UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996
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.) |
| 8320 GUILFORD ROAD, COLUMBIA, MARYLAND | 21046 |
| (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) | (ZIP CODE) |

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (301) 854-3900

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

| TITLE OF EACH CLASS: | NAME OF EACH EXCHANGE ON WHICH REGISTERED: |
|---|---|
| Common Stock ($.01 par value) | American Stock Exchange |

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

None

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 [X] No [ ]

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. [ ]

The aggregate market value of the registrant's Common Stock, par value $.01 per share, held by non-affiliates of the registrant at March 20, 1997, as computed by reference to the closing price of such stock, was approximately $35,000,000.

The number of shares of the registrant's Common Stock, par value $.01 per share, outstanding at March 20, 1997 was 11,888,153 shares.

Documents Incorporated by Reference: Portions of the 1997 Novavax, Inc. Proxy Statement are incorporated by reference into Part III of this Report.

# PART I

## ITEM 1. BUSINESS

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

Historically, the focus of the Company was on the development of human vaccines, vaccine adjuvants, drug delivery technologies and anti-infective pharmaceuticals. Novavax developed several oral vaccines, two of which (ECOVAX 057(TM) and Shigella flexneri 2a) were granted Investigational New Drug Application ("IND") approvals and completed Phase I human clinical studies. Both vaccine studies were multiple dose Phase I safety trials in which no significant toxicity was noted. Although the Company began development of its pharmaceutical product candidates later than, and as byproducts of, its vaccine development, its primary emphasis is now on these pharmaceutical product candidates for the following reasons:

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

Consistent with prudent use of the Company's limited cash resources, the clinical development programs of both oral active vaccine immunization programs have been presently suspended in favor of the development of the Company's three lead pharmaceutical product candidates. The Company has the potential to develop other human pharmaceutical products utilizing its proprietary drug delivery platform technologies, dependent upon additional future capital.

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

### THE NOVAVAX TECHNOLOGY PLATFORMS

Novavax has developed proprietary topical and oral drug delivery technologies using organized lipid structures. To date, the Company has utilized its technology in the development of Novasome lipid vesicles and micellar nanoparticles ("MNPs"), which are sub-micron size lipid structures that also possess encapsulation capabilities. These structures may help in targeted delivery and controlled release. The Company believes its technologies may allow for more cost-effective delivery of a wide variety of drugs and other therapeutics than is possible with phospholipid liposomes and other delivery vehicles.

Most commercial liposomes are composed of delicate phospholipids. Due to their inherent lack of stability and carrying capacity limitations, phospholipid liposomes may only be used with a limited number of drugs. While capable of

encapsulating certain (principally water soluble) drugs, phospholipid liposomes have a number of significant disadvantages, including their expense and the need to use potentially hazardous organic solvents in their manufacture. In addition, the standard, multi-step phospholipid manufacturing process yields relatively small quantities of liposomes.



Novasome(R) Lipid Vesicles

Novasome lipid vesicles are proprietary organized lipid structures in which drugs or other materials can be encapsulated for delivery into the body topically or orally. Novasome lipid vesicles are made using the Company's patented manufacturing process from a variety of readily available chemicals called amphiphiles. IGI, the Company's former parent, currently uses Novasome lipid vesicles in a wide variety of cosmetic applications, including products sold by Estee Lauder and Revlon under such labels as Prescriptives and Almay. To date, IGI has sold hundreds of tons of products that incorporate Novasome technologies.

The Company believes Novasome lipid vesicles have a number of proprietary features that may be applicable in the delivery of human therapeutics. Because Novasome lipid vesicles consist primarily of inexpensive chemicals and the manufacturing process is a simple one, the Company believes that the manufacturing cost of Novasome lipid vesicles is less than that of phospholipid liposomes and other drug delivery vehicles. Novasome lipid vesicles also have a large, stable central core that allows them to entrap and deliver a wide variety of substances that may be too large or chemically disruptive for phospholipid liposomes. In addition, the Company is able to manipulate the structure and size of Novasome lipid vesicles in order to vary the amount and rate of drug delivery into the body. This may enable Novasome lipid vesicles to be utilized for the continuous delivery of therapeutics over extended periods of time.

Micellar Nanoparticles

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

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

## NOVAVAX PRODUCT CANDIDATES

Topical Drug Delivery

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

The Company believes that ESTRASORB may offer several advantages over existing therapies used for estrogen replacement. ESTRASORB is a lotion that may

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

In 1995, the Company completed preclinical testing of ESTRASORB in a primate model. Results of this study demonstrated that ESTRASORB can be utilized to deliver estradiol through intact skin with maintenance of therapeutic serum estradiol levels for six days after a single topical application. Based on these results, the Company initiated a Phase I human clinical trial of ESTRASORB in 10 symptomatic menopausal women. In this study, each woman received a single topical application of ESTRASORB. This study was completed in the fourth quarter of 1996 with no significant adverse experiences noted. The Company plans to



submit dose ranging clinical study plans for ESTRASORB to the United States Food and Drug Administration (the "FDA") in the first quarter of 1997.

In September, 1996, the Company completed the preclinical testing of ANDROSORB (testosterone) in its MNP transdermal drug delivery platform. In these animal models, peak blood levels of testosterone delivered by ANDROSORB were approximately three times higher than that of testosterone dissolved in ethanol. After a single topical cream application, peak serum levels of testosterone were as high as 35 nanograms per milliliter and persisted in the therapeutic range for 48 hours.

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

The Company believes that ANDROSORB may offer several advantages over current testosterone replacement therapies. ANDROSORB is a lotion that may be applied to the skin. This would eliminate the need for intramuscular injections. In addition, ANDROSORB does not contain materials that may cause the skin irritation associated with transdermal patches. As a result of its successful pre-clinical studies with ANDROSORB, the Company filed for and received an IND with the FDA in the fourth quarter of 1996. The Company has initiated a Phase I human clinical study in 10 testosterone deficient males. In this safety study, each male will receive a single topical application of ANDROSORB.

In September, 1996, the Company also completed the preclinical testing of PROGESTSORB(TM) (progesterone) in its MNP transdermal drug delivery platform. PROGESTSORB was as effective as ethanol for delivery of progesterone transdermally. A single topical cream application of PROGESTSORB provided peak serum levels of 10 nanograms per milliliter, which persisted in the therapeutic range for 48 hours. The Company is developing an estrogen-progesterone product candidate in its MNP transdermal delivery system for preclinical testing.

With its MNP transdermal drug delivery platform, the Company has now completed preclinical studies on three drugs (estradiol, testosterone and progesterone). Novavax plans to proceed with clinical development of these pharmaceutical products. The Company believes its MNP and other technologies are suitable for the delivery of additional alcohol soluble, as well as other, drugs through the skin.

Helicore Anti-microbial Preparations

The Company has developed proprietary lipid structure formulations that it is using in the development of a non-antibiotic anti-bacterial preparation for the treatment of Helicobacter pylori ("H. pylori") infection in humans.

H. pylori was recognized in 1994 by the National Institutes of Health (the "NIH") as a causative agent of peptic ulcer disease, antral gastritis and certain types of gastric cancer. It is estimated that 30-80 million adults in the U.S. are infected with H. pylori. Each year the treatment of complications of H. pylori infections (i.e. peptic ulcer disease) in the U.S. alone costs in excess of five billion dollars.

Current therapies for the treatment of H. pylori include the use of antibiotics alone or antibiotics in combination with drugs that inhibit acid production in the stomach. Problems associated with such therapies include, but are not limited to, cost, toxicity, failure to sufficiently eradicate all the bacteria, and acquired resistance to the antibiotic.

In the fourth quarter of 1995, the Company completed a single-dose Phase I human clinical study involving 20 subjects in which no clinically significant side effects were found. Based on the results of this study, in March, 1996, the Company began a multiple-dose Phase I human clinical trial involving 20 non-symptomatic patients diagnosed with H. pylori infection. The Company recently received permission from the



FDA to proceed with the testing of Helicore (p10)(TM), an additional oral non-antibiotic anti-bacterial preparation developed to eradicate H. pylori bacteria. Helicore(p10) was given in multiple doses to 10 non-symptomatic H. pylori positive subjects and no clinically significant side effects were noted. This additional preparation brings the total number of Helicore products in human clinical testing in non-symptomatic H. pylori infected patients to three. The study was completed in the fourth quarter of 1996 with no significant adverse experiences reported. The Company hopes to initiate Phase II clinical trials with Helicore in 1997.

Vaccine Adjuvants

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

MANUFACTURING

The development and manufacture of the Company's products are subject to good laboratory practices ("GLP") and good manufacturing practices ("GMP") requirements prescribed by the FDA and to other standards prescribed by the appropriate regulatory agency in the country of use. With its patented Novamix(R) and other production machinery, the Company currently has the ability to produce quantities of Novasome lipid vesicles sufficient to support its current needs. The Company also has the ability to produce quantities of Novasome lipid vesicles and MNP sufficient to support its needs for early-stage clinical trials. It does not presently have FDA certified facilities capable of producing the larger quantities of pharmaceutical products required for larger scale clinical trials or commercial production. The Company will need to acquire such manufacturing facilities for later stage clinical trials and commercial production of its own pharmaceuticals, or rely on collaborators, licensees or

contract manufacturers. There can be no assurance that the Company will be able to obtain such facilities or manufacture such products in a timely fashion at acceptable quality and prices, that it or its suppliers will be able to comply with GLP or GMP, as applicable, or that it or its suppliers will be able to manufacture an adequate supply of product.

MARKETING

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

COMPETITION

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



Many companies, such as Merck, Merck-Astra, Glaxo-Wellcome, Procter & Gamble, SmithKline Beecham, OraVax and others, are currently evaluating various treatment programs for peptic ulcer disease and the treatment of H. pylori. Most of the therapies under investigation today involve a combination of a currently used ulcer treatment medication (e.g., Prilosec(R), Zantac(R) or Tagamet(R)) in association with an antibiotic (e.g., Amoxicillin, Flagyl(R) or Biaxin(R)). The market for the development of treatment programs for peptic ulcer disease and H. pylori infection is competitive and no assurance can be given that the Company's H. pylori product candidates will be developed into commercially successful products.

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

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

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

Company's Novasome encapsulation technology, the ability of the Company to expand into the pharmaceutical and vaccine adjuvant markets will be materially and adversely affected.

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

RESEARCH AND DEVELOPMENT

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

The Company bases its development decisions on development costs and potential return on investment, regulatory considerations, and the interest, sponsorship and availability of funding from third parties.

As of December 31, 1996, the Company's research and development staff numbered 11 individuals. In addition to its internal research and development efforts, the Company encourages the development of product candidates in areas related to its present lines by working with universities and government agencies.



Novavax's gross research and development expenditures, before amounts received from other companies, approximated $3,716,000, $3,708,000 and $2,860,000 in the years ended December 31, 1996, 1995 and 1994, respectively.

PATENTS AND PROPRIETARY INFORMATION

The Company, through a wholly-owned subsidiary, holds 36 U.S. patents and 58 foreign patents covering its technologies (which include a wide variety of component materials, its continuous flow vesicle production process and its Novamix production equipment). The Company believes that these patents are important for the protection of its technology as well as certain of the development processes that underlie that technology. In addition, 15 U.S. patent applications and many foreign patent applications are pending covering various components and applications of the Novavax technologies.

The Company expects to engage in collaborations, sponsored research agreements and preclinical testing agreements in connection with its future pharmaceutical products and vaccine adjuvants, as well as clinical testing agreements with academic and research institutions and U.S. government agencies, such as the NIH, to take advantage of the technical expertise and staff of these institutions and to gain access to clinical evaluation models, patients and related technologies. Consistent with pharmaceutical industry and academic standards, and the rules and regulations promulgated under the federal Technology Transfer Act of 1986, these agreements may provide that developments and results will be freely published, that information or materials supplied by

the Company will not be treated as confidential and that the Company will be required to negotiate a license to any such developments and results in order to commercialize products incorporating them. There can be no assurance that the Company will be able successfully to obtain any such license at a reasonable cost or that such developments and results will not be made available to competitors of the Company on an exclusive or nonexclusive basis.

