 5(c) plus (b) an amount equal to the product obtained by multiplying (x) the sum stated in the immediately preceding clauses (a)(1) and (a)(2) times (y) the quotient (expressed as a percentage) obtained by dividing (A) the amount determined by subtracting from 100 percent the applicable percentage which would be used to determine the Conversion Price on the date of purchase pursuant to such Tender Offer if a Conversion Notice were given by a holder of shares of

Series A Preferred Stock on such date by (B) the Conversion Price on the date of purchase pursuant to such Tender Offer if a Conversion Notice were given by a holder of shares of Series A Preferred Stock on such date and (ii) an amount equal to the product obtained by multiplying (x) the number of shares of Common Stock which would, but for the purchase pursuant to such Tender Offer, be issuable on conversion in accordance with Section 10(a) of one share of Series A Preferred Stock if a Conversion Notice were given by the holder of such share of Series A Preferred Stock on the date of purchase pursuant to such Tender Offer (determined without regard to any limitation on beneficial ownership contained in the second sentence of Section 10(a)) times (y) the price per share of Common Stock offered in such Tender Offer.

SECTION 6. LIQUIDATION PREFERENCE. In the event of a liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, the holders of Series A Preferred Stock shall be entitled to receive out of the assets of the Corporation, whether such assets constitute stated capital or surplus of any nature, an amount per share of Series A Preferred Stock equal to the Liquidation Preference, and no more, before any payment shall be made or any assets distributed to the holders of Junior Liquidation Stock; provided, however, that such rights shall accrue to the holders of Series A Preferred Stock only in the event that the Corporation's payments with respect to the liquidation preference of the holders of Senior Liquidation Stock are fully met. After the liquidation preferences of the Senior Liquidation Stock are fully met, the entire assets of the Corporation available for distribution shall be distributed ratably among the holders of the Series A Preferred Stock and any Parity Liquidation Stock in proportion to the respective preferential amounts to which each is entitled (but only to the extent of such preferential amounts). After payment in full of the liquidation price of the shares of the Series A Preferred Stock and the Parity Liquidation Stock, the holders of such shares shall not be entitled to any further participation in any distribution of assets by the Corporation. Neither a consolidation or merger of the Corporation with another corporation nor

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a sale or transfer of all or part of the Corporation's assets for cash, securities, or other property in and of itself will be considered a liquidation, dissolution, or winding up of the Corporation.

SECTION 7. MANDATORY REDEMPTION.

(a) MANDATORY REDEMPTION BASED ON MAXIMUM SHARE AMOUNT. (1) (A) Notwithstanding any other provision herein, unless the Stockholder Approval shall have been obtained from the stockholders of the Corporation or waived by the AMEX, the Corporation shall not be required to issue upon conversion of shares of Series A Preferred Stock pursuant to Section 10 more than the Maximum Share Amount. The Maximum Share Amount shall be allocated among the shares of Series A Preferred Stock at the time of initial issuance thereof pro rata based on the total number of authorized shares of Series A Preferred Stock provided in Section 2. Each certificate for shares of Series A Preferred Stock initially issued shall bear a notation as to the number of shares constituting the portion of the Maximum Share Amount allocated to the shares of Series A Preferred Stock represented by such certificate for purposes of conversion thereof. Upon original issuance of any shares of Series A Preferred Stock, the certificate therefor shall bear a notation as to the Stockholder Approval Portion of the shares evidenced by such certificate.

(B) Upon surrender of any certificate for shares of Series A Preferred Stock for transfer or re-registration thereof (or, at the option of the holder of such certificate, for conversion pursuant to Section 10(a) of less than all of the shares of Series A Preferred Stock represented thereby), the Corporation shall make a notation on the new certificate issued upon such transfer or re-registration or evidencing such unconverted shares, as the case may be, as to the number of shares of Common Stock from the Maximum Share Amount remaining available for conversion of the shares of Series A Preferred Stock evidenced by such new certificate. If any certificate for shares of Series A

Preferred Stock is surrendered for split-up into two or more certificates representing an aggregate number of shares of Series A Preferred Stock equal to the number of shares of Series A Preferred Stock represented by the certificate so surrendered (as reduced by any contemporaneous conversion of shares of Series A Preferred Stock represented by the certificate so surrendered), each certificate issued on such split-up shall bear a notation of the portion of the Maximum Share Amount and the Stockholder Approval Portion allocated thereto determined by pro rata allocation of the remaining portion of the Maximum Share Amount allocated to the certificate so surrendered and pro rata allocation of the Stockholder Approval Portion of the certificate so surrendered. If any shares of Series A Preferred Stock represented by a single certificate are converted in full pursuant to Section 10, all of the portion of the Maximum Share Amount allocated to such shares of Series A Preferred Stock which remains unissued after such conversion shall be re-allocated pro rata to the outstanding shares of Series A Preferred Stock held of record by the holder of record at the close of business on the date of such conversion of the shares of Series A Preferred Stock so converted, and if there shall be no other shares of Series A Preferred Stock held of record by such holder at the close of business on such date, then such portion of the Maximum Share Amount shall be allocated pro rata among the shares of Series A Preferred Stock outstanding at the close of business on such date.

(2) (A) If (x) a Maximum Share Amount Inconvertibility occurs then, unless the Stockholder Approval shall have been obtained from the stockholders of the Corporation or waived by the AMEX, the Corporation shall and (y) if a Registration Restriction Inconvertibility occurs, then the Corporation shall, in each such case promptly, but in no event later than five Business Days after each such occurrence, give an Inconvertibility Notice to each holder of shares of Series A Preferred Stock (by telephone line facsimile transmission at such number as such holder of shares of Series A Preferred Stock has specified in writing to the Corporation for such purposes or, if such holder of shares of Series A Preferred Stock shall not have specified any such number, by overnight courier or first class mail, postage prepaid, at such holder's

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address as the same appears on the stock books of the Corporation) and any holder of shares of Series A Preferred Stock may at any time after such occurrence give an Inconvertibility Notice to the Corporation. If the Corporation shall have given or been required to give any Inconvertibility Notice, or if a holder of Series A Preferred Stock shall have given any Inconvertibility Notice, then within the applicable Redemption Election Period the holder receiving or giving or entitled to receive, as the case may be, such Inconvertibility Notice shall have the right by a Redemption Election given to the Corporation (which may be contained in the Inconvertibility Notice given by such holder) to direct the Corporation to redeem the portion of such holder's outstanding shares of Series A Preferred Stock (which, if applicable, shall be all of such holder's outstanding shares of Series A Preferred Stock) as shall not, on the Business Day prior to the date of such redemption, (x) be convertible into shares of Common Stock by reason of a Maximum Share Amount Inconvertibility or (y) be convertible into shares of Common Stock which are covered by the Registration Statement and available for sale by such holder pursuant to the Registration Statement by reason of a Registration Restriction Inconvertibility, in each such case, within five Business Days after such holder gives a Redemption Election to the Corporation, at a price per share equal to the Share Limitation Redemption Price; provided, however, that (1) no such redemption shall be made with respect to a Registration Restriction Inconvertibility if, prior to the expiration of the applicable Redemption Election Period, the Corporation and such holder shall, by a Mandatory Redemption Waiver, waive the Corporation's obligation to make such redemption and (2) if (i) the Registration Statement is and remains effective and available for use by holders of shares of Series A Preferred Stock for resale of the shares of Common Stock which are covered by the Registration Statement, (ii) the Corporation files with the SEC an additional Registration Statement as and when required by Section 8(b)(1) of the Subscription Agreements and (iii) the Corporation maintains Net Cash and Cash Equivalent Balances at least equal to

three times the Corporation's Quarterly Cash Requirements, then the Corporation shall not be required to redeem any shares of Series A Preferred Stock by reason of a particular Registration Restriction Inconvertibility prior to the date which is 45 days after such Registration Restriction Inconvertibility first occurs. If a holder of shares of Series A Preferred Stock gives a Redemption Election to the Corporation by reason of a Maximum Share Amount Inconvertibility and, prior to the date the Corporation is required to redeem such holder's shares of Series A Preferred Stock, the Corporation would have been able, within the limitations set forth in Section 7(a)(1), to convert all of such holder's outstanding shares of Series A Preferred Stock (determined without regard to the limitation, if any, on such holder contained in the second sentence of Section 10(a)) on any two Trading Days within any period of three consecutive Trading Days commencing after the period of ten consecutive Trading Days which gave rise to the applicable Inconvertibility Notice from the Corporation or such holder of shares of Series A Preferred Stock, as the case may be, had such holder given a Conversion Notice for all of such holder's outstanding shares of Series A Preferred Stock on each of such two Trading Days within such three-Trading Day period, then the Corporation shall not be required to redeem any shares of Series A Preferred Stock held by such holder by reason of such Inconvertibility Notice.

(B) An Inconvertibility Notice or a Redemption Election given by a holder of shares of Series A Preferred Stock shall be deemed for all purposes to be in proper form unless the Corporation notifies such holder in writing within three Business Days after an Inconvertibility Notice or a Redemption Election has been given (which notice shall specify all defects in the Inconvertibility Notice or Redemption Election), and any Inconvertibility Notice or Redemption Election containing any such defect shall nonetheless be effective on the date given if such holder promptly undertakes in writing to correct all such defects. In the absence of any such undertaking from such holder, no such claim of error shall limit or delay performance of the Corporation's obligation to redeem all inconvertible shares of Series A Preferred Stock as to which a Redemption Election has been given and which shares are not in dispute.

(3) Notwithstanding the giving of any Inconvertibility Notice by the Corporation to one or more holders of Series A Preferred Stock or the giving or the absence of

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any Inconvertibility Notice or Redemption Election by one or more holders of the Series A Preferred Stock or any redemption of shares of Series A Preferred Stock pursuant to Section 7(a)(2), thereafter the provisions of Section 7(a)(2) shall continue to be applicable on any occasion unless, in the case of a Maximum Share Amount Inconvertibility, the Stockholder Approval shall have been obtained or waived by the AMEX.

(4) On each Share Limitation Redemption Date (or such later date as a holder surrenders such holder's certificate(s) for shares of Series A Preferred Stock redeemed), the Corporation shall make payment in immediately available funds of the applicable Share Limitation Redemption Price to the holder of shares of Series A Preferred Stock to be redeemed to such account as specified by such holder in writing to the Corporation at least one Business Day prior to such Share Limitation Redemption Date. A holder of shares of Series A Preferred Stock which are redeemed pursuant to this Section 7(a) shall not be entitled to payment of the Share Limitation Redemption Price of such shares of Series A Preferred Stock until such holder shall have surrendered the certificate(s) for such shares of Series A Preferred Stock to the Corporation or, in the case of the loss, theft or destruction of any such certificate, given indemnity in accordance with Section 15(b). In connection with a redemption of less than all of the shares of Series A Preferred Stock evidenced by a particular certificate, promptly, but in no event later than three Trading Days after surrender of such certificate to the Corporation, the Corporation shall issue a replacement certificate for the shares of Series A Preferred Stock evidenced by such certificate which have not been redeemed. Only whole shares of Series A Preferred Stock may be redeemed. If the Corporation shall fail to pay

the Share Limitation Redemption Price of any shares of Series A Preferred Stock in full when due, then the amount thereof shall bear interest to the extent not prohibited by applicable law at the rate of 12% per annum from the due date thereof until paid in full.

(5) If the Corporation shall have failed to pay in full the Share Limitation Redemption Price (other than by reason of a Maximum Share Amount Inconvertibility), the Optional Redemption Price or the Registration Redemption Price for any share of Series A Preferred Stock when the same is due and payable, without in any way relieving the Corporation of its obligation to pay such amount in accordance herewith (except to the extent expressly provided in Section 7(a)(7)), the holder of such share of Series A Preferred Stock shall have the right to convert such share of Series A Preferred Stock into Common Stock in accordance with Section 10(a) (subject to the numerical limit contained in the second sentence of Section 10(a)); provided, however, that the shares of Common Stock received by the holder upon any such conversion in certain circumstances may be subject to restrictions on resale by such holder arising under applicable securities laws to the extent not registered for resale by the holder pursuant to the Registration Statement.

(6) If the Corporation shall have failed to pay in full the Share Limitation Redemption Price for any portion (which, if applicable, may be all) of any holder's shares of Series A Preferred Stock when the same is due and payable by reason of a Maximum Share Amount Inconvertibility and the Stockholder Approval shall not have been obtained, without in any way relieving the Corporation of its obligation to pay such amount in accordance herewith (except to the extent expressly provided in Section 7(a)(7)), upon the written request of the Majority Holders, the Corporation shall use its best efforts to obtain a waiver from AMEX (or such other principal securities exchange on which the Common Stock is listed at such time) of the requirement for Stockholder Approval for issuance of all shares of Common Stock issuable upon conversion of the Series A Preferred Stock. If such waiver, in form reasonably satisfactory to the Majority Holders, is not obtained within 15 days after the Corporation's receipt of such request from the Majority Holders, and such Maximum Share Amount Inconvertibility occurs on or after June 20, 1998, then the Corporation promptly shall call a special meeting of its stockholders, to be held not later than 60 days after the expiration of the foregoing 15-day period, to seek the Stockholder Approval for issuance of all shares of Common Stock issuable upon

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conversion of the Series A Preferred Stock in accordance with Section 10.

(7) If a holder of shares of Series A Preferred Stock converts all or any portion of such holder's shares of Series A Preferred Stock pursuant to Section 7(a)(5), the amount of the Share Limitation Redemption Price or the Registration Redemption Price, as the case may be, due to such holder with respect to the number of shares of Series A Preferred Stock so converted shall be reduced by \$1,000 for each share of Series A Preferred Stock so converted.

(b) REDEMPTION BY REASON OF ABSENCE OF STOCKHOLDER APPROVAL. (1) If on or before June 30, 1998, the Corporation shall not have obtained the Stockholder Approval or a waiver by the AMEX of the requirement for the Stockholder Approval, then each holder of shares of Series A Preferred Stock shall have the right, at such holder's option, to require the Corporation to redeem from such holder all or any portion of a number of shares of Series A Preferred Stock equal to the lesser of (x) such holder's Stockholder Approval Portion and (y) the number of outstanding shares of Series A Preferred Stock held by such holder on the Stockholder Approval Redemption Date, in either such case at a price per share of Series A Preferred Stock equal to the Stockholder Approval Redemption Price. A holder may exercise such right by giving to the Corporation a Stockholder Approval Redemption Notice at any time after June 30, 1998 and any such redemption shall be made by payment by the Corporation to such holder by wire transfer of immediately available funds to such account as shall be specified for such purpose by such holder of an amount equal to the aggregate Stockholder Approval Redemption Price of all shares of Series A Preferred Stock

to be redeemed from such holder on the applicable Stockholder Approval Redemption Date (or such later date as such holder surrenders such holder's certificate(s) for shares of Series A Preferred stock redeemed). A Stockholder Approved Redemption Notice may be revoked by the holder giving such Stockholder Approval Redemption Notice by giving notice of such revocation to the Corporation at any time prior to the time the Corporation pays the Stockholder Approval Redemption Price to such holder.

(2) A holder of shares of Series A Preferred Stock which are redeemed pursuant to this Section 7(b) shall not be entitled to payment of the Stockholder Approval Redemption Price of such shares of Series A Preferred Stock until such holder shall have surrendered the certificate(s) for such shares of Series A Preferred Stock to the Corporation or, in the case of the loss, theft or destruction of any such certificate, given indemnity in accordance with Section 15(b). In connection with a redemption pursuant to this Section 9(b) of less than all of the shares of Series A Preferred Stock evidenced by a particular certificate, promptly, but in no event later than three Business Days after surrender of such certificate to the Corporation, the Corporation shall issue and deliver to such holder a replacement certificate for the shares of Series A Preferred Stock evidenced by such certificate which have not been redeemed. If the Corporation shall fail to pay the Stockholder Approval Redemption Price of any shares of Series A Preferred Stock in full when due, then the amount thereof shall bear interest to the extent not prohibited by applicable law at the rate of 12% per annum from the due date thereof until paid in full.

(3) A Stockholder Approval Redemption Notice given by a holder of shares of Series A Preferred Stock shall be deemed for all purposes to be in proper form unless the Corporation notifies such holder in writing within three Business Days after such Stockholder Approval Redemption Notice has been given (which notice shall specify all defects in the Stockholder Approval Redemption Notice), and any Stockholder Approval Redemption Notice containing any such defect shall nonetheless be effective on the date given if such holder promptly undertakes in writing to correct all such defects. In the absence of any such undertaking from such holders, no such claim of error shall limit or delay performance of the Corporation's obligation to redeem all shares of Series A Preferred Stock not in dispute. If the Corporation shall fail to pay the Stockholder Approval Redemption Price in full to any holder of shares of Series A Preferred Stock when due, then the amount thereof shall bear interest to the

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extent not prohibited by applicable law at the rate of 12% per annum from the due date thereof until paid in full.

(c) NO OTHER MANDATORY REDEMPTION. The shares of Series A Preferred Stock shall not be subject to mandatory redemption by the Corporation except as provided in this Section 7 and in Section 11.

SECTION 8. NO SINKING FUND. The shares of Series A Preferred Stock shall not be entitled to the benefits of any sinking fund for the redemption or repurchase of shares of Series A Preferred Stock.

SECTION 9. REDEMPTION AT OPTION OF CORPORATION.

(a) OPTIONAL REDEMPTION. (1) So long as (w) the Corporation shall be in compliance in all material respects with its obligations to the holders of the Series A Preferred Stock (including its obligations under the Subscription Agreements and the provisions of this Certificate of Designations), (x) the Registration Statement shall be effective on the date the Corporation gives the Redemption Notice and on the Redemption Date, (y) no Registration Redemption Event shall have occurred with respect to which any holder of shares of Series A Preferred Stock shall have exercised redemption rights under Section 11(c) and the Registration Redemption Price shall not have been paid and no Optional Redemption Event shall have occurred with respect to which on the Redemption Date any holder of shares of Series A Preferred Stock shall be entitled to

exercise redemption rights under Sections 11(a) and 11(b) or with respect to which any holder of shares of Series A Preferred Stock shall have exercised such rights and the Optional Redemption Price shall not have been paid and (z) on the date the Corporation gives the Redemption Notice and on the Redemption Date, the Corporation has Cash and Cash Equivalent Balances which are sufficient, after taking into account the Corporation's cash requirements during the period from the date the Redemption Notice is given to the Redemption Date, to pay the Redemption Price of the shares of Series A Preferred Stock to be redeemed, the Corporation shall have the right to redeem all or any part of the outstanding shares of Series A Preferred Stock pursuant to this Section 9(a) at the Redemption Price. In order to exercise its right of redemption under this Section 9(a), the Corporation shall give a Redemption Notice to the holders of shares of Series A Preferred Stock not less than 30 or more than 60 days prior to the Redemption Date. On the Redemption Date (or such later date as a holder of shares of Series A Preferred Stock shall surrender to the Corporation the certificate(s) for the shares of Series A Preferred Stock redeemed), the Corporation shall pay to or upon the order of each holder of shares of Series A Preferred Stock by wire transfer of immediately available funds to such account as shall be specified for such purpose by such holder in an amount equal to the Redemption Price of all of such holder's shares of Series A Preferred Stock to be redeemed. A holder of shares of Series A Preferred Stock which are redeemed pursuant to this Section 9(a) shall not be entitled to payment of the Redemption Price of such shares of Series A Preferred Stock until such holder shall have surrendered the certificate(s) for such shares of Series A Preferred Stock to the Corporation or, in the case of the loss, theft or destruction of any such certificate, given indemnity in accordance with Section 15(b). If the Corporation shall fail to pay the Redemption Price of any shares of Series A Preferred Stock in full when due, then the amount thereof shall bear interest to the extent not prohibited by applicable law at the rate of 18% per annum from the due date thereof until paid in full.

(2) Notwithstanding the giving of a Redemption Notice, each holder of shares of Series A Preferred Stock shall be entitled to convert in accordance with Section 10 any shares of Series A Preferred Stock which are to be redeemed at any time prior to (1) the Redemption Date or (2) if the Corporation fails to pay the Redemption Price in full to such holder on the Redemption Date, the date on which the Corporation pays the Redemption Price in full to such holder for all shares of Series A Preferred Stock to be redeemed from such holder.

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(3) Any redemption of shares of Series A Preferred Stock pursuant to this Section 9(a) shall be made as nearly as practical pro rata from all holders of shares of Series A Preferred Stock outstanding.

