

PART I

ITEM 1. BUSINESS

Novavax, Inc. ("Novavax" or the "Company") is a biopharmaceutical, drug delivery company focused 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 recently formed two operating divisions, NOVAVAX PHARMACEUTICAL DIVISION (the "PHARMACEUTICAL DIVISION") and NOVAVAX BIOLOGICS DIVISION (the "BIOLOGICS DIVISION"). This reorganization is intended to streamline operations and give each business division dedicated resources, stronger focus, and tighter management. The PHARMACEUTICAL DIVISION utilizes a range of microencapsulation technologies to develop novel biopharmaceuticals, often reformulating existing, approved drugs for topical delivery in cosmetic-like cream formulations. Its strong technology provides a basis for development of novel products while utilizing resources with little short term opportunity for immediate revenue. The BIOLOGICS DIVISION is a revenue center focused on vaccines, adjuvants and anti-infectives. It has business objectives focused on generating contract revenues and providing research for the PHARMACEUTICALS DIVISION. The BIOLOGICS DIVISION has historically entered into contractual arrangements which usually provide upfront and milestone payments as compensation during development contracts. These contracts may also provide for potential license and royalty fees. Currently the BIOLOGICS DIVISION is working under contract on several governmental and private sector programs in the fields of vaccines and biological defense systems. These contracts include development of an adjuvant for an immunotherapeutic against the human papilloma virus for a British vaccine company and a subcontractor agreement with University of Michigan who is supplying anti-infective defense systems against biological warfare agents for the U.S. military. They are anticipated to generate approximately \$.5 million in revenue in 1998 with potential revenue opportunities beyond 1998.

The Company has three lead pharmaceutical product candidates: ESTRASORB, a topical estrogen cream, ANDROSORB, a topical testosterone cream and Helicore, an oral, non-antibiotic, anti-bacterial preparation for the treatment of *Helicobacter pylori* infection. These products are in various phases of clinical 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 research and development, its primary emphasis is now on these pharmaceutical product candidates for the following reasons:

- Much larger potential markets
- Measurements of clinical efficacy are more easily defined
- The Company's belief that resources should be focused on few initiatives that may offer the best potential return on investment.

Consistent with prudent use of the Company's limited cash resources, the clinical development programs for oral active vaccine immunization programs, ECOVAX 0157J and *Shigella flexneri* 2a, were suspended late in 1996 in favor of the development of its three lead pharmaceutical product candidates. The Company submitted dose ranging clinical study plans for both ESTRASORB and Helicore to the FDA in 1997. The Company has the potential, dependent on 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.

Novavax, Inc. was incorporated in Delaware in 1987. On December 12, 1995, the Company's former parent, IGI, Inc. ("IGI") distributed its majority interest in Novavax to the IGI stockholders (the "Distribution"). Until then, Novavax had been the human pharmaceuticals subsidiary of IGI. The Company's principal executive offices are located at 8320 Guilford Road, Columbia, Maryland, 21046.

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 technologies in the development of Novasome(R) 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 a more cost-effective delivery of a wide variety of drugs and other therapeutics than phospholipid liposomes and other delivery vehicles. Its technologies may be preferred over other transdermal delivery systems because of the reduction in side effects, primarily skin irritation. Additionally, future applications may show advantages over injectable delivery technologies which are invasive, inconvenient and sometimes 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.

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Novasome lipid vesicles

Novasome lipid vesicles are proprietary, organized, lipid structures in which drugs or other materials may 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, and alkyds as well as phospholipids. The Company entered into a licensing agreement with IGI, the Company's former parent, in December 1995 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 rights to Novasome lipid vesicle technologies for use in human pharmaceuticals except for topical dermatological products for localized usage at the delivery zone.

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 are invasive and inconvenient and over patch transdermal delivery systems which often 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 17 β estradiol (estrogen) through the skin. Estrogen replacement therapy is currently used worldwide by 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 cream that may be applied to the skin much like a topical cosmetic-like 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 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 clinical 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 completed two additional human clinical 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 was started in third quarter of 1997. These studies demonstrated no skin irritation and delivery of therapeutic levels of the drug.

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 began in the third quarter of 1997 and was completed in the first quarter of 1998. This study demonstrated no skin irritation and delivery of therapeutic levels of the drug.

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 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.

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All clinical trials to date, for both ESTRASORB and ANDROSORB, have been conducted with product formulations that have been refrigerated. The Company is currently developing and evaluating several other formulations, along with packaging alternatives, that will not be refrigerated and will have a two year shelf life. Clinical trials to determine that therapeutic blood levels of the drug are delivered with these formulations are expected to be completed by the end of the third quarter in 1998. These formulations are believed to have commercial and patient compliance advantages over refrigerated product formulations. The Company anticipates most future clinical trials to be with formulations that require no refrigeration.

The Company has developed several other applications of its MNP transdermal drug delivery technology platform. These product applications are in various stages of pre-clinical testing. The Company believes its MNP and other technologies are suitable for the delivery of ethanol 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.

The Company began in 1995 to test formulations of Helicore 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 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) may provide effective and safe adjuvant carrier systems for a variety of vaccines. The Company believes that Novasome lipid vesicles 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. Additionally, the Company has developed structures for delivery of biologically active molecules like anti-sense, genes and proteins.

The Company has several research contracts in place to provide vaccine products, services and adjuvant technologies. These contracts include development of an adjuvant for an immunotherapeutic against human Papilloma Virus for a British vaccine company and a subcontract agreement with University of Michigan who is supplying anti-infective defense systems against biological warfare agents for the U.S. military. They are anticipated to generate approximately \$.5 million in revenue in 1998 with potential revenue opportunities beyond 1998.

MANUFACTURING

The development and manufacture of the Company's products are subject to good laboratory practices ("GLP") and good manufacturing practices ("GMP") requirements prescribed by the FDA and to other standards prescribed by the appropriate regulatory agency in the country of use. The Company has the ability to produce quantities of Novasome lipid vesicles sufficient to support its current needs. The Company also has the ability to produce quantities of Novasome lipid vesicles and MNPs sufficient to support its needs for early-stage clinical trials. It does not presently have FDA certified facilities capable of producing the larger quantities of pharmaceutical products required for larger scale clinical trials or commercial production. The Company will need to rely on collaborators, licensees or contract manufacturers or acquire such manufacturing facilities for later stage clinical trials and commercial production of its own pharmaceuticals. There can be no assurance that the Company will be able to obtain such facilities or manufacture such products in a timely fashion at acceptable quality and prices, that it or its suppliers will be able to comply with GLP or GMP, as applicable, or that it or its suppliers will be able to manufacture an adequate supply of product.

MARKETING

The Company plans to market its pharmaceuticals for which it obtains regulatory approvals either through joint ventures or corporate partnering arrangements. The Company expects that such arrangements could include technology licenses, research funding, milestone payments, collaborative product development, royalties and equity investments in Novavax. Implementation of this strategy will depend on many factors, including the market potential of its products and technologies, the success in developing relationships with distributors or marketing partners for the Company's products and the financial resources available to the Company.

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COMPETITION

A number of large companies, such as Novartis, Procter & Gamble, American Home Products, Parke-Davis, Solvay Pharmaceuticals, SmithKline Beecham, Abbott Laboratories, Ortho Pharmaceuticals and Mead Johnson Laboratories, produce and sell estrogen preparations for clinical indications identical to those the Company proposes to target. SmithKline Beecham currently markets a transdermal testosterone patch and Novartis markets an estrogen transdermal patch. The competition to develop FDA approved hormone replacement therapies is intense and no assurance can be given that the Company's product candidates will be developed into commercially successful products.

Many companies, such as Merck, Merck-Astra, Glaxo-Wellcome, Procter & Gamble, SmithKline Beecham, OraVax and others, are currently evaluating various treatment programs for peptic ulcer disease and the treatment of H. pylori. Most of the therapies under investigation today involve a combination of a currently used ulcer treatment medication (e.g., Prilosec(R), Zantac(R) or Tagamet(R),) in association with an antibiotic (e.g., amoxicillin, Flagyl(R) or Biaxin(R)). The

market for the development of treatment programs for peptic ulcer disease and H. pylori infection is competitive and no assurance can be given that the Company's H. pylori product candidates will be developed into commercially successful products.

A number of other companies have been working on vaccine adjuvants for use in human vaccines. These include, but are not limited to, Chiron, Ribicell, Ribi Immunochem Research, Cambridge Biotech, Iscotec, Proteus International and Biomira. The competition to develop FDA-approved human vaccine adjuvants is intense and no assurance can be given that the Company's adjuvant product candidates will be developed into commercially successful products.

Primary competitors in the development of lipid structure and vesicle encapsulation technologies are The Liposome Company, Sequus Pharmaceuticals, Nexstar Pharmaceuticals and L'Oreal, as well as other pharmaceutical, vaccine and chemical companies. The Company believes that, except for L'Oreal, these companies have focused their development efforts on pharmaceutical carrier systems for the treatment of infections and certain cancers. To the Company's knowledge, The Liposome Company, Sequus and Nexstar all base their lipid vesicle technologies on phospholipids.

Most of the Company's competitors are larger than the Company and have substantially greater financial, marketing and technical resources. In addition, many of these competitors have substantially greater experience than the Company in developing, testing and obtaining FDA and other approvals of pharmaceuticals. Furthermore, if the Company commences commercial sales of pharmaceuticals, it will also be competing with respect to manufacturing efficiency and marketing capabilities, areas in which it has limited or no experience. If any of the competitors develop new encapsulation technologies that are superior to the Company's Novasome and MNP technologies, the ability of the Company to expand into the pharmaceutical and vaccine adjuvant markets will be materially and adversely affected.

Competition among products will be based, among other things, on product efficacy, safety, reliability, availability, price and patent position. An important factor will be the timing of market introduction of the Company's or competitors' products. Accordingly, the relative speed with which the Company can develop products, complete the clinical trials and approval processes and supply commercial quantities of the products to the market is expected to be an important competitive factor. The Company's competitive position will also depend upon its ability to attract and retain qualified personnel, to obtain patent protection or otherwise develop proprietary products or processes and to secure sufficient capital resources for the often substantial period between technological conception and commercial sales.

RESEARCH AND DEVELOPMENT

The Company's research is focused principally on the development and commercialization of formulations for topical drug delivery and therapeutic products, including antibacterial and anti-viral products and adjuvants for vaccines. The Company intends to use third-party funding when available, through collaborations, joint ventures or strategic alliances with other companies, particularly potential distributors of the Company's products. Because of the substantial funds required for clinical trials, the Company will have to obtain additional financing for its future human clinical trials. No assurance can be given that such financing will be available on terms attractive to the Company, if at all.

The Company bases its development decisions on development costs and potential return on investment, regulatory considerations, and the interest, sponsorship and availability of funding from third parties. As of December 31, 1997, the Company's research and development staff numbered 8 individuals. In addition to its internal research and development efforts, the Company encourages the development of product candidates in areas related to its present lines by working with universities and government agencies. Novavax's research and development expenditures, approximated \$2,874,000, \$3,716,000 and \$3,708,000 and in the years ended December 31, 1997, 1996 and 1995, respectively.

PATENTS AND PROPRIETARY INFORMATION

The Company, through a wholly-owned subsidiary, holds 46 U.S. patents and 53 foreign patents covering its technologies (which include a wide variety of component materials, its continuous flow vesicle production process and its Novamix(R) production equipment). The Company believes that these patents are important for the protection of its technology as well as certain of the development processes that underlie that technology. In addition, 8 U.S. patent applications and 53 foreign patent applications are pending covering the composition, manufacture and use of its organized lipid structures and related technologies.

The Company expects to engage in collaborations, sponsored research agreements and preclinical testing agreements in connection with its future pharmaceutical products and vaccine adjuvants, as well

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as clinical testing agreements with academic and research institutions and U.S. government agencies, such as the NIH, to take advantage of the technical expertise and staff of these institutions and to gain access to clinical evaluation models, patients and related technologies. Consistent with pharmaceutical industry and academic standards, and the rules and regulations promulgated under the federal Technology Transfer Act of 1986, these agreements may provide that developments and results will be freely published, that information or materials supplied by the Company will not be treated as confidential and that the Company will be required to negotiate a license to any such developments and results in order to commercialize products incorporating them. There can be no assurance that the Company will be able to successfully obtain any such license at a reasonable cost or that such developments and results will not be made available to competitors of the Company on an exclusive or nonexclusive basis.

GOVERNMENT REGULATION

The Company's research and development activities are subject to regulation for safety, efficacy and quality by numerous governmental authorities in the United States and other countries. The development, manufacturing and marketing of human pharmaceuticals are subject to regulation in the United States for safety and efficacy by the FDA in accordance with the Food, Drug and Cosmetic Act.

In the United States, human pharmaceuticals are subject to rigorous FDA regulation including preclinical and clinical testing. The process of completing clinical trials and obtaining FDA approvals for a new drug is likely to take a number of years, requires the expenditure of substantial resources and is often subject to unanticipated delays. There can be no assurance that any product will receive such approval on a timely basis, if at all.