GOVERNMENT REGULATION

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

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

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

Preclinical tests include laboratory evaluation of product formulation, as well as animal studies (if an appropriate animal model is available) to assess the potential safety and efficacy of the product. Formulations must be manufactured according to GMP and preclinical safety tests must be conducted by laboratories that comply with FDA regulations regarding GLP. The results of the preclinical tests, are submitted to the FDA as part of an IND and are reviewed by the FDA prior to the commencement of human clinical trials. There can be no assurance that submission of an IND will result in FDA authorization to commence clinical trials. Clinical trials involve the administration of the investigational new drug to healthy volunteers and to patients under the supervision of a qualified principal investigator.



Clinical trials are typically conducted in three sequential phases, although the phases may overlap. In Phase I, the investigational new drug usually is administered to healthy human subjects and is tested for safety, dosage, tolerance, absorption, distribution, metabolism, excretion and pharmacokinetics. Phase II involves studies in a limited patient population to (i) determine the efficacy of the investigational new drug for specific indications, (ii) determine dosage tolerance and optimal dosage and (iii) identify possible adverse effects and safety risks. When an investigational new drug is found to be effective and to have an acceptable safety profile in Phase II evaluation, Phase III trials are undertaken to further evaluate clinical efficacy and to further test for safety within an expanded patient population at geographically dispersed clinical study sites. There can be no assurance that Phase I, Phase II or Phase III testing will be completed successfully within any specified time period, if at all, with respect to any of the Company's products subject to such testing. Furthermore, the Company or the FDA may suspend clinical trials at any time if the participants are being exposed to an unacceptable health risk. The FDA may deny an NDA or PLA if applicable regulatory criteria are not satisfied, require additional testing or information, or require post marketing testing and surveillance to monitor the safety of the Company's products.

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

All data obtained from development programs are submitted as an NDA or a PLA to the FDA and the corresponding agencies in other countries for review and approval. FDA approval of the NDA or PLA and the associated ELA is required before marketing may begin in the United States. Although the FDA's policy is to review priority applications within 180 days of their filing, in practice longer times may be required. The FDA frequently requests that additional information be submitted requiring significant additional review time. Essentially, all proposed products of the Company will be subject to demanding and time-consuming NDA or PLA or similar approval procedures in the countries where the Company intends to market its products. These regulations define not only the form and content of the development of safety and efficacy data regarding the proposed product, but also impose specific requirements regarding manufacture of the product, quality assurance, packaging, storage, documentation and record keeping, labeling and advertising and marketing procedures. Effective commercialization also requires inclusion of the Company's products in national, state, provincial or institutional formularies or cost reimbursement systems.

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

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



government and third-party payers for uses of the Company's therapeutic products, the market acceptance of these products would be adversely affected.

There have been a number of federal and state proposals during the last few years to subject the pricing of pharmaceuticals to government control and to make other changes to the medical care system of the United States. It is uncertain what legislative proposals will be adopted or what actions federal, state or private payers for medical goods and services may take in response to any medical reform proposals or legislation. The Company cannot predict the

effect medical reforms may have on its business, and no assurance can be given that any such reforms will not have a material adverse effect on the Company.

EMPLOYEES

The Company had 18 full-time employees as of December 31, 1996, of whom 11 are in research and development. The Company has no collective bargaining agreement with its employees and believes that its employee relations are good.

Under a Transition Services Agreement, established at the time of the Distribution, IGI continued to provide certain administrative services to Novavax, including services relating to human resources, purchasing and accounting, data processing and payroll services from the day of the Distribution until June 30, 1996. Novavax paid IGI a fee for all services provided by IGI employees, based on IGI's cost.

In addition to the services described in the Transition Services Agreement, Edward B. Hager served as Chairman of the Board and Chief Executive Officer through June 30, 1996 (the "Transition Termination Date") and John P. Gallo served as Chief Operating Officer through June, 1996 and Treasurer until May, 1996. Prior to the Transition Termination Date, Dr. Hager devoted the majority of his time to IGI and received no compensation for his services as an officer of Novavax. Mr. Gallo devoted approximately one half of his business time through the Transition Termination Date to Novavax and its business, and IGI and Novavax each agreed to pay Mr. Gallo one half of his annual compensation.

On July 1, 1996, John O. Marsh, Jr. succeeded Dr. Hager as Chairman and Chief Executive Officer. Subsequently, Mr. Marsh appointed Denis M. O'Donnell, M.D., the President of Novavax, to the additional position of Chief Operating Officer to succeed Mr. Gallo in that role. Dr. Hager and Mr. Gallo remain Directors of the Company. In addition, in May, 1996, Ms. Elaine T. Bennett was appointed Vice President, Treasurer and Chief Financial Officer of the Company.

On February 25, 1997, Mr. Marsh announced his retirement as Chairman of the Board of Directors, effective immediately, and as Chief Executive Officer effective upon the arrival of his replacement. The Board then elected Richard F. Maradie as Chief Executive Officer commencing March 4, 1997. Dr. Hager was elected as Chairman of the Board of Directors.

ITEM 2. PROPERTIES

The Company leases approximately 12,000 square feet of administrative offices and laboratory space located at 8320 Guilford Road, Columbia, Maryland. The Company believes this space is adequate for its early stage clinical trials. Additional funding will be necessary to meet the cost requirements of expanding the manufacturing facility for later stage clinical trials and commercial scale-up.

The Company also leases 1750 square feet of space located in Rockville, Maryland. This space contains the Company's certified animal facility and laboratories for its biologics development which includes the vaccine adjuvant program.

ITEM 3. LEGAL PROCEEDINGS

On February 6, 1996, Johnson & Johnson and its wholly-owned subsidiary Ortho-McNeil, Inc. (collectively, "J&J") filed a lawsuit against the Company's subsidiary, Micro-Pak, Inc., and the Company's former parent, IGI, Inc. and its subsidiaries in the United States District Court for the District of New Jersey alleging trademark infringement and trademark dilution. J&J alleged that IGI's use of the names NOVA



SKIN, NOVA SKIN CARE and NOVA-AESTHETICS infringed on rights associated with J&J's trademark RENOVA for a prescription drug. This lawsuit has been settled,

with no liability incurred by the Company.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 1996.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

| NAME | AGE | PRINCIPAL OCCUPATION AND OTHER BUSINESS EXPERIENCE DURING PAST FIVE YEARS |
|---|---|---|
| Edward B. Hager, M.D. ..... | 65 | Chairman of the Board since February, 1997. Director of Novavax since its founding in 1987. Chairman of the Board and Chief Executive Officer of Novavax, Inc. from 1987 through June, 1996. Chairman of the Board, Chief Executive Officer and Director of IGI, Inc., an animal health products and cosmetics company, since its founding in 1977. |
| Richard F. Maradie..... | 49 | Chief Executive Officer of Novavax since March, 1997. Co-Founder, President and Chief Executive Officer of Protyde Pharmaceuticals, Inc. from 1994 to 1997. Executive Vice President and Chief Operating Officer of Platelet Research Products, Inc. from 1991 to 1994. President and Chief Executive Officer of VimRx Pharmaceuticals, Inc. from 1988 to 1991. Executive Vice President and Chief Operating Officer of Creative Biomolecules, Inc. from 1987 to 1988. Senior Director Cetus Corp. and General Manager and Chairman of the Board of Managers for Cetus/BenVenue Oncology Therapeutics from 1983 to 1987. Director of Oncology Marketing and Sales of Adria Laboratories, Inc. from 1974 to 1983. |
| Denis M. O'Donnell, M.D. ..... | 43 | President of Novavax since September, 1995 and Chief Operating Officer of Novavax since July, 1996. Vice President, Business Development of Novavax from 1992 to September, 1995. Vice President of IGI from 1991 to 1995. From 1986 to 1991, Dr. O'Donnell was the Director of the Clinical Research Center of MTRA, Inc., a provider of contract pharmaceutical research. Director of Elxsi Corporation, a holding company for companies in diverse fields, since March, 1996. |
| D. Craig Wright, M.D. ..... | 46 | Vice President, Research and Development and Operations of Novavax since 1993. Founder and Senior Director of Medical Research of Univax Biologics, Inc., a biopharmaceutical company, from 1988 to 1992. |
| Elaine T. Bennett..... | 41 | Vice President,Treasurer and Chief Financial Officer of Novavax since May, 1996. Controller of IGI, Inc. in 1996. Assistant Controller of IGI, from 1987 to 1996. |



PART II

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

There were 1,058 stockholders of record as of March 20, 1997. The Company has never paid cash dividends on its Common Stock. The Company currently anticipates that it will retain all of its earnings for use in the development of its business and does not anticipate paying any cash dividends in the foreseeable future.

Since December 12, 1995, the principal market for the Company's Common Stock ($.01 par value) has been the American Stock Exchange. The Company's stock trades under the symbol "NOX". Prior to December 12, 1995, the Company was a majority-owned subsidiary of IGI. The following table shows the range of high and low closing prices of the Company's common stock on the American Stock Exchange for the period indicated.

| | HIGH | LOW |
|---|---|---|
| 1996 | | |
| First quarter | $6 5/8 | $3 3/8 |
| Second quarter | 8 1/4 | 5 1/4 |
| Third quarter | 7 1/8 | 3 1/8 |
| Fourth quarter | 4 5/8 | 2 7/8 |
| 1995 | | |
| Fourth quarter (December 12, 1995 through December 31, 1995) | $5 | $3 |





ITEM 6. SELECTED FINANCIAL DATA

NOVAVAX, INC. AND SUBSIDIARIES
SELECTED FINANCIAL DATA

| | FOR THE YEARS ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 1992 | 1993 | 1994 | 1995 | 1996 |
| STATEMENT OF OPERATIONS DATA: | | | | | |
| Revenues: | | | | | |
| Research revenues (1) | $ 940,900 | $ 380,700 | $ 475,000 | $ -- | $ -- |
| Sales | -- | -- | -- | -- | 55,553 |
| Royalties from former parent (2) | 86,555 | 198,546 | 209,877 | 268,002 | -- |
| Total revenues | 1,027,455 | 579,246 | 684,877 | 268,002 | 55,553 |
| Costs and expenses: | | | | | |
| Selling and marketing | 246,679 | 278,836 | 323,640 | 398,776 | -- |
| General and administrative (3) | 1,314,741 | 1,976,356 | 2,162,431 | 2,905,873 | 1,874,418 |
| Research and development | 1,720,220 | 2,701,038 | 2,860,048 | 3,708,005 | 3,715,545 |
| Interest expense to former parent(4) | 193,471 | 413,049 | 1,028,794 | 1,749,706 | -- |
| Interest income | -- | -- | -- | -- | (137,539) |
| Income tax expense | -- | -- | -- | -- | 98,094 |
| Net loss | (2,447,656) | (4,790,033) | (5,690,036) | (8,494,358) | (5,494,985) |
| Loss per common and common equivalent share | | | | $ (0.85) | $ (0.54) |
| Weighted average number of common shares outstanding | | | | 9,937,936 | 10,132,896 |
| BALANCE SHEET DATA: | | | | | |
| Total current assets | $ 174,932 | $ 268,050 | $ 501,845 | $ 4,761,199 | $ 3,153,105 |
| Working capital | 9,346 | 202,914 | 306,159 | 4,330,412 | 2,571,838 |
| Total assets | 2,475,342 | 2,819,631 | 3,132,688 | 7,529,544 | 5,721,952 |
| Capital lease obligations | -- | -- | -- | -- | 34,351 |
| Stockholders' (deficit) equity | (609,309) | (1,070,994) | (2,202,868) | 7,098,757 | 5,117,078 |

- - ---

(1) Includes payments for licensing agreements and technology application review.

(2) Includes royalties for product sales in IGI's animal health products and cosmetic and consumer products businesses through the date of the Distribution.

(3) Includes administrative expenses incurred by IGI allocated to Novavax through the date of the Distribution.

(4) Interest expense is solely attributable to debt incurred by Novavax to fund its operations through the date of the Distribution.



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

The following discussion may contain "forward-looking" statements, as that term is defined by (i) the Private Securities Litigation Reform Act of 1995 (the "Reform Act") and (ii) in releases made by the Securities and Exchange Commission from time to time. Such statements should be read in conjunction with the cautionary factors described in Exhibit 99 attached to this report and incorporated into this discussion by this reference and the consolidated financial statements and related notes included elsewhere. The Company's future operating results may be affected by various trends and factors that are beyond the Company's control. These include, among other factors, changes in general economic conditions, rapid or unexpected changes in technologies and uncertain business conditions that affect the pharmaceutical and vaccine industries. Accordingly, past results and trends should not be used by investors to anticipate future results or trends.