(4) Upon receipt by the Corporation from a holder of shares of Series A Preferred Stock of certificates for shares of Series A Preferred Stock evidencing a greater number of shares of Series A Preferred Stock than the number of shares of Series A Preferred Stock to be redeemed in accordance with this Section 9(a), the Corporation shall, within three Trading Days after such surrender, issue and deliver to or upon the order of such holder a new certificate for the balance of shares of Series A Preferred Stock, if any.

(b) NO OTHER REDEMPTION AT THE OPTION OF THE CORPORATION. Except as otherwise specifically provided in Section 9(a), the Corporation shall not have any right to redeem any shares of Series A Preferred Stock at the option of the Corporation.

SECTION 10. CONVERSION.

(a) CONVERSION AT OPTION OF HOLDER. The holders of the Series A Preferred Stock may convert at any time all or from time to time any part of their outstanding shares of Series A Preferred Stock consisting of at least 15 shares of Series A Preferred Stock (or such smaller number of shares held by a holder) into fully paid and nonassessable shares of Common Stock and such other securities and property as hereinafter provided. Commencing on the Issuance

Date, and at any time thereafter, each share of Series A Preferred Stock may be converted at the office of the Conversion Agent or at such other additional office or offices, if any, as the Board of Directors may designate, into such number of fully paid and nonassessable shares of Common Stock (calculated as to each conversion to the nearest 1/100th of a share) determined by dividing (x) the sum of (i) \$1,000 plus (ii) an amount equal to the Accrual Amount on the share of Series A Preferred Stock being converted to the applicable Conversion Date by (y) the Conversion Price on the applicable Conversion Date; provided, however, that in no event shall any holder of shares of Series A Preferred Stock be entitled to convert any shares of Series A Preferred Stock in excess of that number of shares of Series A Preferred Stock upon conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by such holder (including shares of Common Stock beneficially owned by all Aggregated Persons of such holder) (other than shares of Common Stock deemed beneficially owned by such holder or any Aggregated Person of such holder through the ownership of (x) unconverted shares of Series A Preferred Stock and (y) the unconverted or unexercised portion of any instrument which contains limitations similar to those set forth in this sentence) and (2) the number of shares of Common Stock issuable upon the conversion of the number of shares of Series A Preferred Stock with respect to which the determination in this proviso is being made, would result in beneficial ownership by such holder and all Aggregated Persons of such holder of more than 4.9% of the outstanding shares of Common Stock. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the 1934 Act and Regulation 13D-G thereunder, except as otherwise provided in clause (1) of the proviso to the immediately preceding sentence. For purposes of the proviso to the second preceding sentence, the Corporation shall be entitled to rely, and shall be fully protected in relying, on any statement or representation made by a holder of shares of Series A Preferred Stock to the Corporation in connection with a particular conversion, without any obligation on the part of the Corporation to make any inquiry or investigation or to examine its records or the records of any transfer agent for the Common Stock and without any liability of the Corporation with respect thereto.

(b) OTHER PROVISIONS. (1) The holders of shares of Series A Preferred Stock at the close of business on the record date for any dividend payment to holders of Series A

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Preferred Stock shall be entitled to receive the dividend payable on such shares on the corresponding dividend payment date notwithstanding the conversion thereof after the record date for such dividend payment or the Corporation's default in payment of the dividend due on such dividend payment date; provided, however, that the holder of shares of Series A Preferred Stock converted during the period between the close of business on any record date for a dividend payment and the opening of business on the corresponding dividend payment date must pay to the Corporation, within five days after receipt by such holder, an amount equal to the dividend payable on such shares on such dividend payment date if such dividend is paid by the Corporation to such holder. A holder of shares of Series A Preferred Stock on a record date for a dividend payment who (or whose transferee) converts any of such shares into shares of Common Stock on or after such dividend payment date will receive the dividend payable by the Corporation on such shares of Series A Preferred Stock on such dividend payment date, and the converting holder need not make any payment of the amount of such dividend in connection with such conversion of shares of Series A Preferred Stock. Except as provided above, no adjustment shall be made in respect of cash dividends on Common Stock or Series A Preferred Stock that may be accrued and unpaid at the date of conversion of shares of Series A Preferred Stock.

(2) The right of the holders of Series A Preferred Stock to convert their shares shall be exercised by delivering (which may be made by telephone line facsimile transmission) a Conversion Notice to the Conversion Agent at the address or telephone line facsimile transmission number provided in or pursuant to the Conversion Agent Agreement. The number of shares of Common Stock to be issued upon each conversion of shares of Series A Preferred Stock shall be the

number set forth in the applicable Conversion Notice, which number shall be conclusive absent manifest error. The Corporation shall notify a holder who has given a Conversion Notice of any claim of manifest error within one Trading Day after such holder gives such Conversion Notice, and no such claim of error shall limit or delay performance of the Corporation's obligation to issue upon such conversion the number of shares of Common Stock which are not in dispute. A Conversion Notice shall be deemed for all purposes to be in proper form unless the Corporation notifies a holder of shares of Series A Preferred Stock being converted within one Trading Day after a Conversion Notice has been given (which notice shall specify all defects in such Conversion Notice), and any Conversion Notice containing any such defect shall nonetheless be effective on the date given if the converting holder agrees to correct all such defects promptly.

(3) If a holder of Series A Preferred Stock elects to convert any shares of Series A Preferred Stock in accordance with Section 10(a), such holder shall not be required to surrender the certificate(s) representing such shares of Series A Preferred Stock physically to the Corporation unless all of the shares of Series A Preferred Stock represented thereby are so converted. Each holder of shares of Series A Preferred Stock and the Corporation shall maintain records showing the number of shares so converted and the dates of such conversions or shall use such other method, satisfactory to such holder and the Corporation, so as to not require physical surrender of such certificates upon each such conversion. In the event of any dispute or discrepancy, such records of the Corporation shall be controlling and determinative in the absence of manifest error. Notwithstanding the foregoing, if any shares of Series A Preferred Stock evidenced by a particular certificate therefor are converted as aforesaid, the holder of Series A Preferred Stock may not transfer the certificate(s) representing such shares of Series A Preferred Stock unless such holder first physically surrenders such certificate(s) to the Corporation, whereupon the Corporation will forthwith issue and deliver upon the order of such holder of shares of Series A Preferred Stock new certificate(s) of like tenor, registered as such holder of shares of Series A Preferred Stock (upon payment by such holder of shares of Series A Preferred Stock of any applicable transfer taxes) may request, representing in the aggregate the remaining number of shares of Series A Preferred Stock represented by such certificate(s); provided, however, that as a condition precedent to issuing any such certificate(s) in any name other than that of the holder of record of the certificate(s) so surrendered, the Corporation may

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require such proposed new holder of record to acknowledge in writing the number of shares of Series A Preferred Stock to be represented by such new certificate(s). Each holder of shares of Series A Preferred Stock, by acceptance of a certificate for such shares, acknowledges and agrees that (1) by reason of the provisions of this paragraph, following conversion of any shares of Series A Preferred Stock represented by such certificate, the number of shares of Series A Preferred Stock represented by such certificate may be less than the number of shares stated on such certificate and by reason of Section 7(a), the number of shares of Common Stock from the Maximum Share Amount allocated to the shares of Series A Preferred Stock represented by such certificate for purposes of conversion of such shares may be less than the number thereof stated on such certificate and (2) the Corporation may place one or more legends on the certificates for shares of Series A Preferred Stock which refers to or describes the provisions of this paragraph and Section 7(a).

(4) The Corporation shall pay any transfer tax arising in connection with any conversion of shares of Series A Preferred Stock except that the Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery upon conversion of shares of Common Stock or other securities or property in a name other than that of the holder of the shares of the Series A Preferred Stock being converted as shown on the stock books of the Corporation, and the Corporation shall not be required to issue or deliver any such shares or other securities or property unless and until the Person or Persons requesting the issuance thereof shall have paid to the Corporation the amount of any such tax or shall have

established to the satisfaction of the Corporation that such tax has been paid.

(5) The Corporation (and any successor corporation) shall take all action necessary so that a number of shares of the authorized but unissued Common Stock (or common stock in the case of any successor corporation) sufficient to provide for the conversion of the Series A Preferred Stock outstanding upon the basis hereinbefore provided are at all times reserved by the Corporation (or any successor corporation), free from preemptive rights, for such conversion, subject to the provisions of the next succeeding paragraph. If the Corporation shall issue any securities or make any change in its capital structure which would change the number of shares of Common Stock into which each share of the Series A Preferred Stock shall be convertible as herein provided, the Corporation shall at the same time also make proper provision so that thereafter there shall be a sufficient number of shares of Common Stock authorized and reserved, free from preemptive rights, for conversion of the outstanding Series A Preferred Stock on the new basis. If at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all of the outstanding shares of Series A Preferred Stock, the Corporation promptly shall seek such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

(6) (A) In case of any consolidation or merger of the Corporation with any other corporation (other than a wholly-owned subsidiary of the Corporation) in which the Corporation is not the surviving corporation, or in case of any sale or transfer of all or substantially all of the assets of the Corporation, or in the case of any share exchange pursuant to which all of the outstanding shares of Common Stock are converted into other securities or property, the Corporation shall make appropriate provision or cause appropriate provision to be made so that each holder of shares of Series A Preferred Stock then outstanding shall have the right thereafter to convert such shares of Series A Preferred Stock into the kind of shares of stock and other securities and property receivable upon such consolidation, merger, sale, transfer, or share exchange by a holder of shares of Common Stock into which such shares of Series A Preferred Stock could have been converted immediately prior to the effective date of such consolidation, merger, sale, transfer, or share exchange and on a basis which preserves the economic benefits of the conversion rights of the holders of shares of Series A Preferred Stock

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on a basis as nearly as practical as such rights exist hereunder prior thereto. If, in connection with any such consolidation, merger, sale, transfer, or share exchange, each holder of shares of Common Stock is entitled to elect to receive securities, cash, or other assets upon completion of such transaction, the Corporation shall provide or cause to be provided to each holder of Series A Preferred Stock the right to elect the securities, cash, or other assets into which the Series A Preferred Stock held by such holder shall be convertible after completion of any such transaction on the same terms and subject to the same conditions applicable to holders of the Common Stock (including, without limitation, notice of the right to elect, limitations on the period in which such election shall be made, and the effect of failing to exercise the election). Notwithstanding the forgoing, in connection with any such merger, consolidation, sale, transfer or exchange, the Corporation shall have the right, in lieu of making provision for preservation of economic benefits of the conversion rights of the holders of shares of Series A Preferred Stock, to redeem all outstanding shares of Series A Preferred Stock immediately after completion of such transaction at a redemption price per share of Series A Preferred Stock in cash equal to the product obtained by multiplying (A) the sum of (i) \$1,000 plus (ii) an amount equal to the Accrual Amount on the share of Series A Preferred Stock to be redeemed to the date of payment of the redemption price times (B) the applicable Business Combination Redemption Percentage. Such right of redemption shall be exercised by notice from the Corporation to the holders of shares of Series A Preferred Stock stating that the Corporation is exercising its redemption right under this Section 10(b)(6), which notice shall

be given at least 20 Trading Days and not more than 30 Trading Days prior to completion of such transaction and shall specify that such redemption shall occur on the Business Day immediately following the date of completion of such transaction. On the date specified in such notice (or such later date as a holder of shares of Series A Preferred Stock surrenders such holder's certificates for shares of Series A Preferred Stock redeemed) the Corporation shall make payment in immediately available funds of the applicable Business Combination Redemption Price to each holder of shares of Series A Preferred Stock to be redeemed to such account as specified by such holder in writing to the Corporation at least one Business Day prior to such payment of the Business Combination Redemption Price. A holder of shares of Series A Preferred Stock which are redeemed pursuant to this Section 10(b)(6) shall not be entitled to payment of the Business Combination Redemption Price of such shares of Series A Preferred Stock until such holder shall have surrendered the certificate(s) for such shares of Series A Preferred Stock to the Corporation or, in the case of the loss, theft or destruction of any such certificate, given indemnity in accordance with Section 15(b). If the Corporation shall fail to pay the Business Combination Redemption Price of any shares of Series A Preferred Stock in full when due, then the amount thereof shall bear interest to the extent not prohibited by applicable law at the rate of 12% per annum from the due date thereof until paid in full. Notwithstanding the giving of a notice of redemption pursuant to this Section 10(b)(6), each holder of shares of Series A Preferred Stock shall be entitled to convert in accordance with this Section 10 any shares of Series A Preferred Stock which are to be redeemed at any time prior to (1) the redemption date specified in the notice of redemption or (2) if the Corporation fails to pay the Business Combination Redemption Price in full to such holder when due, the date on which the Corporation pays the Business Combination Redemption Price in full to such holder for all shares of Series A Preferred Stock to be redeemed from such holder. The Corporation shall not effect any such transaction unless it shall have complied with the provisions of this paragraph. The above provisions shall similarly apply to successive consolidations, mergers, sales, transfers, or share exchanges.

(B) Whenever the Corporation shall propose to take any of the actions specified in this Section 10(b)(6), the Corporation shall cause a notice to be mailed at least 20 days prior to the date on which the books of the Corporation will close or on which the security holders entitled to participate in such transaction will be determined, to the holders of record of the outstanding Series A Preferred Stock on the date of such notice. Such notice shall specify the action proposed to be taken by the Corporation and the date as of which holders of record of the Common Stock shall participate in any such actions or be entitled to exchange their Common

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Stock for securities or other property, as the case may be.

(7) Upon receipt by the Conversion Agent from a holder of shares of Series A Preferred Stock of a Conversion Notice, the Corporation shall issue and deliver or cause to be issued and delivered to or upon the order of such holder certificates for the Common Stock issuable upon such conversion by the close of business on the third Trading Day after such Conversion Notice is received, and as of the close of business on the date of such receipt such holder (or such holder's assignee) shall be deemed to be the holder of record of the Common Stock issuable upon such conversion, and all rights with respect to the shares of Series A Preferred Stock so converted shall forthwith terminate except the right to receive the Common Stock or other securities, cash, or other assets, as herein provided, on such conversion. If a holder of Series A Preferred Stock shall have given a Conversion Notice as provided herein, the Corporation's obligation to issue and deliver the shares of Common Stock which are issuable upon such conversion in accordance with the terms of this Certificate of Designations shall be absolute and unconditional, irrespective of any action or inaction by the converting holder to enforce the same, any waiver or consent with respect to any provision thereof, the recovery of any judgment against any Person or any action to enforce the same, any failure or delay in the enforcement of any other obligation of the Corporation to the holder of record,

or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the holder or any other Person of any obligation to the Corporation, or any violation or alleged violation of law by such holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Corporation to such holder in connection with such conversion. If the Corporation fails to issue and deliver the certificates for the Common Stock to the holder converting shares of Series A Preferred Stock as and when required to do so, in addition to any other liabilities the Corporation may have hereunder and under applicable law (1) the Corporation shall pay or reimburse such holder on demand for all out-of-pocket expenses, including, without limitation, reasonable fees and expenses of legal counsel incurred by such holder as a result of such failure, (2) the percentage used to calculate the Conversion Price applicable to such conversion shall be reduced by one-tenth of a percentage point from the percentage otherwise used to calculate the Conversion Price applicable to such conversion and (3) such holder may by written notice (which may be given by mail, courier, personal service or telephone line facsimile transmission) or oral notice (promptly confirmed in writing) given at any time prior to delivery to such holder of the certificates for the shares of Common Stock issuable upon such conversion of shares of Series A Preferred Stock, rescind such conversion, whereupon such holder shall have the right to convert such shares of Series A Preferred Stock thereafter in accordance herewith; provided, however, that the Corporation shall not be liable to a holder of shares of Series A Preferred Stock under the preceding clause (1) or clause (2) to the extent the failure of the Corporation to deliver or cause to be delivered such shares of Common Stock results from fire, flood, storm, earthquake, shipwreck, strike, war, acts of terrorism, crash involving facilities of a common carrier, act of God or any similar event outside the control of the Corporation (it being understood that the actions or failure to act of the Conversion Agent shall not be deemed an event outside the control of the Corporation except to the extent resulting from fire, flood, storm, earthquake, shipwreck, strike, war, acts of terrorism, crash involving facilities of a common carrier, acts of God, the bankruptcy, liquidation or reorganization of the Conversion Agent under any bankruptcy, insolvency or other similar law or any similar event outside the control of the Conversion Agent). A holder of shares of Series A Preferred Stock who has given a Conversion Notice shall notify the Corporation in writing (or by telephone conversation, confirmed in writing) as promptly as practicable after becoming aware that shares of Common Stock issued on conversion of such holder's shares of Series A Preferred Stock have not been received as provided in this Section 10(b)(7); provided, however, that any failure by such holder so to notify the Corporation shall not relieve the Corporation of its obligation to issue and deliver shares of Common Stock upon conversion of shares of Series A Preferred Stock as and when required by this Section 10.

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(8) No fractional shares of Common Stock shall be issued upon conversion of Series A Preferred Stock but, in lieu of any fraction of a share of Common Stock which would otherwise be issuable in respect of the aggregate number of shares of Series A Preferred Stock surrendered for conversion at one time by the same holder, the Corporation shall pay in cash to such holder at the time of issuance of shares of Common Stock in connection with such conversion an amount equal to the product of (i) the arithmetic average of the Market Price of a share of Common Stock on the three consecutive Trading Days ending on the Trading Day immediately preceding the Conversion Date times (ii) such fraction of a share of Common Stock.

SECTION 11. REDEMPTION UPON AN OPTIONAL REDEMPTION EVENT; ABSENCE OF SEC REGISTRATION.

(a) REDEMPTION RIGHT UPON OPTIONAL REDEMPTION EVENT. If an Optional Redemption Event occurs, then each holder of shares of Series A Preferred Stock shall have the right, at such holder's option, to require the Corporation to redeem all of such holder's shares of Series A Preferred Stock, or any portion thereof, on the date that is three Business Days after the date of the Holder Notice given with respect to such Optional Redemption Event. Each holder of

shares of Series A Preferred Stock shall have the right to require the Corporation to redeem all or any such portion of such holder's shares of Series A Preferred Stock if an Optional Redemption Event occurs at any time while any of such holder's shares of Series A Preferred Stock are outstanding at a price equal to the Optional Redemption Price.

(b) NOTICES; METHOD OF EXERCISING OPTIONAL REDEMPTION RIGHTS, ETC.

(1) On or before the fifth Business Day after the occurrence of an Optional Redemption Event, the Corporation shall give to each holder of outstanding shares of Series A Preferred Stock a Corporation Notice of the occurrence of such Optional Redemption Event and of the redemption right set forth herein arising as a result thereof. The Corporation Notice shall set forth:

(i) the date by which the optional redemption right must be exercised, and

(ii) a description of the procedure (set forth below) which each such holder must follow to exercise such holder's optional redemption right.

No failure of the Corporation to give a Corporation Notice or defect therein shall limit the right of any holder of shares of Series A Preferred Stock to exercise the optional redemption right or affect the validity of the proceedings for the redemption of such holder's shares of Series A Preferred Stock.

(2) To exercise its optional redemption right, each holder of outstanding shares of Series A Preferred Stock shall deliver to the Corporation on or before the thirtieth day after a Corporation Notice is given to such holder (or if no Corporation Notice has been given to such holder, within forty days after such holder first learns of the Optional Redemption Event) a Holder Notice to the Corporation setting forth the name of such holder, and number of such holder's shares of Series A Preferred Stock to be redeemed. A Holder Notice may be revoked by such holder giving such Holder Notice by giving notice of such revocation to the Corporation at any time prior to the time the Corporation pays the Optional Redemption Price to such holder.

(3) If a holder of shares of Series A Preferred Stock shall have given a Holder Notice, on the date which is three Business Days after the date such Holder Notice is given (or such later date as such holder surrenders such holder's certificates for the shares of Series A Preferred Stock redeemed) the Corporation shall make payment in immediately available funds of the applicable Optional Redemption Price to such account as specified by such holder in writing to the Corporation at least one Business Day prior to the applicable redemption date. A holder of shares of Series A Preferred Stock which are redeemed pursuant to Sections 11(a) and

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11(b) shall not be entitled to payment of the Optional Redemption Price of such shares of Series A Preferred Stock until such holder shall have surrendered the certificate(s) for such shares of Series A Preferred Stock to the Corporation or, in the case of the loss, theft or destruction of any such certificate, given indemnity in accordance with Section 15(b).

