NOVAVAX INC
Form 10-K/A
December 12, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
(Amendment No. 1)
FORM 10-K/A

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____.

Commission File No. 0-26770

NOVAVAX, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**22-2816046**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9920 Belward Campus Drive, Rockville, Maryland	**20850**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(240) 268-2000**

Securities registered pursuant to Section 12(b) of the Act: **NONE**

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

Common Stock, Par Value $0.01 per share

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Smaller reporting company o
	Non-accelerated filer o (Do not check if a smaller reporting	

company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of June 30, 2007, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant based on the closing sale price of such stock as reported by the NASDAQ National Market on such date was $179,823,824. For purposes of this calculation, shares of common stock held by directors, officers and stockholders whose ownership exceeds ten percent of the common stock outstanding at June 30, 2007 were excluded. Exclusion of such shares held by any person should not be construed to indicate that the person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the Registrant, or that the person is controlled by or under common control with the Registrant.

As of March 10, 2008, there were 61,962,120 shares of the Registrant s Common Stock, par value $.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Definitive Proxy Statement to be filed no later than 120 days after the fiscal year ended December 31, 2007 in connection with the Registrant s 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

Explanatory Note

Novavax, Inc. (the Company) is filing this amendment to its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, initially filed on March 17, 2008, to (a) amend disclosure in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, related to the Wyeth Holdings license agreement and the University of Massachusetts license agreement, (b) add Exhibits 10.32, 10.33 and 10.34 to such Annual Report on Form 10-K to file Forbearance and Pledge Agreement, Amended and Restated Promissory Note and Amended and Restated Pledge Agreement between the Registrant and two former directors, and (c) insert additional disclosure to Item 11, Executive Compensation, related to individual goals of named executive officers.

Except as described above, no other amendments are being made to the Annual Report on Form 10-K, filed on March 17, 2008. This Form 10-K/A does not reflect events occurring after the March 17, 2008 filing of our Annual Report on Form 10-K or modify or update the disclosures contained in the Annual Report in any way other than as required to include such conformed signature as described above.

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

Certain statements 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 future research and development, including Food and Drug Administration approval and product sales. 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 those expressed or implied by such forward-looking statements.

Such factors include, among other things, the following: our ability to progress any product candidates into pre-clinical or clinical trials; the scope, rate and progress of our preclinical studies and clinical trials and other research and development activities; clinical trial results; the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights; our ability to obtain rights to technology; our ability to enter into future collaborations with industry partners and the terms, timing and success of any such collaboration; the cost, timing and success of regulatory filings and approvals; our ability to obtain adequate financing in the future through product licensing, co-promotional arrangements, public or private equity or debt financing or otherwise; general economic and business conditions; competition; business abilities and judgment of personnel; availability of qualified personnel; and other factors referenced herein.

All forward-looking statements contained in this annual report 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, except as specifically required by law. Accordingly, past results and trends should not be used to anticipate future results or trends.

Overview

Novavax, Inc., a Delaware corporation (Novavax or the Company), was incorporated in 1987, and is a clinical-stage pharmaceutical company focused on creating differentiated, value-added vaccines that leverage the Company s proprietary virus-like particle (VLP) technology. VLPs imitate the three-dimensional structures of viruses but are composed of recombinant proteins and therefore, are believed incapable of causing infection and disease. Our proprietary production technology uses insect cells rather than chicken or mammalian eggs. The Company s current product targets include vaccines against the H5N1, H9N2 and other subtypes of avian influenza with pandemic potential, human seasonal influenza, Varicella Zoster, which causes shingles and a fourth undisclosed disease target.

On July 31, 2007, the Company began Phase I/IIa clinical trials for its H5N1 pandemic influenza vaccine. In December 2007, the Company announced favorable interim results for its pandemic influenza vaccine that demonstrated immunogenicity and safety. The Company plans to begin patient enrollment in the second portion of the Phase I/IIa trial before March 31, 2008 to gather additional patient immunogenicity and safety data, as well as determining a final dose through completion of this clinical trial. It is anticipated that initial immunogenicity and safety data will be available early in the third quarter of 2008 with study completion by the end of 2008 to include on-going safety data collection.

The Company also has a drug delivery platform based on its micellar nanoparticle (MNP) technology, proprietary oil and water nano emulsions used for the topical delivery of drugs. The MNP technology was the basis for the development of the Company s first Food and Drug Administration (FDA) approved estrogen replacement product known as Estrasorb®. In February 2008, the Company sold assets related to Estrasorb® in the United States, Canada and Mexico to Graceway Pharmaceuticals, LLC (Graceway). The Company is seeking to divest its non-vaccine MNP technology through sales and licenses.

The Company s vaccine products currently under development or in clinical trials will require significant additional research and development efforts, including extensive pre-clinical and clinical testing and regulatory approval, prior to commercial use. There can be no assurance that the Company s research and development efforts will be successful or that any potential products will prove to be safe and effective in clinical trials. Even if developed, these vaccine products may not receive regulatory approval or be successfully introduced and marketed at prices that would permit the Company to operate profitably. The commercial launch of any vaccine product is subject to certain risks including, but not limited to, manufacturing scale-up and market acceptance. No assurance can be given that the Company can generate sufficient product revenue to become profitable or generate positive cash flow from operations at all or on a sustained basis. The Company s efforts to divest the MNP technology may not be successful because the Company may not be able to identify a potential licensee or buyer and, even if the Company does identify a licensee or buyer, the price and terms may not be acceptable to the Company.

Summary of Significant Transactions

Graceway Agreements

In February 2008, the Company entered into an asset purchase agreement with Graceway Pharmaceuticals, LLC (Graceway), pursuant to which Novavax sold Graceway its assets related to Estrasorb® in the United States, Canada and Mexico. The assets sold include certain patents related to the micellar nanoparticle technology (the MNP Technology), trademarks, know-how, manufacturing equipment, customer and supplier relations, goodwill and other assets. Novavax retained the rights to commercialize Estrasorb® outside of the United States, Canada and Mexico.

In February 2008, Novavax and Graceway also entered into a supply agreement, pursuant to which Novavax has agreed to manufacture additional units of Estrasorb with final delivery expected in July 2008. Graceway will pay a preset transfer price per unit of Estrasorb for the supply of this product. Once Novavax has delivered the required quantity of Estrasorb, Novavax must clean the manufacturing equipment and prepare the equipment for transport. Graceway will remove the equipment from the manufacturing facility and Novavax will then exit the facility.

In February 2008, Novavax and Graceway also entered into a license agreement, pursuant to which Graceway granted Novavax an exclusive, non-transferable (except for certain allowed assignments and sublicenses), royalty-free, limited license to the patents and know-how that Novavax sold to Graceway pursuant to the asset purchase agreement. The licensed grant allows Novavax to make, use and sell licensed products and services in certain, limited fields.

The net cash proceeds from these transactions are expected to be in excess of $2.0 million over the first half of 2008. The license and supply agreements with Allergan, Inc., successor-in-interest to Esprit Pharma, Inc., were terminated in February 2008 and October 2007, respectively.

License Agreement with Wyeth Holdings Corporation

On July 5, 2007, we entered into a License Agreement with Wyeth Holdings Corporation, a subsidiary of Wyeth (Wyeth). The license is a non-exclusive, worldwide license to a family of patent applications covering VLP technology for use in human vaccines in certain fields of use. The agreement provides for an upfront payment, annual license fees, milestone payments and royalties on any product sales. Payments under the agreement to Wyeth as of December 31, 2007 aggregated $1.5 million and could aggregate up to an additional $6.5 million in 2008, depending on the achievement of clinical development milestones. The royalty to be paid by the Company under the agreement, if a product is approved by the FDA for commercialization, will be based on single digit percentage of net sales. The agreement will remain effective as long as at least one claim of the licensed patent rights cover the manufacture, sale or use of any product unless terminated sooner at Novavax s option or by Wyeth for an uncured breach by Novavax.

License Agreement with University of Massachusetts Medical School

Effective February 26, 2007, we entered into a worldwide agreement to exclusively license a VLP technology from the University of Massachusetts Medical School (UMMS). Under the agreement, we have the right to use this technology to develop VLP vaccines for the prevention of any viral diseases in humans. As of December 31, 2007, we made payments to UMMS in an aggregate amount that is not material to the Company. In addition, we will make certain payments based on development milestones as well as future royalties on any sales of products that may be developed using the technology. The Company believes that all payments under the UMMS agreement will not be material to the Company in the foreseeable future. The UMMS agreement will remain effective as long as at least one claim of the licensed patent rights cover the manufacture, sale or use of any product unless terminated sooner at Novavax s option or by UMMS for an uncured breach by Novavax.

Sublease Agreement with PuriCore, Inc.

In April 2006, we entered into a sublease agreement with Sterilox Technologies, Inc. (now known as PuriCore, Inc.) to sublease 20,469 square feet of the Company s Malvern, Pennsylvania corporate headquarters at a premium price per square foot. The sublease, with a commencement date of July 1, 2006, expires on September 30, 2009. This sublease is consistent with our strategic focus to increase our presence in Rockville, Maryland, where our vaccine operations are currently located. In line with that strategy, in October 2006, we entered into a lease for an additional 51,000 square feet in Rockville, Maryland.

Accordingly, in October 2006, the Company entered into an amendment to the Sublease Agreement with PuriCore, Inc. to sublease an additional 7,500 square feet of the Malvern corporate headquarters at a premium price per square foot. This amendment has a commencement date of October 25, 2006 and expires concurrent with the initial lease on September 30, 2009.

Convertible Notes

On June 15, 2007, we entered into amendment agreements (the Amendments) with each of the holders of the outstanding 4.75% senior convertible notes (the Notes) to amend the terms of the Notes. As of December 31, 2007, $22.0 million aggregate principal amount remained outstanding under the Notes. The Amendments (i) lowered the conversion price from $5.46 to $4.00 per share, (ii) eliminated the holders right to require the Company to redeem the Notes if the weighted average price of the Company s common stock is less than the conversion price on 30 of the 40 consecutive trading days preceding July 19, 2007 or July 19, 2008 and (iii) mandated that the Notes be converted into Company common stock if the weighted average price of the Company s common stock is greater than $7.00 (a decrease from $9.56) in any 15 out of 30 consecutive trading days after July 19, 2007.

Notes with Former Directors

In March 2002, pursuant to the Novavax, Inc. 1995 Stock Option Plan, we approved the payment of the exercise price of. options by two of directors through the delivery of full-recourse, interest-bearing promissory notes in the aggregate amount of $1,480,000. The notes were secured by an aggregate of 261,667 shares of our common stock.

In May 2006, one of these directors resigned from the Company s board of directors. Following his resignation, the Company approved an extension of the former director s $448,000 note to be payable on December 31, 2007, or earlier to the extent of the net proceeds from any sale of the pledged shares. This note has not yet been paid and the Company and the former director are currently negotiating the terms of an extension.

In March 2007, the other director resigned. Following his resignation, the Company approved an extension of the former director s $1,031,668 note. The note continues to accrue interest at 5.07% per annum and is secured by shares of common stock owned by the former director and is payable on June 30, 2009, or earlier to the extent of the net proceeds from any sale of the pledged shares. In addition, the Company has the option to sell the pledged shares on behalf of the former director at any time that the market price of our common stock, as reported on NASDAQ Global Market, exceeds $7.00 per share.

As of December 31, 2007, the Company has reserved an amount of $1,041,005 for the outstanding note receivables. This amount has been netted against the pledged common stock. Due to heightened sensitivity in the current environment surrounding related-party transactions and the extensions of the maturity dates, these transactions could be viewed negatively in the market and our stock price could be negatively affected.

Critical Accounting Policies and Use of Estimates

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States. Such accounting principles require that our management make estimates and assumptions that affect the reported amount 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. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ materially from these estimates. The items in our consolidated financial statements that have required us to make significant estimates and judgments are as follows:

Revenue Recognition and Allowances

The Company recognizes revenue in accordance with the provisions of Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB No. 104). For product sales, revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed and determinable and collectability is reasonably assured. The Company establishes allowances for estimated uncollectible amounts, product returns, rebates and charge backs based on historical trends and specifically identified problem accounts. A large part of the Company s product sales are to Allergan or to distributors who resell the products to their customers. The Company provides rebates to members of certain buying groups who purchase from the Company s distributors, to distributors that sell to their customers at prices determined under a contract between the Company and the customer, and to state agencies that administer various programs such as the federal Medicaid and Medicare programs. Rebate amounts are usually based upon the volume of purchases or by reference to a specific price for a product. The Company estimates the amount of the rebate that will be paid, and records the liability as a reduction of revenue when the Company records the sale of the products. Settlement of the rebate generally occurs from three to twelve months after the sale. The Company regularly analyzes the historical rebate trends and adjusts recorded reserves for changes in trends, distributor inventory levels, product prescription data and generic competition.

The shipping and handling costs the Company incurs are included in cost of products sold in its statements of operations.

For upfront payments and licensing fees related to contract research or technology, the Company follows the provisions of SAB No. 104 in determining if these payments and fees represent the culmination of a separate earnings process or if they should be deferred and recognized as revenue as earned over the life of the related agreement. Milestone payments are recognized as revenue upon achievement of contract-specified events and when there are no remaining performance obligations. Revenue earned under research contracts is recognized in accordance with the terms and conditions of such contracts for reimbursement of costs incurred and defined milestones.

SFAS No. 123R

As of January 1, 2006 (effective date), we adopted SFAS No. 123R in accounting for stock options issued to our employees, directors and consultants using the modified prospective method. The modified prospective method requires that compensation costs be recognized for all share-based payments granted after the effective date and for all awards granted prior to the effective date that are unvested using the requirements of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, we accounted for our stock-based compensation using the principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25) as permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock Based Compensation* (SFAS No. 123). APB No. 25 generally did not require that options granted to employees be expensed. Since we elected to use the modified prospective method, there are no one-time effects from the adoption of SFAS No. 123R, such as a cumulative effect adjustment.