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

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

RESULTS OF OPERATIONS

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

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

1996 COMPARED TO 1995

The net loss of $5,494,985 for the year ended December 31, 1996 was $2,999,373, or 35%, lower than the net loss of $8,494,358 for the year ended December 31, 1995. The 1996 net loss includes $1,506,790, compared to $101,183 included in the 1995 net loss, of non-cash compensation expense. This compensation expense relates to the amortization of below-market priced stock

options and warrants issued at the time of the Distribution. Other non-cash charges include $334,564 for the disposal of property and equipment and $328,226 of depreciation and patent amortization expense. Non-cash charges of $272,886 for depreciation and patent amortization have been included in the 1995 expense.

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

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

Selling, general and administrative expenses include all costs associated with the marketing of the Company's technology to potential industry partners, related cost associated with management and adminis-



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

Research and development expenses, including scientific staffing, supplies and other costs related to the ongoing development of the Novavax technologies were $3,715,545 and $3,708,005 for the years ended December 31, 1996 and 1995, respectively. Although expenses appear to have remained relatively constant, the 1996 expenses include non-cash charges of $1,410,648, compared to $101,183 in 1995, related to the amortization of below-market priced stock options issued at the time of the Distribution, and non-cash charges of $334,564 for the disposal of property and equipment related to the closing of one of the Novavax subsidiaries' laboratory.

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

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

1995 COMPARED TO 1994

Royalty revenues from IGI were $268,000 and $210,000 for the years ended December 31, 1995 and 1994, respectively. There were research revenues of $475,000 for the year ended December 31, 1994.

As a result of the IGI License Agreement, which was entered into as a method of transferring the Novavax technologies, Novavax did not receive any additional royalty payments in the period from the Distribution to the end of fiscal year 1995. Novavax has presented the payment under the IGI License Agreement as a capital contribution in its financial statements to reflect the

intercompany nature and substance of the transaction. The form was structured as a prepaid license agreement to address various considerations of the Distribution, including tax and financing considerations. For tax purposes, the transaction was treated as income for the period ended December 31, 1995. Novavax has recorded the license at its carryover basis because the transaction is a transfer made among entities under common control. As all costs of development for this technology have been expensed, with the exception of the patents retained by Novavax, the historical basis is zero.

Selling, general and administrative expenses were approximately $3,305,000 and $2,486,000 for the years ended December 31, 1995 and 1994, respectively. Certain costs included in these expenses were estimated based on Novavax being a separate public company and may not reflect the actual costs that Novavax will incur in the future. These estimated costs were $850,000 and $779,000 for the years ended December 31, 1995 and 1994, respectively.

Research and development expenses were approximately $3,708,000 and $2,860,000 for the years ended December 31, 1995 and 1994, respectively. The increase in these expenses related principally to increased efforts in the development of human vaccine and pharmaceutical applications of the Novavax technologies in connection with IND filings.

Interest expense was approximately $1,750,000 and $1,029,000 for the years ended December 31, 1995 and 1994, respectively. The increase related to increased borrowing from IGI for operating losses, capital equipment and patent costs.



LIQUIDITY AND CAPITAL RESOURCES

Novavax's future growth will depend on its ability to commercialize its Novavax technologies for human pharmaceutical applications. Novavax's capital requirements depend on numerous factors, including but not limited to the progress of its research and development programs, the progress of preclinical and clinical testing, the time and costs involved in obtaining regulatory approvals, the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, competing technological and market developments, and changes in Novavax's development of commercialization activities and arrangements. The Company's rapid evolution from a research phase company to a development stage biopharmaceutical company with products in human clinical trials prompted the need for expansion during 1996. On October 31, 1996, the Company completed the relocation of its administrative offices and pharmaceutical laboratories to a leased facility in Columbia, Maryland. Further expansion necessary to establish commercial-scale manufacturing capabilities and the future purchases of capital equipment are subject to the Company's ability to raise funds through additional equity financing, or collaborative arrangements with corporate partners.

Net cash used in 1996 for operating activities was $3,315,990. From the date of the Distribution, Novavax conducted its operations with approximately $5,000,000 paid by IGI under the IGI License Agreement, revenues of $55,533 from the sale of scientific prototype vaccines and adjuvants and $350,639 from the exercise of stock options. On October 30, 1996, Novavax received $1,655,877, net of all transaction costs, from the sale of 505,000 common shares that were privately placed with accredited institutional investors by Vector Securities International, Inc. On December 31, 1996, the Company had $2,982,078 in cash, cash equivalents and marketable securities on hand.

On February 10, 1997, Novavax signed a definitive agreement to privately place 1,200,000 common shares with Anaconda Opportunity Fund, L.P., an accredited institutional investor, at an aggregate price of $5,100,000. As part of the transaction, Novavax also granted warrants to purchase an additional 600,000 shares at a price of $6.00 per share and 600,000 shares at a price of $8.00 per share. The warrants have a three-year term. The transaction was closed on March 14, 1997. Upon closing, the Company received $4,100,000 in cash and a

promissory note due March 27, 1997 in the amount of $1,000,000. Novavax estimates that the money received from the sale of the privately placed stock, along with its existing cash resources, will be sufficient to finance its operations at current levels of development activity for approximately 20 to 24 months.

Past spending levels are not necessarily indicative of future spending. Future expenditures for product development, especially relating to outside testing and human clinical trials, are discretionary and, accordingly, can be adjusted to available cash. Moreover, the Company will seek to establish one or more collaborations with industry partners to defray the costs of clinical trials and other related activities. Novavax will also seek to obtain additional funds through public or private equity or debt financings, collaborative arrangements with pharmaceutical companies or from other sources. There can be no assurance that additional funding or bank financing will be available at all or on acceptable terms to permit successful commercialization of Novavax's technologies and products. If adequate funds are not available, Novavax may be required to significantly delay, reduce the scope of or eliminate one or more of its research or development programs, or seek alternative measures including arrangements with collaborative partners or others that may require Novavax to relinquish rights to certain of its technologies, product candidates or products.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.



PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is contained in part under the caption "Executive Officers of the Registrant" in Part I hereof, and the remainder is contained in the Company's Proxy Statement for the Company's Annual Meeting of Stockholders to be held on May 15, 1997 (the "1997 Proxy Statement") under the captions "PROPOSAL 1 -- ELECTION OF DIRECTORS" and "Beneficial Ownership of Common Stock" and is incorporated herein by this reference. The Company expects to file the 1997 Proxy Statement within 120 days after the close of the fiscal year ended December 31, 1996.

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is contained in the Company's 1997 Proxy Statement under the captions "EXECUTIVE COMPENSATION" and "Director Compensation and Stock Options" and is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is contained in the Company's 1997 Proxy Statement under the caption "Beneficial Ownership of Common Stock" and is incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is contained in the Company's 1997 Proxy Statement under the caption "Certain Relationships and Related Transactions" and is incorporated herein by this reference.



PART IV

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

(a) (1) Financial Statements:

Report of Independent Accountants
Consolidated Balance Sheets as at December 31, 1996 and 1995
Consolidated Statements of Operations for the years ended December 31, 1996, 1995 and 1994
Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1995 and 1994
Consolidated Statements of Stockholders' Equity for the years ended December 31, 1996, 1995 and 1994

Notes to Consolidated Financial Statements

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

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

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

* 3.1 Amended and Restated Certificate of Incorporation of Novavax, Inc.

* 3.2 Amended and Restated By-laws of Novavax, Inc.

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

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

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

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

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

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

10.6 Stock Purchase Agreement dated October 9, 1999 by and between the Company and the purchasers named therein. [Incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-3, File No. 333-14305, filed October 17, 1996.]

* 10.7 Agreement of Lease by and between the Company and Rivers Center Associates Limited Partnership, dated September 25, 1996.



10.8 Stock and Warrant Purchase Agreement dated February 10, 1997 by and between the Company and Anaconda Opportunity Fund, L.P. [Incorporated by

reference to Exhibit 4.4 to the Company's Registration Statement on Form S-3, File No. 333-22685, filed March 4, 1997(the "Anaconda S-3").]

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

** 10.10 Letter of Agreement dated February 26, 1997, by and between the Company and Richard F. Maradie.

* 11 Net Loss Per Common Share and Common Equivalent Share

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

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

* 27 Financial Data Schedule

* 99 Important Factors Regarding Forward-Looking Statements

(b) Reports on Form 8-K:
None.





SIGNATURES

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

NOVAVAX, INC.

By: /s/ RICHARD F. MARADIE

---

Richard F. Maradie
Chief Executive Officer

Date: March 20, 1997

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

| NAME | TITLE | DATE |
|---|---|---|
| /s/ EDWARD B. HAGER<br>Edward B. Hager | Chairman of the Board | March 20, 1997 |
| /s/ RICHARD F. MARADIE<br>Richard F. Maradie | Chief Executive Officer | March 20, 1997 |
| /s/ ELAINE T. BENNETT<br>Elaine T. Bennett | Vice President, Principal Financial and Accounting Officer | March 21, 1997 |
| /s/ WAYNE A. DOWNING<br>Wayne A. Downing | Director | March 20, 1997 |
| /s/ JOHN P. GALLO<br>John P. Gallo | Director | March 20, 1997 |
| /s/ JANE E. HAGER<br>Jane E. Hager | Director | March 20, 1997 |
| /s/ MITCHELL J. KELLY<br>Mitchell J. Kelly | Director | March 20, 1997 |
| /s/ J. MICHAEL LAZARUS<br>J. Michael Lazarus | Director | March 20, 1997 |
| /s/ JOHN O. MARSH, JR. | Director | March 20, 1997 |

| | | | |
|---|---|---|---|
| - - ---------- John O. Marsh, Jr. | | | |
| /s/ RONALD A. SCHIAVONE | Director | March 20, 1997 | |
| - - ---------- Ronald A. Schiavone | | | |
| /s/ RONALD H. WALKER | Director | March 20, 1997 | |
| - - ---------- Ronald H. Walker | | | |



EXHIBIT INDEX

| EXHIBIT | | PAGE |
|---|---|---|
| - - ------- | | ---- |
| 3.1 | | |
| 3.2 | | |
| 4 | | * |
| 10.1 | | * |
| 10.2 | | * |
| 10.3 | | * |
| 10.4 | | * |
| 10.5 | | * |
| 10.6 | | * |
| 10.7 | | |
| 10.8 | | * |
| 10.9 | | * |
| 10.10 | | |
| 11 | | |
| 21 | | * |
| 23 | | |
| 27 | | |
| 99 | | |

- - ----------
* These exhibits are incorporated by reference



REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Novavax, Inc. and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Novavax, Inc. and Subsidiaries at December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/ COOPERS & LYBRAND L.L.P.

COOPERS & LYBRAND L.L.P.