(c) REDEMPTION RIGHT FOR ABSENCE OF SEC REGISTRATION. If a Registration Redemption Event occurs, then each holder of shares of Series A Preferred Stock shall have the right by complying with the requirements of this Section 11(c), at such holder's option, to require the Corporation to redeem all of such holder's shares of Series A Preferred Stock, or from time to time any portion thereof, by making payment of the Registration Redemption Price to such holder in immediately available funds to such account as specified by such holder by notice to the Corporation, on the date that is three Business Days after the date a Holder Registration Redemption Notice is given by such holder (or such later date as such holder surrenders to the Corporation the certificate(s) for the shares of Series A Preferred Stock redeemed). A holder of shares of Series A Preferred Stock shall exercise its right to require redemption pursuant to this Section 11(c) by giving a Holder Registration Redemption Notice at any time prior to the SEC Effective Date. If a holder of

shares of Series A Preferred Stock shall have given a Holder Registration Redemption Notice, the Corporation shall redeem such holder's shares of Series A Preferred Stock or the portion of such holder's shares of Series A Preferred Stock as stated in such Holder Registration Redemption Notice at a price per share equal to the Registration Redemption Price. A holder of shares of Series A Preferred Stock which are redeemed pursuant to this Section 11(c) shall not be entitled to payment of the Registration Redemption Price of such shares of Series A Preferred Stock until such holder shall have surrendered the certificate(s) for such shares of Series A Preferred Stock to the Corporation or, in the case of the loss, theft or destruction of any such certificate, given indemnity in accordance with Section 15(b). A Holder Registration Redemption Notice may be revoked by the holder giving such Holder Registration Redemption Notice by giving notice of such revocation to the Corporation at any time prior to the time the Corporation pays the Registration Redemption Price to such holder.

(d) OTHER. (1) If the Corporation fails to pay in full when due the Optional Redemption Price or the Registration Redemption Price, as the case may be, for the number of shares of Series A Preferred Stock specified in a Holder Notice or a Registration Redemption Notice, as the case may be, then the amount thereof shall bear interest to the extent not prohibited by applicable law at the rate of 12% per annum from the due date thereof until paid in full.

(2) In connection with a redemption pursuant to this Section 11 of less than all of the shares of Series A Preferred Stock evidenced by a particular certificate, promptly, but in no event later than three Business Days after surrender of such certificate to the Corporation, the Corporation shall issue and deliver to such holder a replacement certificate for the shares of Series A Preferred Stock evidenced by such certificate which have not been redeemed.

(3) A Holder Notice or a Holder Registration Redemption Notice given by a holder of shares of Series A Preferred Stock shall be deemed for all purposes to be in proper form unless the Corporation notifies such holder in writing within three Business Days after such Holder Notice or Holder Registration Redemption Notice has been given (which notice shall specify all defects in the Holder Notice or Holder Registration Redemption Notice), and any Holder Notice or Holder Registration Redemption Notice containing any such defect shall nonetheless be effective on the date given if such holder promptly undertakes in writing to correct all such defects. In the absence of any such undertaking from such holder, no such claim of error shall limit or delay performance of the Corporation's obligation to redeem all shares of Series A Preferred Stock not in dispute.

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SECTION 12. VOTING RIGHTS; CERTAIN RESTRICTIONS.

(a) VOTING RIGHTS. Except as otherwise required by law or expressly provided herein, shares of Series A Preferred Stock shall not be entitled to vote on any matter.

(b) CERTIFICATE OF INCORPORATION; CERTAIN STOCK. The affirmative vote or consent of the holders of a majority of the outstanding shares of the Series A Preferred Stock, voting separately as a class, will be required for (1) any amendment, alteration, or repeal, whether by merger or consolidation or otherwise, of the Corporation's Restated Certificate of Incorporation if the amendment, alteration, or repeal materially and adversely affects the powers, preferences, or special rights of the Series A Preferred Stock, or (2) the creation and issuance of any Senior Dividend Stock or Senior Liquidation Stock; provided, however, that any increase in the authorized Preferred Stock of the Corporation or the creation and issuance of any stock which is both Junior Dividend Stock and Junior Liquidation Stock shall not be deemed to affect materially and adversely such powers, preferences, or special rights and any such increase or creation and issuance may be made without any such vote by the holders of Series A Preferred Stock except as otherwise required by law; and

provided further, however, that no such amendment, alteration or repeal shall (i) reduce the Optional Redemption Price, Redemption Price, Registration Redemption Price, Share Limitation Redemption Price, Stockholder Approval Redemption Price or the amount payable to a holder of shares of Series A Preferred Stock pursuant to Section 5(b), 5(c) or 10(b)(6)(A), (ii) reduce the percentage in, or otherwise change the definition of Majority Holders, (iii) change the method of calculating the Conversion Price in a manner adverse to the holders of shares of Series A Preferred Stock or reduce the number of shares of Common Stock issuable upon any conversion of shares of Series A Preferred Stock or (iv) amend, modify or repeal any provision of this Section 12(b), unless in each such case referred to in the preceding clauses (i) through (iv) such amendment, modification or repeal has been approved by the affirmative vote or consent of the holders of all outstanding shares of Series A Preferred Stock, voting separately or as a class.

(c) REPURCHASES OF SERIES A PREFERRED STOCK. The Corporation shall not repurchase or otherwise acquire any shares of Series A Preferred Stock (other than pursuant to Section 7(a), Section 9(a) or Section 11) unless the Corporation offers to repurchase or otherwise acquire simultaneously a pro rata portion of each holder's shares of Series A Preferred Stock for cash at the same price per share.

(d) OTHER. So long as any shares of Series A Preferred Stock are outstanding:

(1) LIMITATION ON INDEBTEDNESS. During the period from the Issuance Date through the date which is 360 days after the Issuance Date, the Corporation will not itself, and will not permit any subsidiary of the Corporation to, create, assume, incur, in any manner become liable in respect of, including, without limitation, by reason of any business combination transaction, or suffer to exist (all of which are referred to herein as "incurring"), any Indebtedness other than Permitted Indebtedness.

(2) PAYMENT OF OBLIGATIONS. The Corporation will pay and discharge, and will cause each subsidiary of the Corporation to pay and discharge, when due all their respective obligations and liabilities which are material to the Corporation and its subsidiaries taken as a whole, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings.

(3) MAINTENANCE OF PROPERTY; INSURANCE. (A) The Corporation will keep, and will cause each subsidiary of the Corporation to keep, all material property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted.

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(B) The Corporation will maintain, and will cause each subsidiary of the Corporation to maintain, with financially sound and responsible insurance companies, insurance against loss or damage by fire or other casualty and such other insurance, including but not limited to, product liability insurance, in such amounts and covering such risks as is reasonably adequate for the conduct of their businesses and the value of their properties.

(4) CONDUCT OF BUSINESS AND MAINTENANCE OF EXISTENCE. The Corporation will continue, and will cause each subsidiary of the Corporation to continue, to engage in business of the same general type as conducted by the Corporation and its operating subsidiaries at the time this Certificate of Designations is filed with the Secretary of State of the State of Delaware, and will preserve, renew and keep in full force and effect, and will cause each subsidiary of the Corporation to preserve, renew and keep in full force and effect, their respective corporate existence and their respective material rights, privileges and franchises necessary or desirable in the normal conduct of business.

(5) COMPLIANCE WITH LAWS. The Corporation will comply, and will

cause each subsidiary of the Corporation to comply, in all material respects with all applicable laws, ordinances, rules, regulations, decisions, orders and requirements of governmental authorities and courts (including, without limitation, environmental laws) except (i) where compliance therewith is contested in good faith by appropriate proceedings or (ii) where non-compliance therewith could not reasonably be expected to have a material adverse effect on the business, condition (financial or otherwise), operations, performance, properties or prospects of the Corporation and its subsidiaries taken as a whole.

(6) INVESTMENT COMPANY ACT. The Corporation will not be or become an open-end investment trust, unit investment trust or face-amount certificate company that is or is required to be registered under Section 8 of the Investment Company Act of 1940, as amended, or any successor provision.

(7) TRANSACTIONS WITH AFFILIATES. The Corporation will not, and will not permit any subsidiary of the Corporation, directly or indirectly, to pay any funds to or for the account of, make any investment (whether by acquisition of stock or Indebtedness, by loan, advance, transfer of property, guarantee or other agreement to pay, purchase or service, directly or indirectly, any Indebtedness, or otherwise) in, lease, sell, transfer or otherwise dispose of any assets, tangible or intangible, to, or participate in, or effect any transaction in connection with, any joint enterprise or other joint arrangement with, any Affiliate of the Corporation, except, on terms to the Corporation or such subsidiary no less favorable than terms that could be obtained by the Corporation or such subsidiary from a Person that is not an Affiliate of the Corporation, as determined in good faith by the Board of Directors; provided, however, that nothing in this Section 12(d)(7) shall prohibit any transaction described in clause (5), (6) or (7) of the definition of the term "Permitted Investments" in the Subscription Agreements which transaction would, if engaged in with the proceeds of the sale of the Series A Preferred Stock, be permissible under clause (1) of Section 5(f) of the Subscription Agreements.

SECTION 13. OUTSTANDING SHARES. For purposes of this Certificate of Designations, all shares of Series A Preferred Stock shall be deemed outstanding except (i) from the date a Conversion Notice is given by a holder of Series A Preferred Stock, all shares of Series A Preferred Stock converted into Common Stock; (ii) from the date of registration of transfer, all shares of Series A Preferred Stock held of record by the Corporation or any subsidiary or Affiliate (as defined herein) of the Corporation (other than any original holder of shares of Series A Preferred Stock) and (iii) from the applicable Share Limitation Redemption Date, Redemption Date, Optional Redemption Date, date of redemption pursuant to Section 11(c) or Stockholder Approval Redemption Date all shares of Series A Preferred Stock which are redeemed, so long as in each case the Share Limitation Redemption Price, Redemption Price, the Optional

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Redemption Price, Registration Redemption Price or Stockholder Approval Redemption Price, as the case may be, of such shares of Series A Preferred Stock shall have been paid by the Corporation as and when due hereunder.

SECTION 14. FORMS OF NOTICES.

(a) NOTICE OF CONVERSION OF SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK.

NOTICE OF CONVERSION
OF
SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK
OF
NOVAVAX, INC.

TO: Boston EquiServe,
as Conversion Agent
150 Royall Street

Canton Massachusetts 02021

Attention:

Facsimile No.: (781) 575-2549

(1) Pursuant to the terms of the Series A Custom Convertible Preferred Stock (the "Preferred Stock"), of Novavax, Inc., a Delaware corporation (the "Corporation"), the undersigned (the "Holder") hereby elects to convert _____ shares of the Preferred Stock (each having a conversion amount per share equal to the sum of (i) \$1,000.00 plus (ii) an amount equal to the Accrual Amount on such share to the Conversion Date) into shares of Common Stock, \$.01 par value (the "Common Stock"), of the Corporation, at a Conversion Price per share of Common Stock equal to \$_____, or such other securities into which the Preferred Stock is currently convertible. Capitalized terms used in this Notice and not otherwise defined herein have the respective meanings provided in the Certificate of Designations of the Preferred Stock.

(2) The number of shares of Common Stock issuable upon the conversion of the shares of Preferred Stock to which this Notice relates is _____.

(3) If the conversion of shares of Preferred Stock by this Notice is based on the Trading Prices during a Measurement Period, set forth below or on a schedule which accompanies this Notice are the Trading Prices during the Measurement Period applicable to this Notice and an indication of the two Trading Prices used to determine the Conversion Price set forth above.

	Date	Trading Price
1.	_____, ____	\$ _____
2.	_____, ____	\$ _____
3.	_____, ____	\$ _____
4.	_____, ____	\$ _____

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5.	_____, ____	\$ _____
6.	_____, ____	\$ _____
7.	_____, ____	\$ _____
8.	_____, ____	\$ _____
9.	_____, ____	\$ _____
10.	_____, ____	\$ _____
11.	_____, ____	\$ _____
12.	_____, ____	\$ _____
13.	_____, ____	\$ _____
14.	_____, ____	\$ _____
15.	_____, ____	\$ _____
16.	_____, ____	\$ _____

- 17. _____, _____ \$ _____
- 18. _____, _____ \$ _____
- 19. _____, _____ \$ _____
- 20. _____, _____ \$ _____
- 21. _____, _____ \$ _____
- 22. _____, _____ \$ _____
- 23. _____, _____ \$ _____
- 24. _____, _____ \$ _____
- 25. _____, _____ \$ _____

(4) Please issue certificates for the number of shares of Common Stock or other securities into which such number of shares of Preferred Stock is convertible in the name(s) specified immediately below or, if additional space is necessary, on an attachment hereto:

_____	_____
Name	Name
_____	_____
Address	Address

_____	_____
SS or Tax ID Number	SS or Tax ID Number

(5) The Holder hereby represents to the Corporation that (a) the exercise of conversion rights contained in this Notice does not violate the provisions of Section 10(a) of the Certificate of Designations relating to beneficial ownership in excess of 4.9% of the Common Stock and (b) the Conversion Price set forth in this Notice is not based on a trade of shares of Common Stock in which the Holder or any Affiliate of the Holder was the buyer or seller.

(6) If the shares of Common Stock issuable upon conversion of the Preferred Stock have not been registered for resale under the 1933 Act, as amended (the "Act"), the Holder represents and warrants that (i) the shares of Common Stock not so registered are being acquired for the account of the Holder for investment only, and not with a view to, or for resale in connection with, the public distribution thereof other than pursuant to registration under the 1933 Act or an exemption from registration under the 1933 Act, and that the Holder has no present intention of distributing or reselling the shares of Common Stock not so registered other than pursuant to registration under the 1933 Act or an exemption from registration under the 1933 Act and (ii) the Holder is an "accredited investor" as defined in Regulation D under the 1933 Act. The Holder further agrees that (A) the shares of Common Stock not so registered shall not be sold or transferred unless either (i) they first shall have been registered under the 1933 Act or (ii) the Corporation first shall have been furnished with an opinion of legal counsel reasonably satisfactory to the Corporation to the effect that such sale or transfer is exempt from the registration requirements of the 1933 Act and (B) the Corporation may place a legend on the certificate(s) for the shares of Common Stock not so registered to that effect and place a stop-transfer restriction in its records relating to the shares of Common Stock not so registered, all in accordance with the Subscription Agreement, dated as of January 23, 1998.

NAME:

Date _____ (print or type)

Signature of Holder
(Must be signed exactly as name
appears on the Preferred Stock Certificate.)

(b) FORM OF CORPORATION INCONVERTIBILITY NOTICE.

CORPORATION INCONVERTIBILITY NOTICE
(SECTION 7(a)(2) OF CERTIFICATE OF DESIGNATIONS OF
SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK)

TO: _____
(Name of Holder)

(1) Pursuant to the terms of the Series A Custom Convertible Preferred Stock (the "Preferred Stock"), Novavax, Inc., a Delaware corporation (the "Corporation"), hereby notifies the above-named Holder:

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(a) On _____ (fill in date) five Inconvertibility Days had occurred in a period of ten Trading Days and on such date _____ (fill in number) shares of Preferred Stock and the related Accrual Amounts became inconvertible by reason of the occurrence of five Inconvertibility Days within a period of ten consecutive Trading Days.

(b) The five Inconvertibility Days covered by this Notice and the applicable Conversion Price on each such day are as follows:

Table with 2 columns: Conversion Price, Conversion Price. Rows: \$ _____, \$ _____, \$ _____, \$ _____, \$ _____

(2) The Inconvertibility Days referred to in this Notice relate to (check (a) or (b)):

- [] (a) Maximum Share Amount Inconvertibility
[] (b) Registration Restriction Inconvertibility

(3) Capitalized terms used herein and not otherwise defined herein have the respective meanings provided in the Certificate of Designations for the Preferred Stock.

Date _____ NOVAVAX, INC.
By _____
Title:

(c) FORM OF HOLDER INCONVERTIBILITY NOTICE.

HOLDER INCONVERTIBILITY NOTICE
(SECTION 7(a)(2) OF CERTIFICATE OF DESIGNATIONS OF
SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK)

TO: NOVAVAX, INC.

(1) Pursuant to the terms of the Series A Custom Convertible Preferred Stock (the "Preferred Stock"), the undersigned (the "Holder"), hereby notifies Novavax, Inc., a Delaware corporation (the "Corporation"):

(a) On _____ (fill in date) five Inconvertibility Days had occurred in a period of ten Trading Days and on such date _____ (fill in number) shares of Preferred

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Stock and the related Accrual Amounts became inconvertible by reason of the occurrence of five Inconvertibility Days within a period of ten consecutive Trading Days.

(b) The five Inconvertibility Days covered by this Notice and the applicable Conversion Price on each such day are as follows:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

(2) The Inconvertibility Days referred to in this Notice relate to (check (a) or (b)):

- (a) Maximum Share Amount Inconvertibility
 (b) Registration Restriction Inconvertibility

(3) If the following date and amounts are completed in this Notice, the Holder hereby directs the Corporation to redeem the number of shares of Preferred Stock set forth below in accordance with Section 7(a) of the Certificate of Designations as set forth below:

(a) Number of shares of Preferred Stock to be redeemed:
(fill in)

(b) On _____ (fill in Share Limitation Redemption Date) or such later date as the Holder shall surrender to the Corporation the certificates for the shares of Preferred Stock redeemed, the Corporation shall pay the Holder the Share Limitation Redemption Price per share of Preferred Stock to be redeemed of \$ _____. The Share Limitation Redemption Price is equal to the product obtained by multiplying (A) the sum of (i) \$1,000.00 plus (ii) the Accrual Amount on such share to such Share Limitation Redemption Date equal to \$ _____ times (B) 115%.

(4) Capitalized terms used herein and not otherwise defined herein have the respective meanings provided in the Certificate of Designations for the Preferred Stock.

Date _____

NAME OF HOLDER:

(print or type)

By _____
Title:

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(d) FORM OF REDEMPTION ELECTION.

HOLDER REDEMPTION NOTICE
(SECTION 7(a)(2) OF CERTIFICATE OF DESIGNATIONS OF
SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK)

TO: NOVAVAX, INC.

(1) Pursuant to the terms of the Series A Custom Convertible Preferred Stock (the "Preferred Stock"), the undersigned (the "Holder") hereby notifies Novavax, Inc., a Delaware corporation (the "Corporation"), that the Holder is exercising its right to require the Corporation to redeem _____ shares of Preferred Stock in accordance with Section 7(a) of the Certificate of Designations of the Preferred Stock. On _____ (fill in Share Limitation Redemption Date) or such later date as the Holder shall surrender to the Corporation the certificates for the shares of Preferred Stock redeemed, the Corporation shall pay the Holder the Share Limitation Redemption Price per share of Preferred Stock to be redeemed of \$ _____. The Share Limitation Redemption Price is equal to the product obtained by multiplying (A) the sum of (i) \$1,000.00 plus (ii) the Accrual Amount on such share to such Share Limitation Redemption Date equal to \$ _____ times (B) 115%.

(2) Capitalized terms used herein and not otherwise defined herein have the respective meanings provided in the Certificate of Designations.

Date _____

NAME OF HOLDER:

By _____

(e) FORM OF MANDATORY REDEMPTION WAIVER.

MANDATORY REDEMPTION WAIVER
(SECTION 7(a)(2) OF CERTIFICATE OF DESIGNATIONS OF
SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK)

Novavax, Inc., a Delaware corporation (the "Corporation"), and the undersigned holder (the "Holder") of shares of the Corporation's Series A Custom Convertible Preferred Stock (the "Preferred Stock") hereby agree as follows:

1. The Corporation's or the Holder's Inconvertibility Notice given on _____ (the "Waiver Commencement Date"), if any, is hereby rescinded and the Holder's shares of Preferred Stock shall not be redeemed pursuant to Section 7(a) of the Certificate of Designations of the Preferred Stock by reason of such Inconvertibility Notice or any inconvertibility of any of the Holders' shares of Preferred Stock which may arise pursuant to Section 7(a) of the Certificate of Designations of the Preferred Stock during the period ending on the date set forth below in this Section 1 (the "Waiver Period").

Date for end of Waiver Period: _____, 199__

2. If this Mandatory Redemption Waiver is given in connection with a

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Registration Restriction Inconvertibility, promptly, but in no event later than the date which is 15 days after the date of this Mandatory Redemption Waiver, the Corporation shall file a Registration Statement with the SEC relating to the resale by the Holder of the number of Registrable Securities (as defined in the Holder's Subscription Agreement) set forth below in this Section 2, which Registration Statement may be constituted in any manner which does not have the effect of suspending or terminating the effectiveness of any and all Registration Statements filed by the Corporation pursuant to Section 8(b)(1) of the Subscription Agreement or otherwise with respect to the Registrable Securities which names the Holder as a selling stockholder, and shall thereafter use its best efforts to obtain effectiveness of such Registration Statement. Such Registration Statement shall in all respects be deemed a Registration Statement (as defined in the Certificate of Designations of the Preferred Stock).