The steps required before new products for use in humans may be marketed in the United States include (i) preclinical tests, (ii) submission to the FDA of an application for an Investigational New Drug application (IND), which must be approved before human clinical trials commence, (iii) adequate and well-controlled human clinical trials to establish the safety and efficacy of the product, (iv) submission of a New Drug Application ("NDA") for a new drug or a Product License Application ("PLA") for a new biologic to the FDA and (v) FDA approval of the NDA or PLA prior to any commercial sale or shipment of the product.

Preclinical tests include laboratory evaluation of product formulation, as well as animal studies (if an appropriate animal model is available) to assess the potential safety and efficacy of the product. Formulations must be

manufactured according to GMP and preclinical safety tests must be conducted by laboratories that comply with FDA regulations regarding GLP. The results of the preclinical tests, are submitted to the FDA as part of an IND and are reviewed by the FDA prior to the commencement of human clinical trials. There can be no assurance that submission of an IND will result in FDA authorization to commence clinical trials. Clinical trials involve the administration of the investigational new drug to healthy volunteers and to patients under the supervision of a qualified principal investigator and are typically conducted in three sequential phases, although the phases may overlap. The Company or the FDA may suspend clinical trials at any time if the participants are being exposed to an unacceptable health risk. The FDA may deny an NDA or PLA if applicable regulatory criteria are not satisfied, require additional testing or information, or require post marketing testing and surveillance to monitor the safety of the Company's products.

In addition to obtaining FDA approval for each PLA, an Establishment License Application ("ELA") must be filed and approved by the FDA for the manufacturing facilities of a biologic product before commercial marketing of the biologic product is permitted. The regulatory process may take many years and requires the expenditure of substantial resources.

In addition to regulations enforced by the FDA, the Company also is subject to regulation under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act and other present and potential future federal, state or local regulations. The Company's research and development involves the controlled use of hazardous materials, chemicals and viruses. Although the Company believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable for any damages that result, and any such liability could exceed the resources of the Company.

In both domestic and foreign markets, the ability of the Company to commercialize its product candidates will depend, in part, on the availability of reimbursement from third-party payers, such as government health administration authorities, private health insurers and other organizations. If adequate coverage and reimbursement levels are not provided by government and third-party payers for uses of the Company's therapeutic products, the market acceptance of these products would be adversely affected.

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 payers for medical goods and services may take in response to any medical reform proposals or legislation. The Company cannot predict the effect medical reforms may have on its business, and no assurance can be given that any such reforms will not have a material adverse effect on the Company.

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EMPLOYEES

The Company had 15 full-time employees as of December 31, 1997, of whom 8 are in research and development. The Company has no collective bargaining agreement with its employees and believes that its employee relations are good.

ITEM 2. PROPERTIES

The Company leases approximately 12,000 square feet of administrative offices and laboratory space for its corporate headquarters and PHARMACEUTICAL DIVISION, located at 8320 Guilford Road, Columbia, Maryland. The Company believes its

facilities are adequate to produce quantities of Novasome lipid vesicles and MNPs sufficient to support its needs for early-stage clinical trials. It does not presently have FDA certified facilities capable of producing the larger quantities of pharmaceutical products required for larger scale clinical trials or commercial production. The Company will need to rely on collaborators, licensees or contract manufacturers or acquire such manufacturing facilities for later stage clinical trials and commercial production of its own pharmaceuticals.

The Company's BIOLOGICS DIVISION also leases 2,363 square feet of space located in Rockville, Maryland. This space contains the Company's certified animal facility and laboratories for its biologics development which includes the vaccine and vaccine adjuvant product and services group.

ITEM 3. LEGAL PROCEEDINGS

Not Applicable.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 1997.

EXECUTIVE OFFICERS OF THE REGISTRANT

The Company's executive officers hold office until the first meeting of the Board of Directors following the annual meeting of stockholders and until their successors are duly chosen and qualified, or until they resign or are removed from office in accordance with the Company's By-laws.

NAME	AGE	PRINCIPAL OCCUPATION AND OTHER BUSINESS EXPERIENCE DURING PAST FIVE YEARS
RICHARD F. MARADIE	50	Chief Executive Officer of Novavax since March, 1997. Co-Founder, Director, President and Chief Executive Officer of Protyde Pharmaceuticals, Inc. from 1994 to 1997. Director, Executive Vice President and Chief Operating Officer of Platelet Research Products, Inc. from 1991 to 1994. Director, President and Chief Executive Officer of VimRx Pharmaceuticals, Inc. from 1988 to 1991. Executive Vice President and Chief Operating Officer of Creative Biomolecules, Inc. from 1987 to 1988. Senior Director Cetus Corporation and General Manager and Chairman of the Board of Managers for Cetus/BenVenue Oncology Therapeutics from 1983 to 1987. Director of Oncology Marketing and Sales of Adria Laboratories, Inc. from 1974 to 1983.
D. CRAIG WRIGHT, M.D.	47	Vice President, Research and Development and Operations of Novavax since 1993. Founder and Senior Director of Medical Research of Univax Biologics, Inc., a biopharmaceutical company, from 1988

to 1992.

BRENDA L. FUGAGLI

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Vice President, Chief Financial Officer and Treasurer of Novavax since July, 1997. President, Chief Operating Officer, Carestream a division of FoxMeyer Corporation, 1995. Senior Vice President of Marketing FoxMeyer Drug Company 1992 to 1995. Vice President and Controller FoxMeyer Corporation from 1989 to 1992.

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NAME	AGE	PRINCIPAL OCCUPATION AND OTHER BUSINESS EXPERIENCE DURING PAST FIVE YEARS
THOMAS G. TACHOVSKY, PH.D.	51	Vice President, Business Development since February, 1998. General Partner and Founder, Matco & Associates, a consulting firm, 1991 to 1998. Executive Vice President R&D, Director and Founder, Prottyde Pharmaceuticals, Inc., 1995 to 1997. Vice President Business Development, Cytogen Corporation, 1989 to 1991.
RICHARD J. HARWOOD, PH.D.	54	Vice President, Pharmaceutical Product Development since March, 1998. Consultant K. W. Tunnell Company, Inc., 1995 to 1998. Vice President, Research and Development, Private Formulations, Inc., 1993 to 1995. Technical Planning Director, Worldwide Strategic Product Planning, Bristol-Myers Squibb, 1986 to 1993. Department Director, Product Development, Rorer Group, Inc., 1982 to 1986. Research Fellow, Merck and Co., Inc., 1970 to 1982.

PART II

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

The Company's Common Stock was held by 952 stockholders of record as of March 20, 1998. The Company has never paid cash dividends on its Common Stock. The Company currently anticipates that it will retain all of its earnings for use in the development of its business and does not anticipate paying any cash dividends in the foreseeable future.

The principal market for the Company's Common Stock (\$.01 par value) is traded on the American Stock Exchange under the symbol "NOX". The following table shows the range of high and low closing prices of the Company's common stock on the American Stock Exchange for the periods indicated.

HIGH LOW

1997

First quarter	\$4 3/4	\$3 1/4
Second quarter	4 7/16	2 5/8
Third quarter	6	4
Fourth quarter	5 3/4	4 1/8

1996

First quarter	\$6 5/8	\$3 3/8
Second quarter	8 1/4	5 1/4
Third quarter	7 1/8	3 1/8
Fourth quarter	4 5/8	2 7/8

RECENT SALES OF UNREGISTERED SECURITIES

On October 30, 1996, Novavax received \$1,655,877, net of all transaction costs, from the sale of 505,000 common shares that were privately placed with accredited institutional investors by Vector Securities International, Inc. On February 10, 1997, Novavax signed a definitive agreement to privately place 1,200,000 common shares with Anaconda Opportunity Fund, L.P., an accredited institutional investor, at an aggregate price of \$5,100,000. Effective on or about the closing dates the 1,705,000 common shares were registered and freely tradable.

On January 23, 1998, the Company entered into Subscription Agreements to effectuate the private placement of 6,500 shares of Series A Custom Convertible Preferred Stock, \$.01 par value per share (the "Series A Preferred Stock"). The closing 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, LLC a fee of \$425,233 in consideration for its services as placement agent.

The Series A Preferred stock 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 average of the two lowest consecutive trade prices of the Common Stock as reported on the American Stock Exchange for the 25 trading days immediately preceding the conversion date (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").

From the Issuance Date, there is ceiling price of \$6.33 and within the first 180 days after the Issuance Date, the Conversion Price has applicable floor prices based on conversion dates. The floor prices range from \$5.67 to \$4.32. The maximum number of shares as measured by the conversion terms most beneficial to the holders of the Series A Preferred Stock at the time of closing will result in a deemed dividend in the amount of \$455,048 which has been recorded to Accumulated Deficit and Additional Paid In Capital during the three months ended March 31, 1998.

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ITEM 6. SELECTED FINANCIAL DATA

For the years ended December 31,

	1993	1994	1995	1996	1997
STATEMENT OF OPERATIONS DATA:					
Revenues:					
Research revenues (1)	\$ 380,700	\$ 475,000	\$ --	\$ --	\$ --
Sales	--	--	--	55,553	519,714

Royalties from former parent (2)	198,546	209,877	268,002	--	--
Total Revenues	579,246	684,877	268,002	55,553	519,714
Costs and expenses:					
Selling and marketing	278,836	323,640	398,776	--	--
General and administrative (3)	1,976,356	2,162,431	2,905,873	1,874,418	2,437,166
Research and development	2,701,038	2,860,048	3,708,005	3,715,545	2,874,129
Interest expense to former parent (4)	413,049	1,028,794	1,749,706	--	--
Interest income	--	--	--	(137,539)	(244,964)
Income tax expense	--	--	--	98,094	--
Net loss	(4,790,033)	(5,690,036)	(8,494,358)	(5,494,985)	(4,546,617)
Net loss per share (basic and diluted) (5)	n/a	n/a	\$ (0.85)	\$ (0.54)	\$ (0.39)
Weighted average number of common shares outstanding	n/a	n/a	9,937,936	10,132,896	11,667,428
BALANCE SHEET DATA:					
Total current assets	\$ 268,050	\$ 501,845	\$ 4,761,199	\$ 3,220,772	\$ 4,303,044
Working capital	202,914	306,159	4,330,412	2,639,505	4,014,406
Total assets	2,819,631	3,132,688	7,529,544	5,721,952	6,823,271
Capital lease obligations	--	--	--	34,351	23,607
Stockholders' (deficit) equity	(1,070,994)	(2,202,868)	7,098,757	5,117,078	6,521,770

- (1) Includes payments for licensing agreements and technology application review.
- (2) Includes royalties for product sales in IGI's animal health products, cosmetic and consumer products businesses through the date of the Distribution.
- (3) Includes administrative expenses incurred by IGI allocated to Novavax through the date of the Distribution.
- (4) Interest expense is solely attributable to debt incurred by Novavax to fund its operations through the date of the Distribution.
- (5) On December 12, 1995, IGI distributed to the holders of record of IGI's common stock , at the close of business on the Record Date, November 28, 1995, one share of the Company's common stock for every one share of IGI common stock outstanding. Pro forma net loss per common share for the year ended December 31, 1995 is based upon weighted average shares outstanding of 9,937,936. See footnote 5 of the Financial Statements.

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

Certain statements under Item 1 and Item 7 contained herein 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. 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 herein. 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. Accordingly, past results and trends should not be used by investors to anticipate future results or trends.

The following is a discussion of the historical consolidated financial condition and results of operations of Novavax and its subsidiaries. The discussion should be read in conjunction with the consolidated financial statements and notes thereto set forth in Item 8 to this Report.

On December 12, 1995, the Company's former parent, IGI, Inc., distributed its majority interest in Novavax to the IGI stockholders (the "Distribution"). Prior to the Distribution, IGI owned 93.2% of the outstanding shares of the Company, all of which were distributed to IGI stockholders. Certain periods covered by the discussion below occurred when the Company was a subsidiary of IGI and may not be indicative of current or future performance.

RESULTS OF OPERATIONS

The Company has incurred net losses since its inception from the development of its technologies for human pharmaceuticals, vaccines and vaccine adjuvants. Novavax expects the losses to continue and to most likely increase in the near-term, as it conducts additional human clinical trials and seeks regulatory approval for its product candidates. The Company also expects to continue to incur substantial operating losses over the extensive time period required to develop the Company's products, or until such time as revenues, to offset the losses, are sufficient to fund its continuing operations.

Until the second quarter of 1996, the Company had recorded revenues from two sources: (i) research revenues from industry partners in consideration of either exclusive licenses or technology application reviews and (ii) royalty revenues that were attributable to product sales by IGI. Revenues from the sale of scientific prototype vaccines and adjuvants have been recorded in the second, third and fourth quarters of 1996 and in each quarter of 1997.

1997 COMPARED TO 1996

The net loss of \$4,546,617 for the year ended December 31, 1997 was \$948,368 or 17%, lower than the net loss of \$5,494,985 for the year ended December 31, 1996. The 1997 net loss includes non-cash compensation expense of \$577,643 compared to \$1,506,790 included in the 1996 net loss. This compensation expense relates to the amortization of below-market priced stock options and warrants issued at the time of the Distribution. Other 1997 non-cash charges include \$253,591 of depreciation and patent amortization expense. Non-cash charges in 1996 included \$334,564 for the disposal of property and equipment and \$328,225 of depreciation and patent amortization expense.

Revenues of \$519,714 were recognized during 1997 compared to \$55,533 during 1996. The increase was due primarily to two contracts related to vaccine products, services and adjuvant technologies.