There were no modifications to outstanding stock options as of December 31, 2006 and 2007. There have been no changes in the quantity or type of instruments used in share-based payment programs. There has been no material modifications to the valuation methodologies or assumptions from those used in estimating the fair value of options under SFAS No. 123 other than the adjustments for expected volatility. Prior to the adoption of SFAS. No. 123R, we utilized the preceding 12 month period historical stock prices in determining the expected volatility. With the adoption of SFAS No. 123R, we use the historical volatilities based on stock prices since the inception of the stock plans in determining the expected volatility. Forfeiture rates are estimated based on historical activities since the inception of the stock plans. There have been no changes in the normal terms of share-based payment agreements. For grants awarded prior to January 1, 2006, we accounted for compensation cost using a graded method. For grants awarded on or after January 1, 2006, we accounted for compensation cost using a straight-line method. As of December 31, 2007, the aggregate fair value of the remaining compensation cost of unvested options, as determined using a Black-Scholes option valuation model, was approximately $2,438,000 (net of estimated forfeitures). This remaining compensation cost is expected to be recognized over a weighted average period of 1.6 years. The Company recorded compensation costs in the Consolidated Statements of Operations associated with SFAS No. 123 as follows:

	Years Ended December 31,	
	2007	**2006**
	(In thousands)	
Cost of products sold (which includes idle capacity)	$ 35	$ 48
Research and development	573	561
General and administrative	737	1,167
Total effect of adopting SFAS No. 123R	$1,345	$1,776

Research and Development

Research and development costs are expensed as incurred. Such costs include internal research and development expenditures (such as salaries and benefits, raw materials and supplies) and contracted services (such as sponsored research, consulting and testing services) of proprietary research and development activities and similar expenses associated with collaborative research agreements.

Income Taxes

The Company s income taxes are accounted for using the liability method. Under the liability method, deferred income taxes are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss carry forward. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled.

The effect of changes in tax rates on deferred tax assets and liabilities is recognized in operations in the period that includes the enactment date. A valuation allowance is established when necessary to reduce net deferred tax assets to the amount expected to be realized. The Company has provided a full valuation allowance against its net deferred tax assets as of December 31, 2007 and 2006.

Goodwill and Intangible Assets

Goodwill originally results from business acquisitions. Assets acquired and liabilities assumed are recorded at their fair values; the excess of the purchase price over the identifiable net assets acquired is recorded as goodwill. Other intangible assets are a result of product acquisitions, non-compete arrangements and internally discovered patents. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142) goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to impairment tests annually, or more frequently should indicators of impairment arise. The Company utilizes a discounted cash flow analysis that includes profitability information, estimated future operating results, trends and other information in assessing whether the value of the indefinite-lived intangible assets can be recovered. Under SFAS No. 142, goodwill impairment is deemed to exist if the carrying value of a reporting unit exceeds its estimated fair value. In accordance with the requirements of SFAS No. 142, the Company initially tested its goodwill for impairment as of January 1, 2002 and determined that no impairment was present. The Company thereafter performed the required annual impairment test as of December 31 of each year on the carrying amount of its goodwill.

Disposal of Long-Lived Assets/Discontinued Operations

We account for the impairment of long-lived assets and long-lived assets to be disposed of in accordance with Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment or Disposal* (SFAS No. 144). SFAS No. 144 requires a periodic evaluation of the recoverability of the carrying value of long-lived assets and identifiable intangibles and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Examples of events or changes in circumstances that indicate that the recoverability of the carrying value of an asset should be assessed include, but are not limited to, the following: a significant decrease in the market value of an asset, a significant change in the extent or manner in which an asset is used, a significant physical change in an asset, a significant adverse change in legal factors or in the business climate that could affect the value of an asset, an adverse action or assessment by a regulator, an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset, a current period operating or cash flow loss combined with a history of operating or cash flow losses, and/or a projection or forecast that demonstrates continuing losses associated with an asset used for the purpose of producing revenue. We consider historical performance and anticipated future results in its evaluation of potential impairment. Accordingly, when indicators of impairment are present, we evaluate the carrying value of these assets in relation to the operating performance of the business and future undiscounted cash flows expected to result from the use of these assets. Impairment losses are recognized when the sum of expected future cash flows is less than the assets carrying value. SFAS No. 144 also provides accounting and reporting provisions for components of an entity that are classified as discontinued operations. We recorded an impairment loss in connection with the discontinued operations of its Philadelphia, Pennsylvania manufacturing facility for the year ended December 31, 2007 (See Note 11 *Discontinued Operations*).

Recent Accounting Pronouncements

Other than the adoption of FASB interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) there have been no material changes in our critical accounting policies or critical accounting estimates since December 31, 2006, nor have we adopted any accounting policy that has or will have a material impact on our consolidated financial statements. For further discussion of our accounting policies see Note 2 *Summary of Significant Accounting Policies* in the Notes to the Consolidated Financial Statements included herewith.

FIN 48

In July 2006, the FASB issued Interpretation No. 48, (FIN 48), *Accounting for Uncertainty in Income Taxes*, to address the noncomparability in reporting tax assets and liabilities resulting from a lack of specific guidance in SFAS No. 109, *Accounting for Income Taxes*, on the uncertainty in income taxes recognized in an enterprise s financial statements. Specifically, FIN 48 prescribes (a) a consistent recognition threshold and (b) a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides related guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 applies to fiscal years beginning after December 15, 2006.

We adopted the provisions of FIN 48 on January 1, 2007. As a result of the adoption of FIN 48, we recorded $3.8 million in uncertain tax positions. The $3.8 million of unrecognized tax benefits was accounted for as a $3.8 million reduction to the January 1, 2007 balance of deferred tax assets and a corresponding $3.8 million dollar reduction of the valuation allowances. Therefore, we did not record any adjustment to the beginning balance of retained earnings in our consolidated balance sheet. To the extent these unrecognized tax benefits are ultimately recognized it would affect our annual effective income tax rate. We and our subsidiary file income tax returns in the United States federal jurisdiction and in various states. We had tax net operating loss and credit carryforwards that are subject to examination for a number of years beyond the year in which they are utilized for tax purposes. Since a portion of these carryforwards may be utilized in the future, many of these attribute carryforwards may remain subject to examination.

Our policy is to recognize interest and penalties related to income tax matters in income tax expense. As of January 1, and December 31, 2007, we had no accruals for interest or penalties related to income tax matters.

SFAS No. 157

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS No. 157 became effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating what impact, if any, SFAS No. 157 will have on our financial condition, results of operations or liquidity.

SFAS No. 159

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 provides companies an option to report certain financial assets and liabilities at fair value. The intent of SFAS No. 159 is to reduce the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is effective for financial statements issued for fiscal years after November 15, 2007. We are evaluating the impact this new standard will have on our financial condition, results of operations, and liquidity.

EITF Issue No. 07-1

In December 2007, the FASB issued EITF Issue No. 07-1, *Accounting for Collaborative Arrangements*, which is effective for calendar year companies on January 1, 2009. The Task Force clarified the manner in which costs, revenues and sharing payments made to, or received by a partner in a collaborative arrangements should be presented in the income statement and set for the certain disclosures that should be required in the partners financial statements. We are currently assessing the potential impact of implementing this standard on our financial position and results of operations.

SAB 110

In December 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 110 (SAB 110), which permits, under certain circumstances, the continued use of the simplified method of estimating the expected term of plan options as discussed in SAB No. 107 and in accordance with SFAS 123R. The guidance in this release is effective January 1, 2008. The impact of this standard on the consolidated financial statements is not expected to be material on our financial condition, results of operations, or liquidity.

SFAS No. 141R

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinat*ions. (SFAS No. 141R) For calendar year companies, the standard is applicable to new business combinations occurring on or after January 1, 2009. SFAS No. 141R requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. Most significantly, SFAS No. 141R will require that acquisition costs generally be expensed as incurred, certain acquired contingent liabilities will be recorded at fair value, and acquired in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date. We do not expect the adoption of SFAS No. 141R to have a material impact on our financial condition, results of operations or liquidity.

SFAS No. 160

In December 2007, the FASB also issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51*, which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The standard establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of subsidiary. We do not expect the adoption of SFAS No. 160 to have a material impact on our financial condition, results of operations or liquidity.

Results of Operations for Fiscal Years 2007, 2006 and 2005 (In thousands, except percentage changes and share and per share information)

The following is a discussion of the historical consolidated financial condition and results of operations of Novavax, Inc. and its wholly owned subsidiary and should be read in conjunction with the consolidated financial statements and notes thereto set forth in this Annual Report on Form 10-K. Additional information concerning factors that could cause actual results to differ materially from those in the Company s forward-looking statements is contained from time to time in the Company s SEC filings.

	2007	Change from 2006		2006	Change from 2005		2005
Revenues:							
Total net product sales	$ (58)	$(699)	(109)%	$ 641	$(1,863)	74%	$2,504
Contract research and development	1,388	320	30%	1,068	(730)	(41)%	1,798
Royalties, milestone and licensing fees	125	96	331%	29	(1,012)	(97)%	1,041
Total revenues	$1,455	$(283)	(16)%	$1,738	$(3,605)	(67)%	$5,343

Revenues for 2007 consisted of product sales of negative $58,000, compared to $641,000 in 2006, contract research revenues of $1.4 million compared to $1.1 million in 2006 and royalties and milestone fees from licensed products of $125,000 compared to $29,000 in 2006. For the year ended December 31, 2007, total revenues were $1.4 million as compared to $1.7 million for the year ended December 31, 2006, a decrease of $0.3 million or 16%. The decrease in revenues during 2007 as compared to 2006 was principally due to the discontinued sale of Gynodiol in 2007 which after reserves for sale returns netted total revenue of negative $58,000. Net product sales in 2006 were $0.6 million consisting primarily of Gynodiol. The increase in contract research revenues in 2007 as compared to 2006 was primarily due to higher government reimbursement for projects and milestones achieved in 2007. The increase in royalties and milestone payments in 2007 of $96,000 as compared to 2006 was primarily due to additional fees in 2007 of $50,000 for a development project and additional royalties from a prior sales agreement.

Revenues for 2006 consisted of product sales of $0.6 million compared to $2.5 million in 2005; contract research and development revenues of $1.1 million in 2006 compared to $1.8 million in 2005; and royalties, milestone and licensing fees of $29,000 in 2006 compared to $1.0 million in 2005. Total revenues for 2006 were $1.7 million as compared to $5.3 million for 2005, a decrease of $3.6 million or 67%. The primary reason for this decrease in revenues was the divestiture of assets related to AVC Cream and Suppositories, NovaNatal and NovaStart products to Pharmelle, LLC in September 2005.

Contract research and development revenues for 2006 totaled $1.1 million as compared to 2005 contract research and development revenues of $1.8 million. Revenues in 2006 were recognized under a National Institutes of Health (NIH) grant to develop a second generation HIV/AIDS vaccine, three manufacturing contracts and one additional government contract.

Royalties, milestone and licensing fees for 2006 of $29,000 was principally due to fees from a development project. This represents a $1.0 million decrease from $1.0 million in royalties, milestones and license fees for 2005 which consisted of a $1.0 million renewal fee received from IGI, Inc. (IGI) in December 2005 in accordance with an option in a licensing agreement signed between the Company and IGI in December 1995. This payment gave IGI a ten-year renewal on licensed technologies in specific fields.

Operating Costs and Expenses:

	2007	Change from 2006		2006	Change from 2005		2005
Operating Costs and Expenses:							
Cost of products sold	$ 163	$ (74)	(31)%	$ 237	$ (173)	(42)%	$ 410
Research and development	17,600	6,271	55%	11,329	6,254	123%	5,075
Selling, general and administrative	13,963	2,675	24%	11,288	(3,746)	(25)%	15,034
Facility exit costs					(105)	(100)%	105
Gain on sales of product assets					10,965	100%	(10,965)
	$31,726	$8,872	39%	$22,854	$13,195	37%	$ 9,659

Cost of Products Sold

Cost of products sold decreased to $163,000 in 2007, compared to $237,000 in 2006. The decrease was entirely due to lower gross sales of Gynodiol due to the discontinued sale of the product during the third quarter of 2007.

Cost of products sold decreased to $237,000 in 2006 compared to $410,000 in 2005. The decrease was due to the divestiture of assets related to AVC Cream and Suppositories, NovaNatal and NovaStart products to Pharmelle, LLC in September 2005, and lower Gynodiol sales in 2006 when compared to the prior year.

Research and Development Expenses

Research and development costs increased from $11.3 million in 2006 to $17.6 million in 2007, an increase of $6.3 million, or 55%. Research and development expenses were significantly higher in 2007 due to increases in personnel, facility and outside-testing costs (including sponsored research and consulting agreements) associated with expanded preclinical testing and process development, manufacturing and quality-related programs, license fees paid to Wyeth Holdings Corporation and the initiation of human clinical trials necessary to advance our influenza vaccine candidates in clinical development.

Research and development costs increased from $5.1 million in 2005 to $11.3 million in 2006, an increase of $6.3 million or 123%. This increase was due primarily to higher research and development spending to support our strategic focus on creating differentiated, value-added vaccines that leverage the Company s proprietary VLP technology. Research and development expenses were significantly higher in 2006 due to increases in personnel, facility and outside testing costs (including sponsored research and consulting agreements) associated with expanded preclinical testing and process development, manufacturing and quality-related programs necessary to move the Company s influenza vaccine candidates into pre-clinical testing. Also contributing to this increase was the recognition of $0.5 million of non-cash compensation costs resulting from the implementation of SFAS No. 123R in 2006, using the modified prospective method, while no costs were recorded in 2005 utilizing the accounting recognition methods under APB No. 25.