Number of Registrable Securities: _____

3. If the Corporation shall default in the performance of its obligations set forth herein, this Mandatory Redemption Waiver shall cease to be of further force and effect and the rights, liabilities and obligations of the parties shall be restored to those which would have existed in the absence of this Mandatory Redemption Waiver.

4. This Agreement shall be governed by the laws of the State of New York. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings provided in the Certificate of Designations.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers or other representatives thereunto duly authorized as of the respective dates set forth below.

NOVAVAX, INC.

By _____
Title:

Date: _____

NAME OF HOLDER:

By _____
Title:

Date: _____

(f) FORM OF STOCKHOLDER APPROVAL REDEMPTION NOTICE.

STOCKHOLDER APPROVAL REDEMPTION NOTICE
(SECTION 7(b) OF CERTIFICATE OF DESIGNATIONS OF
SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK)

TO: NOVAVAX, INC.

(1) Pursuant to the terms of the Series A Custom Convertible Preferred Stock (the "Preferred Stock"), the undersigned (the "Holder") hereby notifies Novavax, Inc., a Delaware corporation (the "Corporation"), that the Holder is exercising its right to require the Corporation to redeem

(fill in lesser of number outstanding and Stockholder Approval Portion) shares of Preferred Stock in accordance with Section 7(b) of the Certificate of Designations of the Preferred Stock. On _____ (fill in Stockholder Approval Redemption Date) or such later date as the Holder shall surrender to the Corporation the certificates for the shares of Preferred Stock redeemed, the Corporation shall pay the Holder the Stockholder Approval Redemption Price per share of Preferred Stock to be redeemed of \$ _____. The Stockholder Approval Redemption Price is equal to the product obtained by multiplying (A) the sum of (i) \$1,000.00 plus (ii) the Accrual Amount on such share to the Stockholder Approval Redemption Date equal to \$ _____ times (B) 105%.

(2) Capitalized terms used herein and not otherwise defined herein shall have the respective meanings provided in the Certificate of Designations.

Date: _____ NAME OF HOLDER:

By _____

(g FORM OF REDEMPTION NOTICE.

REDEMPTION NOTICE
(SECTION 9(a) OF CERTIFICATE OF DESIGNATIONS OF
SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK)

TO: _____
(Name of Holder)

(1) Pursuant to the terms of the Series A Custom Convertible Preferred Stock (the "Preferred Stock"), Novavax, Inc., a Delaware corporation (the "Corporation"), hereby notifies the above-named holder (the "Holder") that the Corporation is exercising its right to redeem _____ shares of Preferred Stock held by the Holder in accordance with Section 9(a) of the Certificate of Designations of the Preferred Stock. On _____ (fill in Redemption Date), the Corporation shall pay the Holder the Redemption Price per share of Preferred Stock to be redeemed. Check (a) or (b):

- [] (a) Based on clause (1) of the definition of the term Redemption Price in the Certificate of Designations; or
- [] (b) Based on clause (2) of the definition of the term Redemption Price in the Certificate of Designations.

(2) Upon surrender to the Corporation of the certificate(s) for the shares of Preferred Stock to be redeemed (but in no event earlier than the Redemption Date), the Corporation will make payment of the applicable Redemption Price in accordance with the

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Certificate of Designations.

(3) Capitalized terms used herein and not otherwise defined herein have the respective meanings provided in the Certificate of Designations.

NOVAVAX, INC.

By _____
Title:

(h) FORM OF CORPORATION NOTICE.

CORPORATION NOTICE
(SECTION 11(b) (1) OF CERTIFICATE OF DESIGNATIONS OF
SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK)

TO: _____
(Name of Holder)

(1) An Optional Redemption Event described in the Certificate of Designations of the Series A Custom Convertible Preferred Stock (the "Preferred Stock") of Novavax, Inc., a Delaware corporation (the "Corporation"), occurred on _____, _____. As a result of such Optional Redemption Event, the above-named holder (the "Holder") is entitled to exercise its optional redemption rights pursuant to Section 11(b)(2) of the Certificate of Designations.

(2) The Holder's optional redemption right must be exercised on or before _____, ____.

(3) At or before the date set forth in the preceding paragraph (2), the Holder must deliver to the Corporation:

(a) a Holder Notice, in the form set forth in Section 14(h) of the Certificate of Designations; and

(b) the certificates for the shares of Preferred Stock to be redeemed, duly endorsed for transfer to the Corporation the shares to be redeemed.

(4) Capitalized terms used herein and not otherwise defined herein have the respective meanings provided in the Certificate of Designations.

Date _____ NOVAVAX, INC.

By _____
Title:

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(i) FORM OF HOLDER NOTICE.

HOLDER NOTICE
(SECTION 11(b) (2) OF CERTIFICATE OF DESIGNATIONS OF
SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK)

TO: NOVAVAX, INC.

(1) Pursuant to the terms of the Series A Custom Convertible Preferred Stock (the "Preferred Stock") of Novavax, Inc., a Delaware corporation (the "Corporation"), the undersigned hereby elects to exercise its right to require redemption by the Corporation pursuant to Sections 11(a) and 11(b) of _____ shares of Preferred Stock at an Optional Redemption Price per share equal to an amount in cash equal to the product obtained by multiplying (a) the sum of (i) \$1,000 plus (ii) the Accrual Amount on each share of Series A Preferred Stock to be redeemed to the date of redemption equal to \$_____ times (b) the _____% (fill in applicable Optional Redemption Percentage).

(2) The aggregate Optional Redemption Price of all shares of Preferred Stock to be redeemed is \$_____.

(3) Capitalized terms used herein and not otherwise defined herein have the respective meanings provided in the Certificate of Designations.

Date: _____ NAME OF HOLDER:

By _____
Signature of Registered Holder

(Must be signed exactly as name
appears on the stock certificate.)

(j) FORM OF HOLDER REGISTRATION REDEMPTION NOTICE.

HOLDER REGISTRATION REDEMPTION NOTICE
(SECTION 11(c) OF CERTIFICATE OF DESIGNATIONS
OF SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK)

TO: NOVAVAX, INC.

(1) Pursuant to the terms of the Series A Custom Convertible Preferred Stock (the "Preferred Stock") of Novavax, Inc., a Delaware corporation (the "Corporation"), the undersigned (the "Holder") hereby elects to exercise its right to require redemption by the Corporation pursuant to Section 11(c) of the Certificate of Designations of the Preferred Stock of _____ shares of Preferred Stock at a Registration Redemption Price per share in cash equal to the product obtained by multiplying (A) the sum of (i) \$1,000 plus (ii) the Accrual Amount on each share of Series A Preferred Stock to be redeemed to the date of such redemption in accordance with Section 11(c) equal to \$_____ times (B) 112.5%.

(2) The aggregate Registration Redemption Price of all shares of Preferred

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Stock to be redeemed is \$_____

(3) Capitalized terms used herein and not otherwise defined herein have the respective meanings provided in the Certificate of Designations.

Date: _____ NAME OF HOLDER: _____

By _____
Signature of Registered Holder
(Must be signed exactly as name
appears on the stock certificate.)

SECTION 15. MISCELLANEOUS.

(a) NOTICES. Any notices required or permitted to be given under the terms of this Certificate of Designations shall be in writing and shall be sent by mail or delivered personally (which shall include telephone line facsimile transmission) or by courier and shall be deemed given five days after being placed in the mail, if mailed, or upon receipt, if delivered personally or by courier (a) in the case of the Corporation, addressed to the Corporation at 8320 Guilford Road, Suite C, Columbia, Maryland, Attention: Chief Financial Officer (telephone line facsimile transmission number (301) 854-3901), with a copy to White & McDermott, P.C., 65 William Street, Suite 209, Wellesley, Massachusetts 02181 (telephone line facsimile transmission number (781) 237-8120, or, in the case of any holder of shares of Series A Preferred Stock, at such holder's address or telephone line facsimile transmission number shown on the stock books maintained by the Corporation with respect to the Series A Preferred Stock or

such other address as the Corporation shall have provided by notice to the holders of shares of Series A Preferred Stock in accordance with this Section or any holder of shares of Series A Preferred Stock shall have provided to the Corporation in accordance with this Section.

(b) REPLACEMENT OF CERTIFICATES. Upon receipt by the Corporation of evidence reasonably satisfactory to the Corporation of the ownership of and the loss, theft, destruction or mutilation of any certificate for shares of Series A Preferred Stock and (1) in the case of loss, theft or destruction, of indemnity from the record holder of the certificate for such shares of Series A Preferred Stock reasonably satisfactory in form to the Corporation (and without the requirement to post any bond or other security) or (2) in the case of mutilation, upon surrender and cancellation of the certificate for such shares of Series A Preferred Stock, the Corporation will execute and deliver to such holder a new certificate for such shares of Series A Preferred Stock without charge to such holder.

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IN WITNESS WHEREOF, Novavax, Inc. has caused this certificate to be signed by Brenda L. Fugagli, its Chief Financial Officer, as of the 28th day of January, 1998.

NOVAVAX, INC.

By: /s/ Brenda L. Fugagli

Brenda L. Fugagli
Chief Financial Officer

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SUBSCRIPTION AGREEMENT

DATED AS OF JANUARY 23, 1998

BY AND BETWEEN

NOVAVAX, INC.

AND

DELTA OPPORTUNITY FUND, LTD.

SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK

Placement Agent:

DIAZ & ALTSCHUL CAPITAL, LLC

SUBSCRIPTION AGREEMENT
SERIES A CUSTOM CONVERTIBLE PREFERRED STOCK
NOVAVAX, INC.

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SUBSCRIPTION AGREEMENT

THIS SUBSCRIPTION AGREEMENT, dated as of January 23, 1998, by and between NOVAVAX, INC., a Delaware corporation, with headquarters located at 8320 Guilford Road, Suite C, Columbia, Maryland 21046 (the "Company"), and DELTA OPPORTUNITY FUND, LTD., a British Virgin Islands corporation (the "Buyer").

WITNESSETH:

WHEREAS, the Buyer wishes to purchase, upon the terms and subject to the conditions of this Agreement, shares of non-voting Series A Custom Convertible Preferred Stock of the Company which will be convertible into shares of Common Stock (such capitalized term and all other capitalized terms used in this Agreement having the respective meanings provided in Section 1); and

WHEREAS, the Company and the Buyer are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by Rule 506 of Regulation D;

NOW THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. DEFINITIONS

(a) As used in this Agreement, the terms "Agreement", "Buyer" and "Company" shall have the respective meanings assigned to such terms in the introductory paragraph of this Agreement.

(b) All the agreements or instruments herein defined shall mean such agreements or instruments as the same may from time to time be supplemented or amended or the terms thereof waived or modified to the extent permitted by, and in accordance with, the terms thereof and of this Agreement.

(c) The following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the

terms defined):

"Affiliate" means, with respect to any Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or under common control with the subject Person. For purposes of the term "Affiliate," the term "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or to cause the direction of the management and policies of a Person, whether through the ownership of securities, by contract or otherwise.

"AMEX" means the American Stock Exchange, Inc.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

"Certificate of Designations" means the Certificate of Designations of the Series A Custom Convertible Preferred Stock in the form attached hereto as ANNEX I, as the same is filed with the Secretary of State of the State of Delaware.

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"Claims" means any losses, claims, damages, liabilities or expenses (joint or several), incurred by a Person.

"Closing Date" means 12:00 noon, New York City time, on January 28, 1998 or such other time as is mutually agreed between the Company and the Buyer.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder and published interpretations thereof.

"Common Stock" means the Common Stock, par value \$.01 per share, of the Company.

"Conversion Agent" means Boston EquiServe, L.P., or any successor thereof, serving as transfer agent and registrar for the Common Stock and conversion agent for the Preferred Stock.

"Conversion Agent Agreement" means the agreement among the Company, the Conversion Agent, the Buyer and the Other Buyers, in substantially the form attached hereto as ANNEX III.

"Conversion Notice" means the Notice of Conversion substantially in the form of Section 15(a) of the Certificate of Designations.

"Conversion Price" shall have the meaning provided in the Certificate of Designations.

"Conversion Shares" means the shares of Common Stock issued or issuable upon conversion of the Preferred Shares.

"Engagement Agreement" means the Engagement Agreement, dated as of November 14, 1997, between the Company and Diaz & Altschul Capital, LLC, as amended on January 15, 1998.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder and published interpretations thereof.

"Escrow Agent" means the escrow agent identified in the Joint Escrow Instructions.

"Equity Securities" means Common Stock or securities convertible into, exchangeable for, or otherwise entitling the holder to acquire, any Common Stock.

"Indemnified Party" means the Company, each of its directors, each of its officers who signs the Registration Statement, each Person, if any, who

controls the Company within the meaning of the 1933 Act or the 1934 Act, any underwriter and any other stockholder selling securities pursuant to the Registration Statement or any of its directors or officers or any Person who controls such stockholder or underwriter within the meaning of the 1933 Act or the 1934 Act.

"Indemnified Person" means each Investor who holds Registrable Securities and each Investor who sells such Registrable Securities in the manner permitted under this Agreement, the directors, if any, of such Investor, the officers, if any, of such Investor, each Person, if any, who controls any Investor within the meaning of the 1933 Act or the 1934 Act, any underwriter (as defined in the 1933 Act) acting on behalf of an Investor who participates in

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the offering of Registrable Securities of such Investor in accordance with the plan of distribution contained in the Prospectus, the directors, if any, of such underwriter and the officers, if any, of such underwriter, and each Person, if any, who controls any such underwriter within the meaning of the 1933 Act or the 1934 Act.

"Inspector" means any attorney, accountant, investment adviser or portfolio manager retained by an Investor for the purposes provided in Section 8(b)(9).

"Investor" means the Buyer and any Permitted Transferee who agrees to become bound by the provisions of Sections 5(a), 5(b), 8, 9 and 10 (other than Section 10(n)) of this Agreement.

"Joint Escrow Instructions" means the Joint Escrow Instructions attached hereto as ANNEX II.

"Majority Holders" means at any time the holders of shares of Series A Preferred Stock which, based on the number of shares of Preferred Stock originally held by such holders, represent a majority of the shares of Preferred Stock originally issued; provided, however, that if none of the Buyer or any Other Buyer holds any shares of Preferred Stock at the time of determination, then "Majority Holders" means the holders of outstanding shares of Preferred Stock which shares constitute a majority of the outstanding shares of Preferred Stock.

"Margin Stock" shall have the meaning provided in Regulation G of the Board of Governors of the Federal Reserve System (12 C.F.R. Part 207).

"NASD" means the National Association of Securities Dealers, Inc.

"Nasdaq" means the Nasdaq National Market.

"1996 10-K" means the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.

"1934 Act" means the Securities Exchange Act of 1934, as amended.

"1933 Act" means the Securities Act of 1933, as amended.

"Non-Responsive Investor" means an Investor who does not provide the Required Information to the Company at least three Business Days prior to the filing of the Registration Statement with the SEC.

"Optional Redemption Event" shall have the meaning provided in Section 1 of the Certificate of Designations.

"Other Buyers" means each of the several holders of the Preferred Stock of the Company who purchase shares of the Preferred Stock pursuant to the Other Subscription Agreements.

"Other Subscription Agreements" means the several Subscription Agreements, dated as of the date hereof, between the Company and the several buyers named therein relating to shares of Preferred Stock.

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"Permitted Investments" means

(1) trade or customer accounts or notes receivable for inventory sold or leased or services rendered by the Company or any Subsidiary in the ordinary course of business;

(2) certificates of deposit issued by any bank organized under the laws of the United States of America or any state thereof;

(3) commercial paper or finance company paper which is rated not less than prime-two or A-2 or their equivalents by Moody Investor Service, Inc. or Standard & Poor's Corporation or their successors;

(4) shares of any so-called "money market fund" provided that such fund is registered under the Investment Company Act of 1940, as amended;

(5) loans to employees or directors of the Company or any Subsidiary, approved by the Board of Directors, not to exceed \$500,000 in the aggregate outstanding at any time;

(6) advances to employees of the Company or any Subsidiary for moving and travel expenses, drawing accounts and similar expenditures in the ordinary course of employment;

(7) additional investments made by loan or advance to Subsidiaries;

(8) investments representing Indebtedness of any Person having a maturity not in excess of 24 months owing as a result of the sale by the Company or a Subsidiary of any assets no longer required in its business so long as such sale is made in compliance with Section 12 of the Certificate of Designations;

(9) stock or obligations issued to the Company or a Subsidiary by any Person (or the representative of such Person) in respect of the Indebtedness of such Person in reorganization of such Person or a composition or reorganization of such Person or a composition or readjustment of the debts of such Person;

(10) investments in or commitments to purchase or sell foreign currency; provided that the aggregate amount involved in all such investments in and commitments to purchase or sell any particular foreign currency shall at no time exceed the aggregate of all payments which the Company and its Subsidiaries reasonably expect to make to or receive from, as applicable, others in such foreign currency;

(11) investments in stock of publicly-traded companies in the bio-technology and/or pharmaceutical industry, so long as the aggregate book value thereof does not exceed \$50,000 at any time;

(12) investments consisting of the purchase of instruments evidencing interest rate protection for all or a portion of the interest-bearing obligations of the Company;

(13) advances or deposits made to secure obligations of the Company or a Subsidiary incurred in the ordinary course of business (excluding Indebtedness for borrowed money covered by Section 12(d)(1) of the Certificate of Designations);

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(14) any Indebtedness permitted by Section 12(d)(1) of the Certificate of Designations which Indebtedness would also constitute a loan to or investment in any other Person with the proceeds of the sale of the Preferred Stock; and

(15) any loan to or investment in any other Person with the proceeds of the sale of the Preferred Stock not listed in clauses (1) through (14) of this definition in an outstanding amount not to exceed in the aggregate at any time \$1,000,000.

"Permitted Transferee" means any Person (1) who is an "accredited investor" as defined in Regulation D under the 1933 Act, (2) who is (A) an Affiliate of the Buyer, (B) any Person who, immediately prior to such transfer, is a permitted holder of shares of Preferred Stock or (C) any other Person who has the same principal investment adviser as the principal investment adviser to the Buyer or the principal investment adviser to any such permitted holder and (3) who, immediately following the assignment of rights under this Agreement holds (x) at least 500 shares of Preferred Stock or (y) shares of Preferred Stock which at the time of such transfer are convertible into, or shares of Common Stock issued upon conversion of shares of Preferred Stock which are equal to, at least 100,000 (subject to equitable adjustment from time to time on terms reasonably acceptable to the Buyer or any other Investor for (i) stock splits, (ii) stock dividends, (iii) combinations, (iv) capital reorganizations, (v) issuance to all holders of Common Stock of rights or warrants to purchase shares of Common Stock and (vi) similar events relating to the Common Stock, in each such case which occur on or after the Closing Date) shares of Common Stock, or any combination thereof.

"Person" means an individual, partnership, corporation, limited liability company, trust, incorporated organization, unincorporated association or joint stock company.

"Preferred Shares" means the shares of Preferred Stock to be purchased by the Buyer pursuant to this Agreement, as set forth on the signature page of this Agreement.

"Preferred Stock" means the Series A Custom Convertible Preferred Stock, \$.01 par value, of the Company.

"Prospectus" means the prospectus, including any preliminary prospectus, used in connection with the Registration Statement and any amendment or supplement thereto.

"Purchase Price" means the aggregate purchase price for the Preferred Shares set forth on the signature page of this Agreement.

"Questionnaire" means the Prospective Purchaser Questionnaire completed by the Buyer and delivered to the Company.

"Record" means all pertinent financial and other records, pertinent corporate documents and properties of the Company and the Subsidiaries subject to inspection for the purposes provided in Section 8(b)(9).

"register," "registered," and "registration" refer to a registration effected by preparing and filing a Registration Statement or Statements in compliance with the 1933 Act and pursuant to Rule 415, and the declaration or ordering of effectiveness of such Registration Statement by the SEC.

"Registrable Securities" means (1) the Conversion Shares (2) if the Common Stock is changed, converted or exchanged by the Company or its successor, as the case may be, into any other stock or other securities on or after the date the Certificate of Designations is filed with the Secretary of State of the State of Delaware, such other stock or other securities which

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are issued or issuable in respect of or in lieu of the Conversion Shares and (3) if any other securities are issued to holders of the Common Stock (or such other shares or other securities into which or for which the Common Stock is so changed, converted or exchanged as described in the immediately preceding clause (2)) upon any reclassification, share combination, share subdivision, share dividend, merger, consolidation or similar transaction or event, such other securities which are issued or issuable in respect of or in lieu of the Conversion Shares.