Selling, general and administrative expenses include all costs associated with the marketing of the Company's technology to potential industry partners and those activities associated with identifying additional sources of capital. It also includes costs associated with management and administrative activities. Selling, general and administrative expenses were approximately \$2,437,166 and \$1,874,418 for the years ended December 31, 1997 and 1996, respectively. The increase of \$562,748 was attributable to increased costs associated with securing strategic alliances and potential sources of financing as well as the increased staffing and infrastructure growth including the hiring of a new Chief Financial Officer and Chief Executive Officer.

Research and development expenses include scientific staffing, supplies and other costs related to the ongoing development of the Novavax technologies as well as the development of the Company's three lead product candidates. Research and development expenses were approximately \$2,874,129 and \$3,715,545 for the years ended

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December 31, 1997 and 1996, respectively. Although such expenses have decreased by \$841,416, this change is primarily caused by the net decrease in the amortization of below-market priced stock options issued at the time of the Distribution of \$933,742 and the non-recurring charge of \$334,564 for the disposal of assets in 1996.

Research and development expenses, before these items were \$2,407,258 and \$1,908,370 for 1997 and 1996. After considering the impact of these aforementioned non-cash expenses, research and development costs increased by \$498,888. The increase was primarily due to the number of product candidates in clinical trials and the growth of the underlying research and development infrastructure including facility expansion.

Interest income was approximately \$244,964 and \$137,539 for the years ended December 31, 1997 and 1996, respectively. The increase in net interest income was a direct result of an increase in the average cash balances on hand throughout the year.

1996 COMPARED TO 1995

The net loss of \$5,494,985 for the year ended December 31, 1996 was \$2,999,373, or 35%, lower than the net loss of \$8,494,358 for the year ended December 31, 1995. The 1996 net loss includes \$1,506,790, compared to \$101,183 included in the 1995 net loss, of non-cash compensation expense. Other non-cash charges include \$334,564 for the disposal of property and equipment and \$328,225 of depreciation and patent amortization expense. Non-cash charges of \$272,886 for depreciation and patent amortization have been included in the 1995 expense.

Revenues of \$55,533 were recognized during the year ended December 31, 1996 from the sale of scientific prototype vaccines and adjuvants. Novavax earned royalties from IGI of 10% of licensed product sales, or \$268,002, in the year ended December 31, 1995.

Total operating expenses were \$5,589,963 in 1996, decreasing \$1,422,691, or 20%, from the \$7,012,654 incurred in 1995. Reduced cash resources caused the Company to reduce spending and achieve other efficiencies including a refocus of its efforts on the development of its three lead product candidates in connection with FDA human clinical trials.

Total selling, general and administrative expenses were \$1,874,418 and \$3,304,649 for the years ended December 31, 1996 and 1995, respectively. Costs associated with the Distribution are included in the 1995 expenses. Nonrecurring charges of \$230,474 were incurred through June 30, 1996 for transitional services provided by IGI. The agreement providing these services terminated on June 30, 1996 and no additional charges have been recorded. Certain costs included in the 1995 expenses were estimates allocated from IGI, based on Novavax being a separate public company, and may not compare with the actual costs Novavax incurred in 1996. These estimated costs were \$850,000 for the year ended December 31, 1995.

Research and development expenses were \$3,715,545 and \$3,708,005 for the years ended December 31, 1996 and 1995, respectively. The 1996 expenses include non-cash charges of \$1,410,648, compared to \$101,183 in 1995, related to the amortization of below-market priced stock options issued at the time of the Distribution, and non-cash charges of \$334,564 for the disposal of property and equipment related to the closing of one of the Novavax subsidiaries' laboratory.

Net interest income of \$137,539 was recorded during the twelve months ended December 31, 1996, compared with net interest expense of \$1,749,706 for the same period ended December 31, 1995, that was charged to Novavax by IGI for borrowings and notes due to IGI through the date of the Distribution to fund operating losses, capital equipment purchases and patent costs.

In connection with the filing of the Company's 1995 tax return during 1996, it was determined that the Company had an Alternative Minimum Tax liability resulting from the cash received from IGI in return for the license. Net income tax expense of \$98,094 for 1996 is attributable to the Alternative Minimum Tax calculation.

LIQUIDITY AND CAPITAL RESOURCES

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 costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, competing technological and market developments, and changes in Novavax's development of commercialization activities and arrangements. During 1996, the Company moved three product candidates into clinical trials in less than one year. This rapid development prompted the need for expansion in late 1996. On October 31, 1996, the Company completed the relocation of its administrative offices and pharmaceutical laboratories to a leased facility in Columbia, Maryland. Future activities to establish commercial-scale manufacturing capabilities are subject to the Company's ability to raise funds through equity financing, or collaborative arrangements with corporate partners. Novavax's future growth will depend on its ability to commercialize its Novavax technologies for human pharmaceutical applications.

Net cash used in 1997 for operating activities was \$4,244,733. From the date of the Distribution, Novavax has conducted its operations with approximately \$5,000,000 paid by IGI under the IGI License Agreement along with net proceeds from several financing transactions completed and described herein. Additionally the Company has received sources of cash from the sale of scientific prototype vaccines and adjuvants and from the exercise of stock options.

On October 30, 1996, Novavax received \$1,655,877, net of all transaction costs, from the sale of 505,000 common shares that were privately placed with accredited institutional investors by Vector Securities International, Inc.

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On February 10, 1997, Novavax signed a definitive agreement to privately place 1,200,000 common shares with Anaconda Opportunity Fund, L.P., an accredited institutional investor, at an aggregate price of \$5,100,000. As part of the transaction, Novavax also granted warrants to purchase an additional 600,000 shares at a price of \$6.00 per share and 600,000 shares at a price of \$8.00 per share. The warrants have a three-year term. The transaction was closed March 14, 1997 with net proceeds of \$5,002,718.

On January 23, 1998, the Company entered into Subscription Agreements with each of four purchasers to effectuate the private placement of 6,500 share of Series A Custom Convertible Preferred Stock, \$.01 par value per share (the "Series A Preferred Stock"). The closing 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, LLC a fee of \$425,233 in consideration for its services as placement agent.

The Series A Preferred Stock 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 average of the two lowest consecutive trade prices of the Common Stock as reported on the American Stock Exchange for the 25 trading days immediately preceding the conversion date (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"). From the Issuance Date, there is a ceiling price of \$6.33 and within the first 180 days after the Issuance Date, the Conversion Price has applicable

floor prices, ranging from \$5.67 to \$4.32, based on conversion dates. The maximum number of shares as measured by the conversion terms most beneficial to the holders of the Series A Preferred Stock at the time of closing results in a deemed dividend in the amount of \$455,048 which will be recorded in the first quarter of 1998.

As of December 31, 1997, Novavax estimates that the money received from the most recent sale of the privately placed Preferred Stock, and its existing cash resources will be sufficient to finance its operations at current and projected levels of development activity for approximately 18 to 24 months. On December 31, 1997, the Company had \$3,847,072 in cash, cash equivalents and marketable securities on hand.

Past spending levels are not necessarily indicative of future spending. Future expenditures for product development, especially relating to outside testing and human clinical trials, are discretionary and, accordingly, can be adjusted to available cash. Moreover, the Company will seek to establish one or more collaborations with industry partners to defray the costs of clinical trials and other related activities. Novavax will also seek to obtain additional funds through public or private equity or debt financings, collaborative arrangements with pharmaceutical companies or from other sources. 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 Novavax's 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 alternative measures including arrangements with collaborative partners or others that may require Novavax to relinquish rights to certain of its technologies, product candidates or products.

ITEM 7A. QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISKS

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND
SUPPLEMENTARY DATA

The financial statements and notes thereto listed in the accompanying index to financial statements (Item 14) are filed as part of this Annual Report and are incorporated herein by this reference.

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

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is contained in part under the caption "Executive Officers of the Registrant" in Part I hereof, and the remainder is contained in the Company's Proxy Statement for the Company's Annual Meeting of Stockholders to be held on May 14, 1998 (the "1998 Proxy Statement") under the captions "Proposal 1 -- Election of Directors" and "Beneficial Ownership of Common Stock" and is incorporated herein by this reference. The Company expects

to file the 1998 Proxy Statement within 120 days after the close of the fiscal year ended December 31, 1997.

Officers are elected on an annual basis and serve at the discretion of the Board of Directors.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is contained in the Company's 1998 Proxy Statement under the captions "Executive Compensation" and "Director Compensation" and is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is contained in the Company's 1998 Proxy Statement under the caption "Beneficial Ownership of Common Stock" and is incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is contained in the Company's 1998 Proxy Statement under the caption "Certain Relationships and Related Transactions" and is incorporated herein by this reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) Financial Statements: Report of Independent Accountants Consolidated Balance Sheets as of December 31, 1997 and 1996 Consolidated Statements of Operations for the years ended December 31, 1997, 1996, and 1995 Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1996, and 1995 Consolidated Statements of Stockholders' Equity for the years ended December 31, 1997, 1996, and 1995 Notes to Consolidated Financial Statements

(2) Financial Statement Schedules: Schedules are either not applicable or not required because the information required is contained in the financial statements or notes thereto. Condensed financial information of the Registrant is omitted since there are no substantial amounts of restricted net assets applicable to the Company's consolidated subsidiaries.

(3) Exhibits Required to be Filed by Item 601 of Regulation S-K.

Exhibits marked with a single asterisk are filed herewith, and exhibits marked with a double asterisk reference management contract, compensatory plan or arrangement, filed in response to Item 14 (a) (3) of the instructions to Form 10-K. The other exhibits listed have previously been filed with the Commission and are incorporated herein by reference.

3.1 Amended and Restated Certificate of Incorporation of Novavax, Inc. [Incorporated by reference to Exhibit 3.1 to the Company's Annual Report Form 10-K for the fiscal year end December 31, 1996, File No. 0-26770, filed March 21, 1997 (the "1996 Form 10-K")]

3.2 Amended and Restated By-laws of Novavax, Inc. [Incorporated by reference to Exhibit 3.2 to the 1996 Form 10-K.]

3.3 Certificate of Designations of Series A Custom Convertible Preferred Stock dated January 28, 1998 by and between the Company and each of the four purchasers, Delta Opportunity Fund, Ltd., Olympus Securities, Ltd., Nelson Partners, OTATO Limited Partnership. [Incorporated by reference to Exhibits 4.2

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to the Company's Registration Statement on Form S-3, File No. 333-46409, filed February 17, 1998.]

4 Specimen stock certificate for shares of Common Stock par value \$.01 per share. [Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 10, File No. 0-26770, filed September 14, 1995 (the "Form 10").]

10.1 Tax Matters Agreement between Novavax and IGI. [Incorporated by reference to Exhibit 10.1 to the Form 10.]

10.2 Transition Services Agreement between Novavax and IGI. [Incorporated by reference to Exhibit 10.2 to the Form 10.]

10.3 License Agreement between IGEN, Inc. and Micro-Pak, Inc. [Incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, File No. 0-26770, filed April 1, 1996, (the "1995 Form 10-K").]

**10.4 1995 Stock Option Plan. [Incorporated by reference to Exhibit 10.4 to the Form 10.]

**10.5 1995 Director Stock Option Plan. [Incorporated by reference to Exhibit 10.5 to the Form 10.]

10.6 Stock Purchase Agreement dated October 9, 1996 by and between the Company and the purchasers named therein. [Incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-3, File No. 333-14305, filed October 17, 1996.]

10.7 Agreement of Lease by and between the Company and Rivers Center Associates Limited Partnership, dated September 25, 1996. [Incorporated by reference to Exhibit 10.7 to the 1996 Form 10-K.]

10.8 Stock and Warrant Purchase Agreement dated February 10, 1997 by and between the Company and Anaconda Opportunity Fund, L.P. [Incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-3, File No. 333-22685, filed March 4, 1997 (the "Anaconda S-3").]

10.9 Form of Warrant issued by the Company to Anaconda Opportunity Fund, L.P. [Incorporated by reference to Exhibit 4.5 to the Anaconda S-3.]

**10.10 Employment Agreement dated May 15, 1997, by and between the Company
* and Richard F. Maradie.

**10.11 Employment Agreement dated July 24, 1997, by and between the Company
* and Brenda L. Fugagli.

**10.12 Letter Agreement dated February 19, 1998, by and between the Company
* and Richard J. Harwood.

**10.13 Letter Agreement dated February 19, 1998, by and between the Company
* and Thomas G. Tachovsky.

10.14 Form of Subscription Agreement dated January 23, 1998 by and between the Company and each of the four purchasers, Delta Opportunity Fund, Ltd., Olympus Securities, Ltd., Nelson Partners, OTATO Limited

Partnership. [Incorporated by reference to Exhibits 4.5 to the Company's Registration Statement on Form S-3, File No. 333-46409, filed February 17, 1998.]

21 List of Subsidiaries [Incorporated by reference to Exhibit 21 to the 1995 Form 10-K.]

*23 Consent of Coopers & Lybrand L.L.P.

*27 Financial Data Schedule

(B) Reports on Form 8-K:

None.