Estimated Cost and Time to Complete Major Projects

The expenditures that will be necessary to execute our business plan are subject to numerous uncertainties, which may adversely affect our liquidity and capital resources. As of December 31, 2007, our proprietary product and vaccine candidates were in early stages of development. Due to the inherent nature of product development, future market demand for products and factors outside of our control, such as clinical results and regulatory approvals, we are unable to estimate the completion dates and the estimated total costs for those product candidates. The duration and the cost of clinical trials may vary significantly over the life of a project as a result of differences arising during clinical trial protocol, including, but not limited to, the following:

number of patients that ultimately participate in the trial;

duration of the patient follow-up that seems appropriate in view of the results;

number of clinical sites included in the trials; and

length of time required to enroll suitable patient subjects.

In addition, we test our potential products and vaccines in numerous preclinical studies to evaluate potential immune response, safety and toxicology in animals. We may conduct multiple human clinical trials to cover multiple indications for each product candidate. As we obtain results for our trials we may elect to discontinue clinical trials for certain product candidates or indications. We further believe that it is not possible to predict the length of regulatory approval time. Factors that are outside our control could significantly delay the approval and marketability of our product candidates.

As a result of the uncertainties discussed above and other risks and uncertainties, the duration and completion costs of our research and development projects are difficult to estimate and are subject to numerous variations. Our inability to complete our research and development projects in a timely manner could significantly increase our capital requirements and could adversely impact our liquidity. These uncertainties could force us to seek external sources of financing from time to time in order to continue pursuing our business strategy. For more discussion of the risks and uncertainties and our liquidity, see Item 1A Risk Factors and see Liquidity and Capital Resources .

Selling, General and Administrative

Selling, general and administrative costs were $14.0 million in 2007 compared to $11.3 million in 2006. The increase of $2.7 million was primarily due to increased facility costs of approximately $1.2 million for the Company s new facility in Rockville, Maryland which was leased in the fourth quarter of 2006; $0.9 million increase for reserves for loans to former Board of Directors based on the value of the common stock of Novavax held for collateral and increased employee and related costs of $0.6 million.

Selling, general and administrative costs were $11.3 million in 2006 compared to $15.0 million in 2005. The decrease in these expenses of $3.7 million was due to the discontinuation of the sales force in 2005, resulting from the sale of Estrasorb to Esprit Pharma in late 2005, and a corresponding reduction of $6.8 million in selling expenses. The savings in selling expenses was partially offset by an increase of $1.2 million of non-cash compensation costs resulting from the implementation of SFAS No. 123R in 2006, using the modified prospective method, while no costs were recorded in 2005 utilizing the accounting recognition methods under APB No. 25. In addition, other factors contributing to partial offset were higher personnel, legal and consulting costs related to the Company s VLP-based vaccine development programs. The Company took steps to strengthen its intellectual property portfolio and initiate business development and commercial assessment activities related to its new vaccine development strategy.

Also included in 2006 is a $167,000 reserve against a note receivable and its corresponding accrued interest due from a former director of the Company. This reserve represents the difference between the book value of the receivables less the market value of the pledged shares of common stock of the Company as of December 31, 2006.

Additionally, in 2005 general and administrative expenses included a $400,000 offset for Opportunity Grant funds received from the Commonwealth of Pennsylvania for the reimbursement of certain costs incurred with the move of our corporate headquarters and product development activities from Maryland to Pennsylvania. As a result of the Company s decision to relocate its corporate headquarters and vaccine development activities back to Maryland, the Commonwealth of Pennsylvania requested repayment of the $400,000 Opportunity Grant received in 2005. The Company recorded a liability in 2006 reflecting its obligation to repay this amount.

Other Operating Costs and Expenses

In 2005, we recorded gains on sales of product assets totaling $11.0 million, which consisted of a $10.1 million gain from the licensing of exclusive rights to market Estrasorb in North America to Allergan in October 2005 and a $0.9 million gain from the divestiture of assets related to AVC Cream and Suppositories, NovaNatal and NovaStart products to Pharmelle, LLC in September 2005.

We made an adjustment in 2005 of $0.1 million for additional contract termination costs incurred in connection with the relocation of our corporate headquarters.

	2007	Change from 2006		2006	Change from 2005		2005
Interest income (expense)							
Interest income	$ 3,287	$ 20	1%	$ 3,267	$2,937	890%	$ 330
Interest expense	(1,606)	121	(7)	(1,727)	(606)	(26)	(2,333)
	$ 1,681	$141	9%	$ 1,540	$2,331	117%	$(2,003)

Interest income was $3.3 million in 2007, an increase of $20,000 from interest income recorded in 2006. Interest income was relatively unchanged, despite lower cash and cash equivalent balances in 2007, due to offsetting higher interest rates earned on investments in 2007 as compared to 2006. Interest expense decreased in 2007 as compared to 2006 by $121,000 to $1.6 million in 2007. The decrease in interest expense in 2007 from 2006 was principally due to conversion of $7.0 million face amount of the convertible notes into equity in March 2006 partially offset by the amortization of debt discount of $221,000 related to the amendments to convertible notes made in 2007. In connection with amendments to the convertible notes in 2007, we recorded a debt discount of $852,000 and increased additional paid-in capital accordingly. The debt discount is being amortized over the remaining term of the convertible notes.

Interest income increased to $3.3 million in 2006 from $0.3 million in 2005. The increase of $3.0 million was due primarily to significantly higher investment balances resulting from the net proceeds from two equity-financing transactions during the first quarter of 2006 which totaled $73.0 million as well as higher interest rates. Interest expense was $1.7 million in 2006 and $2.3 million in 2005 a decrease of $0.6 million. Interest expense related primarily to the 4.75% senior convertible notes totaling $35.0 million. In October 2005, certain holders of $6.0 million face amount of the convertible notes exercised their optional right to convert their notes plus accrued interest into 1,070,635 shares of Novavax common stock. This reduced the aggregate principal amount of the convertible notes outstanding to $29.0 million as of December 31, 2005. In March 2006, certain holders of $7.0 million face amount of the convertible notes exercised their optional right to convert their notes plus accrued interest into 1,294,564 shares of Novavax common stock. This further reduced the aggregate principal amount of the convertible notes outstanding to a face amount of $22.0 million as of December 31, 2006. Included in interest expense for 2005 and 2006 is a $0.3 million and a $0.3 million write-off of deferred financing costs that corresponds to the conversion of $6.0 million in convertible debt in 2005 and $7.0 million in convertible debt in 2006. Also included in interest expense for 2006 and 2005 is $0.3 million and $0.4 million, respectively, of amortization of deferred financing costs that corresponds to the issuance of the 4.75% senior convertible notes in 2004.

Discontinued Operations

In October 2007, we entered into agreements to terminate our supply agreements with Allergan, successor-in-interest to Esprit. In connection with the termination, we decided to wind down operations at our manufacturing facility in Philadelphia, Pennsylvania. The results of operations for the manufacturing facility are being reported as discontinued operations.

	2007	Change from 2006		2006	Change from 2005		2005
Revenues	$ 1,913	$(1,032)	(35)%	$ 2,945	$ 900	44.0%	$ 2,045
	6,758	2,071	44.2%	4,687	(694)	(12.9)%	5,381

Costs of products sold							
Excess inventory costs over market	1,267	(282)	(18.2)%	1,549	30	2.0%	1,519
Research and development	63	(137)	(68.5)%	200	200	N/A	
General and administrative							
Total operating expenses	8,088	1,652	25.7%	6,436	(464)	(6.7)%	6,900
Net loss	$(6,175)	$(2,684)	76.9%	$(3,491)	$1,364	(28.1)%	$(4,855)

We recorded a loss from discontinued operations of $3.5 million for the year ended December 31, 2006 compared to $6.2 million for the year ended December 31, 2007, an increase of $2.7 million or 77%. The increase resulted from a decrease in revenue and an increase in operating expenses. Revenue from discontinued operations decreased to $1.9 million for 2007 from $2.9 million for 2006, a decrease of $1.0 million. The decrease resulted from lower Estrasorb shipments due to adjustments in inventory levels made by Allergan to reflect sales volume activity. Revenue also decreased as a result of decreased contract research revenue associated with the Allergan agreement.

Costs of products sold, which includes fixed idle capacity costs increased from $4.7 million to $6.8 million, an increase of $2.1 million, or 44%. Of the $6.8 million cost of products sold in 2007, $3.1 million represented idle plant capacity costs at our manufacturing facility. The remaining $3.7 million represented $1.5 million related to the cost of Estrasorb sales to Allergan and a $2.2 million impairment charge related to the fixed assets at our manufacturing facility. Of the $4.7 million cost of products sold in 2006, $2.5 million represents idle plant capacity costs and the balance of $2.2 million represent the costs of Estrasorb sales to Allergan. We were required to complete the manufacture of the remaining orders of Estrasorb in accordance with our agreement with Allergan in October 2007 to terminate the Allergan Supply Agreement.

In accordance with the Supply Agreement with Allergan, during 2006 and 2007, we were required to sell Estrasorb at a price that is lower than our manufacturing costs. These excess costs over the product cost totaled $1.3 million for 2007 and $1.5 million for 2006.

Research and development costs from discontinued operations decreased to $63,000 in 2007 from $200,000 in 2006, primarily as a result of the termination of our agreements with Allergan.

We recorded a loss from discontinued operations of $3.5 million for the year ended December 31, 2006 compared to $4.9 million for the year ended December 31, 2005, a decrease of $1.4 million or 28%. The decrease in the loss resulted from an increase in revenue and a decrease in operating expenses. Revenues from discontinued operations increased to $2.9 million for 2006 from $2.0 million for 2005, an increase of $0.9 million. The increase primarily resulted from $0.8 million of contract research revenue during 2006, royalties recorded on the sales of Estrasorb to Allergan, partially offset by a decrease in Estrasorb product sales to Allergan due to reduced inventory requirements. In October 2005, we licensed the exclusive rights to market Estrasorb in North America to Allergan. Pursuant to the License Agreement with Allergan, we recorded $0.3 million of royalty revenue in 2006. Under the terms of the License and Supply Agreements with Allergan, we agreed to manufacture and supply Estrasorb to Allergan for a lower price than what we previously sold Estrasorb to our distributors. Estrasorb product revenue in 2005 includes sales to our distributors through the date of the License and Supply Agreements with Allergan. Product revenue for all periods after the date of the Agreements represents sales to Allergan.

Costs of products sold, which includes fixed idle capacity costs decreased to $4.7 million in 2006 from $5.4 million in 2005, a decrease of $0.7 million, or 13%. Of the $4.7 million cost of products sold in 2006, $2.5 million represents idle plant capacity costs at our manufacturing facility. The remaining $2.2 million represents the cost of Estrasorb sales to Allergan. Of the $5.4 million cost of products sold in 2005, $3.2 million represents idle plant capacity costs and the balance of $2.2 million represents the costs of Estrasorb sales.

As discussed above, in accordance with the Supply Agreement with Allergan, during 2005 and 2006, we were required to sell Estrasorb at a price that is lower than our manufacturing costs. These excess costs over the product cost totaled $1.5 million for both 2006 and 2005.

We recorded research and development costs from discontinued operations in 2006 of $200,000 related to costs incurred for contract research performed in our manufacturing facility. We did not have any research and development costs in 2005.

Net Loss

	2007	Change from 2006		2006	Change from 2005		2005
Net Loss	$ (34,765)	$(11,697)	(51)%	$ (23,068)	$(11,894)	(97)%	$ (11,714)
Net loss per share	$ (0.57)	$ (0.17)	(44)%	$ (0.39)	$ (0.13)	(50)%	$ (0.26)
Weighted shares outstanding	61,101,747			58,664,365			42,758,302

Our net loss for 2007 totaled $34.8 million or $(0.57) loss per share, which was an increase $11.7 million, or $0.18 per share than the net loss for 2006 of $23.1 million, or $(0.39) per share. The increase in the net loss in 2007 was principally due to increases in research and development expenses of $6.0 million, increases in net losses from discontinued operations of $2.7 million, the cost of our new facility in Rockville, Maryland of $1.2 million, and an increase in reserves for two former Board members note receivables of $0.9 million.

Our net loss for 2006 was $23.1 million or $(0.39) per share, as compared to $11.2 million or $(0.26) per share for 2005, an increase of $11.9 million. The increase in the net loss in 2006 from 2005 was principally due to the gain on sales and product assets of $11.0 recorded in 2005. In addition, decreases in net revenues of $3.6 million were partially offset by decreased operating expenses of $2.1 million and a decreased net loss for discontinued operations of $1.2 million.

Weighted shares outstanding increased in 2007 to 61.1 million shares from 58.7 million in 2006. The increase in weighted shares in 2007 was principally due to vesting of restricted stock and exercising of stock options.

Weighted shares outstanding increased from 42.8 million shares in 2005 to 58.7 million shares in 2006 due primarily to the equity financing transactions in the first quarter of 2006 coupled with the conversion of $7.0 million of senior convertible notes into shares of Novavax common stock during this same period. In addition, exercises of stock options and issuance of restricted stock as compensation also contributed to this increase in weighted shares outstanding.

Liquidity Matters and Capital Resources

Our future capital requirements depend on numerous factors including but not limited to, the commitments and progress of our 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 manufacturing costs related to Estrasorb. We plan to continue to have multiple vaccines and products in various stages of development and we believe our research and development as well as general and administrative expenses and capital requirements will continue to exceed our revenues. Future activities, particularly vaccine and product development, are subject to our ability to raise funds through debt or equity financing, or collaborative arrangements with industry partners and government agencies.