"Registration Period" means the period from the Closing Date to the earlier of (i) the date which is three years after the Closing Date and (ii) the date on which the Investors no longer own, or have any right to acquire, any Registrable Securities.

"Registration Statement" means a registration statement on Form S-3 of the Company under the 1933 Act, including any amendment thereto, which names the Investors as selling stockholders.

"Regulation D" means Regulation D promulgated by the SEC under the 1933 Act.

"Required Information" means the information regarding an Investor, the Registrable Securities held by it and the intended method of disposition of the Registrable Securities held by it as shall be reasonably required in connection with the preparation of the Registration Statement.

"Rule 415" means Rule 415 under the 1933 Act or any successor rule providing for offering securities on a delayed or continuous basis.

"Rule 144" means Rule 144 promulgated by the SEC under the 1933 Act or any other similar rule or regulation of the SEC that may at any time permit a holder of any securities to sell such securities to the public without registration under the 1933 Act.

"SEC" means the Securities and Exchange Commission.

"SEC Effective Date" means the date the Registration Statement is declared effective by the SEC.

"SEC Reports" means (1) the 1996 10-K, (2) the Company's Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 1997, June 30, 1997 and September 30, 1997 and (3) the Company's definitive proxy statement for its 1997 Annual Meeting of Stockholders.

"Shares" means the Preferred Shares and the Conversion Shares.

"Stockholder Approval" means the approval by a majority of the votes cast by the holders of shares of Common Stock (in person or by proxy) at a meeting of the stockholders of the Corporation (duly convened at which a quorum was present), or a written consent of holders of shares of Common Stock entitled to such number of votes given without a meeting, of the issuance by the Corporation of 20% or more of the Common Stock of the Corporation outstanding on the Issuance Date for less than the greater of the book or market value of the Common Stock on conversion of the Series A Preferred Stock, as and to the extent required under Rule 713 of the AMEX as in effect from time to time or any successor or replacement provision.

"Subsidiary" means any corporation or other entity of which a majority of the capital stock or other ownership interests having ordinary voting power to elect a majority of the board of directors or other Persons performing similar functions are at the time directly or indirectly owned by the Company.

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"Transaction Documents" means, individually or collectively, this Agreement, the Certificate of Designations, the Conversion Agent Agreement and the other agreements, instruments and documents contemplated hereby and thereby.

"Violation" means

(i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any post-effective amendment thereof or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading,

(ii) any untrue statement or alleged untrue statement of a material fact contained in any Prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading,

(iii) any violation or alleged violation by the Company of the 1933 Act, the 1934 Act, any state securities law or any rule or regulation under the 1933 Act, the 1934 Act or any state securities law, or

(iv) any breach or alleged breach by the Company or the Conversion Agent of any representation, warranty, covenant, agreement or other term of any of the Transaction Documents.

2. AGREEMENT TO SUBSCRIBE; PURCHASE PRICE.

(a) SUBSCRIPTION. The Buyer hereby agrees to purchase from the Company, and the Company hereby agrees to sell to the Buyer, on the Closing Date, the number of Preferred Shares set forth on the signature page of this Agreement, having the terms and conditions as set forth in the form of Certificate of Designations attached hereto as ANNEX I, at the price per share set forth on the signature page of this Agreement and for the Purchase Price. The Purchase Price shall be payable in United States Dollars.

(b) FORM OF PAYMENT; DELIVERIES TO ESCROW AGENT. Within three Business Days after the date the Company and the Buyer execute and deliver this Agreement, one to the other, the Buyer shall deposit an amount equal to the Purchase Price in escrow by delivering funds in United States Dollars in the amount of the Purchase Price to the Escrow Agent identified in the Joint Escrow Instructions against delivery by the Company of the certificates for the Preferred Shares registered in the name of the Buyer on the Closing Date at the closing. Payment of the Purchase Price shall be made by wire transfer of funds to:

Citibank, N.A.
153 East 53rd Street
New York, New York 10043
ABA#021000089

For credit to Account #3717 9446
For credit to the account of Brian W. Pusch Attorney Escrow Account
Reference: Delta/Novavax

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Promptly following payment by the Buyer to the Escrow Agent of the Purchase Price, but in no event later than two Business Days after such payment and in any event prior to the Closing Date, the Company shall deliver certificates for the Preferred Shares, registered in the name of the Buyer, to the Escrow Agent

against payment therefor on the Closing Date at the closing. By signing this Agreement, each of the Buyer and the Company agrees to all of the terms and conditions of, and becomes a party to, the Joint Escrow Instructions, all of the provisions of which are incorporated herein by this reference as if set forth in full. Until released by the Escrow Agent to or upon the order of the Buyer at the closing against payment of the Purchase Price in accordance with the Joint Escrow Instructions, the Buyer shall not have any rights in the Preferred Shares and the Preferred Shares shall not be deemed issued or outstanding. Until released by the Escrow Agent to or upon the order of the Company at the closing against delivery of the Preferred Shares in accordance with the Joint Escrow Instructions, the Company shall not have any rights in the funds deposited by the Buyer with the Escrow Agent.

(c) CLOSING. The issuance and sale of the Preferred Shares shall occur on the Closing Date at the Law Offices of Brian W Pusch, Penthouse Suite, 29 West 57th Street, New York, New York.

3. BUYER'S REPRESENTATIONS, WARRANTIES, ETC.

The Buyer represents and warrants to, and covenants and agrees with, the Company as follows:

(a) PURCHASE FOR INVESTMENT. The Buyer is purchasing the Preferred Shares for its own account as principal, for investment only and not with a present view to or for the sale or distribution thereof in whole or in part within the meaning of the 1933 Act;

(b) ACCREDITED INVESTOR. The Buyer is an "accredited investor" as that term is defined in Rule 501 of the General Rules and Regulations under the 1933 Act by reason of Rule 501(a)(3) thereof;

(c) REOFFERS AND RESALES. The Buyer will not, directly or indirectly, offer, sell, transfer or otherwise dispose of (or solicit any offers to buy or otherwise acquire) any of the Shares except pursuant to registration of the Shares being offered and sold under the 1933 Act or pursuant to an exemption from registration;

(d) COMPANY RELIANCE. The Buyer understands that the Preferred Shares are being offered and sold, and the Conversion Shares are being offered, to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein, in the Questionnaire, a true and accurate copy of which has been delivered by the Buyer to the Company, and the other documents executed by the Buyer and delivered to the Company in connection with this Agreement in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Preferred Shares and to receive an offer of the Conversion Shares; and the information with respect to the Buyer set forth in the Questionnaire is accurate and complete in all material respects;

(e) INFORMATION PROVIDED. The Buyer and its advisors, if any, have requested, received and considered all information relating to the business, properties, operations, condition (financial or other), results of operations and prospects of the Company and the Subsidiaries and information relating to the offer and sale of the Preferred Shares and the offer and, upon conversion of the Preferred Shares, sale of the Conversion Shares deemed relevant by them; the Buyer and its advisors, if any, have been afforded the opportunity to ask

questions of the Company concerning the terms of the Shares and the business, properties, operations, condition (financial or other), results of operations and prospects of the Company and the Subsidiaries and have received satisfactory answers to any such inquiries; without limiting the generality of the foregoing, the Buyer has had the opportunity to obtain and to review the SEC Reports; the

Buyer has, in connection with its decision to purchase the Preferred Shares, relied solely upon the SEC Reports, the representations, warranties, covenants and agreements of the Company set forth in this Agreement and to be contained in the Certificate of Designations and the Conversion Agent Agreement and in the documents to be delivered to the Buyer as provided in Section 7, as well as any investigation of the Company completed by the Buyer or its advisors; the Buyer understands that its investment in the Shares involves a high degree of risk; and the Buyer understands that the offering of the Preferred Shares is being made to the Buyer as part of an offering without any minimum or maximum amount of the offering (subject, however, to the right of the Company at any time prior to execution and delivery of this Agreement by the Company, in its sole discretion, to accept or reject an offer by the Buyer to purchase the Preferred Shares);

(f) ABSENCE OF APPROVALS. The Buyer understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Shares;

(g) SUBSCRIPTION AGREEMENT. The Buyer has all requisite power and authority, corporate or otherwise, to execute, deliver and perform its obligations under this Agreement and the other agreements executed or to be executed by the Buyer in connection herewith and to consummate the transactions contemplated hereby and thereby; and this Agreement has been and the other agreements, documents and instruments to be executed and delivered by the Buyer in connection herewith, when so executed and delivered will be, duly and validly authorized, executed and delivered on behalf of the Buyer and, assuming due execution and delivery of this Agreement by the Company, this Agreement is and, assuming due execution and delivery by the other signatories thereto, such other agreements, when executed and delivered by the Buyer, will be, valid and binding agreements of the Buyer enforceable in accordance with its terms, except as the enforceability hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting creditors' rights generally and general principles of equity, regardless of whether enforcement is considered in a proceeding in equity or at law; and

(h) BUYER STATUS. The Buyer is not a "broker" or "dealer" (as such terms are defined in the 1934 Act) who is registered or required to be registered with the SEC pursuant to Section 15(a) of the 1934 Act.

4. COMPANY'S REPRESENTATIONS, WARRANTIES, ETC.

The Company represents and warrants to the Buyer that the following matters are true and correct as of the date of this Agreement and will be true and correct on the Closing Date, and the Company covenants and agrees with the Buyer that:

(a) ORGANIZATION AND AUTHORITY. The Company and each Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, and has all requisite corporate power and authority to (i) own, lease and operate its properties and to carry on its business as described in the SEC Reports and as currently conducted, and (ii) to execute, deliver and perform its obligations under this Agreement, the Certificate of Designations, the Conversion Agent Agreement, and the other agreements to be executed and delivered by the Company in connection herewith, and to consummate the transactions contemplated hereby and thereby; and the Company does not have

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any equity investment in any Subsidiary other than those listed in the Exhibit 21 to the 1996 10-K.

(b) QUALIFICATIONS. The Company and any Subsidiaries are duly qualified to do business as foreign corporations and are in good standing in all jurisdictions wherein such qualification is necessary and where failure so to

qualify would have a material adverse effect on the business, properties, operations, condition (financial or other), results of operations or prospects of the Company and the Subsidiaries taken as a whole.

(c) CAPITALIZATION. The authorized capital stock of the Company currently consists of (a) 30,000,000 shares of Common Stock of which 12,031,757 shares were outstanding as of the close of business on January 8, 1998, all of which are fully paid and nonassessable; and (b) 2,000,000 shares of preferred stock, \$.01 par value, none of which is outstanding, and of which 6,500 shares will be designated as Preferred Stock and issued pursuant to this Agreement, the Other Subscription Agreements and the Engagement Agreement; from January 8, 1998 to the Closing Date there will be (x) no material increase in the number of shares of Common Stock outstanding (except for shares issued upon exercise of options and warrants outstanding on the date hereof or options or similar rights granted subsequent to the date of this Agreement pursuant to the Company's stock option plans in effect on the date of this Agreement) and (y) no issuance of shares of preferred stock of the Company other than pursuant to this Agreement and the Other Subscription Agreements. The 1996 10-K discloses as of December 31, 1996 all outstanding options or warrants for the purchase of, or other rights to purchase or subscribe for, or securities convertible into or exchangeable for, Common Stock or other capital stock of the Company, or any contracts or commitments to issue or sell Common Stock or other capital stock of the Company or any such options, warrants, rights or other securities; and from such date to the date hereof there has been, and to the Closing Date there will be, no material change in the amount or terms of any of the foregoing except for the grant of options to purchase shares of Common Stock pursuant to the Company's stock option plans in effect on the date of this Agreement. The Company has duly reserved from its authorized and unissued shares of Common Stock the full number of shares required for (a) all options, warrants, convertible securities and other rights to acquire shares of Common Stock which are outstanding and (b) all shares of Common Stock and options and other rights to acquire shares of Common Stock which may be issued or granted under the stock option and similar plans which have been adopted by the Company or any Subsidiary; and, immediately following the Closing, after giving effect to any antidilution or similar adjustment arising by reason of issuance of the Preferred Shares and the shares of Preferred Stock to be issued pursuant to the Other Subscription Agreements, the total number of shares of Common Stock reserved and required to be reserved from the authorized and unissued shares of Common Stock for purposes of all such options, warrants, convertible securities, other rights and stock option and similar plans (excluding the Preferred Shares and the shares of Preferred Stock to be issued pursuant to the Other Subscription Agreements) will be not more than 6,000,000. Each outstanding class or series of securities for which any such antidilution adjustment will occur is identified on SCHEDULE 4(C) attached hereto, together with (x) the amount of such antidilution adjustment, if such amount is determinable at the time of issuance of the Preferred Stock, or (y) a description of such antidilution adjustment, if the amount of such antidilution adjustment is not determinable at the time of issuance of the Preferred Stock, in each such case for each such class or series. The outstanding shares of Common Stock and outstanding options, warrants and other securities to purchase Common Stock have been duly authorized and validly issued. None of such outstanding shares of Common Stock, options, warrants and other securities has been issued in violation of the preemptive rights of any securityholder of the Company. The offers and sales of the outstanding shares of Common Stock and options, warrants and other rights to acquire Common Stock were at all relevant times either registered under the 1933 Act and applicable state securities laws or exempt from such requirements. No holder of any of the Company's securities has any rights,

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"demand," "piggy-back" or otherwise, to have such securities registered by reason of the intention to file, filing or effectiveness of the Registration Statement.

(d) CONCERNING THE SHARES AND THE COMMON STOCK. The Shares have been duly authorized and the Preferred Shares, when issued and paid for in

accordance with this Agreement, and the Conversion Shares, when issued upon conversion of the Preferred Shares, will be duly and validly issued, fully paid and non-assessable and will not subject the holder thereof to personal liability by reason of being such holder. There are no preemptive or similar rights of any stockholder of the Company or any other Person to acquire any of the Shares. The Company has duly reserved 2,406,350 shares of Common Stock for conversion of the shares of Preferred Stock, and such shares shall remain so reserved (subject to reduction from time to time for shares of Common Stock issued upon conversion of shares of Preferred Stock), and the Company shall from time to time reserve such additional shares of Common Stock as shall be required to be reserved pursuant to the Certificate of Designations, as long as the Preferred Stock is convertible (which the Company will allocate pro rata among the holders of the Preferred Stock based on the shares of Preferred Stock outstanding at the time such shares of Common Stock are so reserved). The Common Stock is listed for trading on the AMEX and (1) the Company and the Common Stock meet the criteria for continued listing and trading on the AMEX; (2) the Company has not been notified since December 15, 1995 by the AMEX of any failure or potential failure to meet the criteria for continued listing and trading on the AMEX and (3) no suspension of trading in the Common Stock is in effect. The Company knows of no reason that the Conversion Shares will not be eligible for listing on the AMEX.

(e) CORPORATE AUTHORIZATION. The Transaction Documents have been duly and validly authorized by the Company, this Agreement has been duly executed and delivered by the Company and, assuming due execution and delivery by the Buyer, this Agreement is, the Certificate of Designations, when executed by the Company and filed with the Secretary of State of the State of Delaware, will be, and the Conversion Agent Agreement, when executed and delivered by the Company (and assuming due execution and delivery by the parties thereto other than the Company), will be, valid and binding obligations of the Company enforceable in accordance with their respective terms, except as the enforceability hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting creditors' rights generally and general principles of equity, regardless of whether enforcement is considered in a proceeding in equity or at law.

(f) NON-CONTRAVENTION. The execution and delivery of the Transaction Documents by the Company and the consummation by the Company of the issuance of the Preferred Shares as contemplated by this Agreement and the other transactions contemplated by the Transaction Documents do not and will not, with or without the giving of notice or the lapse of time, or both, (i) result in any violation of any term of the certificate of incorporation or by-laws of the Company or any Subsidiary, (ii) conflict with or result in a breach by the Company or any Subsidiary of any of the terms or provisions of, or constitute a default under, or result in the modification of, or result in the creation or imposition of any lien, security interest, charge or encumbrance upon any of the properties or assets of the Company or any Subsidiary pursuant to, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary or any of their respective properties or assets are bound or affected, (iii) violate or contravene any applicable law, rule or regulation or any applicable decree, judgment or order of any court, United States federal or state regulatory body, administrative agency or other governmental body having jurisdiction over the Company or any Subsidiary or any of their respective properties or assets or (iv) have any material adverse effect on any permit, certification, registration, approval, consent, license or franchise necessary for the Company or any Subsidiary to own or lease and operate any of their respective properties and to conduct any of their respective businesses or the ability of the Company or any Subsidiary to make use thereof.

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(g) APPROVALS. No authorization, approval or consent of, or filing with, any court, governmental body, regulatory agency, self-regulatory organization, or stock exchange or the stockholders of the Company is required to be obtained or made by the Company or any Subsidiary for (1) the execution,

delivery and performance by the Company of the Transaction Documents, (2) the issuance and sale of Conversion Shares upon conversion of the Preferred Shares as contemplated by this Agreement and the Certificate of Designations and (3) the performance by the Company of its other obligations under the Transaction Documents, other than (1) listing of the Conversion Shares on the AMEX, (2) registration of the resale of the Conversion Shares under the 1933 Act as contemplated by Section 8, (3) as may be required under applicable state securities or "blue sky" laws, (4) filing of one or more Forms D with respect to the Shares as required under Regulation D, and (5) the Stockholder Approval contemplated by Section 5(j).

(h) INFORMATION PROVIDED. The information provided by the Company to the Buyer in writing in connection with the transactions contemplated by this Agreement, other than any forecasts and forward-looking statements included in such information (except any forward looking statements set forth in the SEC Reports which forward-looking statements shall be subject to Exhibit 99 to the 1996 10-K to the extent so stated in the SEC Reports), including, without limitation, the written information referred to in Section 3(e) of this Agreement, other than any such forecasts and forward-looking information (except as aforesaid), does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading, it being understood that for purposes of this Section 4(h), any statement contained in such information shall be deemed to be modified or superseded for purposes of this Section 4(h) to the extent that a statement in any document included in such information which was prepared or filed with the SEC on a later date modifies or replaces such statement, whether or not such later prepared or filed statement so states.

(i) SEC FILINGS. The Company has timely filed all reports required to be filed under the 1934 Act and any other material reports or documents required to be filed with the SEC since December 15, 1995. All of such reports and documents complied, when filed, in all material respects, with all applicable requirements of the 1933 Act and the 1934 Act. The Company meets the requirements for the use of Form S-3 for the registration of the resale of the Conversion Shares by the Buyer and any other Investor. The Company has not filed any reports with the SEC under the 1934 Act since December 31, 1996 other than the SEC Reports.

(j) CONDUCT OF BUSINESS. Except as set forth in the SEC Reports, since December 31, 1996, neither the Company nor any Subsidiary has (i) incurred any material obligation or liability (absolute or contingent) other than in the ordinary course of business; (ii) canceled, without payment in full, any material notes, loans or other obligations receivable or other debts or claims held by it other than in the ordinary course of business; (iii) sold, assigned, transferred, abandoned, mortgaged, pledged or subjected to lien any of its material properties, tangible or intangible, or rights under any material contract, permit, license, franchise or other agreement other than in the ordinary course of business; (iv) conducted its business in a manner materially different from its business as conducted on such date; (v) declared, made or paid or set aside for payment any cash or non-cash distribution on any shares of its capital stock other than regular quarterly cash dividends; or (vi) consummated, or entered into any agreement with respect to, any transaction or event which would constitute an Optional Redemption Event. Except as disclosed in the SEC Reports, the Company and the Subsidiaries own, possess or have obtained all governmental, administrative and third party licenses, permits,

certificates, registrations, approvals, consents and other authorizations necessary to own or lease (as the case may be) and operate their respective properties, whether tangible or intangible, and to conduct their respective businesses or operations as currently conducted, except such licenses, permits, certificates, registrations, approvals, consents and authorizations the failure of which to obtain would not have a material adverse effect on the business, properties, operations, condition (financial or other), results of operations or

prospects of the Company and the Subsidiaries taken as a whole.