Rockville, Maryland
February 7, 1997 except
as to Note 13 for which
the date is March 14, 1997



NOVAVAX, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1996 AND 1995

| | 1996 | 1995 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,481,258 | $ 4,634,236 |
| Marketable securities | 500,820 | -- |
| Receivable from former parent, net | -- | 54,754 |
| Prepaid expenses and other current assets | 171,027 | 72,209 |
| Total current assets | 3,153,105 | 4,761,199 |
| Property and equipment, net | 977,911 | 1,400,998 |
| Patent costs, net | 1,494,880 | 1,357,547 |
| Other assets | 96,056 | 9,800 |
| Total assets | $ 5,721,952 | $ 7,529,544 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Capital lease obligations | $ 10,744 | $ -- |
| Accounts payable | 367,754 | 391,887 |
| Accrued payroll | 196,593 | 38,900 |
| Payable to former parent | 6,176 | -- |
| Total current liabilities | 581,267 | 430,787 |
| Capital lease obligations, less current maturities | 23,607 | -- |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value, 2,000,000 shares authorized | -- | -- |
| Common stock, $.01 par value, 30,000,000 shares authorized, 10,660,710 and 9,937,936 shares issued and outstanding in 1996 and 1995, respectively | 106,607 | 99,379 |
| Additional-paid in capital | 32,409,899 | 30,188,122 |
| Accumulated deficit | (26,796,164) | (21,301,179) |
| Deferred compensation on stock options granted | (603,264) | (1,887,565) |
| Total stockholders' equity | 5,117,078 | 7,098,757 |
| Total liabilities and stockholders' equity | $ 5,721,952 | $ 7,529,544 |

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





NOVAVAX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Revenues: | | | |
| Research revenues | $ -- | $ -- | $ 475,000 |
| Sales | 55,533 | -- | -- |
| Royalties from former parent | -- | 268,002 | 209,877 |
| Total revenues | 55,533 | 268,002 | 684,877 |
| Operating expenses: | | | |
| Selling and marketing | -- | 398,776 | 323,640 |
| General and administrative | 1,874,418 | 2,905,873 | 2,162,431 |
| Research and development | 3,715,545 | 3,708,005 | 2,860,048 |
| Total operating expenses | 5,589,963 | 7,012,654 | 5,346,119 |
| Loss from operations | (5,534,430) | (6, 744,652) | (4,661,242) |
| Interest expense to former parent | -- | (1,749,706) | (1,028,794) |
| Interest income, net | 137,539 | -- | -- |
| Loss before income taxes | (5,396,891) | (8,494,358) | (5,690,036) |
| Income tax expense | (98,094) | -- | -- |
| Net loss | $(5,494,985) | $(8,494,358) | $(5,690,036) |
| Loss per common and common equivalent share | $ (0. 54) | $ (0.85) | |
| Weighted average number of common shares outstanding | 10,132,896 | 9,937,936 | |

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



NOVAVAX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net loss | $(5,494,985) | $(8,494,358) | $(5,690,036) |
| Reconciliation of net loss to net cash used by operating activities: | | | |
| Non-cash restructuring and recapitalization | -- | 1,513,253 | -- |
| Reimbursement to former parent | -- | (250,000) | -- |
| Non-cash compensation expense | 1,506,790 | 101,183 | -- |
| Depreciation and amortization | 328,225 | 272,886 | 255,901 |
| Disposal of property and equipment | 334,564 | -- | -- |
| Changes in assets and liabilities: | | | |
| Accounts receivable | -- | 475,000 | (341,000) |
| Prepaid expenses and other assets | (185,074) | (58,993) | 149,971 |
| Payable to/Receivable from former parent | 60,930 | (54,754) | -- |
| Accounts payable and accrued expenses | 133,560 | 235,101 | 130,549 |
| Net cash used by operating activities | (3,315,990) | (6,260,682) | (5,494,615) |
| Cash flows from investing activities: | | | |
| Purchase of marketable securities | (500,820) | -- | -- |
| Capital expenditures | (98,363) | (45,562) | (128,269) |
| Deferred patent costs | (244,321) | (367,418) | (251,404) |
| Net cash used by investing activities | (843,504) | (412,980) | (379,673) |
| Cash flows from financing activities: | | | |
| Payable to former parent | -- | 2,081,776 | 1,314,381 |
| Notes payable to former parent | -- | 4,172,401 | 4,558,162 |

| | | | |
|---|---|---|---|
| License agreement with former parent | -- | 5,000,000 | -- |
| Exercise of stock options | 350,639 | 37,500 | -- |
| Proceeds from the private placement of common stock, net | 1,655,877 | -- | -- |
| Net cash provided by financing activities | 2,006,516 | 11,291,677 | 5,872,543 |
| Net change in cash and cash equivalents | (2,152,978) | 4,618,015 | (1,745) |
| Cash and cash equivalents at beginning of the period | 4,634,236 | 16,221 | 17,966 |
| Cash and cash equivalents at end of the period | $ 2,481,258 | $ 4,634,236 | $ 16,221 |

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



NOVAVAX, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

| | COMMON STOCK | | ADDITIONAL PAID-IN CAPITAL | NOTE PAYABLE TO FORMER PARENT | COMBINED ENTITY CAPITAL | DEFICIT | DEFERRED COMPENSATION ON STOCK OPTIONS GRANTED | TOTAL STOCKHOLDERS' EQUITY (DEFICIT) |
|---|---|---|---|---|---|---|---|---|
| | SHARES | DOLLARS | | | | | | |
| Balance, January 1, 1994 | 14,973 | | | $ 8,293,437 | $ 4,974,000 | $(14,338,431) | | $(1,070,994) |
| Proceeds from payable to former parent | | | | 4,558,162 | | | | |
| Net loss | | | | | | (5,690,036) | | |
| Balance, December 31, 1994 | 14,973 | | | 12,851,599 | 4,974,000 | (20,028,467) | | |
| Proceeds from payable to former parent | | | | | | 7,221,646 | | |
| Proceeds from note payable to former parent | | | | 4,172,401 | | | | |
| Restructuring and recapitalization | 9,872,963 | 98,879 | 23,162,374 | (17,024,000) | (4,974,000) | | | |
| License agreement with former parent | | | 5,000,000 | | | | | |
| Options granted as compensation | | | 1,988,748 | | | | (1,988,748) | |
| Amortization of deferred compensation | | | | | | | 101,183 | |
| Exercise of stock options | 50,000 | 500 | 37,000 | | | | | |
| Net loss | | | | | | (8,494,358) | | |
| Balance, December 31, 1995 | 9,937,936 | 99,379 | 30,188,122 | -- | -- | (21,301,179) | (1,887,565) | |
| Options and warrants granted as compensation | | | 222,489 | | | | (222,489) | |
| Amortization of deferred compensation | | | | | | | 1,506,790 | |
| Private sale of common stock, net | 505,000 | 5,050 | 1,650,827 | | | | | |
| Exercise of stock options | 217,774 | 2,178 | 348,461 | | | | | |
| Net loss | | | | | | (5,494,985) | | |
| Balance, December 31, 1996 | 10,660,710 | $106,607 | $32,409,899 | $ -- | $ -- | $(26,796,164) | $ (603,264) | |

| | |
|---|---|
| parent..... | 4,558,162 |
| Net loss..... | (5,690,036) |
| Balance, December 31, 1994..... | (2,202,868) |
| Proceeds from payable to former parent..... | 7,221,646 |
| Proceeds from note payable to former parent..... | 4,172,401 |
| Restructuring and recapitalization... | 1,263,253 |
| License agreement with former parent..... | 5,000,000 |
| Options granted as compensation..... | -- |
| Amortization of deferred compensation..... | 101,183 |
| Exercise of stock options..... | 37,500 |
| Net loss..... | (8,494,358) |
| Balance, December 31, 1995..... | 7,098,757 |
| Options and warrants granted as compensation..... | -- |
| Amortization of deferred compensation..... | 1,506,790 |
| Private sale of common stock, net..... | 1,655,877 |
| Exercise of stock options..... | 350,639 |
| Net loss..... | (5,494,985) |
| Balance, December 31, 1996..... | $ 5,117,078 |

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



NOVAVAX, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

### Description of Business

Novavax, Inc., a Delaware corporation ("Novavax" or the "Company"), is a biopharmaceutical company focusing on the research and development of proprietary topical and oral drug delivery technologies. The Company's technology platforms involve the use of proprietary organized lipid structures made into microscopic vesicles for the delivery of a wide variety of drugs and other therapeutic products, including certain hormones, anti-bacterial and anti-viral products and vaccine adjuvants. The Company currently has three lead product candidates in human clinical trials. ESTRASORB, a topical estrogen cream, and Helicore, an oral anti-bacterial preparation for the treatment of Helicobacter pylori infection, have completed Phase I studies. ANDROSORB, a topical testosterone cream, recently entered Phase I studies. The regulatory process is lengthy, requiring substantial funds, and the Company cannot predict when approval of any product or a license to sell any product might be issued. In addition, there can be no assurances the Company will have sufficient funds necessary or that the additional funds will be available at all or on acceptable terms. The Company also recognizes that the commercial launch of any product is subject to certain risk such as manufacturing scale-up and market acceptance.

### Basis of Presentation

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

significant intercompany accounts and transactions have been eliminated in consolidation.

The financial statements for the period January 1, 1995 through December 12, 1995 and for the year ended December 31, 1994 have been prepared for the aforementioned companies on a combined basis from books and records maintained by IGI, Inc. ("IGI"). These combined financial statements reflect the financial position and results of operations of the combined companies at their historical bases, including allocations of certain costs by IGI. The accounts and transactions between the companies have been eliminated. The financial statements may not be indicative of the results that would have been attained had the entities operated together independently of IGI.

2. DISTRIBUTION

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

3. RESTRUCTURING AND RECAPITALIZATION

Prior to the Distribution, IGI consolidated its animal health products and cosmetics and consumer products businesses (the "Core Businesses") within itself and its subsidiaries and consolidated the biotechnology business (the "Biotechnology Business") within Novavax and its subsidiaries (the "Restructuring"). At the time of the Restructuring, IGI owned, through its wholly-owned subsidiary, IGEN, Inc. ("IGEN"), the following percentages of the voting power of the subsidiaries conducting the Biotechnology Business: 84.7% of the voting power of Novavax, the sole stockholder of both Micro-Pak and MVS, and 90.3% of the voting





power of Lipovax. The Biotechnology Business resided, and continues to reside, within Novavax, Micro-Pak, MVS and Lipovax. Prior to the Restructuring, the current and former employees of Novavax and Lipovax held approximately 15.3% and 9.7% of the voting power of Novavax and Lipovax, respectively.

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

As part of the Restructuring, Novavax issued to IGEN 41,569 shares of

Novavax Common Stock in exchange for the transfer by IGEN to Novavax of all of IGEN's rights to the payment of $17,024,000 aggregate indebtedness owed to ImmunoGenetics, Inc., a wholly-owned subsidiary of IGEN (and the primary operating entity of the Core Businesses ("Immunogentics")), by MVS ($9,996,504) and Lipovax ($7,027,496) (collectively, "Novavax Sub Debt"). The Novavax Sub Debt resulted from loans made by ImmunoGenetics to MVS and Lipovax during the period from 1991 to the Distribution Date.

The number of shares of Novavax Common Stock issued in exchange for the Novavax Sub Debt was based on the value of $409.54 per share of Novavax Common Stock. In connection with the Restructuring, Novavax converted $17,024,000 of these loans for 41,569 shares of Novavax stock.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents and Marketable Securities

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

Property and Equipment

Property and equipment are recorded at cost. Depreciation of furniture, fixtures and equipment is provided under the straight-line method over the estimated useful lives, generally five years. Amortization of





leasehold improvements is provided over the estimated useful lives of the improvements or the term of the lease, which ever is shorter. Furniture and equipment held under capital leases are amortized under the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

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

Patent Cost

Costs associated with obtaining patents, principally legal costs and filing fees, are being amortized on a straight line basis over the remaining economic

lives of the respective patents. The Company periodically evaluates the carrying amount of these assets based on current licensing and future commercialization efforts and if warranted, impairment would be recognized. Accumulated amortization of patent costs were $430,057 and $323,069 at December 31, 1996 and 1995, respectively.

Revenue Recognition

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

Net loss per share

Net loss per share of common stock is computed by dividing the net loss by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the twelve month period ended December 31, 1996. Pro forma net loss per common and common equivalent share for the year ended December 31, 1995 is based upon weighted average shares outstanding of 9,937,936 representing primarily shares issued in connection with the Recapitalization. These shares have been treated as outstanding as if the transaction had occurred on January 1, 1995. Options and warrants granted subsequent to the Distribution Date are antidilutive and therefore have not been included in shares outstanding.

Income Taxes

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

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include





valuation of patent costs and benefits for income taxes and related valuation allowances. Actual results could differ from those estimates.

5. TRANSACTIONS WITH FORMER PARENT

Charges

Through the Distribution Date, IGI charged Novavax for expenses incurred on

its behalf, including executive, legal, accounting, data processing, consulting, cash management, human resources and employee benefits. These costs were allocated on a variety of methods, including:

- Specific identification based on estimates of time and services provided

- Relative identification allocated based on Novavax's relationship to the entire pool of beneficiaries

The allocation methods, while reasonable under the current circumstances, may not represent the cost of similar activities on a separate entity basis. Such costs have been included in general and administrative expenses, along with interest expense on these accumulated amounts for the periods presented. These amounts have been accumulated on Novavax's accompanying Balance Sheet as payable to parent through the Distribution Date, at which time such amounts were reversed to the Deficit since these charges will not be repaid.