Summary of Cash Flows:	**Year Ended December 31, 2007 (In thousands)**
Net cash (used in) provided by:	
Operating activities	$ (26,742)
Investing activities	24,651
Financing activities	(720)
Net decrease in cash and cash equivalents	(2,811)
Cash and cash equivalents at beginning of year	7,161
Cash and cash equivalents at end of year	$ 4,350

In addition to revenues of $8.5 million from continuing operations, during the three-year period ended December 31, 2007, we have funded our operations primarily from the following activities:

Net proceeds (In millions)	**2005**	**2006**	**2007**	**Total**
Sales of common stock in public offerings, net	$20.7	$56.0	$	$76.7
Sales of product assets	12.7			12.7
License payments received	1.0	2.5		3.5
Exercise of stock options and warrants	0.4	1.7	0.1	2.2
	$34.8	$60.2	$0.1	$95.1

As of December 31, 2007, we held $46.5 million in cash and investments as compared to $73.6 million at December 31, 2006. The $27.1 million decrease in cash and investments during 2007, was due to the operating loss from continued operations of $28.6 million, cash used from discontinued operations of $1.0 million, and principal payments on debt of $0.8 million, partially offset by non-cash expenses of $4.6 million and net balance sheet changes (favorable) of $0.6 million. In addition, capital expenses totaled $2.0 million in 2007, primarily for equipment for vaccine development and the initial investment in the build out of a new GMP facility in our corporate headquarters.

As of December 31, 2007, our working capital was $42.8 million compared to $72.0 million as of December 31, 2006. This $29.2 million decrease includes $28.0 million in operating and capital expense activities plus $0.8 million in principal payments on our outstanding debt obligations.

We intend to use the proceeds from our equity financing transactions for general corporate purposes, including but not limited to our internal research and development programs, such as preclinical and clinical testing and studies for our vaccine and other product candidates, the development of new technologies, capital improvements and general working capital. In the first quarter of 2007, we entered into sponsored research and licensing arrangements with two

academic institutions to conduct early stage research in the vaccine area. These and similar arrangements that we may enter into may aggregate to a material amount of research and development spending that will accelerate the use of such proceeds. We will continue to fund our operations through product licensing, co-development arrangements on new products, or the public or private sale of securities of the Company. There can be no assurance that we will be able to obtain additional capital or, if such capital is available, that the terms of any financing will be satisfactory to the Company.

As of December 31, 2007, we had $22 million of senior convertible notes outstanding (the Notes). The Notes carry a 4.75% coupon; are currently convertible into shares of Novavax common stock at $4.00 per share; and mature on July 19, 2009. We may require that the Notes be converted into Company common stock if the weighted average price of the our common stock is greater than $7.00 in any 15 out of 30 consecutive trading days after July 19, 2007.

In February 2008, we sold our assets related to Estrasorb® in the United States, Canada and Mexico to Graceway Pharmaceuticals, LLC (Graceway). The assets sold include certain patents related to the micellar nanoparticle technology (the MNP Technology), trademarks, manufacturing equipment, customer and supplier relations and goodwill. Novavax and Graceway also entered into a supply agreement, pursuant to which Novavax has agreed to manufacture additional units of Estrasorb with final delivery expected in mid 2008. Graceway will pay a preset transfer price per unit of Estrasorb for the supply of this product. The net cash proceeds from this transaction are estimated to exceed $2 million. The license and supply agreements with Allergan, Inc., successor-in-interest to Esprit Pharma, Inc., were terminated in February 2008 and October 2007, respectively.

Based on our assessment of the availability of capital and our business operations as currently contemplated, including our clinical development plans, in the absence of new financings, any potential redemption of Notes, licensing arrangements or partnership agreements, we believe we will have adequate capital resources through the first quarter of 2009. If we are unable to obtain additional capital, we will continue to assess our capital resources and we may be required to delay, reduce the scope of, or eliminate one or more of our product research and development programs, downsize our organization, or reduce general and administrative infrastructure.

Contractual Obligations and Commitments

We utilize different financing instruments, such as debt and operating leases, to finance various equipment and facility needs. The following table summarizes our current financing obligations and commitments (in thousands) as of December 31, 2007:

Commitments & Obligations	Total	Less than 1 Year	1 - 3 Years	4 5 Years	More than 5 Years
Convertible notes	$22,000	$	$22,000	$	
Operating leases	8,241	2,412	3,187	2,584	$ 58
Notes payable	1,354	855	392		
Total principal payments	31,595	3,267	25,579	2,691	58
Less: Subleases	(869)	(506)	(363)		
Net principal payments	30,726	2,761	25,216	2,691	58
Interest	2,120	1,072	1,048		
Total commitments & obligations	$32,846	$3,833	$26,264	$2,691	$ 58

Off-Balance Sheet Arrangements

We are not involved in any off-balance sheet agreements that have or are reasonably likely to have a material future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

PART III

Item 11. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Overview

The Compensation Discussion and Analysis (the CD&A) discusses the compensation of Novavax s named executive officers for 2007. The named executive officers are Dr. Rahul Singhvi, President and Chief Executive Officer (the CEO), Len Stigliano, Vice President, Treasurer and Chief Financial Officer (the CFO), Jeffrey Church, former Vice President, Treasurer, Corporate Secretary and Chief Financial Officer, Raymond J. Hage, Senior Vice President of Commercial Operations, Dr. Penny Heaton, Vice President and Chief Medical Officer and James Robinson, Vice President of Technical and Quality Control Operations (collectively, the Named Executive Officers). Mr. Stigliano and Mr. Robinson were new hires for Novavax during 2007 and Mr. Church resigned from his position effective April 20, 2007.

The CD&A considers the Company s executive compensation philosophy, the objectives and operation of the compensation program, how compensation was set for 2007 and the various elements of compensation paid to the Named Executive Officers during 2007.

Executive Compensation Philosophy

Novavax s compensation program is designed to attract, retain and reward a performing workforce in a highly competitive recruitment and retention market to achieve the Company s mission, vision and goals. This philosophy is reflected in the components of the Company s compensation program, and includes:

providing a competitive salary upon hire;

a performance management process that defines objectives, tracks employee performance and ties into the reward process through merit pay and incentive bonuses;

an annual merit increase plan that rewards the individual employee s contribution for the fiscal year;

individual promotions that reward strong performance;

an annual incentive bonus that rewards individual and company performance;

a stock option plan that provides initial stock option grants upon hire and additional grants for promotions, strong performance, and retention of high potential personnel; and

a market competitive benefits plan.

The Compensation Committee believes that these components provide many tools for retaining and rewarding high performing employees and covers the wide spectrum of employment needs.

Objectives of the Compensation Program

Attract and retain highly qualified executives.

The Compensation Committee believes that the compensation program for Novavax s Named Executive Officers should be designed to attract, motivate and retain highly qualified executive officers responsible for the success of Novavax and should be determined within a framework that rewards performance and aligns the interests of the Named Executive Officers with the interests of the Company s stockholders. Within this overall philosophy, the Compensation Committee s objectives are to:

offer a total compensation program that enables Novavax to attract, motivate, recruit and retain, from a limited pool of resources, individuals who are highly experienced and successful, and to provide total compensation that is competitive with the Company s peer companies within the biotech and pharmaceutical industry;

achieve an equitable balance in the compensation offered to each member of the executive team;

provide annual variable cash incentive awards that take into account the satisfaction of designated individual performance criteria based on the Company s performance goals; and

make a significant portion of Named Executive Officers compensation dependent on Novavax s long-term performance and on enhancing stockholder value by providing appropriate long-term, equity-based incentives and encouraging stock ownership.

Reflect performance and reward high performance.

The Compensation Committee believes that a significant portion of a Named Executive Officer s total compensation should reflect performance in the areas of overall Company performance and individual performance. Incentives are based on meeting criteria in each of these categories and reflect the Named Executive Officer s overall contribution to the Company.

Reward Named Executive Officers for meeting Novavax s strategic goals and objectives.

The compensation program rewards the Company s Named Executive Officers for achieving specified performance goals, building stockholder value, and maintaining long term careers with Novavax. Novavax rewards these three aspects so that the executive team makes balanced annual and long-term decisions that the Compensation Committee expects will result in financial performance, scientific and product development innovations, and the achievement of the strategic business objectives.

Align Named Executive Officers goals with Novavax s stockholders goals.

The Committee believes that Novavax s long-term success depends upon aligning executives and stockholders interest. To support this objective, Novavax provides the Named Executive Officers with equity accumulation opportunities, by awarding stock options and restricted stock. Stock option grants typically vest over three years to support long-term retention of Named Executive Officers and reinforce long-term consideration because Named Executive Officers cannot exercise the options until they have vested. Restricted stock generally vests over three years or as the executive achieves certain pre-established milestones. At times, the Company awards stock options or restricted stock that vest as the executive achieves certain milestones in order to incent the Named Executive Officer to achieve strategic Company goals within such Named Executive Officer s area of responsibility.

Oversight and Operation of the Executive Compensation Program

The Compensation Committee is appointed by the Board of Directors to assist the Board with its responsibilities related to the compensation of the Company s officers, directors and employees and the development and administration of the Company s compensation plans. For details on the Compensation Committee s oversight of the executive compensation program, see the section titled Information Regarding the Board of Directors and Certain Committees Compensation Committee on page 8 of this Proxy Statement.

The CEO evaluates and provides performance assessments and compensation recommendations for each Named Executive Officer other than himself to the Compensation Committee. John Lambert, the Executive Chairman of the Company s Board of Directors, evaluates the CEO s performance and makes compensation recommendations for the CEO to the Compensation Committee. The Compensation Committee considers the Chief Executive Officer s and the Executive Chairman s recommendations and information provided by the human resources team (described below) in its deliberations regarding executive compensation and sets the compensation of the Named Executive Officers based on such deliberations. The Board of Directors ratifies the compensation set by the Compensation Committee. The Chief Executive Officer, Chief Financial Officer and the Executive Director of Human Resources and Administration generally attend Compensation Committee meetings but none are present for executive session or any discussion of their own compensation.

Setting Executive Compensation

Compensation packages for each Named Executive Officer are analyzed and discussed separately at the first Compensation Committee meeting each year. Prior to that meeting, the Company s human resources team performs an analysis, considering the goals of market competitiveness, the executive s performance and contribution to the company, and internal equity. The human resources team then benchmarks each Named Executive Officer s current compensation against the 50th percentile of Survey Data, which is described in further detail below. The Compensation Committee believes this is a common benchmark among biotech companies similar in size to Novavax and therefore the Company remains competitive by targeting the 50th percentile of the Survey Data. At any time, the Compensation Committee and the Board of Directors may request additional information from the human resources team.

Salary Survey Data

When setting the compensation for the Named Executive Officers in 2007, the human resources team and the Compensation Committee reviewed wage surveys that were specific to the life sciences industry. These surveys include the Radford Global Life Sciences Survey and the Culpepper Life Sciences Wage Survey (collectively, the Survey Data). The Radford Global Life Sciences Survey provides total compensation and practices data for multinational life sciences companies for 575+ companies and more than 200,000 individuals. Reliable global market data is available for 25 countries and positions at the executive, management, professional, sales and support levels, as well as overall compensation practices. Target industries include biotechnology, pharmaceutical, medical device, diagnostic and clinical research organizations (CROs). The Radford Global Life Sciences Survey is the primary source of benchmark data used. The Culpepper Life Sciences Wage Survey is used as a secondary source for positions not accurately matched to the Radford survey data.

The Survey Data is used to determine whether or not a Named Executive Officer s salary and bonus opportunity are competitive within the industry. The salary and bonus are compared to the 50th percentile, which Novavax considers to be within a competitive range of the market for a company of its size and stage of clinical development.

Internal Pay Equity

The Compensation Committee considers internal equity when determining compensation to ensure that the Company is fair in its pay practices across all levels and to ensure that there is no discrimination in pay practices among the protected classes. The Committee provided certain adjustments in 2007 to provide for internal equity and market competitiveness.

Radford Report

In January 2008, the Compensation Committee retained Radford Surveys and Consulting, a unit of Aon Consulting, an independent executive compensation consulting firm, to provide advice and assistance to the Committee and management in the area of executive compensation. The consultant was authorized by the Committee to work with certain executive officers of the Company as well as other employees in the Company s human resources, legal, and finance departments in connection with the consultant s work for the Committee. The consultant conducted a review of the total compensation of the Company s executive officers and prepared reports for review by management and subsequently by the Compensation Committee that was used in determining appropriate levels of compensation for each executive officer for 2008 (the Radford Report).

What the Compensation Program is Designed to Reward

Company Performance

The executive compensation program is designed to reward both individual performance as well as corporate performance. A significant portion of a Named Executive Officer s total compensation package is based on the Company s performance and the achievement of certain corporate goals. Because of the key role the Named Executive Officers play in the success of the Company, a significant portion of the achievement of corporate goals is reflective of the Named Executive Officers individual performance. In March 2007, the Board of Directors and the executive committee jointly developed a set of objectives for 2007 which were based on the Company s strategic plan (the 2007 Objectives). These objectives, which were approved by the Board of Directors on April 26, 2007, include:

advancing the H5N1 (pandemic) vaccine to clinical trials in humans;

completing a non-dilutive financing transaction;

increasing VLP yield production;

completing and initiating certain preclinical studies related to the seasonal flu vaccine;

constructing, developing and testing of VLP s for certain other disease targets; and

various organizational development projects, such as streamlining the production of lead vaccine candidates and the production of clinical material, retaining key employees, terminating the Estrasorb supply agreement, and upgrading certain business processes.

Individual Performance

Each year, the CEO reviews and evaluates the performance of the other Named Executive Officers and, together, they set performance goals and objectives for the following year. This review is typically conducted in the first quarter of the year. The Executive Chairman of the Board of Directors reviews and evaluates the performance of the CEO and works with the CEO to set his performance goals and objectives. These performance evaluations are used to determine merit salary increases, promotions, bonuses and other rewards. Each of the Named Executive Officers are evaluated on their leadership, team building, interpersonal, delegation and employee development skills and their budget control.