(k) ABSENCE OF CERTAIN PROCEEDINGS. There is no action, suit or proceeding, before or by any court, public board or body or governmental agency pending or, to the knowledge of the Company and the Subsidiaries, threatened against the Company or any Subsidiary and, to the knowledge of the Company and the Subsidiaries, there is no inquiry or investigation before or by any court, public board or body or governmental agency pending or threatened against the Company or any Subsidiary, in any such case wherein an unfavorable decision, ruling or finding would have a material adverse effect on the business, properties, operations, condition (financial or other), results of operations or prospects of the Company and the Subsidiaries taken as a whole or the transactions contemplated by the Transaction Documents or which would, in the case of an unfavorable decision, ruling or finding, adversely affect the validity or enforceability of, or the authority or ability of the Company to perform its obligations under, the Transaction Documents; the Company does not have pending before the SEC any request for confidential treatment of information and to the best of the Company's knowledge no such request will be made by the Company prior to the SEC Effective Date; and to the best of the Company's knowledge there is not pending or contemplated, and since January 1, 1993 there has been no, investigation by the SEC involving the Company or any current director or officer of the Company.

(l) LIABILITIES. Except as and to the extent disclosed, reflected or reserved against in the financial statements of the Company and the notes thereto included in the 1996 10-K or disclosed in the SEC Reports, neither the Company nor any Subsidiary has any material (individually or in the aggregate) liabilities, debts or obligations whether accrued, absolute, contingent or otherwise, and whether due or to become due. Subsequent to December 31, 1996, neither the Company nor any Subsidiary has incurred any liabilities, debts or obligations of any nature whatsoever which are individually or in the aggregate material to the Company and the Subsidiaries taken as a whole, other than those incurred in the ordinary course of their respective businesses or disclosed in the SEC Reports.

(m) ABSENCE OF CERTAIN CHANGES. Since December 31, 1996, there has been no material adverse change and no material adverse development in the business, properties, operations, condition (financial or other), results of operations or prospects of the Company and the Subsidiaries taken as a whole, except as disclosed in the SEC Reports.

(n) MATERIAL LOSSES. Since December 31, 1996, neither the Company nor any Subsidiary has sustained any loss or interference with its business or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, which loss or interference is or is likely to be material to the business, properties, operations, condition (financial or other), results of operations or prospects of the Company and the Subsidiaries taken as a whole.

(o) PROPERTIES. The Company and each Subsidiary has good title to all property real and personal (tangible and intangible) and other assets owned by it which is necessary to the operations of the Company or such Subsidiary, free and clear of all security interests, charges, mortgages, liens or other encumbrances, except such as are described in the SEC Reports or such as do not materially interfere with the use of such property made, or proposed to be made, by the Company or such Subsidiary. The leases, licenses or other contracts or instruments under which the Company and each Subsidiary leases, holds or is entitled to use any property, real or personal which is material to the Company and the Subsidiaries taken as a whole, are valid, subsisting and enforceable with only such exceptions as do not materially

notice of any material violation of any applicable law, ordinance, regulation, order or requirement relating to its owned or leased properties.

(p) INTELLECTUAL PROPERTY. Except as disclosed in the SEC Reports, the Company and each Subsidiary owns, or possesses adequate rights to use, all patents, patent rights, inventions, trade secrets, know-how, proprietary techniques, including processes and substances, trademarks, service marks, trade names and copyrights described or referred to in the SEC Reports or owned or used by it which are necessary for the conduct of its business as it is presently conducted or proposed to be conducted, except where the failure to own or possess adequate rights to use such patents, patent rights, inventions, trade secrets, service marks, trade names and copyrights would not have a material adverse effect on the business, properties, operations, condition (financial or other), results of operations or prospects of the Company and the Subsidiaries taken as a whole. Except as disclosed in the SEC Reports, neither the Company nor any Subsidiary has received any notice of infringement of or conflict with asserted rights of others with respect to, any patents, patent rights, inventions, trade secrets, know-how, proprietary techniques, including processes and substances, trademarks, service marks, trade names or copyrights which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, is likely to have a material adverse effect on the business, properties, operations, condition (financial or other), results of operations or prospects of the Company and the Subsidiaries taken as a whole.

(q) INTERNAL ACCOUNTING CONTROLS. The Company and the Subsidiaries maintain a system of internal accounting controls meeting the requirements of Section 13(b)(2) of the 1934 Act in all material respects.

(r) COMPLIANCE WITH LAW. Neither the Company nor any Subsidiary is in violation of any statute, law, rule, regulation, ordinance, decision or order of any governmental agency or body or any court, domestic or foreign, including, without limitation, those relating to the use, operation, handling, transportation, disposal or release of hazardous or toxic substances or wastes or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances or wastes, except where such violation would not individually or in the aggregate have a material adverse effect on the business, properties, operations, condition (financial or other), results of operations or prospects of the Company and the Subsidiaries taken as a whole; and neither the Company nor any Subsidiary is aware of any pending investigation which would reasonably be expected to lead to such a claim.

(s) LABOR RELATIONS. No material labor problem exists or, to the knowledge of the Company or any Subsidiary, is imminent with respect to any of the employees of the Company or any Subsidiary which if resolved unfavorably to the Company or a Subsidiary would have a material adverse effect on the business, properties, operations, condition (financial or other), results of operations or prospects of the Company and the Subsidiaries, taken as a whole.

(t) INSURANCE. The Company and the Subsidiaries maintain insurance against loss or damage by fire or other casualty and such other insurance, including but not limited to, product liability insurance, in such amounts and covering such risks as is reasonably adequate for the conduct of their businesses and the value of their properties.

(u) ABSENCE OF BROKERS, FINDERS, ETC. No broker, finder or similar Person other than Diaz & Altschul Capital, LLC is entitled to any commission, fee or other compensation by reason of the transactions contemplated by this Agreement based on the Company's actions, and the Company shall pay, and indemnify and hold harmless the Buyer

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from, any claim made against the Buyer by any Person for any such commission, fee or other compensation.

(v) NO SOLICITATION. No form of general solicitation or general

advertising was used by the Company or, to the best of its knowledge, any other Person acting on behalf of the Company, in respect of the Shares or in connection with the offer and sale of the Shares. Neither the Company nor, to its knowledge, any Person acting on behalf of the Company has, either directly or indirectly, sold or offered for sale to any Person any of the Shares or, within the six months prior to the date hereof, any other similar security of the Company except as contemplated by this Agreement and the Other Subscription Agreements; and neither the Company nor any Person authorized to act on its behalf will sell or offer for sale any shares of Preferred Stock or shares of Common Stock, or solicit any offers to buy any shares of Preferred Stock or shares of Common Stock so as thereby to cause the issuance or sale of any of the Shares to be in violation of Section 5 of the 1933 Act.

(w) CERTAIN ISSUANCES OF SECURITIES. The Company has not issued any shares of Common Stock or shares of any series of preferred stock (other than the Preferred Shares and the shares of Preferred Stock being issued pursuant to the Other Subscription Agreements) or other securities convertible into, exchangeable for or otherwise entitling the holder to acquire shares of Common Stock which are subject to Rule 713 of the AMEX (or any successor or replacement provision thereof) and which would be integrated with the sale of the Preferred Shares to the Buyer or the issuance of Conversion Shares upon conversion thereof for purposes of such Rule 713 (or any successor or replacement provision thereof).

(x) ERISA COMPLIANCE. The Company and each Subsidiary is in compliance in all material respects with all presently applicable provisions of ERISA; no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company or any Subsidiary would have any liability; neither the Company nor any Subsidiary has incurred or expects to incur liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Sections 412 or 4971 of the Code; and each "pension plan" for which the Company or any Subsidiary would have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(y) TAX MATTERS. The Company and each Subsidiary has filed all federal, state and local income and franchise tax returns required to be filed and has paid all taxes shown by such returns to be due, and no tax deficiency has been determined adversely to the Company or any Subsidiary which has had (nor does the Company or any Subsidiary have any knowledge of any tax deficiency which, if determined adversely to the Company or any Subsidiary might have) a material adverse effect on the business, properties, operations, conditions (financial or other), results of operations or prospects of the Company and the Subsidiaries taken as a whole.

(z) INVESTMENT COMPANY. Neither the Company nor any Subsidiary is an "investment company" within the meaning of such term under the Investment Company Act of 1940, as amended and the rules and regulations of the SEC thereunder.

5. CERTAIN COVENANTS AND ACKNOWLEDGMENTS.

(a) TRANSFER RESTRICTIONS. The Buyer acknowledges and agrees that (1) the Preferred Shares have not been and are not being registered under the provisions of the 1933 Act or any state securities laws and, except as provided in Section 8, the Conversion Shares have not been and are not being registered under the 1933 Act or any state securities laws, and that the

Preferred Shares may be transferred only to a Permitted Transferee and may not be transferred unless the Buyer shall have delivered to the Company an opinion of counsel, reasonably satisfactory in form, scope and substance to the Company,

to the effect that the Preferred Shares to be transferred may be transferred without such registration in the manner contemplated by the Buyer; (2) no offer, sale, assignment or other transfer of the Preferred Shares or any interest therein may be made, directly or indirectly, except in accordance with the terms of this Section 5(a) and Section 10(j); (3) the Conversion Shares may not be resold by the Buyer unless the resale has been registered under the 1933 Act or is made pursuant to an exemption from such registration; (4) any sale of the Shares made in reliance on Rule 144 may be made only in accordance with the terms of said Rule and further, if the exemption provided by Rule 144 is not available, any resale of the Shares under circumstances in which the seller, or the Person through whom the sale is made, may be deemed to be an underwriter, as that term is used in the 1933 Act, may require compliance with some other exemption under the 1933 Act or the rules and regulations of the SEC thereunder; and (5) the Company is under no obligation to register the Shares (other than registration of the resale of the Conversion Shares in accordance with Section 8) under the 1933 Act or, except as provided in Section 8, to comply with the terms and conditions of any exemption thereunder. The Buyer may not transfer the Conversion Shares in a transaction which does not constitute a transfer thereof pursuant to the Registration Statement in accordance with the plan of distribution set forth therein or in any supplement to the Prospectus forming part of the Registration Statement unless the Buyer shall have delivered to the Company an opinion of counsel, reasonably satisfactory in form, scope and substance to the Company, that such Conversion Shares may be transferred without registration under the 1933 Act.

(b) RESTRICTIVE LEGENDS. (1) The Buyer acknowledges and agrees that the certificates for the Preferred Shares shall bear restrictive legends in substantially the following form (and a stop-transfer order may be placed against transfer of the Preferred Shares):

These securities have not been registered under the Securities Act of 1933, as amended (the "Act"). The sale to the holder of these securities of the shares of common stock issuable upon conversion of these securities are not covered by a registration statement under the Act. These securities have been acquired, and such shares of common stock must be acquired, for investment and may not be resold, transferred or assigned in the absence of an effective registration statement under the Act or an opinion of counsel reasonably satisfactory in form, scope and substance to the Company that registration is not required under the Act.

These securities are subject to restrictions on the sale or other transfer of these securities pursuant to a Subscription Agreement, dated as of January 23, 1998, by and between the Company and the original holder of these securities. A copy of such agreement is available for inspection during normal business hours at the principal executive office of the Company, upon prior written request to the Secretary of the Company.

The number of shares constituting the portion of the Maximum Share Amount, as defined in the Certificate of Designations of Rights and Preferences (the "Certificate of Designations") of the Series A Custom Convertible Preferred Stock (the "Series A Shares"), allocated to the Series A Shares represented by this certificate for purposes of conversion thereof is 1,388,279. The number of Series A Shares evidenced by this certificate which constitute the Stockholder Approval Portion (as defined in the Certificate of Designations) is 576.

Section 10(b)(3)(A) of the Certificate of Designations permits a holder of the securities represented by this certificate to convert such securities in accordance with the Certificate of Designations without being required to physically surrender this certificate to the Company unless all of the securities represented hereby are so converted. Consequently,

following conversion of any of the securities represented by this certificate, the number of shares represented by this certificate may be less than the number of shares stated hereon. Upon request of any proposed transferee of this certificate, the Company will provide confirmation of the number of shares evidenced by this certificate.

(2) The Buyer further acknowledges and agrees that until such time as the Conversion Shares have been registered for resale under the 1933 Act as contemplated by Section 8, the certificates for the Conversion Shares shall bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of the certificates for the Conversion Shares):

The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "Act"). The securities have been acquired for investment and may not be resold, transferred or assigned in the absence of an effective registration statement for the securities under the Act, or an opinion of counsel reasonably satisfactory in form, scope and substance to the Company that registration is not required under the Act.

(3) Once the Registration Statement required to be filed by the Company pursuant to Section 8 has been declared effective, thereafter (1) upon request of the Buyer the Company will substitute certificates without restrictive legend for certificates for any Conversion Shares issued prior to the SEC Effective Date which bear such restrictive legend and remove any stop-transfer restriction relating thereto promptly, but in no event later than three Business Days after surrender of such certificates by the Buyer and (2) the Company shall not place any restrictive legend on certificates for Conversion Shares issued on conversion of the Preferred Shares or Dividend Shares issued in respect of the Preferred Shares or impose any stop-transfer restriction thereon unless such legend or stop-transfer instruction is required by a change in applicable law subsequent to the date of this Agreement (it being understood and agreed by the Company and the Buyer that applicable law in effect on the date of this Agreement would not require any such legend or stop-transfer instruction in the absence of an offer, sale, transfer or other disposition of Conversion Shares in violation of Section 5 of the 1933 Act or a sale by the Buyer of Conversion Shares pursuant to the Registration Statement but not in accordance with the plan of distribution contained in the Prospectus); provided, however, that if the Buyer shall have offered, sold, transferred or otherwise disposed of any Conversion Shares in violation of Section 5 of the 1933 Act, nothing in this sentence shall prohibit the Company from taking any action permitted by applicable law with respect to the Conversion Shares so offered, sold, transferred or otherwise disposed of.

(c) CONVERSION AGENT AGREEMENT. Promptly following the delivery by the Buyer of the Purchase Price for the Preferred Shares in accordance with Section 2(c) hereof, and in any event prior to the Closing, the Company will (1) enter into the Conversion Agent Agreement substantially in the form attached hereto as ANNEX III and pursuant thereto irrevocably instruct the Conversion Agent, to issue certificates for the Conversion Shares from time to time upon conversion of the Preferred Shares in such amounts as specified from time to time to the Conversion Agent in the Conversion Notices surrendered in connection with such conversions in accordance with the Certificate of Designations, subject to the terms and provisions of the Conversion Agent Agreement, and (2) appoint the Conversion Agent the conversion agent for the Preferred Stock. The certificates for the Conversion Shares may bear the restrictive legend specified in Section 5(b) of this Agreement prior to registration of the resale of the Conversion Shares under the 1933 Act. The certificates for the Conversion Shares shall be registered in the name of the Buyer or its nominee and in such denominations to be specified by the Buyer in connection with each conversion of Preferred Shares, and otherwise in accordance with the Certificate of Designations. The Company warrants that, except as otherwise expressly permitted by the Conversion Agent Agreement, no instruction, other than (x)

such instructions referred to in this Section 5(c), (y) stop transfer instructions to give effect to Section 5(a) hereof prior to registration of the resale of the Conversion Shares under the 1933 Act and (z) the instructions required by Section 8(b)(12) hereof, will be given by the Company to the Conversion Agent and that the Conversion Shares shall otherwise be freely transferable on the books and records of the Company as and to the extent provided in this Agreement; provided, however, that if the Buyer shall have offered, sold, transferred or otherwise disposed of any Conversion Shares in violation of Section 5 of the 1933 Act, nothing in this sentence shall prohibit the Company from taking any action permitted by applicable law with respect to the Conversion Shares so offered, sold, transferred or otherwise disposed of. Nothing in this Section 5(c) shall limit in any way the Buyer's obligations and agreement to comply with Sections 5(a) and 8(c) of this Agreement upon resale of the Shares. In connection with any resale of Shares, if the Buyer (x) provides the Company with an opinion of counsel reasonably satisfactory in form, scope and substance to the Company that registration of a resale by the Buyer of any of the Shares in accordance with Section 5(a) of this Agreement is not required under the 1933 Act and (y) otherwise complies with Section 5(a) with respect to such resale, the Company shall permit the transfer of such Shares and, in the case of the Conversion Shares, timely instruct the Conversion Agent to issue upon transfer one or more share certificates in such name and in such denominations as specified by the Buyer within three Trading Days after the Buyer satisfies the requirements of the preceding clauses (x) and (y). Nothing in this Section 5(c) shall limit the obligations of the Company under Section 8 of this Agreement.

(d) FORM D. The Company agrees to file a Form D with respect to the Shares as required under Regulation D and to provide a copy thereof to the Buyer promptly after such filing.

(e) STOCK EXCHANGE LISTING; REPORTING STATUS. Prior to the Closing Date, the Company shall file an application for listing of additional shares with the AMEX and shall provide evidence of such filing to the Buyer. The Company shall use its best efforts to obtain the listing, subject to official notice of issuance, of the Conversion Shares on the AMEX on or prior to the Closing Date. So long as the Buyer beneficially owns any Preferred Shares or Conversion Shares, the Company will use its best efforts to maintain the listing of the Common Stock on the AMEX or another national securities exchange or Nasdaq. So long as the Company is required to maintain effectiveness of the Registration Statement in accordance with Section 8, the Company shall timely file all reports required to be filed with the SEC pursuant to Section 13 or 15(d) of the 1934 Act, and the Company shall not, during the period the Company is required to keep the Registration Statement effective pursuant to Section 8(b), terminate its status as an issuer required to file reports under the 1934 Act even if the 1934 Act or the rules and regulations thereunder would permit such termination. So long as the Buyer owns any Shares, the Company shall furnish to the Buyer copies of all reports and other information filed by the Company with the SEC pursuant to Sections 13, 14(a), 14(c) and 15(d) of the 1934 Act promptly, but in no event later than five days after the same are filed with the SEC.

(f) USE OF PROCEEDS. The Company does not own or have any present intention of acquiring any Margin Stock. The proceeds of sale of the Preferred Stock will be used for general working capital purposes and in the operation of the Company's business. None of such proceeds will be used, directly or indirectly (1) to make any loan to or investment in any other Person, other than Permitted Investments and other than such other loans and investments as shall have been approved or deemed approved by the Majority Holders as provided herein, or (2) for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any Margin Stock or for the purpose of maintaining, reducing or retiring any indebtedness which was originally incurred to purchase or carry any stock that is a Margin Stock or for any other purpose which would constitute the transactions contemplated by this Agreement a "purpose credit" within the meaning of Regulation G of the Board of Governors of the Federal Reserve System. Neither the Company nor any agent acting on its behalf has taken or will take any action which

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might cause this Agreement or the transactions contemplated hereby to violate Regulation G, Regulation T or any other regulation of the Board of Governors of the Federal Reserve System or to violate the 1934 Act, in each case as in effect now or as the same may hereafter be in effect. If the Company determines to seek the approval of the Majority Holders as contemplated by clause (1) of the second sentence of this Section 5(f), the Company shall, by notice to the holders of shares of Preferred Stock who are entitled to participate in such approval, make a request for such approval, which shall include in reasonable detail (including, without limitation, the amount) a description of the proposed use of proceeds of the sale of the Preferred Stock. If any holder of shares of Preferred Stock who is entitled to participate in such approval shall have failed to notify the Company of such holder's decision within ten days after the Company has so notified such holder, such holder shall be deemed to have approved the use of proceeds of the sale of the Preferred Stock as described in such notice by the Company. Any such approval by such holders of the Preferred Stock shall not be unreasonably withheld, delayed or conditioned.

(g) STATE SECURITIES LAWS. On or before the Closing Date, the Company shall take such action as shall be necessary to qualify, or to obtain an exemption for, the Preferred Shares for sale to the Buyer pursuant to this Agreement and the Conversion Shares for issuance to the Buyer on conversion of the Preferred Shares under such of the securities or "blue sky" laws of jurisdictions as shall be applicable to the sale of the Preferred Shares pursuant to this Agreement and the issuance to the Buyer of Conversion Shares on conversion of the Preferred Shares based on information provided by the Buyer. In connection with the foregoing obligations of the Company in this Section 5(g), the Company shall not be required (1) to qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 5(g), (2) to subject itself to general taxation in any such jurisdiction, (3) to file a general consent to service of process in any such jurisdiction, (4) to provide any undertakings that cause more than nominal expense or burden to the Company or (5) to make any change in its charter or by-laws which any officer of the Company determines to be contrary to the best interests of the Company and its stockholders. On or prior to the Closing Date the Company shall furnish copies of all filings, applications, orders and grants or confirmations of exemptions relating to such securities or "blue sky" laws required by applicable law to be obtained on or prior to the Closing Date and thereafter, promptly after the same is filed or obtained, shall furnish copies of all filings, applications, orders and grants or confirmations permitted by applicable law to be obtained on or after the Closing Date.