The net change in the payable to former parent consists of:

| | FOR THE YEARS ENDED DECEMBER 31, | |
|---|---|---|
| | 1995 | 1994 |
| Allocated general and administrative expenses | $ 839,650 | $ 779,223 |
| Interest expense | 434,592 | 201,099 |
| Royalty revenues | (268,002) | (209,877) |
| Payment of royalty revenues | 268,002 | 546,324 |
| Credit for income taxes | 797,000 | -- |
| Miscellaneous items | 10,534 | (2,388) |
| Reversal against deficit of payable to former parent | (7,221,646) | -- |
| Net change in payable to parent | $(5,139,870) | $1,314,381 |

Borrowing Arrangements

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

Transition Services

Under a Transition Services Agreement, established at the time of the Distribution, IGI continued to provide certain administrative services to Novavax, including services relating to human resources, purchasing and accounting, data processing and payroll services from the day of the Distribution until June 30, 1996. Novavax paid IGI a fee for all services provided by IGI employees, based on IGI's cost. The agreement was



terminated on June 30, 1996. Costs of $230,474 had been incurred for the six

month period ended June 30, 1996. For the period December 13, 1995 through December 31, 1995, $35,000 of such costs were incurred. These charges have been offset in part by receivables due from IGI and recorded as a payable to former parent on the balance sheet.

Royalty Revenues

Novavax earned royalties from IGI at 10% of the sales of the licensed products. The agreements were terminated in connection with the Distribution and execution of the License Agreement. In connection with the Distribution, IGI paid Novavax $5,000,000 in return for a fully paid-up, ten-year license (the "License Agreement") entitling it to the exclusive use of the Novavax Technologies in the fields of (i) animal pharmaceuticals, biologicals and other animal health products; (ii) foods, food applications, nutrients and flavorings; (iii) cosmetics, consumer products and dermatological over-the-counter and prescription products (excluding certain topically delivered hormones); (iv) fragrances; and (v) chemicals, including herbicides, insecticides, pesticides, paints and coatings, photographic chemicals and other specialty chemicals; and the processes for making the same. IGI has the option, exercisable within the last year of the ten-year term, to extend the License Agreement for an additional ten-year period for $1,000,000. Novavax will retain the right to use its Novavax Technologies for all other applications, including human vaccines and pharmaceuticals. Novavax has presented the payment under the License Agreement as a capital contribution in its financial statements to reflect the intercompany nature and substance of the transaction. The form was structured as a prepaid license agreement to address various considerations of the Distribution including tax and financing considerations. For tax purposes, the transaction was treated as income for the period ended December 31, 1995. IGI has no further obligations or intentions to fund Novavax.

6. SUPPLEMENTAL CASH FLOW INFORMATION

The Company paid an alternative-minimum tax liability, related to the tax effect of the licensing agreement with IGI and paid interest expense during 1996. The balances as of December 31, 1996, 1995 and 1994 are as follows:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Tax liability | $100,000 | -- | -- |
| Interest paid | 10,955 | -- | -- |

For the years ended December 31, 1996, 1995 and 1994, the Company had the following non-cash financing and investing activities:

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| Reversal against deficit of payable to former parent | -- | $7,221,646 | -- |
| Options granted as compensation | -- | $1,988,748 | -- |
| Capital lease obligation for the purchase of furniture and equipment | $36,285 | | |





7. PROPERTY AND EQUIPMENT

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

| | 1996 | 1995 |
|---|---|---|
| Leasehold improvements | $ 321,506 | $ 335,898 |
| Machinery and equipment | 993,202 | 1,645,272 |
| Equipment under capital leases | 36,285 | -- |
| Furniture and fixtures | 32,130 | 125,604 |
| | 1,383,123 | 2,106,774 |
| Less accumulated depreciation | (405,212) | (705,776) |
| | $ 977,911 | $1,400,998 |

During 1996, the disposal of $856,365, at cost, of property and equipment and $521,801 of accumulated depreciation was recorded relating to the closing of one of the Novavax subsidiaries' laboratory. Depreciation expense of $221,237, $189,085 and $193,401 was recorded in the years ended December 31, 1996, 1995 and 1994, respectively.

8. STOCK OPTIONS AND WARRANTS

1995 Stock Option Plan

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

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

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

acquisition of Novavax, including a merger in which Novavax is not the surviving entity, the sale of all or substantially all of the assets of Novavax or the acquisition of a majority of the equity securities of Novavax. The options also become immediately exercisable in the event the optionee is terminated without cause. As of the Distribution Date, substitute options were issued in exchange for options to purchase Lipovax and MPS shares, which existed prior to the Distribution Date. 22,749 substitute options were issued for 180 options to purchase MPS shares using the recapitalization rate of 126.37944 shares described in Note 3. 28,871 substitute options were issued to purchase Lipovax shares.

1995 Director Stock Option Plan

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

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

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

| | SHARES | PRICE | WEIGHTED AVERAGE PRICE PER SHARE |
|---|---|---|---|
| Balance January 1, 1993 | 22,749 | $0.04 | $ 0.04 |
| 1995 Activity: | | | |
| Granted | 3,197,886 | $0.01 -- $5.37 | $ 2.97 |
| Exercised | (50,000) | $0.75 | $ 0.75 |
| Canceled | (2,000) | $3.66 | $ 3.66 |
| December 31, 1995 | | | |
| 1996 Activity: | | | |
| Shares under option | 3,168,635 | $0.01 -- $5.37 | $ 2.99 |
| Granted | 740,000 | $3.38 -- $7.00 | $ 4.96 |
| Exercised | (217,774) | $0.01 -- $5.37 | $ 1.61 |
| Canceled | (18,000) | $3.66 -- $5.28 | $ 3.84 |
| December 31, 1996 | | | |
| Shares under option | 3,672,861 | | $ 3.11 |
| Weighted average remaining contractual life (years) | 5.7 | | |
| Shares available for grant at December 31, 1996 | 559,365 | | |

| | | WEIGHTED AVERAGE PRICE PER SHARE |
|---|---|---|
| Shares subject to outstanding options: | | |
| Exercisable at December 31, 1996..... | 2,903,170 | $ 3.34 |
| Exercisable at December 31, 1995..... | 1,753,470 | |





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

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

| | 1996 | 1995 |
|---|---|---|
| Net loss | | |
| As reported..... | $(5,494,985) | $ (8,494,358) |
| Pro forma..... | (6,354,089) | (10,110,754) |
| Net loss per share | | |
| As reported..... | $(.54) | $(.85) |
| Pro forma..... | $(.63) | $(1.02) |

The fair value of each option grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

-- Risk-free interest rate: 5.97%
-- Volatility: Options issued by Novavax after November 28, 1995 is 75%, prior to November 28, 1995 is 50%.
-- Dividend yield: 0%
-- Expected life of options:
   Employees -- 6 years
   Directors -- 3 years
-- Forfeiture rate: 5% per year for options vesting over a four year period.

Non-Employee Options

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

Common Stock Warrants

In connection with the October 1996 private stock sale, the Company provided the underwriter warrants for the purchase of 50,000 shares of common stock, par value $.01 per share. The warrants are fully exercisable at $3.75 per share and expire on October 30, 2001. In November, in consideration for services performed by a consultant, the Company also issued warrants for 50,000 shares of common stock, par value $.01 per share. The warrants are exercisable at $5.00 per share, with 50% vested as of December 31, 1996 and the remainder vesting in increments of 25% upon completion of services. These warrants expire on November 18, 2001. As of December 31, 1996, no warrants had been exercised. Using the Black-Scholes option pricing model, a charge of $66,035 related to these warrants has been recorded in the 1996 Statement of Operations and $66,035 has been recorded as Deferred Compensation on the 1996 Balance Sheet.





9. INCOME TAXES

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

| | 1996 | 1995 |
|---|---|---|
| Net operating losses | $ 3,516,909 | $ 2,131,571 |
| Research tax credits | 721,333 | 670,641 |
| Disqualifying stock options | 523,746 | -- |
| Deferred patent costs | (515,675) | (388,760) |
| Alt-min tax credit | 93,674 | -- |
| Other | 10,927 | (14,562) |
| | 4,350,914 | 2,398,890 |
| Less valuation allowance | (4,350,914) | (2,398,890) |
| Deferred taxes, net | $ -- | $ -- |

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

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

| | |
|---|---|
| Net operating losses expiring through the year 2011 | $7,803,024 |
| Research tax credits expiring through the year 2011 | 721,333 |
| Alt-min tax credit (no expiration) | 93,674 |

10. COMMITMENTS AND CONTINGENCIES

Novavax leases laboratory and office space, machinery and equipment under capital and noncancelable operating lease agreements expiring at various dates through 2006. Future minimum rental commitments under noncancelable leases as of December 31, 1996 are as follows:

| | OPERATING LEASES | CAPITAL LEASES |
|---|---|---|
| 1997 | $ 180,941 | $ 14,822 |
| 1998 | 171,412 | 14,822 |
| 1999 | 145,409 | 12,062 |
| 2000 | 145,416 | -- |
| 2001 | 145,735 | -- |
| Thereafter | 759,939 | -- |
| Total lease payments | $1,554,852 | $ 41,706 |
| Less: amount representing interest | | (7,355) |
| Present value of net minimum lease payments | | $ 34,351 |

Aggregate rental expenses approximated $183,327, $260,041, and $172,566 in 1996, 1995, and 1994, respectively.

In October 1996, the Company entered into a 10-year operating lease for office and laboratory facilities. In connection with this lease agreement, Novavax is required to maintain a "Net Asset Value" of $2,000,000. The term "Net Asset Value" is defined as the difference between the total assets and the total liabilities. If the Net Asset Value falls below $2,000,000, the Company is required to provide other reasonable financial assurances to the Landlord within five (5) days of the Landlords request. The financial assurances may be, but





without limitation to, the following: a bond for the Landlord's benefit, an increase in the deposit, or a letter of credit, as reasonable believed necessary by the Landlord or its lenders.

Also in October 1996, the Company entered into a 2-year operating lease for approximately 1750 square feet of laboratory space. This shared space houses the Company's certified animal facility and laboratories for its biologics development which includes the vaccine adjuvant program. Both leases include various renewal options, purchase options, and escalation clauses.

## 11. LITIGATION

On February 6, 1996, Johnson & Johnson and its wholly-owned subsidiary Ortho-McNeil, Inc. (collectively, "J & J") filed a lawsuit against the Company's subsidiary Micro-Pak, Inc. and the Company's former parent, IGI, Inc. and its subsidiaries, in the United States District Court for the District of New Jersey alleging trademark infringement and trademark dilution. J & J alleged that IGI's use of the names NOVA SKIN, NOVA SKIN CARE, and NOVA-AESTHETICS infringed on rights associated with J & J's trademark RENOVA for a prescription drug. The lawsuit has been settled, with no liability incurred by the Company.

## 12. SIGNIFICANT CUSTOMERS

Novavax's research revenue includes amounts earned from arrangements with various industry partners. In the year ended December 31, 1994, four different customers each represented in excess of 10% of research revenues.

## 13. SUBSEQUENT EVENTS

On February 10, 1997, Novavax signed a definitive agreement to privately

place 1,200,000 common shares with Anaconda Opportunity Fund L.P., an accredited institutional investor, at an aggregate price of $5,100,000. As part of the transaction, Novavax also granted warrants to purchase an additional 600,000 shares at a price of $6.00 per share and 600,000 shares at a price of $8.00 per share. The warrants have a three-year term. The transaction was closed on March 14, 1997. Upon closing, the Company received $4,100,000 in cash and a promissory note due March 27, 1997 in the amount of $1,000,000. Novavax estimates that the money received from the sale of the privately placed stock, along with its existing cash resources, will be sufficient to finance its operations at current levels of development activity for approximately 20 to 24 months.