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REPORT OF INDEPENDENT
ACCOUNTANTS

To the Board of Directors and Stockholders of Novavax, Inc.:

We have audited the accompanying consolidated balance sheets of Novavax, Inc. and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Novavax, Inc. and Subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

McLean, Virginia
March 13, 1998

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NOVAVAX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended December 31,		
	1997	1996	1995
Revenues:			
Contract Revenue	\$ 519,714	\$ 55,533	\$ --
Royalties from former parent	--	--	268,002
Total Revenues	519,714	55,533	268,002
Operating expenses:			
Selling and marketing	--	--	398,776
General and administrative	2,437,166	1,874,418	2,905,873
Research and development	2,874,129	3,715,545	3,708,005
Total operating expenses	5,311,295	5,589,963	7,012,654
Loss from operations	(4,791,581)	(5,534,430)	(6,744,652)
Interest expense to former parent	--	--	(1,749,706)
Interest income, net	244,964	137,539	--
Loss before income taxes	(4,546,617)	(5,396,891)	(8,494,358)
Income tax expense	--	(98,094)	--
Net loss	\$ (4,546,617)	\$ (5,494,985)	\$ (8,494,358)
Net loss per share (basic and diluted)	\$ (0.39)	(0.54)	(0.85)
Weighted average number of common shares outstanding	11,667,428	10,132,896	9,937,936

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

NOVAVAX, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	1997	1996
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,847,107	\$ 2,481,258
Marketable securities	--	500,820
Accounts receivable	217,150	--
Receivable from former parent	32,835	--
Prepaid expenses and other current assets	205,952	238,694
Total current assets	4,303,044	3,220,772
Property and equipment-- cost	1,428,638	1,383,123
Accumulated depreciation	(539,463)	(405,212)
Property and equipment -- net	889,175	977,911
Patent costs, net of accumulated amortization of \$549,397 and \$430,057 in 1997 and 1996, respectively	1,573,454	1,494,880
Other assets	57,598	28,389
Total assets	\$ 6,823,271	\$ 5,721,952
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Capital lease obligations	\$ 10,744	\$ 10,744
Accounts payable	237,884	367,754
Accrued payroll	40,010	196,593
Payable to former parent	--	6,176
Total current liabilities	288,638	581,267
Capital lease obligations, less current maturities	12,863	23,607
Stockholders' Equity:		
Preferred stock, \$.01 par value, 2,000,000 shares authorized	--	--
Common stock, \$.01 par value, 30,000,000 shares authorized, 12,031,757 issued and 12,012,013 outstanding at December 31, 1997 and 10,660,710 shares issued and outstanding at December 31, 1996	120,318	106,607
Additional paid-in capital	38,020,621	32,409,899
Accumulated deficit	(31,342,780)	(26,796,164)
Deferred compensation on stock options granted	(25,620)	(603,264)
Treasury stock, 19,744 shares, cost basis	(250,769)	--
Total stockholders' equity	6,521,770	5,117,078
Total liabilities and stockholders' equity	\$ 6,823,271	\$ 5,721,952

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

NOVAVAX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

	1997	1996	1995
Cash flows from operating activities:			
Net Loss	\$ (4,546,617)	\$ (5,494,985)	\$ (8,494,358)
Reconciliation of net loss to net cash used by operating activities:			
Non-cash restructuring and recapitalization	--	--	1,513,253
Reimbursement to former parent	--	--	(250,000)
Non-cash compensation expense	577,644	1,506,790	101,183
Depreciation and amortization	253,591	328,225	272,886
Disposal of property and equipment	--	334,564	--
Issuance of stock to 401k plan	9,729	--	--
Changes in operating assets and liabilities			
Accounts receivable	(217,150)	--	475,000
Prepaid expenses and other assets	3,534	(185,074)	(58,993)
Payable to/receivable from former parent	(39,011)	60,930	(54,754)
Accounts payable and accrued expenses	(286,453)	133,560	235,101
Net cash used by operating activities	(4,244,733)	(3,315,990)	(6,260,682)
Cash flows from investing activities:			
Proceeds from the sale of marketable securities	500,820	(500,820)	--
Capital expenditures	(45,515)	(98,363)	(45,562)
Deferred patent costs	(197,914)	(244,321)	(367,418)
Net cash used by investing activities	257,391	(843,504)	(412,980)
Cashflows from financing activities:			
Payable to former parent	--	--	2,081,776
Notes payable to former parent	--	--	4,172,401
License agreement with former parent	--	--	5,000,000
Payment of capital leases	(10,744)	--	--
Proceeds from the private placement of Common Stock, net	5,002,718	1,655,877	--
Proceeds from the exercise of options	361,217	350,639	37,500
Net cash provided by financing activities	5,353,191	2,006,516	11,291,677
Net change in cash and cash equivalents	1,365,849	(2,152,978)	4,618,015
Cash and cash equivalents at beginning of the period	2,481,258	4,634,236	16,221
Cash and cash equivalents at end of the period	\$ 3,847,107	\$ 2,481,258	\$ 4,634,236

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

NOVAVAX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended December 31, 1997, 1996 and 1995

Common Stock	Additional	Note Payable	Combined
Shares	Paid-in	to Former	Equity
Dollars	Capital	Parent	Capital
			Deficit

Balance, January 1, 1995	14,973		\$12,851,599	\$ 4,974,000	\$(20,028,467)
Proceeds from payable to former parent					7,221,646
Proceeds from note payable to former parent			4,172,401		
Restructuring and recapitalization	9,872,963	\$ 98,879	\$23,162,374	(17,024,000)	(4,974,000)
License agreement with former parent			5,000,000		
Options granted as compensation			1,988,748		
Amortization of deferred compensation					
Exercise of stock options	50,000	500	37,000		
Net loss					(8,494,358)
Balance, December 31, 1995	9,937,936	99,379	30,188,122	--	(21,301,179)
Options and warrants granted as compensation			222,489		
Amortization of deferred compensation					
Private sale of common stock, net	505,000	5,050	1,650,827		
Exercise of stock options	217,774	2,178	348,461		
Net loss					(5,494,985)
Balance, December 31, 1996	10,660,710	106,607	32,409,899		(26,796,164)
Options granted as compensation					
Company contribution to Employee 401k plan	771	8	2,491		
Amortization of deferred compensation					
Private sale of common stock, net	1,200,000	12,000	4,990,718		
Exercise of stock options	170,276	1,703	617,513		
Net loss					(4,546,617)
Balance, December 31, 1997	12,031,757	\$120,318	\$38,020,621	\$ --	\$(31,342,780)

	Deferred Compensation on Stock Options Granted	Treasury Stock Shares	Treasury Stock Dollars	Total Stockholders' Equity (Deficit)
Balance, January 1, 1995				\$(2,202,868)
Proceeds from payable to former parent				7,221,646
Proceeds from note payable to former parent				4,172,401
Restructuring and recapitalization				1,263,253
License agreement with former parent				5,000,000
Options granted as compensation	\$(1,988,748)			--
Amortization of deferred compensation	101,183			101,183
Exercise of stock options				37,500
Net loss				(8,494,358)
Balance, December 31, 1995	(1,887,565)	--	--	7,098,757
Options and warrants granted as compensation	(222,489)			--
Amortization of deferred compensation	1,506,790			1,506,790
Private sale of common stock, net				1,655,877
Exercise of stock options				350,639
Net loss				(5,494,985)
Balance, December 31, 1996	(603,264)	--		5,117,078
Options granted as compensation				
Company contribution to Employee 401k plan		1,330	\$ 7,230	9,729
Amortization of deferred compensation	577,644			577,644
Private sale of common stock, net				5,002,718
Exercise of stock options		(21,074)	(257,999)	361,217
Net loss				(4,546,616)
Balance, December 31, 1997	\$(25,620)	(19,744)	\$(250,769)	\$6,521,770

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

NOVAVAX, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

DESCRIPTION OF BUSINESS

Novavax, Inc., a Delaware corporation ("Novavax" or the "Company"), is a biopharmaceutical company focusing on the research and development of proprietary topical and oral drug delivery technologies and applications of those technologies. The Company's technology platforms involve the use of proprietary organized lipid structures made into microscopic vesicles for the delivery of a wide variety of drugs and other therapeutic products, including certain hormones, antibacterial and anti-viral products and vaccine adjuvants. The Company currently has three lead product candidates in various stages of development and animal and human trials. These include, 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. The regulatory process is lengthy, requiring substantial funds, and the Company cannot predict when approval of any product or a license to sell any product might occur. In addition, there can be no assurances the Company will have sufficient funds necessary or that the additional funds will be available at all or on acceptable terms. The Company also recognizes that the commercial launch of any product is subject to certain risks including but not limited to manufacturing scale-up and market acceptance.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Novavax (formerly Molecular Packaging Systems, Inc.), its wholly-owned subsidiaries Micro-Pak, Inc. ("Micro-Pak") and Micro Vesicular Systems, Inc. ("MVS"), and Lipovax, Inc. ("Lipovax", formerly known as Novavax, Inc.). All significant intercompany accounts and transactions have been eliminated in consolidation.

The financial statements for the period January 1, 1995 through December 12, 1995 have been prepared for the aforementioned companies on a combined basis from books and records maintained by IGI, Inc. ("IGI"). These combined financial statements reflect the financial position and results of operations of the combined companies at their historical bases, including allocations of certain costs by IGI. The accounts and transactions between the companies have been eliminated. The financial statements may not be indicative of the results that would have been attained had the entities operated together independently of IGI.

2. DISTRIBUTION

On December 12, 1995 (the "Distribution Date"), IGI distributed to the holders of record of IGI's common stock, at the close of business on the Record Date, November 28, 1995, one share of the Company's common stock for every one share of IGI common stock outstanding (the "Distribution"). The Distribution resulted in 93.2% of the outstanding shares of the Company's common stock being distributed to holders of IGI common stock on a proportionate basis after taking into account the Restructuring and Recapitalization described in Note 3. As a result of the Distribution, the Company is no longer a subsidiary of IGI but an independent publicly-owned company whose shares are traded on the American Stock Exchange under the trading symbol NOX.

3. RESTRUCTURING AND RECAPITALIZATION

Prior to the Distribution, IGI consolidated its animal health products and cosmetics and consumer products businesses (the "Core Businesses") within itself and its subsidiaries. Concurrently it consolidated the biotechnology business (the "Biotechnology Business") within Novavax and its subsidiaries (the "Restructuring"). At the time of the Restructuring, IGI owned, through its wholly-owned subsidiary, IGEN, Inc. ("IGEN"), the following percentages of the voting power of the subsidiaries conducting the Biotechnology Business: 84.7% of the voting power of Novavax, the sole stockholder of both Micro-Pak and MVS, and 90.3% of the voting power of Lipovax. The Biotechnology Business resided, and continues to reside, within Novavax, Micro-Pak, MVS and Lipovax. Prior to the Restructuring, the current and former employees of Novavax and Lipovax held approximately 15.3% and 9.7% of the voting power of Novavax and Lipovax, respectively.

On September 20, 1995, Novavax, Lipovax and Novavax Acquisition Subsidiary, Inc., a wholly-owned subsidiary of Novavax created for purposes of the Restructuring ("Acquisition Corporation"), entered into a merger agreement (the "Merger Agreement"). The Merger Agreement, which was approved by Lipovax stockholders on October 12, 1995, provided, among other things, for a reverse triangular merger (the "Merger") in which Acquisition Corporation merged with and into Lipovax and Lipovax became a wholly-owned subsidiary of Novavax. As consideration for the Merger, Novavax issued an aggregate of 21,698 shares, of which 90.3% were issued to IGEN and the remaining 9.7% to the minority stockholders of Lipovax. The issuance of shares to the minority stockholders of Lipovax resulted in a charge to the statement of operations of \$866,966 to reflect the purchase of in process research and development. After the Merger, IGEN owned 85.5% of the outstanding shares of Novavax, and the remaining 14.5% were held by the minority stockholders of Novavax (8.8%) and by the former minority stockholders of Lipovax (5.7%).

As part of the Restructuring, Novavax issued to IGEN 41,569 shares of Novavax Common Stock in exchange for the transfer by

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IGEN to Novavax of all of IGEN's rights to the payment of \$17,024,000 aggregate indebtedness owed to ImmunoGenetics, Inc., a wholly-owned subsidiary of IGEN (and the primary operating entity of the Core Businesses ("ImmunoGenetics")), by MVS (\$9,996,504) and Lipovax (\$7,027,496) (collectively, "Novavax Sub Debt"). The Novavax Sub Debt resulted from loans made by ImmunoGenetics to MVS and Lipovax during the period from 1991 to the Distribution Date. The number of shares of Novavax Common Stock issued in exchange for the Novavax Sub Debt was based on the value of \$409.54 per share of Novavax Common Stock. In connection with the Restructuring, Novavax converted \$17,024,000 of these loans for 41,569 shares of Novavax stock.

In addition to the Restructuring, Novavax recapitalized its capital stock (the "Recapitalization"). Immediately prior to the Recapitalization, Novavax's issued and outstanding capital stock consisted of approximately 75,240 shares of Class A Common Stock and 3,000 shares of Class B Common Stock. As a result of the Recapitalization, each share of Class A and Class B Common Stock was converted into approximately 126.37944 shares of Novavax Common Stock. After the Restructuring and Recapitalization, there were 9,887,936 shares of Novavax Common Stock outstanding.