In addition, each officer has additional individual goals to support the 2007 Objectives or to further the Company s strategic plan. More specifically, Mr. Stigliano had individual goals for activities needed to achieve the corporate 2007 Objectives of non-dilutive financing (e.g., evaluate financing options, prepare analyses and seek to consummate a transaction). Mr. Stigliano also had operational individual goals such as upgrading Sarbanes-Oxley compliance procedures, financial close procedures and information technology. Mr. Hage had individual goals for activities needed to achieve the corporate 2007 Objectives of advancing vaccine candidate to clinical trials and advancing other products in the pipeline (e.g., complete market assessments, evaluate potential corporate partners, complete licensing transaction) and complete non-dilutive financing (e.g., target potential corporate partners for early programs and seek to consummate a transaction). Mr. Hage also had individual goals of developing the Company s strategic plan and monetizing non-core assets. Dr. Heaton had individual goals for activities need to achieve the corporate 2007 Objectives of advancing vaccine candidate to clinical trials and advancing other products in the pipeline (e.g., complete protocol and study documents, finalize contracts with vendors, submit investigational new drug application, review preclinical study design and documentation). Mr. Robinson had individual goals for activities need to achieve the corporate 2007 Objectives of advancing vaccine candidate to clinical trials and advancing other products in the pipeline (e.g., prepare, fill and release clinical batches, review investigational new drug application, complete development and scale up of preclinical lots, consult on development of new candidates) and increasing VLP yield production (e.g., map process for increased yields, design and implement improvement plan). Mr. Robinson had a further individual goal of establishing a new GMP manufacturing facility.

Based on the performance evaluations, each Named Executive Officer is given a performance rating. The performance rating determines the amount of any merit salary increase, adjustments to the incentive cash bonus awards and equity awards. The performance ratings used by the Company include: Outstanding, Exceeds Expectations, Meets Expectations, Improvement Needed and Marginal. Each of the Named Executive Officers that received a rating in March 2007 received a rating of at least Meets Expectation. Each of the Named Executive Officers that received a rating in March 2008 received a rating of at least Exceeds Expectations.

Elements of Compensation

The Compensation Committee believes that the most effective compensation program is one that provides a competitive base salary, rewards the achievement of established annual and long term goals and objectives and provides an incentive for retention. For this reason, the compensation program is comprised of three primary elements: base salary, a cash incentive bonus program and equity awards. The Compensation Committee believes that these three elements are the most effective combination to motivate and retain the Named Executive Officers.

The Compensation Committee has not adopted any formal guidelines for allocating total compensation between equity compensation and cash compensation, but generally seeks to provide an overall executive compensation package designed to attract, motivate, and retain highly qualified executive officers, to reward them for performance over time, and to align the interests of the Named Executive Officers with the interests of the stockholders. Although equity compensation is an important component of the compensation program, particularly with respect to creating long-term stockholder value, in 2007, the Compensation Committee focused on ensuring that Named Executive Officer base salaries and bonus opportunities were in line with the median average salaries and annual incentives for comparable positions within the biotech industry.

Base Salary

The Compensation Committee s philosophy is to maintain base salaries at a competitive level sufficient to recruit and retain individuals possessing the skills and capabilities necessary to achieve the Company s goals over the long term. Novavax provides an annual salary to each Named Executive Officer as an economic consideration for each person s level of responsibility, expertise, skills, knowledge, and experience, which the Compensation Committee compares to other comparable companies within the biotech and pharmaceutical industry and adjust as appropriate, to ensure that the Company will retain this expertise, skill, and knowledge at Novavax.

Merit increases are awarded effective April 1st of each year, reflecting performance for the previous year. In 2007, salary increases were awarded to Mr. Church, Mr. Hage, and Ms. Heaton at the meeting of the Compensation Committee on March 6, 2007. The increases were determined by an annual performance review in light of the individual s 2006 performance goals and achievement of Company objectives as well as by reference to the Survey Data. Effective April 1, 2007, the base salaries for these Named Executive Officers were:

Executive	Base Salary	Percentage Increase
Rahul Singhvi	$350,000	0
Jeffrey Church	$249,180	2
Raymond J. Hage	$238,392	5
Penny M. Heaton	$262,905	2

Dr. Singhvi did not receive a merit increase because the Compensation Committee awarded Dr. Singhvi a larger bonus opportunity and larger equity award to further align his interests with those of Novavax s stockholders and to make a larger component of his compensation dependent on the Company s performance.

For Named Executive Officers that were not with the Company for the full year, the merit award was pro-rated based on the executive s date of hire.

Mr. Stigliano and Mr. Robinson were hired by Novavax during 2007. As of their respective hire dates, the annual base salaries for Mr. Stigliano and Mr. Robinson were $250,000 and $220,000, respectively, which the Committee recommended to the Board based upon reference to the Survey Data.

On March 6, 2008, the Compensation Committee approved merit increases to each of the Named Executive Officers that remain officers with the Company. The increases were determined by an annual performance review in light of the individual s 2007 performance goals and achievement of Company objectives as well as by reference to the Survey Data and the Radford Report. Effective April 1, 2008, the base salaries for the Named Executive Officers are:

Executive	Base Salary	Percentage Increase
Rahul Singhvi	$425,000	18
Len Stigliano	$259,306	3.5
Raymond J. Hage	$250,312	5
Penny M. Heaton	$292,905	10
James Robinson	$236,127	7

The increases for Dr. Singhvi and Dr. Heaton were substantially higher than the other Named Executive Officers because the Radford Report indicated that their base salaries trailed the 25th percentile of the data used in that report and were considerably below the 50th percentile target. These higher increases allow the Company to meet the overall compensation targets within the 50th percentile range and to retain highly qualified and motivated executives. In connection with this salary increase, the Compensation Committee lowered Dr. Singhvi s bonus target from 100% to 60% of his base salary.

For Named Executive Officers that were not with the Company for the full year, the merit award was pro-rated based on the executive s date of hire.

Incentive Cash Bonus

The incentive cash bonus program is designed to motivate and reward the Named Executive Officers for the achievement of specific corporate goals. The purpose of the incentive cash bonus program is to align company, departmental and individual goals throughout the Company and to provide an incentive that further ties individual contribution and teamwork to compensation.

At the time that the Board of Directors approved the 2007 Objectives, the Board also weighted each Objective. The Board outlined specific metrics to determine whether the Company achieved 75%, 100% or 125% of the Objectives. Bonuses are not awarded if 75% of the corporate objectives are not achieved.

On March 6, 2008, the Compensation Committee reviewed the Company s performance in relation to the 2007 Objectives. The Compensation Committee discussed each Objective and determined if the Company met the target, exceeded the target or did not meet the target. After this discussion, the Compensation Committee determined that the Company achieved 95% of the 2007 Objectives. The following table summarizes the Committee s conclusions regarding meeting the 2007 Objectives:

Objective	**Achievement**	**Explanation**
Advancing the H5N1 vaccine to clinical trials in humans	Exceeded objective	Human clinical trials for the H5N1 vaccine began earlier than anticipated.
Completing a non-dilutive financing transaction	Did not meet objective	The Company did not meet this objective.
Increasing VLP yield production	Exceeded objective	The Company achieved an increase in process yields that exceeded the identified goal.
Completing preclinical studies related to the seasonal flu vaccine and beginning a toxicology study	Met objective	The initial pre-clinical study for the IND filing was completed with favorable results. The FDA agreed that the safety data from the H5N1 clinical trial was applicable to the seasonal flu vaccine program.
Constructing and testing in an animal probe study the use of VLP s for certain other disease targets	Exceeded objective	Several VLP constructs were prepared to create vaccine candidates for two potential disease targets, VZV and an undisclosed target. Animal testing has begun for one disease target and patent applications were filed with respect to this research.
Various organizational development projects, such as streamlining the production of lead vaccine candidates and the production of clinical material, retaining key employees, terminating the Estrasorb supply agreement, and upgrading certain business processes	Exceeded objective	Six out of six objectives were achieved.

The target bonus is a percentage of the named executive s base salary. The target bonus percentages are determined based on market data. The 2007 bonus targets were as follows:

Executive	**Percentage of Base Salary**
Rahul Singhvi	100
Jeffrey Church	40
Len Stigliano	40

Raymond J. Hage	40
Penny M. Heaton	40
James Robinson	40

The CEO s bonus is based solely on the achievements of the 2007 Objectives. The Compensation Committee believes the higher the individual s position within Novavax, the more closely his or her bonus award should be tied to the Company s success. For all of the other Named Executive Officers, the Compensation Committee considers both corporate achievements as well as individual performance. To be eligible for a bonus, the Named Executive Officers, other than the CEO, must achieve at least a Meets Expectations on his or her annual performance review. For these Named Executive Officers, 80% of the bonus is based on corporate achievement and 20% of the bonus is based on individual performance. Based on the analysis described above, the Compensation Committee assigned a 95% achievement to the corporate objectives for 2007. The CEO determined the individual achievement percentages for each Named Executive Officer, and the bonuses were calculated accordingly.

For Named Executive Officers that were not with the Company for the full year, the bonus award was pro-rated based on the executive s date of hire. Mr. Church did not receive a bonus because he left employment with Novavax.

At the Compensation Committee meeting on March 6, 2008, Dr. Singhvi s bonus percentage was reduced from 100% to a 60% target bonus opportunity in combination with his salary increase. This was done to more accurately align his target total compensation with benchmarks within the Radford Report.

Equity Awards

Equity incentive awards are a fundamental element in the executive compensation program because they emphasize long term performance, as measured by creation of stockholder value, and foster a commonality of interest between stockholders and key executives. In addition, they are crucial to a competitive compensation program for Named Executive Officers because they act as a powerful retention tool. The Compensation Committee views the Company as still facing significant risk, but with a potential for a high upside. Equity incentive awards are designed to provide the most meaningful component of executive compensation. The Named Executive Officers are motivated by the potential appreciation in the stock price above the exercise price of the stock options. To encourage continued employment, stock option grants to the Named Executive Officers typically include options that require the executive to remain a Novavax employee for three years before the options are fully vested. In addition, the Compensation Committee also awards options that vest as the Named Executive Officer achieves certain milestones. The Compensation Committee believes it is important to tie the long-term benefit potentially realizable by the executive to a long term commitment with Novavax.

Equity incentive awards may include stock options, stock appreciation rights, restricted or unrestricted stock awards, stock equivalent units and any other stock based awards under Section 162(m) of the Internal Revenue Code. Traditionally, the Company grants stock options as the primary form of equity compensation, but does, at times, grant restricted stock. Restricted stock grants are used at times to attract and retain key executive officers. Restricted grants are typically based on critical milestones to be achieved over a period of time or vest over three years.

Annual stock option grants are awarded to the Named Executive Officers at the discretion of the Compensation Committee. The Compensation Committee considered Company performance, competitive data and the individual s scope of responsibility and continuing performance.

To be eligible to receive an award of stock options, the Named Executive Officer must have an overall performance rating of at least Meets Expectations. In March 2007, the stock options awarded to the Named Executive Officers were awarded in amounts intended to replenish options that had vested during the previous year. The Compensation Committee felt that this practice furthered the goals of retention and aligning the Named Executive Officer s interest with the Company s stockholders.

Perquisites and Other Personal Benefits

The Company provides the Named Executive Officers with certain perquisites and other personal benefits that the Compensation Committee believes are reasonable and consistent with the overall compensation program and with competitive practice in the industry.

Novavax provides reimbursement for relocation and commuting expenses to certain Named Executive Officers due in part to the Company s relocation from Malvern, PA and in part to the limited pool of resources in the local area with the knowledge, skill and expertise needed to fulfill the Company s complex requirements. These expenses are typically grossed up to reimburse the Named Executive Officers for state and federal income taxes imposed on the relocation and commuting and lodging expenses. The Compensation Committee believes this is necessary so as to not provide a financial hardship on the executive during the transition process to Novavax.

In connection with joining the Company, Dr. Singhvi received a signing bonus of $55,000, which was designed to reimburse Dr. Singhvi for education costs paid by a previous employer which had become Dr. Singhvi s responsibility in connection with leaving that employer. The amount of such bonus was amortized in 2007 for accounting purposes and is reflected in the Summary Compensation Table. The Company grossed up the signing bonus to reimburse Dr. Singhvi for state and federal income taxes imposed on the signing bonus.

All of the Named Executive Officers are eligible to participate in the Company s employee benefit plans, including health, dental and vision insurance, a prescription plan, flexible spending accounts, short and long term disability, life insurance and a 401(k) plan. The Company matches 25% up to 6% of the Named Executive Officers contributions to the 401(k) plan. These plans are offered to all employees and do not discriminate in favor of Named Executive Officers.

Employment Agreements and Severance Benefits

The Company has entered into employment agreements with Dr. Singhvi, Mr. Church, Mr. Stigliano and Mr. Hage. The Company has also provided offer letters to Dr. Heaton and Mr. Robinson. The employment agreements and Dr. Heaton s offer letter provide for certain payments if the Named Executive Officer is terminated by the Company without cause. The terms of these agreements are described in greater detail in the section entitled Overview of Employment and Change of Control Agreements. All of the Named Executive Officers are at will employees.

The Company has established a Change in Control Severance Benefit Plan, which provides for severance payments to participating employees if the participant s employment is terminated in connection with a change in control. This plan is described in greater detail in the section entitled Overview of Employment and Change of Control Agreements. The Compensation Committee believes it is important to provide such employees with an incentive to remain with the Company and consummate a strategic corporate sale or transaction that maximizes stockholder value. All of the Named Executive Officers participate in the Change in Control Severance Benefit Plan.

Tax and Accounting Implications

As part of its role, the Compensation Committee considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that the Company may not deduct non-performance based compensation of more than $1 million that is paid to certain executives. The Compensation Committee has considered the $1 million limit for federal income tax purposes on deductible executive compensation that is not performance based and believes that the compensation paid is generally fully deductible for federal income tax purposes. However, in certain situations, the Compensation Committee may approve compensation that will not meet these requirements in order to ensure competitive levels of total compensation for the Company s executive officers.