EXHIBIT INDEX

| EXHIBIT | | PAGE |
|---|---|---|
| 3.1 | | |
| 3.2 | | |
| 4 | | * |
| 10.1 | | * |
| 10.2 | | * |
| 10.3 | | * |
| 10.4 | | * |
| 10.5 | | * |
| 10.6 | | * |
| 10.7 | | |
| 10.8 | | * |
| 10.9 | | * |
| 10.10 | | |
| 11 | | |
| 21 | | * |
| 23 | | |
| 27 | | |
| 99 | | |

- - ---

* These exhibits are incorporated by reference

1

EXHIBIT 3.1

2

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

NOVAVAX, INC.

NOVAVAX, INC. (the "Corporation"), a corporation originally organized and incorporated under the name MPS, Inc. by the filing of a Certificate of Incorporation in the office of the Secretary of State of the State of Delaware on June 18, 1987, as amended by a Certificate of Amendment dated July 30, 1987 and filed in the Office of the Secretary of State of the State of Delaware on August 3, 1987, a Certificate of Merger dated February 5, 1988 filed in the Office of the Secretary of State of the State of Delaware on February 9, 1988, a Certificate of Amendment dated October 4, 1991 and filed in the Office of the Secretary of State of the State of Delaware on October 7, 1991, and a Certificate of Amendment dated November 20, 1995 and filed in the Office of the Secretary of State of the State of Delaware on November 20, 1995, and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify as follows:

The Board of Directors of the Corporation, at a meeting duly held on November 17, 1995, adopted a resolution, pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, setting forth an Amended and Restated Certificate

3

of Incorporation of the Corporation and declaring said Amended and Restated Certificate of Incorporation advisable. The stockholders of the Corporation duly approved said proposed Amended and Restated Certificate of Incorporation by written consent in accordance with Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware, and written notice of such consent has been given to all stockholders who have not consented in writing to said restatement. The resolution setting forth the Amended and Restated Certificate of Incorporation is as follows:

RESOLVED: That the Restated Certificate of Incorporation of the Corporation, as amended, be and hereby is amended and restated in its entirety so that the same shall read as follows:

FIRST. The name of the Corporation is:

Novavax, Inc.

SECOND. The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

THIRD. The nature of the business or purposes to be conducted or promoted by the Corporation is as follows:

To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH. The total number of shares of all classes of stock which the Corporation shall have authority to issue is (i) thirty million (30,000,000) shares of Common Stock, $.01 par value per share ("Common Stock"), and (ii) two million (2,000,000) shares of Preferred Stock, $.01 par value per share ("Preferred Stock"), which may be issued from time to time in one or more series as set forth in Part B of this Article FOURTH.





The following is a statement of the designations and the powers, privileges and rights, and the qualifications, limitations or restrictions thereof in respect of each class of capital stock of the Corporation.

A. COMMON STOCK.

1. General. The voting, dividend and liquidation rights of the holders of the Common Stock are subject to and qualified by the rights of the holders of the Preferred Stock of any series as may be designated by the Board of Directors upon any issuance of the Preferred Stock of any series.

2. Voting. The holders of the Common Stock are entitled to one vote for each share held at all meetings of stockholders (and written actions in lieu of meetings). There shall be no cumulative voting.

The number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the stock of the Corporation entitled to vote, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of Delaware.

3. Dividends. Dividends may be declared and paid on the Common Stock from funds lawfully available therefor as and when determined by the Board of Directors and subject to any preferential dividend rights of any then outstanding Preferred Stock.

4. Liquidation. Upon the dissolution or liquidation of the Corporation, whether voluntary or involuntary, holders of Common Stock will be entitled to receive all assets of the Corporation available for distribution to its stockholders, subject to any preferential rights of any then outstanding Preferred Stock.

B. PREFERRED STOCK.

Preferred Stock may be issued from time to time in one or more series, each of such series to have such terms as stated or expressed herein and in the resolution or resolutions providing for the issue of such series adopted by the Board of Directors of the Corporation as hereinafter provided. Any shares of Preferred Stock which may be redeemed, purchased or acquired by the Corporation may be reissued except as otherwise provided by law. Differ-





ent series of Preferred Stock shall not be construed to constitute different classes of shares for the purposes of voting by classes unless expressly provided.

Authority is hereby expressly granted to the Board of

Directors from time to time to issue the Preferred Stock in one or more series, and in connection with the creation of any such series, by resolution or resolutions providing for the issue of the shares thereof, to determine and fix such voting powers, full or limited, or no voting powers, and such designations, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereof, including without limitation thereof, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be stated and expressed in such resolutions, all to the full extent now or hereafter permitted by the General Corporation Law of Delaware. Without limiting the generality of the foregoing, the resolutions providing for issuance of any series of Preferred Stock may provide that such series shall be superior or rank equally or be junior to the Preferred Stock of any other series to the extent permitted by law. Except as otherwise specifically provided in this Certificate of Incorporation, no vote of the holders of the Preferred Stock or Common Stock shall be a prerequisite to the issuance of any shares of any series of the Preferred Stock authorized by and complying with the conditions of the Certificate of Incorporation, the right to have such vote being expressly waived by all present and future holders of the capital stock of the Corporation.

FIFTH. The Corporation shall have a perpetual existence.

SIXTH. _____ In furtherance of and not in limitation of powers conferred by statute, it is further provided that the Board of Directors is expressly authorized to adopt, amend or repeal the By-Laws of the Corporation.

SEVENTH. _____ Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this corporation under the provisions of section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of



the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any promise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

EIGHTH. Except to the extent that the General Corporation Law of the State of Delaware prohibits the elimination or limitation of liability of directors for breaches of fiduciary duty, no director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for any breach of fiduciary duty as a director, notwithstanding any provision of law imposing such liability. No amendment to or repeal of this provision shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment.

NINTH. 1. Action, Suits and Proceedings Other than by or in the Right of the Corporation. The Corporation shall indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation), by reason of the fact that he is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) (all such persons being referred to hereafter as an "Indemnitee"), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees) judgment, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order,



settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful. Notwithstanding anything to the contrary in this Article, except as set forth in Section 6 below, the Corporation shall not indemnify an Indemnitee seeking indemnification in connection with a proceeding (or part thereof) initiated by the Indemnitee unless the initiation thereof was approved by the Board of Directors of the Corporation.

2. Actions or Suits by or in the Right of the Corporation. The Corporation shall indemnify any Indemnitee who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees) and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of Delaware shall determine upon application that, despite the adjudication of such liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses (including attorneys' fees) which the Court of Chancery of Delaware shall deem proper.

3. Indemnification for Expenses of Successful Party. Notwithstanding the other provisions of this Article, to the extent that an Indemnitee has been successful, on the merits or otherwise, in defense of any action, suit or proceeding referred to in Sections 1 and 2 of this Article, or in defense of any claim, issue or matter therein, or on appeal from any such action, suit or proceeding, he shall be indemnified against all expenses

(including attorneys' fees) actually and reasonably incurred by





him or on his behalf in connection therewith. Without limiting the foregoing, if any action, suit or proceeding is disposed of, on the merits or otherwise (including a disposition without prejudice), without (i) the disposition being adverse to the Indemnitee, (ii) an adjudication that the Indemnitee was liable to the Corporation, (iii) a plea of guilty or nolo contendere by the Indemnitee, (iv) an adjudication that the Indemnitee did not act in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and (v) with respect to any criminal proceeding, an adjudication that the Indemnitee had reasonable cause to believe his conduct was unlawful, the Indemnitee shall be considered for the purposes hereof to have been wholly successful with respect thereto.

4. Notification and Defense of Claim. As a condition precedent to his right to be indemnified, the Indemnitee must notify the Corporation in writing as soon as practicable of any action, suit, proceeding or investigation involving him for which indemnity will or could be sought. With respect to any action, suit, proceeding or investigation of which the Corporation is so notified, the Corporation will be entitled to participate therein at its own expense and/or to assume the defense thereof at its own expense, with legal counsel reasonably acceptable to the Indemnitee. After notice from the Corporation to the Indemnitee of its election so to assume such defense, the Corporation shall not be liable to the Indemnitee for any legal or other expenses subsequently incurred by the Indemnitee in connection with such claim, other than as provided below in this Section 4. The Indemnitee shall have the right to employ his own counsel in connection with such claim, but the fees and expenses of such counsel incurred after notice from the Corporation of its assumption of the defense thereof shall be at the expense of the Indemnitee unless (i) the employment of counsel by the Indemnitee has been authorized by the Corporation, (ii) counsel to the Indemnitee shall have reasonably concluded that there may be a conflict of interest or position on any significant issue between the Corporation and the Indemnitee in the conduct of the defense of such action or (iii) the Corporation shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel for the Indemnitee shall be at the expense of the Corporation, except as otherwise expressly provided by this Article. The Corporation shall not be entitled, without the consent of the Indemnitee, to assume the defense of any claim brought by or in the right of the Corporation or as to which counsel for the Indemnitee shall have reasonably made the conclusion provided for in clause (ii) above.





5. Advance of Expenses. Subject to the provisions of Section 6 below, in the event that the Corporation does not assume the defense pursuant to Section 4 of this Article of any action, suit, proceeding or investigation of which the Corporation receives notice under this Article, any expenses (including attorneys' fees) incurred by an Indemnitee in defending a civil or criminal action, suit, proceeding or investigation or any appeal therefrom shall be paid by the Corporation in advance of the final disposition of such matter; provided, however, that the payment of such expense incurred by an Indemnitee in advance of the final disposition of such matter shall be made only upon receipt of an undertaking by or on behalf of the Indemnitee to repay all amounts so advanced in the event that it shall ultimately be determined that the Indemnitee is not entitled to be indemnified by the Corporation as

authorized in this Article. Such undertaking shall be accepted without reference to the financial ability of the Indemnitee to make such repayment.

6. Procedure for Indemnification. In order to obtain indemnification or advancement of expenses pursuant to Section 1, 2, 3 or 5 of this Article, the Indemnitee shall submit to the Corporation a written request, including in such request such documentation and information as is reasonably available to the Indemnitee and is reasonably necessary to determine whether and to what extent the Indemnitee is entitled to indemnification or advancement of expenses. Any such indemnification or advancement of expenses shall be made promptly, and in any event within 60 days after receipt by the Corporation of the written request of the Indemnitee, unless with respect to requests under Section 1, 2 or 5 the Corporation determines, by clear and convincing evidence, within such 60-day period that the Indemnitee did not meet the applicable standard of conduct set forth in Section 1 or 2, as the case may be. Such determination shall be made in each instance by (a) a majority vote of the directors of the Corporation consisting of persons who are not at that time parties to the action, suit or proceeding in question ("disinterested directors"), even though less than a quorum, (b) a majority vote of a quorum of the outstanding shares of stock of all classes entitled to vote for directors, voting as a single class, which quorum shall consist of stockholders who are not at that time parties to the action, suit or proceeding in question, (c) independent legal counsel (who may be regular legal counsel to the Corporation), or (d) a court of competent jurisdiction.

7. Remedies. The right to indemnification or advances as granted by this Article shall be enforceable by the Indemnitee in any court of competent jurisdiction if the Corporation denies such request, in whole or in part, or if no disposition thereof is made



within the 60-day period referred to above in Section 6. Unless otherwise provided by law, the burden of proving that the Indemnitee is not entitled to indemnification or advanced of expenses under this Article shall be on the Corporation. Neither the failure of the Corporation to have made a determination prior to the commencement of such action that indemnification is proper in the circumstances because the Indemnitee has met the applicable standard of conduct, nor an actual determination by the Corporation pursuant to Section 6 that the Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the Indemnitee has not met the applicable standard of conduct. The Indemnitee's expenses (including attorneys' fees) incurred in connection with successfully establishing his right to indemnification, in whole or in part, in any such proceeding shall also be indemnified by the Corporation.

8. Subsequent Amendment. No amendment, termination or repeal of this Article or of the relevant provisions of the General Corporation Law of Delaware or any other applicable laws shall affect or diminish in any way the rights of any Indemnitee to indemnification under the provisions hereof with respect to any action, suit, proceeding or investigation arising out of or relating to any actions, transactions or facts occurring prior to the final adoption of such amendment, termination or repeal.