To complete the separation of the Core Businesses from the Biotechnology Business, on December 12, 1995, IGEN distributed all of the shares of Novavax Common Stock held by IGEN (approximately 93.2% of the voting securities of Novavax) to IGI in a transaction intended to qualify as a tax-free distribution under section 355 of the Code. IGI received a private letter ruling from the Internal Revenue Service ("IRS") that the Distribution would not be taxable to IGI or its shareholders.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS AND MARKETABLE SECURITIES

Cash equivalents are considered to be short-term highly liquid investments with original maturities of 90 days or less. Marketable securities consist of investments in fixed income securities with original maturities of greater than three months and less than one year. Marketable securities are stated at cost which approximates market. Interest income is accrued as earned.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation of furniture, fixtures and equipment is provided under the straight-line method over the estimated useful lives, generally five years. Amortization of leasehold improvements is provided over the estimated useful lives of the improvements or the term of the lease, which ever is shorter. Furniture and equipment held under capital leases are amortized under the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

Repair and maintenance costs are charged to operations as incurred while major improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed from the accounts and any gains or losses are included in operations.

PATENT COST

Costs associated with obtaining patents, principally legal costs and filing fees, are being amortized on a straight line basis over the remaining economic lives of the respective patents. The Company periodically evaluates the carrying amount of these assets based on current licensing and future commercialization efforts and if warranted, impairment would be recognized. Accumulated amortization of patent costs was \$549,397 and \$430,057 at December 31, 1997 and 1996, respectively.

REVENUE RECOGNITION

Revenues from the sale of scientific prototype vaccines and adjuvants are recorded as the products are produced and shipped. Revenues earned under research contracts are recognized when the related contract provisions are met.

NET LOSS PER SHARE

In 1997, the Company adopted SFAS No. 128, Earnings per Share. Basic earnings per share is computed by dividing the net loss available to common shareholders by the weighted average number of common share outstanding during the period. Diluted earnings per share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding after giving effect to all dilutive potential common shares that were outstanding during the period.

Potential common shares are not included in the computation of dilutive earning per share if they are antidilutive. Net loss per share as reported was not adjusted for potential common shares as they are antidilutive. Earnings per share for all other periods presented conform to SFAS No. 128.

Pro forma net loss per share for the year ended December 31, 1995 is based upon weighted average shares outstanding of 9,937,936 representing primarily shares issued in connection with the Recapitalization. These shares have been treated as outstanding as if the transaction had occurred on January 1, 1995.

INCOME TAXES

The Company's income taxes are determined in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 109 which requires the asset and liability method of accounting for income taxes. Under the asset and liability method deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to

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differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

The effect on deferred taxes of changes in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded based on management's determination of the ultimate realizability of future deferred tax assets. Novavax was included in IGI's consolidated federal income tax return through the effective date of the Distribution. Provisions for income taxes were calculated on a separate return basis and were determined in accordance with the provisions of SFAS No. 109.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include valuation of patent costs and benefits for income taxes and related valuation allowances. Actual results could differ from those estimates.

NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board has issued two new standards which become effective for reporting periods beginning after December 15, 1997. SFAS No. 130, Reporting Comprehensive Income, requires additional disclosures with respect to certain changes in assets and liabilities that previously were not required to be reported as results of operations for the period. The Company will begin making the additional disclosures required by SFAS No. 130 in the first quarter of 1998. SFAS no. 131, Disclosures about Segments of an Enterprise and Related Information, requires financial and descriptive information with respect to "operating segments" of an entity based on the way management makes internal operating decisions. The Company will begin making the disclosures required by SFAS No. 131 with financial statements for the period ending December 31, 1998.

5. TRANSACTIONS WITH FORMER PARENT

CHARGES

Through the Distribution Date, IGI charged Novavax for expenses incurred on its behalf, including executive, legal, accounting, data processing, consulting, cash management, human resources and employee benefits. These costs were allocated on a variety of methods, including:

- - Specific identification based on estimates of time and services provided
- - Relative identification allocated based on Novavax's relationship to the entire pool of beneficiaries

The allocation methods, while reasonable under the then current circumstances, may not represent the cost of similar activities on a separate

entity basis. For the period January 1, 1995 through December 31, 1995 such costs have been included in general and administrative expenses (\$850,000), and interest expense (\$1,749,706). These amounts have been accumulated on Novavax's accompanying Balance Sheet as payable to parent through the Distribution Date, at which time such amounts were reversed to the Deficit since these charges will not be repaid.

BORROWING ARRANGEMENTS

On the Distribution Date, Novavax had a note payable to IGI under which borrowings bore interest at IGI's borrowing rate. The note was converted into shares of Novavax common stock based on an appraisal of Novavax common stock. The outstanding loan balance of \$17,024,000 was converted into 5,253,494 shares of Novavax common stock after the Restructuring and Recapitalization. Such amount was included in the Distribution and, accordingly, has been included in stockholders' equity in the accompanying balance sheets. In accordance with the plan of Distribution, \$250,000, representing loans made by IGI to Novavax in excess of \$17,024,000, was deducted from IGI's \$5,000,000 payment due under the License Agreement. Novavax has no outside borrowing arrangements.

TRANSITION SERVICES

Under a Transition Services Agreement, established at the time of the Distribution, IGI continued to provide certain administrative services to Novavax, including services relating to human resources, purchasing and accounting, data processing and payroll services from the day of the Distribution until June 30, 1996. Novavax paid IGI a fee for all services provided by IGI employees, based on IGI's cost. The agreement was terminated on June 30, 1996. Costs of \$230,474 were incurred for the six month period ended June 30, 1996. For the period December 13, 1995 through December 31, 1995, \$35,000 of such costs were incurred. These charges have been offset in part by receivables due from IGI and recorded as a payable to former parent on the December 31, 1995 balance sheet. At December 31, 1996 the Company was owed \$32,285 from IGI primarily related to patent costs.

ROYALTY REVENUES

Novavax earned royalties from IGI at 10% of the sales of the licensed products. The agreements were terminated in connection with the Distribution and execution of the License Agreement. In connection with the Distribution, IGI paid Novavax \$5,000,000 in return for a fully paid-up, ten-year license (the "License Agreement") entitling it to the exclusive use of the Novavax Technologies in the fields of (i) animal pharmaceuticals, biologicals and other animal health products; (ii) foods, food applications, nutrients and flavorings; (iii) cosmetics, consumer products and dermatological over-the-counter and

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prescription products (excluding certain topically delivered hormones); (iv) fragrances; and (v) chemicals, including herbicides, insecticides, pesticides, paints and coatings, photographic chemicals and other specialty chemicals; and the processes for making the same. IGI has the option, exercisable within the last year of the ten-year term, to extend the License Agreement for an additional ten-year period for \$1,000,000. Novavax will retain the right to use its Novavax Technologies for all other applications, including human vaccines and pharmaceuticals.

Novavax has presented the payment under the License Agreement as a capital contribution in its financial statements to reflect the intercompany nature and substance of the transaction. The form was structured as a prepaid license agreement to address various considerations of the Distribution including tax and financing considerations. For tax purposes, the transaction was treated as

income for the period ended December 31, 1995. IGI has no further obligations or intentions to fund Novavax.

6. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for:

	1997	1996	1995
Taxes	\$ --	\$100,000	\$--
Interest	--	10,955	--

For the years ended December 31, 1997, 1996 and 1995, the Company had the following non-cash financing and investing activities:

	1997	1996	1995
Reversal against deficit of payable to former parent	\$ --	\$ --	\$7,221,646
Options granted as compensation	--	--	\$1,988,748
Capital lease obligation for the purchase of furniture and equipment	\$36,285	\$ 36,285	\$ --

7. PROPERTY AND EQUIPMENT

Property and equipment, stated at cost, is comprised of the following:

	1997	1996
Leasehold improvements	\$ 327,682	\$ 321,506
Machinery and equipment	1,021,135	993,202
Equipment under capital leases	36,285	36,285
Furniture and fixtures	43,536	32,130
	-----	-----
	1,428,638	1,383,123
Less accumulated depreciation	(539,463)	(405,212)
	-----	-----
	\$ 889,175	\$ 977,911
	=====	=====

During 1996, the disposal of property and equipment having a net book value of \$334,564 was recorded relating to the closing of one of the Novavax subsidiaries' laboratory. Depreciation expense of \$134,251, \$221,237 and \$189,085 and was recorded in the years ended December 31, 1997 and 1996, 1995, respectively.

8. STOCK OPTIONS AND WARRANTS

1995 STOCK OPTION PLAN

Various directors, officers and employees of IGI including those employed by Novavax have been awarded stock options under various IGI stock option plans at 100% of the fair market value of IGI's stock at the date of grant. In connection with the Distribution, the Board of Directors of Novavax authorized the grant of Novavax options to all holders of options to purchase IGI Common Stock as of the Distribution Date ("Spin-off Options"). The Spin-off Options were granted to such holders on substantially similar terms to the corresponding options to purchase IGI Common Stock. The number of shares of Novavax common stock under the options as compared to their IGI counterparts reflects the distribution ratio of one share of Novavax common stock for one share of IGI common stock. Exercise prices of the options were based on the relative market capitalization of IGI and Novavax on the 20 trading days immediately following the Distribution Date to restore holders of each option to the economic position prior to the Distribution Date. As of the Distribution Date, 2,034,015 Spin-off Options to purchase shares of Novavax common stock were granted to holders of options to purchase IGI common stock at \$3.69 per share.

Under the Novavax 1995 Stock Option Plan (the "Plan"), options may be granted to officers, employees and consultants or advisors to Novavax and any present or future subsidiary to purchase a maximum of 4,000,000 shares of Novavax common stock (including the Spin-off Options). Incentive options, having a maximum term of ten years, can be granted at no less than 100% of the fair market value of Novavax's stock at the time of grant and are generally exercisable in cumulative increments over several years from the date of grant. Both incentive and non-statutory stock options may be granted under the 1995 plan. There is no minimum exercise price for non-statutory stock options.

The Board of Directors of Novavax granted, as of the Distribution Date, options to purchase 600,000 shares of Novavax common stock to various employees at an exercise price of \$.01 per share. Concurrently, the Board granted options to purchase 415,000 shares of Novavax common stock at \$3.24 per share to Novavax employees, the estimated fair market value. 890,000 of these options first become exercisable on the six month anniversary of the Distribution Date as to 50% of the shares covered thereby and as to an additional 25% of the shares on each of the first and second anniversaries of the Distribution Date. 125,000 of these options first become exercisable in increments of

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25% of the shares on each of the first through fourth anniversaries of the Distribution Date. These options become immediately exercisable in the event of the acquisition of Novavax, including a merger in which Novavax is not the surviving entity, the sale of all or substantially all of the assets of Novavax or the acquisition of a majority of the equity securities of Novavax. The options also become immediately exercisable in the event the optionee is terminated without cause. As of the Distribution Date, 28,871 substitute options were issued in exchange for options to purchase Lipovax, which existed prior to the Distribution Date.

1995 DIRECTOR STOCK OPTION PLAN

The 1995 Director Stock Option Plan (the "Director Plan") provides for the issuance of up to 500,000 shares of Novavax Common Stock. 110,000, 80,000 and 120,000 options were granted under this plan in 1997, 1996 and 1995, respectively. In addition, each Eligible Director then serving as a director on the last business day of 1998 will be granted a non-qualified option to purchase 10,000 shares of Common Stock. The exercise price per share is the fair market value on the date of grant. Options granted to Eligible Directors are exercisable in full beginning six months after the date of grant and terminate ten years after the date of grant.

Such options cease to be exercisable at the earlier of their expiration or three years after an Eligible Director ceases to be a director for any reason. In the event that an Eligible Director ceases to be a director on account of his death, his outstanding options (whether exercisable or not on the date of death) may be exercised within three years after such date (subject to the condition that no such option may be exercised after the expiration of ten years from its date of grant).

Activity under the 1995 Stock Option Plan and 1995 Director Stock Option Plan was:

	1995 Stock Option Plan	1995 Director Stock Option Plan
Balance January 1, 1995	22,749	
Granted at average price of \$2.97 per share	3,077,886	120,000
Exercised at average price of \$.75 per share	(50,000)	
Expired or canceled at average price of \$3.66 per share	(2,000)	
December 31, 1995	3,048,635	120,000
Granted at average price of \$4.96 per share	660,000	80,000
Exercised at average price of \$1.61 per share	(215,274)	
Expired or canceled at average price of \$3.84 per share	(20,500)	
December 31, 1996	3,472,861	200,000
Granted at average price of \$4.18 per share	300,000	110,000
Exercised at average price of \$2.86 per share	(190,693)	
Expired or canceled at average price of \$3.58 per share	(378,610)	
December 31, 1997	3,203,558	310,000
Price Range	\$.01 to 7.00	\$3.24 to 5.81
Weighted average	\$3.35	\$4.01
Exercisable	2,603,925	240,000
Available for grant		
December 31, 1996	259,365	300,000
December 31, 1997	361,549	190,000

Information with respect to stock options outstanding at December 31, 1997 is as follows:

Price Range	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Options issued at below Market Value			
\$0.01	523,383	7.7	\$0.01
Options issued at Market Value			
\$1.21 to 2.50	20,622	7.9	\$1.21
\$2.51 to 3.50	1,193,788	6.0	\$3.06
\$3.51 to 4.50	947,800	7.0	\$3.90
\$4.51 to 7.00	827,965	7.4	\$5.54
	2,990,175	6.7	\$4.00

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In connection with its stock option plans, Novavax makes no charges to operations in connection with stock options granted at the fair market value at the date of grant. With respect to options which were granted below fair market value at the date of grant, the Company records compensation expense for the difference between the fair market value at the date of grant and the exercise price as the options become exercisable. \$471,924, \$1,410,648 and \$101,183 related to such options has been included as compensation expense in 1997, 1996 and 1995, respectively.