SUMMARY COMPENSATION TABLE

The following table sets forth information concerning the compensation earned during the fiscal years ended December 31, 2007 and 2006 by the Company s Chief Executive Officer, each person who served as the Chief Financial Officer during 2007, and the three other most highly compensated individuals serving as executive officers on December 31, 2007 (collectively, the Named Executive Officers):

Name and Principal Position	Year	Salary (4)	Bonus (5)	Stock Awards (8)	Option Awards (9)	Non-Equity Incentive Plan Compensation (10)	All Other Compensation (11)	Total
Rahul Singhvi, ScD.,MBA	2007	350,038	0	124,166	156,001	332,500	66,282	1,028,987
President & Chief Executive Officer	2006	337,510	0	117,778	331,283	100,000	117,409	1,003,980
Len Stigliano(1)	2007	182,015	7,200(6)	0	29,666	72,659	21,814	313,354
VP, Treasurer & Chief Financial Officer	2006	0	0	0	0	0	0	0
Jeffrey Church(2)	2007	88,459	0	(11,472)(7)	(48,309)(7)	0	322	29,000
Former VP, Treasurer, Secretary and CFO	2006	79,939	10,000(7)	11,472	48,309	23,022	0	172,742
Raymond J. Hage	2007	235,581	0	35,167	112,068	87,729	24,365	494,910
SVP of Commercial Operations	2006	225,286	0	35,167	128,717	81,103	2,632	472,905
Penny M. Heaton	2007	261,704	0	34,333	167,610	99,087	44,115	606,849
VP & Chief Medical Officer	2006	58,711	0	8,583	25,150	19,022	0	111,466
James Robinson(3)	2007	176,730	0	29,931	71,554	67,864	2,640	348,719
VP of Technical & Quality Control Operations	2006	0	0	0	0	0	0	0

(1) Mr. Stigliano was appointed as Interim Chief Financial Officer of the Company on April 9, 2007 and was appointed Vice President, Treasurer and Chief Financial Officer of the Company on August 2, 2007.

(2) Mr. Church resigned as the Company s Vice President, Treasurer, Secretary and Chief Financial Officer effective April 20, 2007.

(3) Mr. Robinson was appointed Vice President, Technical Operations and Quality Operations of the Company effective March 14, 2007.

(4) Includes amounts earned but deferred at the election of the Named Executive Officer, such as salary deferrals under the Company s 401(k) plan established under Section 401(k) of the Internal Revenue Code.

(5) Performance-based bonuses are generally paid under the Company s incentive cash bonus program and reported as Non-Equity Incentive Plan Compensation. Except as otherwise noted, amounts reported

as Bonus represent discretionary bonuses awarded by the Compensation Committee in addition to any amount earned under the incentive cash bonus program.

(6) Consists of a bonus paid to Mr. Stigliano for his performance while serving as Interim Chief Financial Officer.

(7) Consists of a signing bonus paid to Mr. Church when he joined Novavax. Mr. Church repaid the bonus upon his separation from the Company. In connection with his separation, the Company also reversed the dollar amount recognized for financial reporting purposes in accordance with SFAS No. 123R for stock awards and stock option grants awarded to Mr. Church.

(8) Reflects the dollar amount recognized for financial reporting purposes in accordance with FAS 123(R) and thus may include amounts from

stock awards granted in and prior to the respective year. Expense recognized for financial reporting purposes is recognized on a straight-line basis over the vesting period based on the fair value of the award on the date of grant. The fair value of the stock grants is based on the quoted market price for the Company s common stock on the date of grant. Assumptions used in the calculation of this amount for years ended December 31, 2006 and 2007 are included in Note 9 to the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 17, 2008.

(9) Reflects the dollar amount recognized for financial reporting purposes in accordance with SFAS No. 123R and thus may include amounts from option awards granted in and prior to the respective year. Expense

recognized for financial reporting purposes equals the number of shares attributable to the respective year of service multiplied by the fair value per share of the stock award as of the date of grant. Assumptions used in the calculation of this amount for years ended December 31 2006 and 2007 are included in Note 9 to the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 17, 2008.

(10) Represents bonus amounts earned in 2007 and 2006 under the Company s incentive cash bonus program. For a description of the incentive cash bonus program, see page 24 of the Compensation Discussion and Analysis.

(11) See the All Other Compensation table below for additional information.

All Other Compensation

Novavax provides the Named Executive Officers with additional benefits, reflected in the All Other Compensation table below for 2007, that the Company believes are reasonable, competitive and consistent with the Company s overall executive compensation program. For more information regarding the perquisites paid by Novavax, see page 26 of the Compensation Discussion and Analysis.

	Insurance Premiums (1)	Company 401(k) Contributions (2)	Relocation Expenses (3)	Commuting Expenses (4)	Amortization of Sign on Bonus (5)	Tax Gross Ups (6)	Total
Rahul Singhvi	420	3,375	13,517	0	17,870	31,100	66,282
Len Stigliano	1,501	938	0	13,656	0	5,719	21,814
Jeffrey Church	322	0	0	0	0	0	322
Raymond J. Hage	420	2,366	15,289	0	0	6,290	24,365
Penny M. Heaton	420	3,375	0	28,418	0	11,902	44,115
James Robinson	499	1,169	972	0	0	0	2,640

(1) Represents the incremental cost to the Company of life insurance premiums to provide term life insurance benefits to the Named Executive Officers in the amount of two times the executive s base salary, up to a maximum of $400,000.

(2) Represents employer matching contributions to the Company s 401(k) plan.

(3) Represents the reimbursement of relocation expenses.

(4)

Represents the reimbursement of commuting and lodging expenses

(5) Represents the amount of a $54,000 signing bonus received by Dr. Singhvi upon joining the Company that was amortized in 2007 for accounting purposes. The signing bonus was designed to reimburse Dr. Singhvi for education costs paid by a previous employer, which had become Dr. Singhvi s responsibility in connection with his leaving that employer.

(6) Includes amounts paid to reimburse the Named Executive Officers for state and federal income taxes imposed on relocation, commuting and lodging expenses and the signing bonus paid to Dr. Singhvi.

GRANTS OF PLAN BASED AWARDS TABLE

The following table sets forth information with respect to option awards and other plan-based awards granted during the fiscal year ended December 31, 2007 to the Company s Named Executive Officers:

	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)							
Name	**Threshold**	**Target**	**Maximum**	**Grant Date**	**All Other Stock Awards: Number of Shares of Stock**	**All Other Option Awards: Number of Securities Underlying Options**	**Exercise or Base Price of Option Awards (2)**	**Grant Date Fair Value of Stock and Option Awards (3)**
Rahul Singhvi	262,500	350,000	437,500	3/7/2007		100,000	$2.77	$206,030
Len Stigliano	75,000	100,000	125,000	7/2/2007		225,000	$2.98	$500,782
Jeffrey Church	74,754	99,672	124,590	3/7/2007		25,000	$2.77	$ 51,507
Raymond J. Hage	71,518	95,357	119,196	3/7/2007		75,000	$2.77	$154,522
Penny M. Heaton	78,872	105,162	131,453	3/7/2007		40,000	$2.77	$ 82,412
James Robinson	66,000	88,000	110,000	3/7/2007	35,000			$ 96,950
				3/7/2007		160,000	$2.77	$329,648

(1) The amounts reflect the minimum payment level under the cash bonus program which is 75% of the target amount. If 75% of the 2007 Objectives was not achieved, a cash bonus would not have been paid. The maximum amount is 125% of the target amount. The Compensation Committee reviewed the Company s performance in

relation to the 2007 Objectives and determined that the Company met 95% of the Objectives. The target amount is based on the individual s current salary and represents 100% of Dr. Signhvi s base salary and 40% of the base salary of each of Mr. Stigliano, Mr. Church, Mr. Hage, Ms. Heaton and Mr. Robinson. Mr. Church did not receive a bonus because he terminated his employment with the Company.

(2) Options granted have an exercise price equal to the fair market value of the Company s Common Stock on the date of grant which, under the Company s 2005 Stock Incentive Plan, is equal to the closing price of the Company s Common Stock as reported on the NASDAQ Global Market on the date of

grant.

(3) Reflects the dollar amount the Company would expense in its financial statement over the award vesting schedule recognized for financial reporting purposes in accordance with SFAS No. 123R. Assumptions used in the calculation of this amount are included in Note 9 to the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 17, 2008.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth certain information with respect to the value of all unexercised options previously awarded to the Company s Named Executive Officers as of December 31, 2007:

		Option Awards				Stock Awards	
Name	Grant Date	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Options Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares of Stock That Have Not Vested	Market Value of Shares That Have Not Vested (6)(7)
Rahul Singhvi	4/6/2004	85,000		$6.18	4/6/2014(1)		
	2/24/2005	30,000	15,000	$2.21	2/24/2015(1)		
	3/31/2005	33,333	16,667	$1.41	3/31/2015(1)		
	5/4/2005	20,000	10,000	$1.48	5/4/2015(2)		
						11,261	$ 37,499
	8/10/2005	100,000	50,000	$0.74	8/10/2015(2)		
						41,667	$ 38,751
	8/26/2005	300,000	200,000	$1.34	8/26/2015(3)		
	2/17/2006	50,000	50,000	$4.60	2/17/2016(4)		
						33,333	$110,999
	3/7/2007		100,000	$2.77	3/17/2017(2)		
Len Stigliano	7/2/2007		225,000	$2.98	7/2/2017(2)		
Jeffrey Church(8)							
Raymond J. Hage	1/5/2004	50,000		$6.00	1/5/2014(1)		
	3/9/2004	25,000		$5.95	3/9/2014(1)		
	2/24/2005	30,000	15,000	$2.21	2/24/2015(1)		
	5/4/2005	16,667	8,333	$1.48	5/4/2015(2)		
						11,261	$ 37,499
	8/10/2005	66,667	33,333	$0.74	8/10/2015(2)		
						25,000	$ 83,250
	8/26/2005	54,000	36,000	$1.34	8/26/2015(3)		
	2/17/2006	16,667	33,333	$4.60	2/17/2016(2)		
	3/7/2007		75,000	$2.77	2/17/2017(2)		
Penny M. Heaton	10/9/2006	64,000	96,000	$4.12	10/9/2016(5)		
						16,666	$ 55,498
	3/7/2006		40,000	$2.77	3/7/2017(2)		

James Robinson	3/7/2007	160,000	$2.77	3/7/2017(2)			
						35,000	$116,550

(1) These options were awarded under the Company s 1995 Stock Incentive Plan and vest in three equal increments on the first three anniversaries of the date of grant.

(2) These options were awarded under the Company s 2005 Stock Incentive Plan and vest in three equal increments on the first three anniversaries of the date of grant.

(3) These options were awarded under the Company s 2005 Stock Incentive Plan and vest (i) with respect to 20% of the shares, when the market capitalization of the Company exceeded $150 million; (ii) with respect to 20% of the shares, when the market capitalization of the Company exceeded $250 million; (iii) with respect

to 20% of the shares, when the market capitalization of the Company exceeded $350 million; (iv) with respect to 20% of the shares, when $35 million principal amount of convertible notes made by the Company in favor of certain institutional investors are redeemed or repaid in full; and (v) with respect to 20% of the shares, when a Change in Control occurs.

(4) These options were awarded under the Company s 2005 Stock Incentive Plan and vest (i) with respect to 25% of the shares, when the market capitalization of the Company exceeded $250 million; (ii) with respect to 25% of the shares, when the market capitalization of the Company exceeded $350 million; (iii) with respect to 25% of the

shares, when $35 million principal amount of convertible notes made by the Company in favor of certain institutional investors are redeemed or repaid in full; and (iv) with respect to 25% of the shares, when a Change in Control occurs.

(5) The options vest in five equal tranches upon the achievement of certain milestones related to the Company s vaccine development efforts.

(6) These restricted stock grants were awarded under the Company s 2005 Stock Incentive Plan and vest in three equal increments on the first three anniversaries of the date of grant.

(7) Based on the closing price of the Company s Common Stock of $3.33 as reported on the

NASDAQ Global Market System on December 31, 2007.

(8) Mr. Church resigned as Vice President, Treasurer, Secretary and Chief Financial Officer of the Company effective April 20, 2007. All unvested options (225,000) and restricted stock awards (25,000) were cancelled upon his date of resignation.

OPTIONS EXERCISED AND STOCK VESTED TABLE

The following table sets forth certain information concerning the vesting of the Company s Common Stock held by the Named Executive Officers during the fiscal year ended December 31, 2007:

	Stock Awards	
Name	Number of Shares Acquired On Vesting	Value Realized On Vesting(1)
Rahul Singhvi	11,261	$ 37,161
	41,666	$132,498
	16,666	$ 65,997
Len Stigliano		
Jeffrey Church		
Raymond J. Hage	11,261	$ 37,161
	25,000	$ 79,500
Penny M. Heaton	8,333	$ 31,665
James Robinson		

(1) Based on the closing price of the Company s Common Stock, as reported on the NASDAQ Global Market on the date on which the stock vested, or, if the stock vested on a weekend or holiday, the closing price of the stock on the next day the Company s stock was traded.

OVERVIEW OF EMPLOYMENT AND CHANGE OF CONTROL AGREEMENTS

Employment Agreement with Rahul Singhvi

In November 2005 and amended in August 2007, the Company entered into an employment agreement with Dr. Singhvi which provides that Dr. Singhvi will devote his full business time to the performance of services as the President and Chief Executive Officer of the Company. The agreement expires on September 1, 2009, unless earlier terminated and may be renewed upon the agreement of the Company and Dr. Singhvi.

Dr. Singhvi s employment agreement provides for a base salary of $350,000, subject to annual performance reviews. In addition, he is entitled to receive a performance and incentive bonus each year, in an amount to be determined by the Board, or any committee thereof authorized to make such determination, which is based on Dr. Singhvi s and the Company s achievement of certain specified goals. The target bonus to which Dr. Singhvi is entitled was initially 100% of his salary. In 2008, the Compensation Committee decreased this amount to 60% of base salary in connection

with the increase to Dr. Singhvi s salary. The bonus may be paid partly in cash and partly in shares of restricted stock in the discretion of the Board.

On July 23, 2007, the Company agreed to reimburse Dr. Singhvi for the costs of relocating from Pennsylvania to Maryland in connection with the move of the Company s headquarters in an amount not to exceed $225,000, inclusive of any tax gross ups.