9. Other Rights. The indemnification and advancement of expenses provided by this Article shall not be deemed exclusive of any other rights to which an Indemnitee seeking indemnification or advancement of expenses may be entitled under any law (common or statutory), agreement or vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in any other capacity while holding office for the Corporation, and shall continue as to an Indemnitee who has ceased to be a director or officer, and shall inure to the benefit of the estate, heirs, executors and administrators of the Indemnitee. Nothing

contained in this Article shall be deemed to prohibit, and the Corporation is specifically authorized to enter into, agreements with officers and directors providing indemnification rights and procedures different from those set forth in this Article. In addition, the Corporation may, to the extent authorized from time to time by its Board of Directors, grant indemnification rights to other employees or agents of the Corporation or other persons serving the Corporation and such rights may be equivalent to, or greater or less than, those set forth in this Article.





10. Partial Indemnification. If an Indemnitee is entitled under any provision of this Article to indemnification by the Corporation for some or a portion of the expenses (including attorneys' fees), judgments, fines or amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with any action, suit, proceeding or investigation and any appeal, therefrom but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify the Indemnitee for the portion of such expenses (including attorneys' fees), judgments, fines or amounts paid in settlement to which the Indemnitee is entitled.

11. Insurance. The Corporation may purchase and maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) against any expense, liability or loss incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation law of Delaware.

12. Merger or Consolidation. If the Corporation is merged into or consolidated with another corporation and the Corporation is not the surviving corporation, the surviving corporation shall assume the obligations of the Corporation under this Article with respect to any action, suit, proceeding or investigation arising out of or relating to any actions, transactions or facts occurring prior to the date of such merger or consolidation.

13. Savings Clause. If this Article or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each Indemnitee as to any expenses (including attorneys' fees) judgments, fines and amounts paid in settlement in connection with any action, suit, proceeding or investigation, whether civil, criminal or administrative, including an action by or in the right of the Corporation, to the fullest extent permitted by any applicable portion of this Article that shall not have been invalidated and to the fullest extent permitted by applicable law.

14. Definitions. Terms used herein and defined in Section 145(h) and Section 145(i) of the General Corporation Law of Delaware shall have the respective meanings assigned to such terms in such Section 145(h) and Section 145(i).





15. Subsequent Legislation. If the General Corporation Law of Delaware is amended after adoption of this Article to expand further the indemnification permitted to Indemnitees, then the Corporation shall indemnify

such persons to the fullest extent permitted by the General Corporation Law of Delaware, as so amended.

TENTH. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute and this Amended and Restated Certificate of Incorporation, and all rights conferred upon stockholders herein are granted subject to this reservation.

ELEVENTH. This Article is inserted for the management of the business and for the conduct of the affairs of the Corporation.

1. Number of Directors. The number of directors of the Corporation shall not be less than three. The exact number of directors within the limitations specified in the preceding sentence shall be fixed from time to time by, or in the manner provided in, the Corporation's By-Laws.

2. Classes of Directors. The Board of Directors shall be and is divided into three classes: Class I, Class II and Class III. No one class shall have more than one director more than any other class. If a fraction is contained in the quotient arrived at by dividing the designated number of directors by three, then, if such fraction is one-third, the extra director shall be a member of Class I, and if such fraction is two-thirds, one of the extra directors shall be a member of Class I and one of the extra directors shall be a member of Class II, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

3. Election of Directors. Elections of directors need not be by written ballot except as and to the extent provided in the By-Laws of the Corporation.

4. Terms of Office. Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected; provided, that each initial director in Class I shall serve for a term ending on the date of the annual meeting in 1996; each initial director in Class II shall serve for a term ending on the date of the annual meeting in 1997; and each initial director in Class III shall serve for a term ending on the date of the annual meeting in 1998;



and provided further, that the term of each director shall be subject to the election and qualification of his successor and to his earlier death, resignation or removal.

5. Allocation of Directors Among Classes in the Event of Increases or Decreases in the Number of Directors. In the event of any increase or decrease in the authorized number of directors, (i) each director then serving as such shall nevertheless continue as a director of the class of which he is a member and (ii) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors so as to ensure that no one class has more than one director more than any other class. To the extent possible, consistent with the foregoing rule, any newly created directorships shall be added to those classes whose terms of office are to expire at the latest dates following such allocation, and any newly eliminated directorships shall be subtracted from those classes whose terms of offices are to expire at the earliest dates following such allocation, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

6. Quorum; Action at Meeting. A majority of the

directors at any time in office shall constitute a quorum for the transaction of business. In the event one or more of the directors shall be disqualified to vote at any meeting, then the required quorum shall be reduced by one for each director so disqualified, provided that in no case shall less than one-third of the number of directors fixed pursuant to Section 1 above constitute a quorum. If at any meeting of the Board of Directors there shall be less than such a quorum, a majority of those present may adjourn the meeting from time to time. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors unless a greater number is required by law, by the By-Laws of the Corporation or by this Amended and Restated Certificate of Incorporation.

7. Removal. Directors of the Corporation may be removed only for cause by the affirmative vote of the holders of at least two-thirds of the shares of the capital stock of the Corporation issued and outstanding and entitled to vote.

8. Vacancies. Any vacancy in the Board of Directors, however occurring, including a vacancy resulting from an enlargement of the board, shall be filled only by a vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director. A director elected to



fill a vacancy shall be elected to hold office until the next election of the class for which such director shall have been chosen, subject to the election and qualification of his successor and to his earlier death, resignation or removal.

9. Stockholder Nominations and Introduction of Business, Etc. Advance notice of stockholder nominations for election of directors and other business to be brought by stockholders before a meeting of stockholders shall be given in the manner provided by the By-Laws of the Corporation.

10. Amendments to Article. Notwithstanding any other provisions of law, this Amended and Restated Certificate of Incorporation or the By-Laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the shares of capital stock of the Corporation issued and outstanding and entitled to vote shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article ELEVENTH.

TWELFTH. Stockholders of the Corporation may not take any action by written consent in lieu of a meeting. Notwithstanding any other provisions of law, the Amended and Restated Certificate of Incorporation or the By-Laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the shares of capital stock of the Corporation issued and outstanding and entitled to vote shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article TWELFTH.

THIRTEENTH. Special meetings of stockholders may be called at any time by only the Chief Executive Officer (or, if there is no Chief Executive Officer, the President) or by the Board of Directors. Business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting. Notwithstanding any other provision of law, this Amended and Restated Certificate of Incorporation or the Corporation's By-Laws, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote

of the holders of at least seventy-five percent (75%) of the shares of capital stock of the Corporation issued and outstanding and entitled to vote shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article THIRTEENTH.





IN WITNESS WHEREOF, the Corporation has caused its corporate seal to be affixed hereto and this Amended and Restated Certificate of Incorporation to be signed by its Chairman this 20th day of November, 1995.

NOVAVAX, INC.

By: /s/ EDWARD B. HAGER, M.D.
---
Edward B. Hager, M.D.
Chairman

EXHIBIT 3.2

# AMENDED AND RESTATED

# BY-LAWS

# OF

# NOVAVAX, INC.



## AMENDED AND RESTATED BY-LAWS

## TABLE OF CONTENTS

# AMENDED AND RESTATED BY-LAWS

# OF

# NOVAVAX, INC.

## ARTICLE 1 - Stockholders

1.1 Place of Meetings. All meetings of stockholders shall be held at such place within or without the State of Delaware as may be designated from time to time by the Board of Directors or the President or, if not so designated, at the registered office of the corporation.

1.2 Annual Meeting. The annual meeting of stockholders for the election of directors and for the transaction of such other business as may properly be brought before the meeting shall be held within six months after the end of each fiscal year of the corporation on a date to be fixed by the Board of Directors or the President (which date shall not be a legal holiday in the place where the meeting is to be held) at the time and place to be fixed by the Board of Directors or the President and stated in the notice of the meeting. If no annual meeting is held in accordance with the foregoing provisions, the Board of Directors shall cause the meeting to be held as soon thereafter as convenient. If no annual meeting is held in accordance with the foregoing provisions, a special meeting may be held in lieu of the annual meeting, and any action taken at that special meeting shall have the same

effect as if it had been taken at the annual meeting, and in such case all references in these By-Laws to the annual meeting of the stockholders shall be deemed to refer to such special meeting.

1.3 Special Meetings. Special meetings of stockholders may be called at any time by the Chief Executive Officer (or, if there is no Chief Executive Officer, the President) or by the Board of Directors. Business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting.

1.4 Notice of Meetings. Except as otherwise provided by law, written notice of each meeting of stockholders, whether annual or special, shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. The notices of all meetings shall state the place, date and hour of the meeting. The notice of a special meeting shall state, in addition, the purpose or



purposes for which the meeting is called. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the corporation.

1.5 Voting List. The officer who has charge of the stock ledger of the corporation shall prepare, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, at a place within the city where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time of the meeting, and may be inspected by any stockholder who is present.

1.6 Quorum. Except as otherwise provided by law, the Certificate of Incorporation or these By-Laws, the holders of a majority of the shares of the capital stock of the corporation issued and outstanding and entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum for the transaction of business.

1.7 Adjournments. Any meeting of stockholders may be adjourned to any other time and to any other place at which a meeting of stockholders may be held under these By-Laws by the stockholders present or represented at the meeting and entitled to vote, although less than a quorum, or, if no stockholder is present, by any officer entitled to preside at or to act as Secretary of such meeting. It shall not be necessary to notify any stockholder of any adjournment of less than 30 days if the time and place of the adjourned meeting are announced at the meeting at which adjournment is taken, unless after the adjournment a new record date is fixed for the adjourned meeting. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting.

1.8 Voting and Proxies. Each stockholder shall have one vote for each share of stock entitled to vote held of record by such stockholder and a proportionate vote for each fractional share so held, unless otherwise provided by the General Corporation Law of the State of Delaware, the Certificate of Incorporation or these By-Laws. Each stockholder of record entitled to vote at a meeting of stockholders, or to express consent or dissent to corporate action in writing without a meeting, may vote or express such consent or dissent in person or

may authorize another person or persons to vote or act for him by written proxy executed by the stockholder or his authorized agent and delivered to the Secretary of the corporation. No such proxy shall be voted or acted upon after three years from the date of its execution, unless the proxy expressly provides for a longer period.

1.9 Action at Meeting. When a quorum is present at any meeting, the holders of a majority of the stock present or represented and voting on a matter (or if there are two or more classes of stock entitled to vote as separate classes, then in the case of each such class, the holders of a majority of the stock of that class present or represented and voting on a matter) shall decide any matter to be voted upon by the stockholders at such meeting, except when a different vote is required by express provision of law, the Certificate of Incorporation or these By-Laws. Any election by stockholders shall be determined by a plurality of the votes cast by the stockholders entitled to vote at the election.

1.10 Nomination of Directors. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nomination for election to the Board of Directors of the corporation at a meeting of stockholders may be made by the Board of Directors or by any stockholder of the corporation entitled to vote for the election of directors at such meeting who complies with the notice procedures set forth in this Section 1.10. Such nominations, other than those made by or on behalf of the Board of Directors, shall be made by notice in writing delivered or mailed by first class United States mail, postage prepaid, to the Secretary, and received not less than 60 days nor more than 90 days prior to such meeting; provided, however, that if less than 70 days' notice or prior public disclosure of the date of the meeting is given to stockholders, such nomination shall have been mailed or delivered to the Secretary not later than the close of business on the 10th day following the date on which the notice of the meeting was mailed or such public disclosure was made, whichever occurs first. Such notice shall set forth (a) as to each proposed nominee (i) the name, age, business address and, if known, residence address of each such nominee, (ii) the principal occupation or employment of each such nominee, (iii) the number of shares of stock of the corporation which are beneficially owned by each such nominee, and (iv) any other information concerning the nominee that must be disclosed as to nominees in proxy solicitations pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to be named as a nominee and to serve as a director if elected); and (b) as to the stockholder giving the notice (i) the name and address, as they



appear on the corporation's books, of such stockholder and (ii) the class and number of shares of the corporation which are beneficially owned by such stockholder. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation.