The Company has adopted the disclosure - only provisions of Statement of Financial Accounting Standards No. 123 ("SFAS 123") as they pertain to financial statement recognition of compensation expense attributable to option grants. As such, no compensation cost has been recognized on the Company's option plans. If the Company had elected to recognize the compensation cost for the 1995 Stock Option Plan and the 1995 Director Stock Option Plan consistent with SFAS 123, the Company's net loss and loss per share on a pro forma basis would be:

	1997	1996	1995
Net loss			
As reported	\$ (4,546,617)	\$ (5,494,985)	\$ (8,494,358)
Pro forma	\$ (5,113,882)	\$ (6,354,089)	\$ (10,110,754)
Basic earnings per share (in dollars)			
As reported	\$ (.39)	\$ (.54)	\$ (.85)
Pro forma	\$ (.44)	\$ (.63)	\$ (1.02)
Risk-free interest rates	5.2%-7.2%	5.97%	5.97%
Expected life in years			
Employees	6.0	6.0	6.0
Directors	3.0	3.0	3.0
Dividend Yield	0.0%	0.0%	0.0%
Volatility			

Options issued by Novavax after November 28, 1995	47%	75%	75%
Options issued by Novavax prior November 28, 1995	--	50%	50%
Weighted average remaining contractual life in years	6.9	5.7	5.7
Weighted average fair value at date of grant (in dollars)	\$3.41	\$3.11	\$3.11

NON-EMPLOYEE OPTIONS

The Company has entered into agreements to receive advisory and consulting services from several individuals, four of whom serve on the Novavax Scientific Advisory Board. Non-qualified stock options have been granted to these individuals under the 1995 Stock Option Plan. Using the Black-Scholes option pricing model, a charge of \$39,685 and \$30,107 related to these options has been recorded in 1997 and 1996 respectively.

COMMON STOCK WARRANTS

In connection with the October 1996 private stock sale, the Company provided the underwriter warrants for the purchase of 50,000 shares of common stock, par value \$.01 per share. The warrants are fully exercisable at \$3.75 per share and expire on October 30, 2001. In November 1996, in consideration for services performed by a consultant, the Company also issued warrants for 50,000 shares of common stock, par value \$.01 per share. The warrants are exercisable at \$5.00 per share, and are fully vested at December 31, 1997. These warrants expire on November 18, 2001. As of December 31, 1997, no warrants had been exercised. Using the Black-Scholes option pricing model, a charge related to these warrants of \$66,035, and \$66,035 has been recorded in 1997 and 1996 to the Statement of Operations.

9. INCOME TAXES

Deferred tax assets (liabilities) included in the balance sheets consist of the following:

	1997	1996
Net operating losses	\$ 4,888,610	3,516,909
Research tax credits	820,641	721,333
Disqualifying stock options	716,428	523,746
Deferred patent costs	(607,668)	(515,675)
Alternative-minimum tax credit	93,674	93,674
Other, net	17,985	10,927
	5,929,670	4,350,914
Less valuation allowance	(5,929,670)	(4,350,914)
Deferred taxes, net	\$ --	\$ --

Realization of net deferred tax assets at the balance sheet dates is dependent on the company's ability to generate future taxable income which is uncertain. Accordingly, a full valuation allowance was recorded against these assets as of December 31, 1997 and 1996.

In connection with the filing of the Company's 1995 tax return during 1996, it was determined that the Company had an Alternative Minimum Tax liability resulting from the cash received from IGI in return for the license. The 1996 income tax expense is fully attributable to the Alternative Minimum Tax calculation.

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Federal net operating losses and tax credits available to Novavax and are as follows:

Net operating losses expiring through the year 2012		\$12,089,502
Research tax credits expiring through the year 2012		820,641
Alternative-minimum tax credit (no expiration)		93,674

10. COMMITMENTS AND CONTINGENCIES

Novavax leases laboratory and office space, machinery and equipment under capital and noncancelable operating lease agreements expiring at various dates through 2006. Future minimum rental commitments under noncancelable leases as of December 31, 1997 are as follows:

	OPERATING LEASES	CAPITAL LEASES

1998	\$ 201,709	\$14,822
1999	176,921	12,062
2000	151,014	--
2001	145,725	--
2002	149,489	--
Thereafter	610,450	--
	-----	-----
Total Lease Payments	\$1,435,308	\$26,884
	=====	
Less: amount representing interest		3,277

Present value of net minimum lease payments		\$23,607
		=====

Aggregate rental expenses approximated \$279,398, \$183,327, \$260,041, and in 1997, 1996 and 1995 respectively.

In October 1996, the Company entered into a 10-year operating lease for office and laboratory facilities. In connection with this lease agreement, Novavax is required to maintain a "Net Asset Value" of \$2,000,000. The term "Net Asset Value" is defined as the difference between the total assets and the total liabilities. If the Net Asset Value falls below \$2,000,000, the Company is required to provide other reasonable financial assurances to the Landlord within five days of the Landlord's request. The financial assurances may be, but without limitation to, the following: a bond for the Landlord's benefit, an increase in the deposit, or a letter of credit, as reasonably believed necessary by the Landlord or its lenders.

Also in October 1996, the Company entered into a 2-year operating lease for approximately 2,363 square feet of laboratory space. This shared space houses the Company's certified animal facility and laboratories for its biologics development which includes the vaccine adjuvant program. Both leases include various renewal options, purchase options, and escalation clauses.

11. SIGNIFICANT CUSTOMERS

Novavax's revenue includes amounts earned from arrangements with various industry partners. In the year ended December 31, 1997, two different customers each represented in excess of 10% of revenues.

12. SUBSEQUENT EVENTS

On January 23, 1998, the Company entered into Subscription Agreements to effectuate the private placement of 6,500 share of Series A Custom Convertible Preferred Stock, \$.01 par value per share (the "Series A Preferred Stock"). The closing 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, LLC a fee of \$425,233 in consideration for its services as placement agent.

The Series A Preferred Stock 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 average of the two lowest consecutive trade prices of the Common Stock as reported on the American Stock Exchange for the 25 trading days immediately preceding the conversion date (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").

From the Issuance Date, there is ceiling price of \$6.33 and within the first 180 days after the Issuance Date, the Conversion Price has applicable floor prices based on conversion dates. The floor prices range from \$5.67 to \$4.32. The maximum number of shares as measured by the conversion terms most beneficial to the holders of the Series A Preferred Stock at the time of closing will result in a deemed dividend in the amount of \$455,048 which has been recorded to Accumulated Deficit and Additional Paid in Capital during the three months ended March 31, 1998.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NOVAVAX, INC.

Date: March 27, 1998

By: /s/ Richard F. Maradie

Richard F. Maradie
Chief Executive Officer

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

NAME	TITLE	DATE
------	-------	------

/s/ Richard F. Maradie ----- Richard F. Maradie	Chief Executive Officer	March 27, 1998
/s/ Brenda L. Fugagli ----- Brenda L. Fugagli	Vice President, Principal Financial and Accounting Officer	March 27, 1998
/s/ Wayne A. Downing ----- Wayne A. Downing	Director	March 27, 1998
/s/ Mitchell J. Kelly ----- Mitchell J. Kelly	Director	March 27, 1998
/s/ J. Michael Lazarus ----- J. Michael Lazarus	Director	March 27, 1998
/s/ John O. Marsh, Jr. ----- John O. Marsh, Jr.	Director	March 27, 1998
/s/ Ronald A. Schiavone ----- Ronald A. Schiavone	Director	March 27, 1998
/s/ Ronald H. Walker ----- Ronald H. Walker	Director	March 27, 1998

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EXHIBIT INDEX

Exhibit

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10.1	*
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* These exhibits are incorporated by reference

EMPLOYMENT AGREEMENT

AGREEMENT (the "Employment Agreement" or this "Agreement") dated as of the 15 day of May, 1997, between Novavax, Inc., a Delaware corporation having its principal office at 8320 Guilford Road, Columbia, Maryland 21046 (the "Company") and Richard F. Maradie ("Employee") residing at 86 Great Plain Avenue, Wellesley, Massachusetts 02181.

The Company and Employee hereby agree as follows:

1. Employment. The Company hereby employs Employee and Employee hereby accepts employment upon the terms and conditions hereinafter set forth. (As used throughout this Agreement, "Company" shall mean and include any and all of its present and future subsidiaries and any and all subsidiaries of a subsidiary.) Employee warrants that he is free to enter into and perform this Agreement and is not subject to any employment, confidentiality, non-competition or other agreement which would restrict his performance under this Agreement.

2. Duties. Employee shall devote his full business time to the performance of services as Chief Executive Officer or such other senior management services as may from time to time be designated by the Company's Chairman of the Board or the Board of Directors. During the term of this Agreement, Employee's services shall be completely exclusive to the Company and he shall devote his entire business time, attention and energies to the business of the Company and the duties to which the Company shall assign him from time to time. Employee agrees to perform his services faithfully and to the best of his ability and to carry out the policies and directives of the Company. Employee agrees to take no action which is in bad faith and prejudicial to the interests of the Company during his employment hereunder. Employee shall be based in Columbia, Maryland but he may be required from time to time to perform duties hereunder for reasonably short periods of time outside said area.

3. Term. The term of this Agreement shall begin on March 4, 1997 and shall end on December 31, 1999 (the "Term").

4. Compensation.

(a) Base Compensation. For all Employee's services and covenants under this Agreement, the Company shall pay Employee a base annual salary of \$220,000, payable in accordance with the Company's payroll policy as constituted from time to time.

(b) Performance Bonus. In addition to the base compensation payable to Employee, the Employee shall be eligible to receive an annual cash performance bonus in such amount, if any, as the Compensation and Stock Option Committee of the Company's Board of Directors (or any committee of the Board of Directors which shall replace such committee, or in the absence of any such committee, the Board of Directors) shall, in its sole discretion, deem appropriate. Such determination will be based, in part, upon the achievement of certain specified goals, which shall be determined in consultation with the Employee. The bonus for fiscal year 1997 is targeted to be approximately \$25,000. Payment of the performance bonus, if any, will be made within 60 days following the end of the Company's fiscal year.

(c) Stock Options. Employee shall be entitled to receive stock options to purchase 200,000 shares of the Company's Common Stock, \$.01 par value, at an exercise price equal to the closing price of the Company's Common Stock on the date of grant. The options will be subject to a Incentive Stock Option Agreement which shall include an option vesting schedule as follows: one-third of the shares on the six month anniversary of the date of grant, one-third of the shares on the eighteen-month anniversary of the date of grant and one-third of the shares on the thirty-month anniversary of the date of grant. Employee will also be eligible to receive additional stock options

annually, based on job performance, in an amount to be determined by the Compensation and Stock Option Committee of the Board of Directors at the December Board meetings.

5. Relocation. Employee is expected to relocate to the Columbia, Maryland area within six months of the date hereof, for which the Company will reimburse Employee for actual moving expenses in an amount not to exceed \$50,000.

6. Expenses. Employee shall be entitled to reimbursement for reasonable expenses incurred by Employee in connection with the performance of his duties hereunder upon receipt of vouchers therefor in accordance with such procedures as the Company has heretofore or may hereafter establish.

7. Employee Benefits.

(a) Employee shall be entitled to two weeks of vacation time during the first year, calculated on a calendar year basis in accordance with Company policies in effect from time to time. Thereafter, Employee shall be entitled to two weeks of vacation plus one day for each year of Employee's employment after the first year, up to a maximum of four weeks per year.

(b) Employee shall be entitled to the use of a Company automobile during the Term in accordance with Company policies in effect from time to time.

(c) Nothing herein contained shall preclude Employee, to the extent he is otherwise eligible, from participation in all group insurance programs, stock option plans or other fringe benefit plans which the Company may now or hereafter in its sole and absolute discretion make available generally to its employees, but the Company shall not be required to establish any such program or plan.

8. Termination of Employment. Notwithstanding any other provision of this Agreement, Employee's employment may be terminated:

(a) By the Company, in the event of Employee's willful failure or refusal to perform in all material respects the services required of him hereby, after a specific warning with regard thereto has been given to Employee by the Board of Directors, his willful failure or refusal to carry out any proper direction by the Board of Directors with respect to the services to be rendered by him hereunder or the manner of rendering such services, his willful misconduct in the performance of his duties hereunder or his commission of a felony involving moral turpitude;

(b) By the Company, upon 30 days' notice to Employee, if he should be prevented by illness, accident or other disability (mental or physical) from discharging his duties hereunder for one or more periods totalling three months during any twelve-month period;

(c) By the Company, without cause, provided that if Employee's employment is terminated pursuant to this Section 8(c), Employee shall be entitled to receive his salary, but not a performance bonus, for the three months from the date of termination, payable in accordance with the Company's payroll policy and in the amounts set forth in Section 4(a) above, excluding any performance bonus.