Dr. Singhvi is also entitled to additional stock awards based upon performance and subject to the Board s approval, reimbursement of reasonable expenses incurred by him in connection with the performance of his duties, and to participate in the Company s Severance Plan (discussed below).

If Dr. Singhvi is terminated without cause or leaves the Company for good reason (as such terms are defined in Dr. Singhvi s employment agreement), Dr. Singhvi may receive a lump sum separation payment equal to twelve (12) months of his then current salary. To be entitled to such a payment, Dr. Singhvi must execute and deliver to the Company a separation and release agreement, releasing the Company from any claims.

Dr. Singhvi has agreed to maintain the confidentiality of the Company s proprietary information, and that all work product discovered or developed by him in the course of his employment belongs to the Company. In addition, he has agreed not to compete with the Company, directly or indirectly, within the United States or interfere with or solicit the Company s contractual relationships, in each case during the term of his employment and for a period of one year following the termination of his employment.

Employment Agreement with Len Stigliano

In July 2007 and amended in August 2007, the Company entered into an employment agreement with Mr. Stigliano which provides that Mr. Stigliano will devote his full business time to the performance of services as the as Vice President, CFO and Treasurer of the Company. The agreement expires on July 1, 2008, unless earlier terminated and may be renewed upon the agreement of the Company and Mr. Stigliano.

Mr. Stigliano s employment agreement provides for a base salary of $250,000, subject to annual performance reviews upon the completion of the year end audit. He is also entitled to receive a performance and incentive bonus each year, in an amount to be determined by the Board, or any committee thereof authorized to make such determination, which is based on Mr. Stigliano s and the Company s achievement of certain specified goals. The target bonus to which Mr. Stigliano is entitled is 40% of his salary. The bonus may be paid partly in cash and partly in shares of restricted stock in the discretion of the Board.

The Company has agreed to reimburse Mr. Stigliano for travel and lodging expenses incurred in his commute from Pennsylvania, in an amount not to exceed $25,000 per year. In addition, the Company will reimburse Mr. Stigliano for state and federal income taxes imposed on these reimbursable expenses.

Mr. Stigliano is also entitled to additional stock awards based upon performance and subject to the Board s approval, reimbursement of reasonable expenses incurred by him in connection with the performance of his duties, and to participate in the Company s Severance Plan (discussed below).

If Mr. Stigliano is terminated without cause (as such term is defined in Mr. Stigliano s employment agreement), Mr. Stigliano may receive a lump sum separation payment equal to six (6) months of his then current salary. To be entitled to such a payment, Mr. Stigliano must execute and deliver to the Company a separation and release agreement, releasing the Company from any claims.

Mr. Stigliano has agreed to maintain the confidentiality of the Company s proprietary information, and that all work product discovered or developed by him in the course of his employment belongs to the Company. In addition, he has agreed not to compete with the Company, directly or indirectly, within the United States or interfere with or solicit the Company s contractual relationships, in each case during the term of his employment and for a period of one year following the termination of his employment.

Employment Agreement with Jeffrey Church

Effective April 20, 2007, the employment agreement between Mr. Church and the Company was terminated. Because Mr. Church was not terminated for cause and did not resign for good reason, he was not entitled to, and did not receive, any severance payment upon his termination. Mr. Church was required to repay his signing bonus in full in connection with his termination.

Employment Agreement with Raymond Hage

In November 2005 and amended in August 2007, the Company entered into an employment agreement with Mr. Hage which provides that Mr. Hage will devote his full business time to the performance of services as the Senior Vice President of Commercial Operations of the Company. The agreement expires on September 1, 2008, unless earlier terminated and may be renewed upon the agreement of the Company and Mr. Hage.

Mr. Hage employment agreement provides for a base salary of $238,392, subject to annual performance reviews. In addition, he is entitled to receive a performance and incentive bonus each year, in an amount to be determined by the Board, or any committee thereof authorized to make such determination, which is based on Mr. Hage s and the Company s achievement of certain specified goals. The target bonus to which Mr. Hage is entitled is 40% of his salary. The bonus may be paid partly in cash and partly in shares of restricted stock in the discretion of the Board.

On July 23, 2007, the Company agreed to reimburse Mr. Hage for the costs of relocating from Pennsylvania to Maryland in connection with the move of the Company s headquarters in an amount not to exceed $100,000, inclusive of any tax gross ups.

Mr. Hage is also entitled to additional stock awards based upon performance and subject to the Board s approval, reimbursement of reasonable expenses incurred by him in connection with the performance of his duties, and to participate in the Company s Severance Plan (discussed below).

If Mr. Hage is terminated without cause or leaves the Company for good reason (as such terms are defined in Mr. Hage s employment agreement), Mr. Hage may receive a lump sum separation payment equal to six (6) months of his then current salary. To be entitled to such a payment, Mr. Hage must execute and deliver to the Company a separation and release agreement, releasing the Company from any claims.

Mr. Hage has agreed to maintain the confidentiality of the Company s proprietary information, and that all work product discovered or developed by him in the course of his employment belongs to the Company. In addition, he has agreed not to compete with the Company, directly or indirectly, within the United States or interfere with or solicit the Company s contractual relationships, in each case during the term of his employment and for a period of six months following the termination of his employment.

Offer Letter to Penny Heaton

On September 6, 2006, the Company and Dr. Heaton entered into an offer letter, pursuant to which Dr. Heaton was hired as the Company s Chief Medical Officer. Dr. Heaton s arrangement provided for a base salary of $258,000, subject to annual performance reviews. In addition, she is entitled to receive a performance and incentive bonus each year, in an amount to be determined by the Board, or any committee thereof authorized to make such determination, which is based on Dr. Heaton s and the Company s achievement of certain specified goals. The target bonus to which Dr. Heaton is entitled is 40% of her salary.

Dr. Heaton is also entitled to reimbursement of reasonable expenses incurred by her in connection with the performance of her duties, including professional society fees and weekly literature services and to participate in the Company s Severance Plan (discussed below). Dr. Heaton is permitted to work from home at times, but has agreed to work from Novavax s headquarters at least three days a week. The Company also agreed to reimburse Dr. Heaton for lodging expenses when she joined Novavax. From March 2007 through March 2008, the Company paid $1,733 per month for a lease of an apartment. The Company has since stopped paying this expense.

If Dr. Heaton is terminated without cause (as such terms are defined Dr. Heaton s offer letter), Dr. Heaton is entitled to a separation payment equal to six (6) months of her then current salary, payable in accordance with the Company s payroll practices. To receive such a payment, Dr. Heaton must execute and deliver to the Company a separation and release agreement, releasing the Company from any claims.

Offer Letter to Jim Robinson

On February 19, 2007, the Company and Mr. Robinson entered into an offer letter, pursuant to which Mr. Robinson was hired as the Company s Vice President, Technical and Quality Operations. Mr. Robinson s arrangement provided for a base salary of $222,000, subject to annual performance reviews. In addition, he is entitled to receive a performance and incentive bonus each year, in an amount to be determined by the Board, or any committee thereof authorized to make such determination, which is based on Mr. Robinson s and the Company s achievement of certain specified goals. The target bonus to which Mr. Robinson is entitled is 40% of his salary.

Mr. Robinson is entitled to reimbursement of reasonable expenses incurred by him in connection with the performance of his duties and to participate in the Company s Severance Plan (discussed below).

Amended and Restated Change in Control Severance Benefit Plan

In August 2005, the Board of Directors adopted a Change of Control Severance Benefit Plan (the Severance Plan). The Severance Plan was amended in July 2006, as described below. The purpose of the Severance Plan is to provide severance pay and benefits to a select group of employees whose employment with the Company may be terminated following a change in control event, to provide such employees with an incentive to remain with the Company and help the Company consummate a strategic corporate sale or transaction that maximizes stockholder value. Participants in the Severance Plan are recommended by the President and CEO and approved by the Board of Directors. Selected participants with existing severance agreements will be given the choice to elect coverage under the Severance Plan or under their existing agreements, whichever is more favorable. Each of the Named Executive Officers that are currently officers of the Company participate in the Severance Plan. Mr. Church was a participant in the Severance Plan while employed by the Company and was not entitled to any severance benefits when he terminated his employment.

The Severance Plan provides for the payment of benefits upon certain triggering events. A triggering event occurs if a participant s employment is terminated due to an Involuntary Termination without Cause for a reason other than death or disability or as a result of a Constructive Termination which occurs either (i) for a certain period (not to exceed 24 months) after the effective date of a Change in Control or (ii) before the Change in Control but after the first day on which the Board and/or senior management of the Company has entered into formal negotiations with a potential acquirer that results in the consummation of the Change In Control. The specific period of time following the effective date of a Change in Control during which payment of benefits under the Severance Plan may be triggered is as follows:

Executive	Severance Period
Rahul Singhvi	24 months
Len Stigliano	12 months
Raymond J. Hage	12 months
Penny M. Heaton	12 months
James Robinson	12 months

If a triggering event occurs, the participant is entitled to a lump sum severance payment, a bonus equal to 100% of the target annual performance bonus for the period in which the termination date occurred, and continuation of medical, dental, vision and hospitalization benefits for a certain period of time.

Executive	Severance Payment	Continuation of Benefits Period
Rahul Singhvi	24 months salary	24 months
Len Stigliano	12 months salary	12 months
Raymond J. Hage	12 months salary	12 months
Penny M. Heaton	12 months salary	12 months
James Robinson	12 months salary	12 months

Initially, the Severance Plan provided that all outstanding equity awards held by participants became vested and exercisable upon a change in control of the Company (a Single Trigger Acceleration). In July 2006, the board amended and restated the Severance Plan to provide that, upon a termination of employment following a Change in Control, all awards granted thereafter and held by participants shall become vested and exercisable in full (a Double Trigger Acceleration). In April 2007, the Compensation Committee recommended and the Board of Directors adopted revised stock option agreements, restricted stock agreements and restricted stock unit agreements for all awards made in March 2007 and thereafter that provide for Double Trigger Acceleration to conform with the amended Severance Plan. This action did not alter awards granted before March 2007. The Severance Plan provides that all vested and exercisable options may be exercised within one year from the participant s termination date, provided however that no exercise may occur later than the expiration date of the option as set forth in the applicable option agreement.

As used herein, the terms Involuntary Termination without Cause, Constructive Termination and Change in Control shall have the following meanings:

Involuntary Termination without Cause means the termination of an Eligible Employee s employment which is initiated by the Company for a reason other than Cause.

Cause means (i) conviction of, a guilty plea with respect to, or a plea of nolo contendere to a charge that the Eligible Employee has committed a felony under the laws of the United States or of any state or a crime involving moral turpitude, including, but not limited to, fraud, theft, embezzlement or any crime that results in or is intended to result in personal enrichment at the expense of the Company; (ii) material breach of any agreement entered into between the Eligible Employee and the Company that impairs the Company s interest therein; (iii) willful misconduct, significant failure to perform the Eligible Employee s duties, or gross neglect by the Eligible Employee of the Eligible Employee s duties; or (iv) engagement in any activity that constitutes a material conflict of interest with the Company.

Constructive Termination means a termination initiated by an Eligible Employee because any of the following events or conditions have occurred:

(a) a change in the employee s status, title, position or responsibilities (including reporting responsibilities) which represents an adverse change from the employee s status, title, position or responsibilities as in effect immediately preceding the effective date of a Change in Control or at any time thereafter; the assignment to the employee of any duties or responsibilities which are inconsistent with the employee s status, title, position or responsibilities as in effect immediately preceding the effective date of a Change in Control or at any time thereafter; except in connection with the termination

of the employee s employment for Cause or the termination of an employee s employment because of an employee s disability or death, or except as the result of a voluntary termination by the employee other than as a result of a Constructive Termination;

(b) a reduction in the employee s pay or any failure to pay the employee any compensation or benefits to which the employee is entitled within five (5) days of the date due;

(c) the Company s requiring the employee to relocate his principal worksite to any place outside a thirty (30) mile radius of the employee s current worksite, except for reasonably required travel on the business of the Company or its affiliates

which is not materially greater than such travel requirements prior to the Change in Control;

(d) the failure by the Company to (A) continue in effect (without reduction in benefit level and/or reward opportunities) any material compensation or employee benefit plan in which the employee was participating immediately preceding the effective date of a Change in Control or at any time thereafter, unless such plan is replaced with a plan that provides substantially equivalent compensation or benefits to the employee, or (B) provide the employee with compensation and benefits, in the aggregate, at least equal (in terms of benefit levels and/or reward opportunities) to those provided

for under each other employee benefit plan, program and practice in which the employee was participating immediately preceding the date of a Change in Control or at any time thereafter;

(e) the insolvency or the filing (by any party, including the Company) of a petition for bankruptcy of the Company, which petition is not dismissed within sixty (60) days;

(f) any material breach by the Company of any provision of the Severance Plan; or

(g) the failure of the Company to obtain an agreement, satisfactory to the employee, from any successors and assigns to assume and agree to perform the obligations created under this Plan as a result of a

Change in
Control.

Change in Control means (i) a sale, lease, license or other disposition of all or substantially all of the assets of the Company; (ii) a consolidation or merger of the Company with or into any other corporation or other entity or person, or any other corporate reorganization, in which the stockholders of the Company immediately prior to such consolidation, merger or reorganization, own less that fifty percent (50%) of the outstanding voting power of the surviving entity and its parent following the consolidation, merger or reorganization; (iii) any transaction or series of related transactions involving a person or entity, or a group of affiliated persons or entities (but excluding any employee benefit plan or related trust sponsored or maintained by the Company or an affiliate) in which such persons or entities that were not stockholders of the Company immediately prior to their acquisition of Company securities as part of such transaction become the owners, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company s then outstanding securities other than by virtue of a merger, consolidation or similar transaction and other than as part of a private financing transaction by the Company; or (iv) a Change in the Incumbent Board. For purposes of the Severance Plan, a Change in the Incumbent Board shall occur if the existing members of the Board on the date this Plan is initially adopted by the Board (the Incumbent Board) cease to constitute at least a majority of the members of the Board, provided, however, that any new Board member shall be considered a member of the Incumbent Board for this purpose if the appointment or election (or nomination for such election) of the new Board member was approved or recommended by a majority vote of the members of the Incumbent Board who are then still in office.