(h) CERTAIN ISSUANCES OF SECURITIES. (1) Unless the Company obtains the Stockholder Approval (as defined in the Certificate of Designations) or a waiver thereof from AMEX, the Company will not issue any shares of Common Stock or shares of any other series of preferred stock or other securities convertible into, exchangeable for or otherwise entitling the holder to acquire shares of Common Stock which would be subject to the requirements of Rule 713 of the AMEX (or any successor or replacement provision thereof) and which would be integrated with the sale of the Preferred Shares to the Buyer or the issuance of Conversion Shares upon conversion thereof for purposes of Rule 713 of the AMEX (or any successor or replacement provision thereof).

(2) The Company shall not offer, sell, contract to sell or issue (or engage any Person to assist the Company in taking any such action) any Equity Securities at a price below the market price of the Common Stock during the period from the date of this Agreement to the date on which the Registration Statement shall have been effective with the SEC for 90 consecutive days; provided, however, that nothing in this Section 5(h)(2) shall prohibit the Company from issuing securities (x) pursuant to compensation plans for employees, directors, officers, advisers or consultants of the Company and in accordance with the terms of such plans as in effect as of the date of this Agreement or (y) upon exercise of conversion, exchange, purchase or similar rights issued, granted or given by the Company and outstanding as of the date of

this Agreement.

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(i) LIMITATION ON CERTAIN ACTIONS. From the date of execution and delivery of this Agreement by the parties hereto to the date of issuance of the Preferred Shares, the Company (1) shall comply with Sections 5(c), 5(d) and 12 of the Certificate of Designations as if the Preferred Shares were outstanding, (2) shall not take any action which, if the Preferred Shares were outstanding, would constitute an Optional Redemption Event or, with the giving of notice or the passage of time or both, would constitute an Optional Redemption Event.

(j) STOCKHOLDER APPROVAL. The Company shall seek and use its best efforts to obtain at the Company's next regularly scheduled Annual Meeting of Stockholders, Stockholder Approval of the issuance of the Preferred Shares and the Conversion Shares. The Company shall prepare and file with the SEC within 30 days prior to the scheduled mailing of notice of such Annual Meeting preliminary proxy materials which set forth a proposal to seek such Stockholder Approval. The Company shall provide the Buyer an opportunity to consult with the Company regarding the content of such proxy materials insofar as it relates to the Stockholder Approval by providing copies of such preliminary proxy materials and any revised preliminary proxy materials to the Buyer a reasonable period of time prior to their filing with the SEC. The Company shall furnish to the Buyer and its counsel a copy of its definitive proxy materials for such Annual Meeting and any amendments or supplements thereto promptly after the same are mailed to stockholders or filed with the SEC. If for any reason the Company fails to obtain such Stockholder Approval, the Company shall be required to redeem Preferred Shares in accordance with Section 7(b) of the Certificate of Designations. As used herein, "Stockholder Approval" shall mean the approval by a majority of the votes cast by the holders of shares of Common Stock (in person or by proxy) at a meeting of the stockholders of the Company (duly convened at which a quorum was present), or a written consent of holders of shares of Common Stock entitled to such number of votes given without a meeting, of the issuance by the Company of 20% or more of the Common Stock of the Company outstanding on the date of issuance of the Company's Series A Custom Convertible Preferred Stock for less than the greater of the book or market value of such Common Stock on conversion of the Preferred Stock, as and to the extent required under Rule 713 of the AMEX as in effect from time to time or any successor provision.

(k) BEST EFFORTS. Each of the parties shall use its best efforts timely to satisfy each of the conditions to the other party's obligations to sell and purchase the Preferred Shares set forth in Section 6 or 7, as the case may be, of this Agreement on or before the Closing Date.

6. CONDITIONS TO THE COMPANY'S OBLIGATION TO SELL AND ISSUE.

The Buyer understands that the Company's obligation to sell the Preferred Shares to the Buyer pursuant to this Agreement is conditioned upon the satisfaction of the following conditions precedent on or before the Closing Date (any or all of which may be waived by the Company in its sole discretion):

(a) Delivery by the Buyer to the Escrow Agent of good funds in an amount equal to the Purchase Price;

(b) On the Closing Date, no legal action, suit or proceeding shall be pending or threatened which seeks to restrain or prohibit the transactions contemplated by this Agreement;

(c) The representations and warranties of the Buyer contained in this Agreement, in the Questionnaire and in each other document or instrument executed by the Buyer and delivered to the Company in connection with this Agreement shall be true and correct on the Closing Date as if made on the Closing Date and the Buyer shall have performed on or

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before the Closing Date all covenants and agreements of the Buyer contained herein and therein which are required to be performed on or before the Closing Date;

(d) The Company shall have received satisfactory confirmation of the filing of the Certificate of Designations with the Secretary of State of the State of Delaware; and

(e) The closing under each of the Other Subscription Agreements shall have occurred at or before the time of the closing under this Agreement.

7. CONDITIONS TO THE BUYER'S OBLIGATION TO PURCHASE.

The Company understands that the Buyer's obligation to purchase the Preferred Shares on the Closing Date is conditioned upon the satisfaction of the following conditions precedent on or before the Closing Date (any or all of which may be waived by the Buyer in its sole discretion):

(a) Delivery by the Company to the Escrow Agent of the certificates for the Preferred Shares in accordance with this Agreement;

(b) The Conversion Agent shall have executed and delivered the Conversion Agent Agreement in the form attached hereto as ANNEX III.

(c) On the Closing Date, no legal action, suit or proceeding shall be pending or threatened which seeks to restrain or prohibit the transactions contemplated by this Agreement;

(d) The representations and warranties of the Company contained in this Agreement and each other agreement or instrument executed and delivered by the Company in connection with this Agreement shall be true and correct on the Closing Date as if made on the Closing Date; and on or before the Closing Date the Company shall have performed all covenants and agreements of the Company contained herein and therein which are required to be performed by the Company on or before the Closing Date;

(e) No event which, if the Preferred Shares were outstanding, would constitute an Optional Redemption Event or, with the giving of notice or the lapse of time, or both, would constitute an Optional Redemption Event shall have occurred and be continuing;

(f) The Company shall have delivered to the Buyer its certificate, dated the Closing Date, duly executed by its Chief Financial Officer to the effect set forth in subparagraphs (c), (d), and (e) of this Section 7;

(g) The Buyer shall have received satisfactory confirmation of the filing of the Certificate of Designations with the Secretary of State of the State of Delaware;

(h) The Conversion Shares shall have been approved for listing, subject to official notice of issuance, by the AMEX and the Buyer shall have received evidence or confirmation, reasonably acceptable to the Buyer, of such approval by the AMEX;

(i) The Buyer shall have received a certificate, dated the Closing Date, of the Secretary of the Company certifying (1) the Certificate of Incorporation and By-Laws of the Company as in effect on the Closing Date, (2) all resolutions of the Board of Directors (and committees thereof) of the Company relating to this Agreement and the transactions contemplated hereby and (3) such other matters as reasonably requested by the Buyer;

(j) The Buyer shall have received on the Closing Date an opinion of counsel for the Company, dated the Closing Date addressed to the Buyer, in

form, scope and substance reasonably satisfactory to the Buyer, to the effect set forth in ANNEX IV attached hereto;

(k) On the Closing Date, (i) trading in securities on the New York Stock Exchange, Inc., the AMEX or Nasdaq shall not have been suspended or materially limited and (ii) a general moratorium on commercial banking activities in the State of Maryland or the State of New York shall not have been declared by either federal or state authorities; and

(l) The closing under each of the Other Subscription Agreements shall have occurred at or before the time of the closing under this Agreement.

8. REGISTRATION RIGHTS.

(a) MANDATORY REGISTRATION. (1) The Company shall prepare promptly and, on or prior to the date which is 20 days after the Closing Date, file with the SEC a Registration Statement on Form S-3 covering the resale by the Buyer of a number of shares of Common Stock equal to at least the number of Conversion Shares issuable to the Buyer upon conversion of the Preferred Shares, determined at the Conversion Price which is applicable on the day the Registration Statement is filed with the SEC (and determined without regard to the limitation on beneficial ownership contained in the second sentence of Section 10(a) of the Certificate of Designations), which Registration Statement shall state that, in accordance with Rule 416 under the 1933 Act, such Registration Statement also covers such indeterminate number of additional shares of Common Stock as may become issuable upon conversion of the Preferred Shares to prevent dilution resulting from stock splits, stock dividends or similar transactions. If, notwithstanding Rule 416 under the 1933 Act, the Registration Statement is not deemed to cover such indeterminate number of additional shares of Common Stock as shall be issuable upon conversion of the Preferred Shares based on changes from time to time in the Conversion Price such that at any time the number of additional shares of Common Stock included in the Registration Statement required to be filed as provided in the first sentence of this Section 8(a) shall be insufficient to cover the number of shares of Common Stock issuable on conversion in full of the unconverted Preferred Shares, then promptly, but in no event later than 15 days after such insufficiency shall occur, the Company shall file with the SEC an additional Registration Statement on Form S-3 (which shall not constitute a post-effective amendment to the Registration Statement filed pursuant to the first sentence of this Section 8(a)) covering such number of shares of Common Stock as shall be sufficient to permit such conversion; provided, however, that nothing in this Section 8(a) shall limit the rights of the holders of the Preferred Shares to have all or a portion of the Preferred Shares redeemed pursuant to Section 11 of the Certificate of Designations. For all purposes of this Agreement such additional Registration Statement shall be deemed to be the Registration Statement required to be filed by the Company pursuant to this Section 8(a), and the Company and the Investors shall have the same rights and obligations with respect to such additional Registration Statement as they shall have with respect to the initial Registration Statement required to be filed by the Company pursuant to this Section 8(a). The Company shall be entitled to include all Persons who are Investors at the time a Registration Statement is filed with the SEC and whose Registrable Securities are to be included in such Registration Statement as selling stockholders in a single Registration Statement.

(2) At any time during the Registration Period when the Registration Statement for any reason is unavailable for use by any Investor for the resale of any of Registrable Securities, the Company shall not file any other registration statement or any amendment thereto with the SEC under the 1933 Act or request the acceleration of the effectiveness of any other registration statement previously filed with the SEC, other than any registration statement on Form S-8 or a Registration Statement under this Agreement; provided, however, that the restrictions in this Section 8(a) (2) shall not apply during any period that the

Registration Statement is unavailable for use by any Investor due to an action or omission by an Investor in breach of Section 8(c) or a material misstatement or omission in information provided in writing by an Investor to the Company for use in the Registration Statement or Prospectus, so long as in each such case the Company shall be in compliance with Section 8(b)(5).

(b) OBLIGATIONS OF THE COMPANY. In connection with the registration of the Registrable Securities, the Company shall:

(1) use its best efforts to cause the Registration Statement referred to in the first sentence of Section 8(a)(1) to become effective as promptly as possible after the Closing Date, and keep the Registration Statement effective pursuant to Rule 415 at all times during the Registration Period. The Company shall submit to the SEC, within three Business Days after the Company learns that no review of the Registration Statement will be made by the staff of the SEC or that the staff of the SEC has no further comments on or questions with respect to the Registration Statement, as the case may be, a request for acceleration of effectiveness of the Registration Statement to the earliest time and date after the submission of such request which is permitted under the practices of the staff of the SEC. The Company represents and warrants to the Investors that (a) the Registration Statement (including any amendments or supplements thereto and prospectuses contained therein), at the time it is first filed with the SEC, at the time it is ordered effective by the SEC and at all times during which it is required to be effective hereunder (and each such amendment and supplement at the time it is filed with the SEC and at all times during which it is available for use in connection with the offer and sale of the Registrable Securities) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (b) the Prospectus, at the time the Registration Statement is declared effective by the SEC and at all times that the Prospectus is required by this Agreement to be available for use by any Investor, shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading;

(2) prepare and file with the SEC such amendments (including post-effective amendments) and supplements to the Registration Statement and the Prospectus as may be necessary to keep the Registration Statement effective, and the Prospectus current, at all times during the Registration Period, and, during the Registration Period, comply with the provisions of the 1933 Act applicable to the Company in order to permit the disposition by the Investors of all Registrable Securities covered by the Registration Statement in accordance with the plan of distribution described therein as supplemented from time to time;

(3) furnish to each Investor whose Registrable Securities are included in the Registration Statement and its legal counsel, (1) promptly after the same is prepared and publicly distributed, filed with the SEC or received by the Company, five copies of the Registration Statement and any amendment thereto, each Prospectus and each amendment or supplement thereto, (2) one copy of each letter written by or on behalf of the Company to the SEC or the staff of the SEC and each item of correspondence from the SEC or the staff of the SEC relating to such Registration Statement (other than any portion of any thereof which contains information for which the Company has sought confidential treatment), each of which the Company hereby determines to be confidential information and which the Buyer hereby agrees to keep confidential as a confidential Record in accordance with Section 8(b)(9) and (3) such number of copies of a Prospectus and all amendments and supplements thereto and such other documents, as such Investor may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Investor; and deliver to the AMEX ten copies of the Prospectus within one Business Day after the SEC Effective Date and ten copies of each supplement to the Prospectus within one Business Day after such supplement is available for use under the 1933

Act, and take such other action in each such case so as to make available Rule 153 under the 1933 Act;

(4) use its best efforts to (i) to register and qualify the Registrable Securities covered by the Registration Statement under the securities or blue sky laws of such jurisdictions as the Investors who hold a majority in interest of the Registrable Securities reasonably request, (ii) to prepare and to file in those jurisdictions such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof at all times during the Registration Period and (iii) to take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale by the Investors in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto (I) to qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 8(b)(4), (II) to subject itself to general taxation in any such jurisdiction, (III) to file a general consent to service of process in any such jurisdiction, (IV) to provide any undertakings that cause more than nominal expense or burden to the Company or (V) to make any change in its charter or by-laws which any officer of the Company determines to be contrary to the best interests of the Company and its stockholders;

(5) as promptly as practicable after becoming aware of such event or circumstance, notify each Investor of any event or circumstance of which the Company has knowledge, as a result of which the Prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and use its best efforts promptly to prepare a supplement or amendment to the Registration Statement and Prospectus to correct such untrue statement or omission, and deliver a number of copies of such supplement or amendment to each Investor as such Investor may reasonably request;

(6) as promptly as practicable after becoming aware of such event, notify each Investor who holds Registrable Securities being sold of the issuance by the SEC of any stop order or other suspension of effectiveness of the Registration Statement at the earliest possible time;

(7) permit the Investors who hold Registrable Securities being included in the Registration Statement and a single firm of counsel designated as selling stockholders' counsel by the Investors who hold a majority in interest of the Registrable Securities being sold to review the Registration Statement and all amendments and supplements thereto a reasonable period of time prior to their filing with the SEC and shall not file any document in a form to which any Investor or such counsel reasonably and timely objects;

(8) make generally available to its security holders as soon as practical, but not later than ninety (90) days after the close of the period covered thereby, an earning statement (in form complying with the provisions of Rule 158 under the 1933 Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the effective date of the Registration Statement;

(9) make available for inspection by any Investor and any Inspector retained by any such Investor at such Investor's sole expense, all Records as shall be reasonably necessary to enable each Investor to exercise its due diligence responsibility and cause the Company's and the Subsidiaries' officers, directors and employees to supply all information which any Investor or Inspector may reasonably request for purposes of such due diligence; provided, however, that the Investors and each Inspector shall hold in confidence and shall not make any disclosure (except to an Investor) of any Record or other information which the

Company determines in good faith to be confidential, and of which determination the Investors and the Inspectors are so notified, unless and to the extent (i) the disclosure of such Record is necessary under the 1933 Act or applicable state securities laws to avoid or correct a misstatement or omission in any Registration Statement, (ii) the release of such Record is ordered pursuant to a subpoena or other order from a court or government body of competent jurisdiction, in which case the Investors and each Inspector may disclose such Record to the extent necessary to comply with such subpoena or order, subject to any confidentiality afforded by such subpoena or order, or (iii) the information in such Record has been made generally available to the public other than by disclosure in violation of this Agreement or any other agreement. The Company shall not be required to disclose any confidential information in such Records to any Inspector until and unless such Inspector shall have entered into a confidentiality agreement with the Company with respect thereto in the form attached hereto as ANNEX VII. Each Investor agrees that it shall, upon learning that disclosure of such Records is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to the Company and, at the Company's expense, (A) allow the Company to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, the Records deemed confidential and (B) reasonably cooperate with the Company in such action by the Company. The Company shall hold in confidence and shall not make any disclosure of information concerning an Investor provided to the Company pursuant to this Agreement unless and to the extent (i) disclosure of such information is necessary to comply with federal or state securities laws, (ii) the disclosure of such information is necessary to avoid or correct a misstatement or omission in any Registration Statement, (iii) the release of such information is ordered pursuant to a subpoena or other order from a court or governmental body of competent jurisdiction, in which case the Company may disclose such information to the extent necessary to comply with such subpoena or order, subject to any confidentiality afforded by such subpoena or order, or (iv) such information has been made generally available to the public other than by disclosure in violation of this or any other agreement. The Company agrees that it shall, upon learning that disclosure of such information concerning an Investor is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to such Investor and, at such Investor's expense, (X) allow such Investor to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, such information and (Y) reasonably cooperate with such Investor in such action by such Investor. No Investor or Inspector shall use any Record for any purpose other than in the exercise of its due diligence and in connection with the Transaction Documents and the exercise and enforcement of the rights of the Investors under the Transaction Documents. The Company shall not use any such confidential information concerning an Investor for any purpose other than for the preparation, filing and maintenance of effectiveness of the Registration Statement and in connection with the Transaction Documents and the exercise and enforcement of the rights of the Company under the Transaction Documents;

(10) use its best efforts to cause all the Registrable Securities covered by the Registration Statement to be listed on the AMEX prior to the Closing Date or such other principal securities market on which securities of the same class or series issued by the Company are then listed or traded;

(11) provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than the SEC Effective Date;

(12) cooperate with the Investors who hold Registrable Securities being offered to facilitate the timely preparation and delivery of certificates (not bearing any restrictive legends from and after the SEC Effective Date) representing Registrable Securities to be offered pursuant to the Registration Statement and enable such certificates to be in such denominations or amounts as the Investors may reasonably request and registered in such names as the Investors may request; and, not later than the SEC Effective Date, the Company shall deliver, and shall

cause legal counsel selected by the Company to deliver, (i) to the Conversion Agent (with copies to the Investors whose Registrable Securities are included in such Registration Statement) an instruction substantially in the form attached hereto as ANNEX V and (ii) to the Investors whose Registrable Securities are included in such Registration Statement and to the Conversion Agent an opinion of such counsel, in the form attached hereto as ANNEX VI; and

(13) during the Registration Period, the Company shall not bid for or purchase any Common Stock or any right to purchase Common Stock or attempt to induce any Person to purchase any such security or right if such bid, purchase or attempt would in any way limit the right of the Investors to sell Registrable Securities by reason of the limitations set forth in Regulation M under the 1934 Act.