(d) In the event of Employee's death during the term of his employment, the Company's obligation to pay further compensation hereunder shall cease forthwith, except that Employee's legal representative shall be entitled to receive his fixed compensation for the period up to the last day of the month in which such death shall have occurred.

9. All Business to be Property of the Company; Assignment of Intellectual Property.

(a) Employee agrees that any and all presently existing business of the Company and all business developed by him or any other employee of the Company including without limitation all contracts, fees, commissions, compensation, records, customer or client lists, agreements and any other incident of any business developed, earned or carried on by Employee for the Company is and shall be the exclusive property of the Company, and (where applicable) shall be payable directly to the Company.

(b) Employee hereby grants to the Company (without any separate remuneration or compensation other than that received by him from time to time in the course of his employment) his entire right, title and interest throughout the world in and to, all research, information, procedures, developments, all inventions and improvements whether patentable or nonpatentable, patents and applications therefor, trademarks and applications therefor, copyrights and applications therefor, programs, trade secrets, plans, methods, and all other data and know-how (herein sometimes "Intellectual Property") made, conceived, developed and/or acquired by him solely or jointly with others during the period of his employment with the Company, whether or not made, conceived, developed or acquired during regular business hours or on the premises of, or using properties of, the Company or in the regular scope of Employee's employment by the Company.

10. Confidentiality. Except as necessary in performance of services for the Company, Employee shall not, either during the period of his employment with the Company or thereafter, use for his own benefit or disclose to or use for the benefit of any person outside the Company, any information concerning any Intellectual Property, or other confidential or proprietary information of the Company, including without limitation, any of the materials listed in Section 9(a), whether Employee has such information in his memory or embodied in writing or other tangible form. All originals and copies of any of the foregoing, however and whenever produced, shall be the sole property of the Company, not to be removed from the premises or custody of the Company without in each instance first obtaining authorization of the Company, which authorization may be revoked by the Company at any time. Upon the termination of Employee's employment in any manner or for any reason, Employee shall promptly surrender to the Company all copies of any of the foregoing, together with any documents, materials, data, information and equipment belonging to or relating to the Company's business and in his possession, custody or control, and Employee shall not thereafter retain or deliver to any other person any of the foregoing or any summary or memorandum thereof.

11. Non-Competition Covenant. As the Employee is being granted options to purchase stock in the Company and as such has a financial interest in the success of the Company's business and as Employee recognizes that the Company would be substantially injured by Employee competing with the Company, Employee agrees and warrants that within the United States, he will not, unless acting with the Company's express prior written consent, directly or indirectly, while an employee of the Company and during the Non-Competition Period, as defined below, own, operate, join, control, participate in, or be connected as an officer, director, employee, partner, stockholder, consultant, or otherwise with, any business or entity which competes with the business of the Company (or its successors or assigns) as such business is now constituted or as it may be constituted at any time during the term of this Agreement. The "Non-Competition Period" shall be a period of 24 months following termination pursuant to Section 8(a) or the period during which Employee is receiving compensation pursuant to Section 8(c) and for 24 months thereafter.

Employee and the Company are of the belief that the period of time and the area herein specified are reasonable in view of the nature of the business in which the Company is engaged and proposes to engage, the state of its business development and Employee's knowledge of this business. However, if such period or such area should be adjudged unreasonable in any judicial proceeding,

then the period of time shall be reduced by such number of months or such area shall

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be reduced by elimination of such portion of such area, or both, as are deemed unreasonable, so that this covenant may be enforced in such area and during such period of time as is adjudged to be reasonable.

12. Non-Solicitation Agreement. Employee agrees and covenants that he will not, unless acting with the Company's express written consent, directly or indirectly, during the term of this Agreement or for a period of 24 months thereafter solicit, entice away or interfere with the Company's contractual relationships with any customer, client, officer or employee of the Company.

13. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been given upon the earlier of actual receipt or three days after having been mailed by first class mail, postage prepaid, or twenty-four hours after having been sent by Federal Express or similar overnight delivery services, as follows: (a) if to Employee, at the address shown at the head of this Agreement, or to such other person(s) or addresses as Employee shall have furnished to the Company in writing; and (b) if to the Company, at the address shown at the head of this Agreement, Attention: Edward B. Hager, M.D., with a copy to David A. White, Esq., White & McDermott, P.C., 65 William Street, Suite 209, Wellesley, Massachusetts 02181, or to such other person(s) or addresses as the Company shall have furnished to the Employee in writing.

14. Assignability. In the event that the Company shall be merged with, or consolidated into, any other corporation, or in the event that it shall sell and transfer substantially all of its assets to another corporation, the terms of this Agreement shall inure to the benefit of, and be assumed by, the corporation resulting from such merger or consolidation, or to which the Company's assets shall be sold and transferred. This Agreement shall not be assignable by Employee, but it shall be binding upon, and to the extent provided in Section 8 shall inure to the benefit of, his heirs, executors, administrators and legal representatives.

15. Entire Agreement. This Agreement contains the entire agreement between the Company and Employee with respect to the subject matter hereof and there have been no oral or other prior agreements of any kind whatsoever as a condition precedent or inducement to the signing of this Agreement or otherwise concerning this Agreement or the subject matter hereof.

16. Equitable Relief. Employee recognizes and agrees that the Company's remedy at law for any breach of the provisions of Sections 9, 10, 11 or 12 hereof would be inadequate, and he agrees that for breach of such provisions, the Company shall, in addition to such other remedies as may be available to it at law or in equity or as provided in this Agreement, be entitled to injunctive relief and to enforce its rights by an action for specific performance. Should Employee engage in any activities prohibited by this Agreement, he agrees to pay over to the Company all compensation, remuneration or monies or property of any sort received in connection with such activities; such payment shall not impair any rights or remedies of the Company or obligations or liabilities of Employee which such parties may have under this Agreement or applicable law.

17. Amendments. This Agreement may not be amended, nor shall any change, waiver, modification, consent or discharge be effected except by written instrument executed by the Company and Employee.

18. Severability. If any part of any term or provision of this Agreement shall be held or deemed to be invalid, inoperative or unenforceable to any extent by a court of competent jurisdiction, such circumstances shall in no way affect any other term or provision of this Agreement, the application of such term or provision in any other circumstances, or the validity or

EMPLOYMENT AGREEMENT

AGREEMENT (the "Employment Agreement" or this "Agreement") dated as of the 24 day of July, 1997, between Novavax, Inc., a Delaware corporation having its principal office at 8320 Guilford Road, Columbia, Maryland 21046 (the "Company") and Brenda Fugagli ("Employee") residing at 988 Stonington Drive, Arnold, Maryland 21012.

The Company and Employee hereby agree as follows:

1. Employment. The Company hereby employs Employee and Employee hereby accepts employment upon the terms and conditions hereinafter set forth. (As used throughout this Agreement, "Company" shall mean and include any and all of its present and future subsidiaries and any and all subsidiaries of a subsidiary.) Employee warrants that she is free to enter into and perform this Agreement and is not subject to any employment, confidentiality, non-competition or other agreement which would restrict her performance under this Agreement.

2. Duties. Employee shall devote her full business time to the performance of services as Vice President, Treasurer and Chief Financial Officer or such other senior management services as may from time to time be designated by the Company's Chief Executive Officer or the Board of Directors. During the term of this Agreement, Employee's services shall be completely exclusive to the Company and she shall devote her entire business time, attention and energies to the business of the Company and the duties to which the Company shall assign her from time to time. Employee agrees to perform her services faithfully and to the best of her ability and to carry out the policies and directives of the Company. Employee agrees to take no action which is in bad faith and prejudicial to the interests of the Company during her employment hereunder. Employee shall be based in Columbia, Maryland but she may be required from time to time to perform duties hereunder for reasonably short periods of time outside said area.

3. Term. The term of this Agreement shall begin on July 21, 1997 and shall end on July 20, 1998 (the "Term"). Employee's performance will be reviewed by the Chief Executive Officer and the Compensation Committee of the Board of Directors after six months of employment for the purposes of evaluation and possible extension.

4. Compensation.

(a) Base Compensation. For all Employee's services and covenants under this Agreement, the Company shall pay Employee a base annual salary of \$135,000, payable in accordance with the Company's payroll policy as constituted from time to time.

(b) Stock Options. Employee shall be entitled to receive stock options to purchase 100,000 shares of the Company's Common Stock, \$.01 par value, at an exercise price equal to the closing price of the Company's Common Stock on the date of grant. The options will be subject to a Incentive Stock Option Agreement (and, to the extent required by the Internal Revenue Code, a Non-Statutory Stock Option Agreement) which shall include an option vesting schedule as follows: one-third of the shares on the six-month anniversary of the date of grant, one-third of the shares on the eighteen-month anniversary of the date of grant and one-third of the shares on the thirty-month anniversary of the date of grant. Employee will also be eligible to receive additional stock options annually, based on job performance, in an amount to be determined by the Compensation and Stock Option Committee of the Board of Directors at the December Board meetings.

(c) Bonus Program. During the Term, the Employee shall be entitled to participate in a bonus program, if any, maintained from time to time by the Company for the benefit of senior executives and other employees of the Company under which award payments, if any, are based on performance criteria mutually

determined by the Employee and the Company.

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5. Expenses. Employee shall be entitled to reimbursement for reasonable expenses incurred by Employee in connection with the performance of her duties hereunder upon receipt of vouchers therefor in accordance with such procedures as the Company has heretofore or may hereafter establish.

6. Employee Benefits.

(a) Employee shall be entitled to two weeks of vacation time during the first year, calculated on a calendar year basis in accordance with Company policies in effect from time to time. Thereafter, Employee shall be entitled to two weeks of vacation plus one day for each year of Employee's employment after the first year, up to a maximum of four weeks per year.

(b) Employee shall be entitled to the use of a Company automobile during the Term in accordance with Company policies in effect from time to time.

(c) Employee shall be entitled to participate in all group insurance programs, stock option plans or other fringe benefit plans which the Company may now or hereafter in its sole and absolute discretion make available generally to its employees, but the Company shall not be required to establish any such program or plan.

7. Termination of Employment. Notwithstanding any other provision of this Agreement, Employee's employment may be terminated:

(a) By the Company, in the event of Employee's willful failure or refusal to perform in all material respects the services required of her hereby, after a specific written warning with regard thereto, which shall include a statement of corrective actions and a 30 day period for the Employee to respond and implement such actions, has been given to Employee by the Board of Directors, her willful failure or refusal to carry out any proper direction by the Chief Executive Officer or the Board of Directors with respect to the services to be rendered by her hereunder or the manner of rendering such services, her willful misconduct in the performance of her duties hereunder or her commission of a felony involving moral turpitude;

(b) By the Company, upon 30 days' notice to Employee, if she should be prevented by illness, accident or other disability (mental or physical) from discharging her duties hereunder for one or more periods totalling three months during any twelve-month period;

(c) By the Company, without cause, or by Employee with "Good Reason" (as hereinafter defined) provided that if Employee's employment is terminated pursuant to this Section 7(c), Employee shall be entitled to receive her salary, but not a performance bonus, for one month from the date of termination, payable in a lump sum together with any accrued vacation pay and in the amounts set forth in Section 4(a) above. The Employee shall be entitled to terminate her employment for "Good Reason" if her responsibilities and authority are reduced or diluted in any material way (other than for cause) without her consent or if she is relocated to another Company office or facility more than 50 miles from Columbia, Maryland without her consent.

(d) In the event of Employee's death during the term of her employment, the Company's obligation to pay further compensation hereunder shall cease forthwith, except that Employee's legal representative shall be entitled to receive her fixed compensation for the period up to the last day of the month in which such death shall have occurred.

8. All Business to be Property of the Company; Assignment of Intellectual Property.

(a) Employee agrees that any and all presently existing business of the Company and all business developed by her or any other employee of the Company including without limitation all

contracts, fees, commissions, compensation, records, customer or client lists, agreements and any other incident of any business developed, earned or carried on by Employee for the Company is and shall be the exclusive property of the Company, and (where applicable) shall be payable directly to the Company.

(b) Employee hereby grants to the Company (without any separate remuneration or compensation other than that received by her from time to time in the course of her employment) her entire right, title and interest throughout the world in and to, all research, information, procedures, developments, all inventions and improvements whether patentable or nonpatentable, patents and applications therefor, trademarks and applications therefor, copyrights and applications therefor, programs, trade secrets, plans, methods, and all other data and know-how (herein sometimes "Intellectual Property") made, conceived, developed and/or acquired by her solely or jointly with others during the period of her employment with the Company, which are either (i) made, conceived, developed or acquired during regular business hours or on the premises of, or using properties of, the Company or in the regular scope of Employee's employment by the Company or (ii) if related to the Company's business, whether or not made, conceived, developed or acquired during regular business hours or on the premises of, or using properties of, the Company or in the regular scope of Employee's employment by the Company.