Regular Termination Benefits

In addition to the benefits described above, the Named Executive Officers are also entitled to certain payments and benefits upon termination of employment that are provided on a non-discriminatory basis to salaried employees generally upon termination of employment. These include:

Accrued salary and vacation pay;

Life insurance; and

Distribution of plan balances under the Company s 401(k) plan.

POTENTIAL PAYMENTS UPON TERMINATION

Termination without Cause

Dr. Singhvi, Mr. Stigliano, Mr. Hage and Dr. Heaton have arrangements with Novavax that provide for a cash severance payment if the executive is terminated without cause. All vested and exercisable stock options must be exercised within three months following the termination date. If such termination had occurred on December 31, 2007, the Company would have made the following payments:

Executive	Severance Payment
Rahul Singhvi	$350,000
Len Stigliano	$125,000
Raymond Hage	$119,196
Penny Heaton	$131,453

Cause is defined to mean (i) the executive s willful failure or refusal to perform in all material respects the services required by him; (ii) executive s willful failure or refusal to carry out any proper and material direction by the President and CEO or Board of Directors with respect to the services to be rendered by him or the manner of rendering such services; (iii) executive s willful misconduct or gross negligence in the performance of his duties; (iv) executive s commission of an act of fraud, embezzlement or theft or felony involving moral turpitude, (v) executive s use of confidential information, other than for the benefit of the Company in the course of rendering services to the Company or (iv) a breach of executive s non-competition obligations.

Termination for Good Reason

Dr. Singhvi and Mr. Hage have employment agreements with Novavax that provide for a lump sum cash severance payment if the executive terminates his employment for good reason. All vested and exercisable stock options must be exercised within three months following the termination date. If such termination had occurred on December 31, 2007, the Company would have made the following payments:

Executive	Severance Payment
Rahul Singhvi	$350,000
Raymond Hage	$119,196

Good Reason is defined to mean the Company s material reduction or diminution of executives responsibilities and authority, other than for cause, without his consent.

Termination for Cause

In the event a Named Executive Officer is terminated for cause, the Company has no further obligation to the executive other than the obligation to pay any unpaid base salary accrued through the termination date. All vested and exercisable stock options must be exercised within three months following the termination date.

Termination as a Result of Death or Disability

In the event a Named Executive Officer is terminated for death or disability, the Company has no further obligation to the executive other than the obligation to pay any unpaid base salary accrued through the termination date. If the executive dies while in the employ of the Company (or within three months after the date on which the executive ceases to be an employee) vested and exercisable options may be exercised by the executive s estate for one year following the executive s death. If the executive becomes disabled while in the employ of the Company, vested and exercisable options may be exercised by the executive for a period of one year after the executive ceases to be an employee due to a disability.

Termination in Connection with a Change in Control

Each of the Named Executive Officers participate in the Severance Plan. The following table sets forth the payments the Company would have made had the Named Executive Officers been terminated in connection with a Change in Control in accordance with the Severance Plan:

Name	Benefit	Amount
Rahul Singhvi	Severance Payment	$ 700,000
	Bonus(1)	$ 350,000
	Equity Awards(2)	$ 650,800
	Health Insurance Benefits(3)	$ 28,134
	Total	$1,728,934
Len Stigliano	Severance Payment	$ 250,000
	Bonus(1)	$ 100,000
	Equity Awards(2)	$ 78,750
	Health Insurance Benefits(3)	$ 14,067
	Total	$ 442,817
Raymond Hage	Severance Payment	$ 238,392
	Bonus(1)	$ 95,357
	Equity Awards(2)	$ 222,905
	Health Insurance Benefits(3)	$ 14,067
	Total	$ 570,721
Penny Heaton	Severance Payment	$ 262,905
	Bonus(1)	$ 105,162
	Equity Awards(2)	$ 22,400
	Health Insurance Benefits(3)	$ 4,269
	Total	$ 394,736
James Robinson	Severance Payment	$ 220,000
	Bonus(1)	$ 88,000
	Equity Awards(2)	$ 89,600
	Health Insurance Benefits(3)	$ 0
	Total	$ 397,600

(1) Bonus equals 100% of the Named Executive Officer s target annual bonus award.

(2) Reflects the premiums for health, dental and vision coverage under the Company s group health insurance

program. Amounts are based on the premiums in effect at December 31, 2007.

(3) Represents the value of all unvested equity awards at the closing price on December 31, 2007, minus any applicable exercise price. As described above, depending on when the options were granted, certain options are Single Trigger Options and others are Double Trigger Options. For the purpose of this table, the Company has assumed that both the Change in Control and the termination occurred on December 31, 2007.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of the Annual Report:

Index to Consolidated Financial Statements

Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable, not required under the instructions or all the information required is set forth in the financial statements or notes thereto.

Exhibits

Exhibits marked with a single asterisk (*) are filed herewith.

Exhibits marked with a double plus sign ( ) refer to management contracts, compensatory plans or arrangements.

Confidential treatment has been requested for portions of exhibits marked with a double asterisk (**) and granted for portions of exhibits marked with a triple asterisk (***).

All 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 the Company (Incorporated by reference to Exhibit 3.1 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1996, filed March 21, 1997 (the 1996 Form 10-K)), as amended by the Certificate of Amendment dated December 18, 2000 (Incorporated by reference to Exhibit 3.4 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2000, filed March 29, 2001 (the 2000 Form 10-K)), as further amended by the Certificate of Amendment dated July 8, 2004 (Incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed August 9, 2004 (the 2004 2Q Form 10-Q))
3.2	Amended and Restated By-Laws of the Company (Incorporated by reference to Exhibit 3.2 to the Company s Current Report on Form 8-K, filed August 8, 2007), as amended on August 2, 2007

4.1	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))
4.2	Rights Agreement, dated as of August 8, 2002, by and between the Company and Equiserve Trust Company, which includes the Form of Summary of Rights to Purchase Series D Junior Participating Preferred Stock as Exhibit A, the Form of Right Certificate as Exhibit B and the Form of Certificate of Designation of Series D Junior Participating Preferred Stock as Exhibit C. (Incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K, filed August 9, 2002)
4.3	Registration Rights Agreement, dated as of July 16, 2004, by and between the Company and the Buyers identified therein. (Incorporated by reference to Exhibit 4.7 to the Registration Statement on Form S-3, File No. 333-118210, filed August 13, 2004)
10.1	Novavax, Inc. 1995 Stock Option Plan, as amended (Incorporated by reference to Appendix A of the Company s Definitive Proxy Statement filed March 31, 2003 in connection with the Annual Meeting held on May 7, 2003)
10.2	Novavax, Inc. 1995 Director Stock Option Plan (Incorporated by reference to Exhibit 10.5 to the Form 10)
10.3	Novavax, Inc. 2005 Stock Incentive Plan, as amended (Incorporated by reference to Exhibit A of the Company s Definitive Proxy Statement filed April 30, 2007 in connection with the Annual Meeting held on June 20, 2007)
10.4	Amended and Restated Employment Agreement, dated as of August 2, 2007, originally effective November 9, 2005, by and between the Company and Rahul Singhvi (Incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed August 9, 2007)
10.5	Amended and Restated Employment Agreement, dated as of August 2, 2007, originally effective November 9, 2005, by and between the Company and Raymond J. Hage, Jr. (Incorporated by reference to Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed August 9, 2007)
10.6	Amended and Restated Employment Agreement, dated as of August 2, 2007, originally effective July 2, 2007, by and between the Company and Len Stigliano (Incorporated by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed August 9, 2007)
10.7	Consulting Agreement, dated as of April 27, 2007, effective as of March 7, 2007, between the Company and John Lambert (Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, filed May 10, 2007)
10.8	Amended and Restated Change in Control Severance Benefit Plan, as adopted July 26, 2006 (Incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, filed November 14, 2006)
10.9	Form of Indemnity Agreement, as authorized August 10, 2005 (Incorporated by reference to Exhibit 99.2 to the Company s Current Report on Form 8-K, filed

	August 16, 2005)
10.10	Facilities Reservation Agreement, dated as of February 11, 2002, by and between the Company and Packaging Coordinators, Inc. (Incorporated by reference to Exhibit 10.13 to the 2001 Form 10-K)
10.11	Letter Agreement by and between Novavax, Inc. and Catalent Pharma Solutions, Inc., dated February 12, 2008 and effective February 19, 2008 amending the Facilities Reservation Agreement dated February 11, 2002 (Incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K, filed February 25, 2007)
10.12	Lease Agreement, dated as of July 15, 2004, between Liberty Property Limited Partnership and the Company (Incorporated by reference to Exhibit 10.1 to the 2004 2Q Form 10-Q)
10.13	Sublease Agreement, dated April 28, 2006, by and between the Company and Sterilox Technologies, Inc. (Incorporated by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, filed August 14, 2006)
10.14	Amendment dated as of October 25, 2006 to the Sublease Agreement, dated April 28, 2006, by and between the Company and Sterilox Technologies, Inc. (Incorporated by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, filed November 14, 2006)
10.15	Lease, commencing April 1, 2005, by and between United Health Care Services, Inc. and the Company (Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, filed August 9, 2005)
10.16	Sublease Agreement by and between Human Genome Sciences, Inc., and the Company dated October 6, 2006 (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K, filed December 13, 2006)
10.17	License Agreement between IGEN, Inc. and the Company (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, filed April 1, 1996)
10.18	HIV Vaccine Design and Development Agreement, effective September 26, 2003, by and between the Company and the National Institute of Allergy and Infectious Diseases, a component of the National Institutes of Health, an agency of the Department of Health and Human Services (Incorporated by reference to Exhibit 10.33 to the Company s Annual Report on Form 10-K (as amended) for the fiscal year ended December 31, 2004, filed March 15, 2005)
10.19	Form of Senior Convertible Note (Incorporated by reference to Exhibits 99.4 to the Company s Current Report on Form 8-K, filed July 19, 2004)
10.20	Amendment Agreement by and between Novavax, Inc. and Smithfield Fiduciary LLC, dated June 15, 2007 (Incorporated by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K, filed June 18, 2007)
10.21	Amendment Agreement by and between Novavax, Inc. and SF Capital Partner Ltd., dated June 15, 2007 (Incorporated by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K, filed June 18, 2007)
10.22	Amendment Agreement by and between Novavax, Inc. and Portside Growth and Opportunity Fund, dated June 15, 2007 (Incorporated by reference to Exhibit 10.3

	of the Company s Current Report on Form 8-K, filed June 18, 2007)
10.23	Exchange Agreement, dated July 16, 2004, between the Company, King Pharmaceuticals, Inc. and Parkedale Pharmaceuticals, Inc. (Incorporated by reference to Exhibit 99.5 to the Company s Current Report on Form 8-K, filed July 19, 2004)
10.24	Termination Agreement, dated as of July 16, 2004 among King Pharmaceuticals, Inc., Parkedale Pharmaceuticals, Inc. and the Company (Incorporated by reference to Exhibit 99.6 to the Company s Current Report on Form 8-K, filed July 19, 2004)
10.25	Asset Purchase Agreement, dated and entered into as of September 22, 2005, by and among the Company, Fielding Pharmaceutical Company and Pharmelle, LLC (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K, filed September 28, 2005)
10.26	Amendment dated and entered into as of July 5, 2006, to Asset Purchase Agreement, dated and entered into as of September 22, 2005, by and among the Company, Fielding Pharmaceutical Company and Pharmelle, LLC (Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter-ended September 30, 2006, filed November 14, 2006)
10.27***	Exclusive License Agreement, dated February 26, 2007, between the Company and the University of Massachusetts (Incorporated by reference to Exhibit 10.34 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed March 14, 2007)
10.28***	License Agreement, dated July 5, 2007, between the Company and Wyeth Holdings Corporation (Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, filed August 9, 2007)
10.29***	Asset Purchase Agreement by and between Novavax, Inc. and Graceway Pharmaceuticals, LLC, dated February 19, 2008 (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K, filed February 25, 2007)
10.30***	Supply Agreement by and between Novavax, Inc. and Graceway Pharmaceuticals, LLC, dated February 19, 2008 (Incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K, filed February 25, 2007)
10.31***	License Agreement by and between Novavax, Inc. and Graceway Pharmaceuticals, LLC, dated February 19, 2008 (Incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K, filed February 25, 2007)
10.32*	Forbearance and Pledge Agreement among Denis O Donnell and the Company, dated May 7, 2007, relating to Secured Promissory Note and Pledge Agreement, each dated March 21, 2002 and filed as Exhibits 10.11 and 10.12 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2002
10.33*	Amended and Restated Promissory Note by Mitchell J. Kelly to the Company, dated May 7, 2008, relating to Secured Promissory Note, dated March 21, 2002 and filed as Exhibit 10.9 to the Company s Annual Report on Form 10-K for the

	fiscal year ended December 31, 2002
10.34*	Amended and Restated Pledge Agreement among Mitchell J. Kelly and the Company, dated May 7, 2008, relating to Pledge Agreement, dated March 21, 2002 and filed as Exhibit 10.10 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2002
14	Code of Business Conduct and Ethics (Incorporated by reference to Exhibit 14 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed March 15, 2004)
23.1	Consent of Grant Thornton LLP, Independent Registered Public Accounting Firm
23.2	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
31.1*	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 *	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 UNITED STATES C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Rahul Singhvi, President and Chief Executive Officer of the Company
32.2	Certification Pursuant to 18 UNITED STATES C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Len Stigliano, Vice President, Chief Financial Officer and Treasurer of the Company

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: December 12, 2008

NOVAVAX, INC.

By: /s/ Rahul Singhvi
President and Chief Executive Officer
and Director