(c) OBLIGATIONS OF THE BUYER AND OTHER INVESTORS. In connection with the registration of the Registrable Securities, the Investors shall have the following obligations:

(1) It shall be a condition precedent to the obligations of the Company to complete the registration pursuant to this Agreement with respect to the Registrable Securities of a particular Investor that such Investor shall furnish to the Company the Required Information and shall execute such documents in connection with such registration as the Company may reasonably request. At least six Business Days prior to the first anticipated filing date of the Registration Statement, the Company shall notify each Investor of the Required Information if any of such Investor's Registrable Securities are eligible for inclusion in the Registration Statement. If the Company has not received the Required Information from an Investor at least three Business Days prior to the proposed filing date of the Registration Statement, then the Company may postpone filing the Registration Statement until the date which is three Business Days after the Company receives the Required Information from such Non-Responsive Investor and, if the failure of a Non-Responsive Investor to provide Required Information to the Company causes the Company to be unable to file the Registration Statement with the SEC by the deadline specified in Section 8(a), the Company shall not have any liability to any Investor by reason of such failure to file the Registration Statement on a timely basis in accordance with Section 8(a) so long as in such circumstance the Company files the Registration Statement with the SEC within three Business Days after the date on which the Company receives the Required Information from all Non-Responsive Investors;

(2) Each Investor by such Investor's acceptance of the Registrable Securities agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing, and obtaining and maintaining effectiveness, of the Registration Statement hereunder, unless such Investor has notified the Company in writing of such Investor's election to exclude all of such Investor's Registrable Securities from the Registration Statement;

(3) Each Investor agrees that it will not effect any offer, sale or other disposition of the Registrable Securities except as contemplated in the Registration Statement or as shall otherwise be in compliance with the registration requirements of applicable securities laws or an exemption therefrom and that it will promptly notify the Company of any material changes in the information set forth in the Registration Statement regarding such Investor or its plan of distribution; each Investor agrees (a) to notify the Company in writing in the event that such Investor enters into any material agreement with a broker or a dealer for the sale of the Registrable Securities through a block trade, special offering, exchange distribution or a purchase by a broker or dealer and (b) in connection with such agreement, to provide to the Company in writing the information reasonably necessary to prepare any supplemental prospectus pursuant to Rule 424(c) under the 1933 Act which is required with respect to such transaction;

(4) Each Investor acknowledges that there may occasionally be times as specified in Section 8(b)(5) or 8(b)(6) when the Company must suspend the use of the Prospectus

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until such time as an amendment to the Registration Statement has been filed by the Company and declared effective by the SEC, the Company has prepared a supplement to the Prospectus or the Company has filed an appropriate report with the SEC pursuant to the 1934 Act which is incorporated by reference in the Prospectus and has the effect of amending or supplementing the Prospectus for the purposes of the 1933 Act. Each Investor hereby covenants that it will not sell any Registrable Securities pursuant to said Prospectus during the period commencing at the time at which the Company gives such Investor notice of the suspension of the use of said Prospectus in accordance with Section 8(b)(5) or 8(b)(6) and ending at the time the Company gives such Investor notice that such Investor may thereafter effect sales pursuant to the Prospectus, or until the Company delivers to such Investor an amended or supplemented Prospectus for such use; and

(5) In connection with any sale of Registrable Securities which is made by an Investor pursuant to the Registration Statement (A) if such sale is made through a broker, such Investor shall instruct its broker or brokers to deliver the Prospectus to the purchaser or purchasers in connection with such sale and shall supply copies of such Prospectus to such broker or brokers; (B) if such sale is made in a transaction directly by such Investor with a purchaser and not through the facilities of any securities exchange or market, such Investor shall deliver, or cause to be delivered, the Prospectus to such purchaser; and (C) if such sale is made by any means other than those described in the immediately preceding clauses (A) and (B), such Investor shall otherwise use its reasonable best efforts to comply with the prospectus delivery requirements of the 1933 Act applicable to such sale.

(d) REPORTS UNDER 1934 ACT. With a view to making available to the Investors the benefits of Rule 144, the Company agrees to:

(1) furnish to each Investor so long as such Investor owns Registrable Securities, promptly upon request, such information as may be necessary to permit the Investors to sell their Registrable Securities pursuant to Rule 144 without registration; and

(2) if at any time the Company is not required to file reports with the SEC pursuant to Section 13 or 15(d) of the 1934 Act, use its best efforts to, upon the request of an Investor, make publicly available other information so long as is necessary to permit publication by brokers and dealers of quotations for the Common Stock and sales of the Registrable Securities in accordance with Rule 15c2-11 under the 1934 Act.

9. INDEMNIFICATION AND CONTRIBUTION.

(a) INDEMNIFICATION. (1) To the extent not prohibited by applicable law, the Company will indemnify and hold harmless each Indemnified Person against any Claims to which any of them may become subject under the 1933 Act, the 1934 Act or otherwise, insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon any Violation. Subject to the restrictions set forth in Section 9(a)(3), the Company shall reimburse the Investors and each such controlling Person, promptly as such expenses are incurred and are due and payable, for any reasonable legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 9(a)(1): shall not apply to (I) a Claim arising out of or based upon a Violation which occurs in reliance upon and in conformity with information relating to an Indemnified Person furnished in writing to the Company by any Indemnified Person or underwriter for such Indemnified Person expressly for use in connection with the preparation of the Registration Statement or any such amendment thereof or supplement thereto, if such Prospectus was timely made available by the Company pursuant to Section 8(b)(3) hereof; (II) any Claim arising out of or based on any statement or omission in any Prospectus which was corrected in any subsequent Prospectus that

was delivered to the Indemnified Person prior to the

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pertinent sale or sales by the Indemnified Person; and (III) amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Registrable Securities by the Investors pursuant to Section 10(j).

(2) In connection with the Registration Statement, each Investor agrees to indemnify and hold harmless, to the same extent and in the same manner set forth in Section 9(a)(1), each Indemnified Party against any Claim to which any of them may become subject, under the 1933 Act, the 1934 Act or otherwise, insofar as such Claim arises out of or is based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Investor expressly for use in connection with such Registration Statement; provided, however, that the indemnity agreement contained in this Section 9(a)(2) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Investor, which consent shall not be unreasonably withheld; provided, further, however, that the Investor shall be liable under this Section 9(a)(2) for only that amount of a Claim as does not exceed the amount by which the proceeds to such Investor as a result of the sale of Registrable Securities pursuant to such Registration Statement exceeds the price paid by such Investor for such Registrable Securities. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party and shall survive the transfer of the Registrable Securities by the Investors. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 9(a)(2) with respect to any preliminary prospectus shall not inure to the benefit of any Indemnified Party if the untrue statement or omission of material fact contained in the preliminary prospectus was corrected on a timely basis in the Prospectus, as then amended or supplemented.

(3) Promptly after receipt by an Indemnified Person or Indemnified Party under this Section 9(a) of notice of the commencement of any action (including any governmental action), such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 9(a), deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with one counsel reasonably satisfactory to all Indemnified Persons or all Indemnified Parties, as the case may be; provided, however, that an Indemnified Person or Indemnified Party shall have the right to retain its own counsel with the fees and expenses to be paid by the indemnifying party (but not more than one such counsel for all Indemnified Persons or Indemnified Parties, as the case may be, and one counsel for all Indemnified Persons or Indemnified Parties, as the case may be, in each local jurisdiction in which a Claim is pending or threatened), if, in the reasonable opinion of counsel retained by the indemnifying party, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential differing interests between such Indemnified Person or Indemnified Party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 9(a), except to the extent that the indemnifying party is thereby prejudiced in its ability to defend such action. The indemnification required by this Section 9(a) shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as such expense, loss, damage or liability is incurred and is due and payable.

(b) CONTRIBUTION. To the extent any indemnification by an indemnifying party as set forth in Section 9(a) above is applicable by its terms but is prohibited or limited by

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law, the indemnifying party agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable under Section 9(a) to the fullest extent permitted by law. In determining the amount of contribution to which the respective parties are entitled, there shall be considered the relative fault of each party, the parties' relative knowledge of and access to information concerning the matter with respect to which the claim was asserted, the opportunity to correct and prevent any statement or omission and any other equitable considerations appropriate under the circumstances; provided, however, that (a) no contribution shall be made under circumstances where the maker would not have been liable for indemnification under the fault standards set forth in Section 9(a), (b) no Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any other Person who was not guilty of such fraudulent misrepresentation and (c) contribution by any Investor shall be limited to the amount by which the proceeds received by such Investor from the sale of such Registrable Securities exceeds the amount paid by such Investor for such Registrable Securities.

(c) OTHER RIGHTS. The indemnification and contribution provided in this Section shall be in addition to any other rights and remedies available at law or in equity.

10. MISCELLANEOUS.

(a) GOVERNING LAW. This Agreement shall be governed by and interpreted in accordance with the laws of the State of New York.

(b) HEADINGS. The headings, captions and footers of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

(c) SEVERABILITY. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement or the validity or enforceability of this Agreement in any other jurisdiction.

(d) NOTICES. Any notices required or permitted to be given under the terms of this Agreement shall be in writing and shall be sent by mail or delivered personally (which shall include telephone line facsimile transmission) or by courier and shall be effective five days after being placed in the mail, if mailed, or upon receipt, if delivered personally or by courier, in the case of the Company addressed to the Company at its address shown in the introductory paragraph of this Agreement, Attention: Chief Financial Officer (telephone line facsimile transmission number (301) 854-3901), with a copy to White & McDermott, P.C., 65 William Street, Suite 209, Wellesley, Massachusetts 02181 (telephone line facsimile transmission number (781) 237-8120), or, in the case of the Buyer, at its address or telephone line facsimile transmission number shown on the signature page of this Agreement with a copy to Diaz & Altschul Advisors, LLC, 745 Fifth Avenue, Suite 3001, New York, New York 10151 (telephone line facsimile transmission number (212) 751-5757) or such other address as a party shall have provided by notice to the other party in accordance with this provision. The Buyer hereby designates as its address for any notice required or permitted to be given to the Buyer pursuant to the Certificate of Designations the address shown on the signature page of this Agreement, with a copy to: Diaz & Altschul Advisors, LLC, 745 Fifth Avenue, Suite 3001, New York, New York 10151 (telephone line facsimile transmission number (212) 751-5757), until the Buyer shall designate another address for such purpose. In each case, a copy shall be sent to: Diaz & Altschul Capital, LLC, 745 Fifth Avenue, Suite 3001, New York, New York 10151 (telephone line facsimile transmission number (212) 751-5757).

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(e) COUNTERPARTS. This Agreement may be executed in counterparts and by the parties hereto on separate counterparts, all of which together shall constitute one and the same instrument. A facsimile transmission of this Agreement bearing a signature on behalf of a party hereto shall be legal and binding on such party.

(f) ENTIRE AGREEMENT; BENEFIT. This Agreement, including the Annexes, Exhibits and Schedules hereto, constitutes the entire agreement among the parties hereto with respect to the subject matter hereof. There are no restrictions, promises, warranties, or undertakings, other than those set forth or referred to herein. This Agreement, including the Annexes, Exhibits and Schedules hereto, supersedes all prior agreements and understandings, whether written or oral among the parties hereto with respect to the subject matter hereof. This Agreement and the terms and provisions hereof are for the sole benefit of the Company, the Buyer and their respective successors and permitted assigns.

(g) WAIVER. Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, or any course of dealings between the parties, shall not operate as a waiver thereof or an amendment hereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or exercise of any other right or power.

(h) AMENDMENT. No amendment, modification, waiver, discharge or termination of any provision of this Agreement nor consent to any departure by the Buyer or the Company therefrom shall in any event be effective unless the same shall be in writing and signed by the party to be charged with enforcement, and then shall be effective only in the specific instance and for the purpose for which given. No consideration shall be offered or paid to any person to demand, modify, waive, discharge or terminate any provision of any of the Transaction Documents unless the same consideration also is offered to all Investors and Other Buyers who, at the time of such offer or payment, own any shares of Preferred Stock. No course of dealing between the parties hereto shall operate as an amendment of, or a waiver of any right under, this Agreement.

(i) FURTHER ASSURANCES. Each party to this Agreement will perform any and all acts and execute any and all documents as may be necessary and proper under the circumstances in order to accomplish the intents and purposes of this Agreement and to carry out its provisions.

(j) ASSIGNMENT OF CERTAIN RIGHTS AND OBLIGATIONS. (1) The rights of the Buyer or any other Investor under Sections 5, 8, 9 and 10 shall be assigned by the Buyer or such Investor to any Permitted Transferee only if the Buyer or such other Investor complies with the following requirements (in which case such assignment shall be automatic): (A) such Investor agrees in writing with such Permitted Transferee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such assignment, (B) the Company is, within a reasonable time after such transfer, furnished with notice of (i) the name and address of such Permitted Transferee and (ii) the securities with respect to which such rights and obligations are being transferred, (C) in the case of an assignment of the rights under Section 8, immediately following such transfer the further disposition of Registrable Securities by such Permitted Transferee is restricted under the 1933 Act or applicable state securities laws, (D) at or before the time the Company received the notice contemplated by clause (B) of this sentence such Permitted Transferee agrees in writing with the Company to be bound by all of the provisions contained in Sections 5(a), 5(b), 8, 9 and this Section 10 (other than Section 10(n)) and furnishes to the Company a questionnaire in substantially the form of the Questionnaire indicating, to the reasonable satisfaction of the Company, that such Permitted Transferee is an "accredited investor" as defined in Regulation D under the 1933 Act and (E) in the case of any

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such assignment arising in connection with a transfer of Preferred Shares or Registrable Securities, the transfer of Preferred Shares or Registrable Securities to such Permitted Transferee is made in accordance with the requirements of Section 5(a).

(2) Upon any such assignment in accordance with paragraph (1) of this Section, from and after the receipt by the Company of the notice required by clause (B) of Section 10(j)(1) the Company shall be obligated to such transferee to perform all of its covenants under Sections 5, 8, 9 and 10 (other than Section 10(n)) of this Agreement as if such transferee were the Buyer. In connection with any such assignment the Company shall, at its sole cost and expense, promptly after such assignment take such actions as shall be reasonably acceptable to the assigning Investor and such transferee to assure that the Registration Statement and related Prospectus are available for use by such transferee for sales of the Registrable Securities in respect of which such rights and obligations have been so assigned.

(k) CERTAIN EXPENSES. The Company and the Buyer shall each be responsible for its own expenses (including, without limitation, legal fees and expenses of its counsel) incurred by it in connection with the negotiation and execution of, and closing under, this Agreement. All expenses incurred in connection with securities registrations, filings or qualifications pursuant to this Agreement shall be paid by the Company, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees and the fees and disbursements of counsel for the Company, but excluding (a) fees and expenses of investment bankers or underwriters retained by any Investor, (b) brokerage commissions incurred by any Investor, (c) stock transfer fees or taxes relating to any transfer of Shares by an Investor and (d) fees and expenses of counsel for the Investors. The Company shall pay on demand all expenses incurred by the Buyer, including reasonable attorneys' fees and expenses, as a consequence of, or in connection with (1) the negotiation, preparation or execution of any amendment, modification or waiver of the Transaction Documents requested by the Company, (2) any default or breach of any of the Company's obligations set forth in any of the Transaction Documents and (3) the enforcement or restructuring of any right of, including the collection of any payments due, the Buyer under any of the Transaction Documents, including any action or proceeding relating to such enforcement or any order, injunction or other process seeking to restrain the Company from paying any amount due the Buyer, in which the Buyer prevails. The Buyer agrees to pay on demand all expenses incurred by the Company, including reasonable attorney's fees and expenses, as a consequence of, or in connection with the negotiation, preparation or execution of any amendment, modification or waiver of the Transaction Documents requested by the Buyer. Except as provided in this Section 10(k), each of the Company and the Buyer shall bear its own expenses in connection with this Agreement and the transactions contemplated hereby. Nothing herein shall limit the rights of Diaz & Altschul Capital, LLC under its Engagement Agreement with the Company.

(1) TERMINATION. The Buyer shall have the right to terminate this Agreement by giving notice to the Company at any time at or prior to the Closing Date if:

(1) the Company shall have failed, refused, or been unable at or prior to the date of such termination of this Agreement to perform any of its material obligations hereunder;

(2) any other condition of the Buyer's obligations hereunder is not fulfilled; or

(3) the closing shall not have occurred on a Closing Date on or before January 31, 1998, other than solely by reason of a breach of this Agreement by the Buyer.

Any such termination shall be effective upon the giving of notice thereof by the Buyer. Upon such termination, the Buyer shall have no further obligation to the Company hereunder and the

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Company shall remain liable for any breach of this Agreement or the other documents contemplated hereby which occurred on or prior to the date of such termination.

(m) SURVIVAL. The respective representations, warranties, covenants and agreements of the Buyer and the Company contained in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement shall survive the execution and delivery of this Agreement and the delivery of and payment for the Preferred Shares and shall remain in full force and effect as of the dates made and deemed to be made regardless of any investigation made by or on behalf of the Buyer or any Person controlling or acting on behalf of the Buyer or by the Company or any Person controlling or acting on behalf of the Company.

(n) PUBLIC STATEMENTS, PRESS RELEASES, ETC. During the period from the date of execution and delivery of this Agreement by the Company and the Buyer to the date which is 183 days after the Closing Date, the Company and the Buyer shall have the right to review and comment on any press release or any other written public statement with respect to the transactions contemplated hereby before such press release or written public statement is issued or made; provided, however, that with respect to any press release or other public disclosure with respect to such transactions which is required by applicable law and regulations to be made by the Company, the Company shall make reasonable efforts to consult with the Buyer in connection with any such press release or other written public disclosure prior to its release and shall provide a copy thereof to the Buyer. Notwithstanding the foregoing, the Company shall not at any time issue any press release or make any public statement (other than in the Registration Statement) with respect to the transactions contemplated hereby which press release or public statement names the Buyer unless the Company shall have afforded the Buyer an opportunity to review the same a reasonable period of time prior to issuing such press release or statement and obtained the approval thereof by the Buyer (which approval shall not be unreasonably withheld, delayed or conditioned).

(o) CONSTRUCTION. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

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IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto by their respective officers thereunto duly authorized as of the date first set forth above.

NUMBER OF SHARES: 3,750

PRICE PER SHARE: \$1,000.00

AGGREGATE PURCHASE PRICE: \$3,750,000

DELTA OPPORTUNITY FUND, LTD.

By: /s/ illegible signature

Title: Director

Address:

c/o International Fund Management Ltd.
48 Par La Ville Road
Hamilton, HM11
Bermuda

Facsimile No: (441) 295-9637

NOVAVAX, INC.

By:

Title:

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IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto by their respective officers thereunto duly authorized as of the date first set forth above.

NUMBER OF SHARES: 3,750

PRICE PER SHARE: \$1,000.00

AGGREGATE PURCHASE PRICE: \$3,750,000

DELTA OPPORTUNITY FUND, LTD.

By:

Name:

Title:

Address:

c/o International Fund Management Ltd.
48 Par La Ville Road
Hamilton, HM11
Bermuda

Facsimile No: (441) 295-9637

NOVAVAX, INC.

By: /s/ Brenda Fugagli

Name: Brenda Fugagli

Title: VP and CEO

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State of Delaware
Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF

DESIGNATION OF "NOVAVAX, INC.", FILED IN THIS OFFICE ON THE TWENTY-EIGHTH DAY OF
JANUARY, A.D. 1998, AT 9 O'CLOCK A.M.

[SEAL]

/s/ Edward J. Freel

Edward J. Freel, Secretary of State

2129598 8100
981033435

AUTHENTICATION: 8888832
DATE: 01-28-98

WHITE & MCDERMOTT, P.C.
65 William Street, Suite 209
Wellesley, MA 02181

February 17, 1998

Novavax, Inc.
8320 Guilford Road
Columbia, MD 21046

Gentlemen:

We have assisted with the preparation of a Registration Statement on Form S-3 (the "Registration Statement"), filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, relating to the registration of 2,206,350 shares (the "Shares") of common stock, \$.01 par value (the "Common Stock"), of Novavax, Inc. (the "Company") which may be acquired upon the conversion of the Series A Preferred Stock of the Company (the "Series A Preferred Stock").

We have examined the most recent Amendment to the Certificate of Incorporation and the Restated Certificate of Incorporation, the By-laws of the Company and all amendments thereto and have examined and relied on originals, or copies certified to our satisfaction, of such records of meetings, written actions in lieu of meetings, or resolutions adopted at meetings, of the directors of the Company, and such other documents and instruments as in our judgment are necessary or appropriate to enable us to render the opinions expressed below.

In our examination of the foregoing documents, we have assumed (i) the genuineness of all signatures and the authenticity of all documents submitted to us as originals, (ii) the conformity to original documents of all documents submitted to us as certified or photostatic copies and (iii) the authenticity of the originals of the latter documents.

Based upon and subject to the foregoing, we are of the opinion that (i) the shares of Series A Preferred Stock have been duly and validly authorized and issued and are fully paid and non-assessable and (ii) upon conversion of the Series A Preferred Stock in accordance with the terms of the Series A Preferred Stock, and the issuance of the Shares by the Company upon such conversion, the Shares will be fully paid and non-assessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the use of our name under the caption "Legal Matters" in the prospectus forming a part of the Registration Statement.

Very truly yours,

White & McDermott, P.C.

By: /s/ David A. White

David A. White

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in this registration statement of Novavax, Inc. on Form S-3 of our report dated February 7, 1997, except as to Note 13 for which the date is March 14, 1997, on our audits of the consolidated financial statements of Novavax, Inc. as of December 31, 1995 and 1996 and for the years ended December 31, 1994, 1995 and 1996, which report is included in Novavax, Inc.'s Annual Report of Form 10-K for the year ended December 31, 1996. We also consent to the reference to our Firm under the caption "Experts."

/s/ Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P.

Rockville, Maryland
February 17, 1998