9. Confidentiality. Except as necessary in performance of services for the Company or if required by law and except for such information that becomes generally available to the public through no fault of Employee, Employee shall not, either during the period of her employment with the Company or thereafter, use for her own benefit or disclose to or use for the benefit of any person outside the Company, any information concerning any Intellectual Property, or other confidential or proprietary information of the Company, including without limitation, any of the materials listed in Section 8(a), whether Employee has such information in her memory or embodied in writing or other tangible form. All originals and copies of any of the foregoing, however and whenever produced, shall be the sole property of the Company, not to be removed from the premises or custody of the Company without in each instance first obtaining authorization of the Company, which authorization may be revoked by the Company at any time. Upon the termination of Employee's employment in any manner or for any reason, Employee shall promptly surrender to the Company all copies of any of the foregoing, together with any documents, materials, data, information and equipment belonging to or relating to the Company's business and in her possession, custody or control, and Employee shall not thereafter retain or deliver to any other person any of the foregoing or any summary or memorandum thereof.

10. Non-Competition Covenant. As the Employee is being granted options to purchase stock in the Company and as such has a financial interest in the success of the Company's business and as Employee recognizes that the Company would be substantially injured by Employee competing with the Company, Employee agrees and warrants that within the United States, she will not, unless acting with the Company's express prior written consent, directly or indirectly, while an employee of the Company and during the Non-Competition Period, as defined below, own, operate, join, control, participate in, or be connected as an officer, director, employee, partner, stockholder, consultant, or otherwise with, any business or entity which competes with the business of the Company (or its successors or assigns) as such business is now constituted or as it may be constituted at any time during the term of this Agreement. The "Non-Competition Period" shall be a period of one month following termination of employment.

Employee and the Company are of the belief that the period of time and the area herein specified are reasonable in view of the nature of the business in which the Company is engaged and proposes to engage, the state of its business development and Employee's knowledge of this business. However, if such period or such area should be adjudged unreasonable in any judicial proceeding,

then the period of time shall be reduced by such number of months or such area shall be reduced by elimination of such portion of such area, or both, as are deemed unreasonable, so

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that this covenant may be enforced in such area and during such period of time as is adjudged to be reasonable.

11. Non-Solicitation Agreement. Employee agrees and covenants that she will not, unless acting with the Company's express written consent, directly or indirectly, during the term of this Agreement or for a period of 24 months thereafter solicit, entice away or interfere with the Company's contractual relationships with any customer, officer or employee of the Company.

12. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been given upon the earlier of actual receipt or three days after having been mailed by first class mail, postage prepaid, or twenty-four hours after having been sent by Federal Express or similar overnight delivery services, as follows: (a) if to Employee, at the address shown at the head of this Agreement, or to such other person(s) or address(es) as Employee shall have furnished to the Company in writing; and (b) if to the Company, at the address shown at the head of this Agreement, Attention: Richard F. Maradie, with a copy to David A. White, Esq., White & McDermott, P.C., 65 William Street, Suite 209, Wellesley, Massachusetts 02181, or to such other person(s) or address(es) as the Company shall have furnished to the Employee in writing.

13. Assignability. In the event that the Company shall be merged with, or consolidated into, any other corporation, or in the event that it shall sell and transfer substantially all of its assets to another corporation, the terms of this Agreement shall inure to the benefit of, and be assumed by, the corporation resulting from such merger or consolidation, or to which the Company's assets shall be sold and transferred. This Agreement shall not be assignable by Employee, but it shall be binding upon, and to the extent provided in Section 7 shall inure to the benefit of, her heirs, executors, administrators and legal representatives.

14. Entire Agreement. This Agreement contains the entire agreement between the Company and Employee with respect to the subject matter hereof and there have been no oral or other prior agreements of any kind whatsoever as a condition precedent or inducement to the signing of this Agreement or otherwise concerning this Agreement or the subject matter hereof.

15. Equitable Relief. Employee recognizes and agrees that the Company's remedy at law for any breach of the provisions of Sections 8, 9, 10 or 11 hereof would be inadequate, and she agrees that for breach of such provisions, the Company shall, in addition to such other remedies as may be available to it at law or in equity or as provided in this Agreement, be entitled to injunctive relief and to enforce its rights by an action for specific performance. Should Employee engage in any activities prohibited by this Agreement, she agrees to pay over to the Company all compensation, remuneration or monies or property of any sort received in connection with such activities; such payment shall not impair any rights or remedies of the Company or obligations or liabilities of Employee which such parties may have under this Agreement or applicable law.

16. Amendments. This Agreement may not be amended, nor shall any change, waiver, modification, consent or discharge be effected except by written instrument executed by the Company and Employee.

17. Severability. If any part of any term or provision of this Agreement shall be held or deemed to be invalid, inoperative or unenforceable to any extent by a court of competent jurisdiction, such circumstances shall in no way affect any other term or provision of this Agreement, the application of such term or provision in any other circumstances, or the validity or

enforceability of this Agreement.

18. Paragraph Headings. The paragraph headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation hereof

19. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the law of the State of Delaware, without regard to the principles of conflict of law thereof.

20. Resolution of Disputes. With the exception of proceedings for equitable relief brought pursuant to Section 15 of this Agreement or any stock option agreement, any disputes arising under or in connection with this Agreement or any stock option agreement including, without limitation, any assertion by any party hereto that the other party has breached any provision of this Agreement, shall be resolved by arbitration, to be held in Baltimore, Maryland, in accordance with the rules and procedures of the American Arbitration Association. All costs, fees and expenses, including reasonable attorney fees, of any arbitration or equitable relief proceeding in connection with this Agreement shall be borne by, and be the obligation of, the Company. In no event shall the Employee be required to reimburse the Company for any of the costs and expenses incurred by the Company relating to any arbitration. The obligation of the Company under this Section 20 shall survive the termination for any reason of the Term (whether such termination is by the Company, by the Employee or upon the expiration of the Term).

21. Indemnification. The Employee shall be entitled to liability and expense indemnification to the fullest extent permitted by the Company's current By-laws and Certificate of Incorporation, whether or not the same are subsequently amended.

22. Survivorship. The respective rights and obligations of the parties to this Agreement shall survive any termination of this Agreement or the Employee's employment hereunder for any reason to the extent necessary to the intended preservation of such rights and obligations.

IN WITNESS WHEREOF, the parties have executed or caused to be executed this Agreement as of the date first above written.

NOVAVAX, INC.

[SEAL]

By: /s/ RICHARD F. MARADIE

Richard F. Maradie, Chief Executive Officer

/s/ BRENDA FUGAGLI

Brenda Fugagli

NOVAVAX, INC.
8320 Guilford Road
Columbia, Maryland 21046

February 19, 1998

Dr. Richard J. Harwood
3219 Adams Court North
Bensalem, Pennsylvania 19020

Dear Rich:

On behalf of Novavax, Inc. (the "Company"), I am pleased to offer you the position of Vice President, Pharmaceutical Development of the Company, subject to satisfactory reference checks. We are greatly looking forward to your joining the Company's team.

Job Title: Vice President, Pharmaceutical Development.

Start Date: March 5, 1998.

Salary: At least \$140,000 per year payable in accordance with the Company's payroll policies in effect from time to time.

Bonus Program: You will be entitled to participate in a bonus program if the Company hereafter establishes one for the benefit of senior executives and other employees of the Company, under which award payments, if any, will be based on performance criteria and milestones to be mutually determined by the Company and you.

Stock Options: The Company will grant you stock options to purchase 100,000 shares of the Company's Common Stock (\$.01 par value) at an exercise price equal to the closing price of the Company's Common Stock on the date of grant. The options will vest as to one-third of the shares on the six-month anniversary of the date of grant, as to an additional one-third of the shares on the eighteenth-month anniversary of the date of grant and as to the final one-third of the shares on the thirty-month anniversary of the date of grant. You will be eligible to be granted additional options from time to time, based on your job performance.

Benefits: The Company will provide medical and dental benefits, life insurance, and disability insurance in accordance with the Company's policies in effect from time to time. As of the date of this letter, the Company currently pays 100% of family coverage as provided by the Company's group medical insurer, 100% of the premium for \$140,000 of life insurance under the Company's group life insurance plan and 100% of the premium for the Company's long-term disability insurance. The Company will also reimburse you for actual moving expenses in connection with your relocation to the Columbia, Maryland area in an amount not to exceed \$30,000.

Vacation: You will be entitled to three weeks of vacation time per year, calculated on a calendar year basis in accordance with the Company's policies in effect from time to time.

Employment Requirements and Term: You will be required by the Company to sign the Company's standard form of Non-Disclosure Agreement and sign and acknowledge certain Company policies as a condition to your employment by the Company. In addition, it is a requirement that the Company and you negotiate and sign an Employment Agreement which, among other things, will provide for a one year term of employment, a six month noncompetition

Dr. Richard J. Harwood
February 19, 1998
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period following termination of employment, 90 days' prior written notice of date of termination from the Company, and severance pay of six months' salary in the event of an early termination of employment without cause. The Employment Agreement will also provide for 90 days' prior written notice from you in the event of voluntary termination of employment.

Entire Agreement: This agreement sets forth the entire agreement and understanding between you and the Company regarding all subjects covered herein, the terms of which may not be changed or modified except by agreement in writing signed by you and the Company.

Severability: Should any provision of this agreement, or portion thereof, be found invalid and unenforceable, the remaining provisions shall continue in full force and effect.

Governing Law: This agreement shall be governed, construed and enforced in accordance with the laws of Delaware, without regard to principles of conflict of law.

Conflict: You hereby acknowledge that you are not a party to any agreement that in any way prohibits or imposes any restriction on your employment with the Company, and your acceptance hereof will not breach any agreement to which you are a party.

Please acknowledge your acceptance of this offer by signing the copy of this letter and returning it to me.

Very truly yours,

/s/ RICHARD F. MARADIE

Richard F. Maradie,
President and Chief Executive Officer

ACCEPTED: (as annotated)

/s/ RICHARD J. HARWOOD

Richard J. Harwood

NOVAVAX, INC.
8320 Guilford Road
Columbia, Maryland 21046

February 19, 1998

Dr. Thomas G. Tachovsky
39 Riverside Terrace
North Easton, MA 02356

Dear Tom:

On behalf of Novavax, Inc. (the "Company"), I am pleased to offer you the position of Vice President, Business Development of the Company, effective February 23, 1998. We are greatly looking forward to your joining the Company's team.

Job Title: Vice President, Business Development.

Salary: \$130,000 per year payable in accordance with the Company's payroll policies in effect from time to time.

Bonus Program: You will be entitled to participate in a bonus program if the Company hereafter establishes one for the benefit of senior executives and other employees of the Company, under which award payments, if any, will be based on performance criteria and milestones to be mutually determined by the Company and you.

Stock Options: The Company will grant you stock options to purchase 75,000 shares of the Company's Common Stock (\$.01 par value) at an exercise price equal to the closing price of the Company's Common Stock on the date of grant, February 11, 1998. The options will vest as to one-third of the shares on the six-month anniversary of the date of grant, as to an additional one-third of the shares on the eighteenth-month anniversary of the date of grant and as to the final one-third of the shares on the thirty-month anniversary of the date of grant. You will be eligible to be granted additional options from time to time, based on your job performance.

Benefits: The Company will provide medical and dental benefits, life insurance, and disability insurance in accordance with the Company's policies in effect from time to time. As of the date of this letter, the Company currently pays 100% of family coverage as provided by the Company's group medical insurer, 100% of the premium for \$130,000 of life insurance under the Company's group life insurance plan and 100% of the premium for the Company's long-term disability insurance.

Vacation: You will be entitled to three weeks of vacation time per year, calculated on a calendar year basis in accordance with the Company's policies in effect from time to time.

Employment Requirements and Term: You will be required by the Company to sign the Company's standard form of Non-Disclosure Agreement and sign and acknowledge certain Company policies as a condition to your employment by the Company. In addition, it is a requirement that the Company and you negotiate and sign an Employment Agreement which, among other things, will provide for a one year term of employment, a six month noncompetition period following termination of employment and severance pay of six months' salary in the event of an early termination of employment without cause.

Entire Agreement: This agreement sets forth the entire agreement and understanding between you and the Company regarding all subjects covered herein, the terms of which may not be changed or modified except by agreement in writing signed by you and the Company.

Severability: Should any provision of this agreement, or portion thereof, be found invalid and unenforceable, the remaining provisions shall continue in full force and effect.

Governing Law: This agreement shall be governed, construed and enforced in accordance with the laws of Delaware, without regard to principles of conflict of law.

Conflict: You hereby acknowledge that you are not a party to any agreement that in any way prohibits or imposes any restriction on your employment with the Company, and your acceptance hereof will not breach any agreement to which you are a party.

Please acknowledge your acceptance of this offer by signing the copy of this letter and returning it to me.

Very truly yours,

/s/ RICHARD F. MARADIE

Richard F. Maradie,
President and Chief Executive Officer

ACCEPTED: (as annotated)

/s/ THOMAS G. TACHOVSKY

Thomas G. Tachovsky

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements of Novavax, Inc. on Form S-8 (Nos. 33-80277, 33-80279 and 333-3384) and Registration Statements of Novavax, Inc. on Form S-3 (Nos. 333-14305, 333-5367, 333-22685 and 333-46409) of our report dated March 13, 1998 on our audits of the consolidated financial statements of Novavax, Inc. and subsidiaries as of December 31, 1997 and 1996, and for each of the three years in the period ended December 31, 1997 which report is included in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

McLean, Virginia
March 31, 1998

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