The chairman of the meeting may, if the facts warrant, determine and declare to the meeting that a nomination was not made in

accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

1.11 Notice of Business at Annual Meetings. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly brought before an annual meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, if such business relates to the election of directors of the corporation, the procedures in Section 1.10 must be complied with. If such business relates to any other matter, the stockholder must have given timely notice thereof in writing to the Secretary. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than 60 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the date on which such notice of the date of the meeting was mailed or such public disclosure was made, whichever occurs first. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the corporation which are beneficially owned by the stockholder, and (d) any material interest of the stockholder in such business. Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth



in this Section 1.11 and except that any stockholder proposal which complies with Rule 14a-8 of the proxy rules (or any successor provision) promulgated under the Securities Exchange Act of 1934, as amended, and is to be included in the corporation's proxy statement for an annual meeting of stockholders shall be deemed to comply with the requirements of this Section 1.11.

The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 1.11, and if he should so determine, the chairman shall so declare to the meeting that any such business not properly brought before the meeting shall not be transacted.

1.12 Action without Meeting. Stockholders may not take any action by written consent in lieu of a meeting.

1.13 Organization. The Chairman of the Board, or in his absence the Vice Chairman of the Board designated by the Chairman of the Board, or the President, in the order named, shall call meetings of the stockholders to order, and shall act as chairman of such meeting; provided, however, that the Board of Directors may appoint any stockholder to act as chairman of any meeting in the absence of the Chairman of the Board. The Secretary of the corporation shall act as secretary at all meetings of the stockholders; but in the absence of the Secretary at any meeting of the stockholders, the presiding officer may appoint any person to act as secretary of the meeting.

ARTICLE 2 - Directors

2.1 General Powers. The business and affairs of the corporation shall be managed by or under the direction of a Board of Directors, who may exercise all of the powers of the corporation except as otherwise provided by law, the Certificate of Incorporation or these By-Laws. In the event of a vacancy in the Board of Directors, the remaining directors, except as otherwise provided by law, may exercise the powers of the full Board until the vacancy is filled.

2.2 Number; Election and Qualification. The number of directors which shall constitute the whole Board of Directors shall be determined by resolution of the Board of Directors, but in no event shall be less than three. The number of directors may be decreased at any time and from time to time by a majority of the directors then in office, but only to eliminate vacancies



existing by reason of the death, resignation, removal or expiration of the term of one or more directors. The directors shall be elected at the annual meeting of stockholders by such stockholders as have the right to vote on such election. Directors need not be stockholders of the corporation.

2.3 Classes of Directors. The Board of Directors shall be and is divided into three classes: Class I, Class II and Class III. No one class shall have more than one director more than any other class. If a fraction is contained in the quotient arrived at by dividing the designated number of directors by three, then, if such fraction is one-third, the extra director shall be a member of Class I, and if such fraction is two-thirds, one of the extra directors shall be a member of Class I and one of the extra directors shall be a member of Class II, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

2.4 Terms of Office. Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected; provided, that each initial director in Class I shall serve for a term ending on the date of the annual meeting of stockholders in 1996; each initial director in Class II shall serve for a term ending on the date of the annual meeting of stockholders in 1997; and each initial director in Class III shall serve for a term ending on the date of the annual meeting of stockholders in 1998; and provided further, that the term of each director shall be subject to the election and qualification of his successor and to his earlier death, resignation or removal.

2.5 Allocation of Directors Among Classes in the Event of Increases or Decreases in the Number of Directors. In the event of any increase or decrease in the authorized number of directors, (i) each director then serving as such shall nevertheless continue as a director of the class of which he is a member and (ii) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors so as to ensure that no one class has more than one director more than any other class. To the extent possible, consistent with the foregoing rule, any newly created directorships shall be added to those classes whose terms of office are to expire at the latest dates following such allocation, and any newly eliminated directorships shall be subtracted from those classes whose terms of offices are to expire at the earliest dates following such allocation, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

2.6 Vacancies. Any vacancy in the Board of Directors, however occurring, including a vacancy resulting from an enlargement of the Board, shall be filled only by vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office, and a director chosen to fill a position resulting from an increase in the number of directors shall hold office until the next election of the class for which such director shall have been chosen, subject to the election and qualification of his successor and to his earlier death, resignation or removal.

2.7 Resignation. Any director may resign by delivering his written resignation to the corporation at its principal office or to the President or Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

2.8 Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place, either within or without the State of Delaware, as shall be determined from time to time by the Board of Directors; provided that any director who is absent when such a determination is made shall be given notice of the determination. A regular meeting of the Board of Directors may be held without notice immediately after and at the same place as the annual meeting of stockholders.

2.9 Special Meetings. Special meetings of the Board of Directors may be held at any time and place, within or without the State of Delaware, designated in a call by the Chairman of the Board, President, two or more directors, or by one director in the event that there is only a single director in office.

2.10 Notice of Special Meetings. Notice of any special meeting of directors shall be given to each director by the Secretary or by the officer or one of the directors calling the meeting. Notice shall be duly given to each director (i) by giving notice to such director in person or by telephone at least 24 hours in advance of the meeting, (ii) by sending a telegram, telecopy, or telex, or delivering written notice by hand, to his last known business or home address at least 24 hours in advance of the meeting, or (iii) by mailing written notice to his last known business or home address at least 72 hours in advance of the meeting. A notice or waiver of notice of a meeting of the Board of Directors need not specify the purposes of the meeting.

2.11 Meetings by Telephone Conference Calls. Directors or any members of any committee designated by the directors may



participate in a meeting of the Board of Directors or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation by such means shall constitute presence in person at such meeting.

2.12 Quorum. A majority of the total number of the whole

Board of Directors shall constitute a quorum at all meetings of the Board of Directors. In the event one or more of the directors shall be disqualified to vote at any meeting, then the required quorum shall be reduced by one for each such director so disqualified; provided, however, that in no case shall less than one-third (1/3) of the number so fixed constitute a quorum. In the absence of a quorum at any such meeting, a majority of the directors present may adjourn the meeting from time to time without further notice other than announcement at the meeting, until a quorum shall be present.

2.13 Action at Meeting. At any meeting of the Board of Directors at which a quorum is present, the vote of a majority of those present shall be sufficient to take any action, unless a different vote is specified by law, the Certificate of Incorporation or these By-Laws. Notwithstanding the foregoing, at any time during which the directors of the corporation who are affiliated with IGI, Inc. shall constitute at least half of the membership of the Board of Directors, any matter requiring approval of the Board of Directors shall be subject to the approval of not less than two-thirds of the directors.

2.14 Action by Consent. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee of the Board of Directors may be taken without a meeting, if all members of the Board or committee, as the case may be, consent to the action in writing, and the written consents are filed with the minutes of proceedings of the Board or committee.

2.15 Removal. Directors of the corporation may be removed only for cause by the affirmative vote of the holders of two-thirds of the shares of the capital stock of the corporation issued and outstanding and entitled to vote.

2.16 Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the



member or members of the committee present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors and subject to the provisions of the General Corporation Law of the State of Delaware, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation and may authorize the seal of the corporation to be affixed to all papers which may require it. Each such committee shall keep minutes and make such reports as the Board of Directors may from time to time request. Except as the Board of Directors may otherwise determine, any committee may make rules for the conduct of its business, but unless otherwise provided by the directors or in such rules, its business shall be conducted as nearly as possible in the same manner as is provided in these By-Laws for the Board of Directors.

2.17 Compensation of Directors. Directors may be paid such compensation for their services and such reimbursement for expenses of attendance at meetings as the Board of Directors may from time to time determine. No such payment shall preclude any director from serving the

corporation or any of its parent or subsidiary corporations in any other capacity and receiving compensation for such service.

## ARTICLE 3 - Officers

3.1 Enumeration. The officers of the corporation shall consist of a President, a Secretary, a Treasurer and such other officers with such other titles as the Board of Directors shall determine, including a Chairman of the Board, a Vice Chairman of the Board, and one or more Vice Presidents, Assistant Treasurers, and Assistant Secretaries. The Board of Directors may appoint such other officers as it may deem appropriate.

3.2 Election. The President, Treasurer and Secretary shall be elected annually by the Board of Directors at its first meeting following the annual meeting of stockholders. Other officers may be appointed by the Board of Directors at such meeting or at any other meeting.

3.3 Qualification. No officer need be a stockholder. Any two or more offices may be held by the same person.



3.4 Tenure. Except as otherwise provided by law, by the Certificate of Incorporation or by these By-Laws, each officer shall hold office until his successor is elected and qualified, unless a different term is specified in the vote choosing or appointing him, or until his earlier death, resignation or removal.

3.5 Resignation and Removal. Any officer may resign by delivering his written resignation to the corporation at its principal office or to the President or Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

Any officer may be removed at any time, with or without cause, by vote of a majority of the entire number of directors then in office.

Except as the Board of Directors may otherwise determine, no officer who resigns or is removed shall have any right to any compensation as an officer for any period following his resignation or removal, or any right to damages on account of such removal, whether his compensation be by the month or by the year or otherwise, unless such compensation is expressly provided in a duly authorized written agreement with the corporation.

3.6 Vacancies. The Board of Directors may fill any vacancy occurring in any office for any reason and may, in its discretion, leave unfilled for such period as it may determine any offices other than those of President, Treasurer and Secretary. Each such successor shall hold office for the unexpired term of his predecessor and until his successor is elected and qualified, or until his earlier death, resignation or removal.

3.7 Chairman of the Board and Vice Chairman of the Board. The Board of Directors may appoint a Chairman of the Board and may designate the Chairman of the Board as Chief Executive Officer. If the Board of Directors appoints a Chairman of the Board, he shall perform such duties and possess such powers as are assigned to him by the Board of Directors. If the Board of Directors appoints a Vice Chairman of the Board, he shall, in the absence or disability of the Chairman of the Board, perform the duties and exercise the powers of the Chairman of the Board and shall perform such other duties and possess such other powers as may from time to time be vested in him by the Board of Directors.

3.8 President. The President shall, subject to the direction of the Board of Directors, have general charge and supervision of the business of the corporation. Unless otherwise



provided by the Board of Directors, he shall preside at all meetings of the stockholders, if he is a director, at all meetings of the Board of Directors. Unless the Board of Directors has designated the Chairman of the Board or another officer as Chief Executive Officer, the President shall be the Chief Executive Officer of the corporation. The President shall perform such other duties and shall have such other powers as the Board of Directors may from time to time prescribe.

3.9 Vice Presidents. Any Vice President shall perform such duties and possess such powers as the Board of Directors or the President may from time to time prescribe. In the event of the absence, inability or refusal to act of the President, the Vice President (or if there shall be more than one, the Vice Presidents in the order determined by the Board of Directors) shall perform the duties of the President and when so performing shall have all the powers of and be subject to all the restrictions upon the President. The Board of Directors may assign to any Vice President the title of Executive Vice President, Senior Vice President or any other title selected by the Board of Directors.

3.10 Secretary and Assistant Secretaries. The Secretary shall perform such duties and shall have such powers as the Board of Directors or the President may from time to time prescribe. In addition, the Secretary shall perform such duties and have such powers as are incident to the office of the secretary, including without limitation the duty and power to give notices of all meetings of stockholders and special meetings of the Board of Directors, to attend all meetings of stockholders and the Board of Directors and keep a record of the proceedings, to maintain a stock ledger and prepare lists of stockholders and their addresses as required, to be custodian of corporate records and the corporate seal and to affix and attest to the same on documents.

Any Assistant Secretary shall perform such duties and possess such powers as the Board of Directors, the President or the Secretary may from time to time prescribe. In the event of the absence, inability or refusal to act of the Secretary, the Assistant Secretary (or if there shall be more than one, the Assistant Secretaries in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Secretary.

In the absence of the Secretary or any Assistant Secretary at any meeting of stockholders or directors, the person presiding at the meeting shall designate a temporary secretary to keep a record of the meeting.

3.11 Treasurer and Assistant Treasurers. The Treasurer shall perform such duties and shall have such powers as may from



time to time be assigned to him by the Board of Directors or the President. In

addition, the Treasurer shall perform such duties and have such powers as are incident to the office of treasurer, including without limitation the duty and power to keep and be responsible for all funds and securities of the corporation, to deposit funds of the corporation in depositories selected in accordance with these By-Laws, to disburse such funds as ordered by the Board of Directors, to make proper accounts of such funds, and to render as required by the Board of Directors statements of all such transactions and of the financial condition of the corporation.

The Assistant Treasurers shall perform such duties and possess such powers as the Board of Directors, the President or the Treasurer may from time to time prescribe. In the event of the absence, inability or refusal to act of the Treasurer, the Assistant Treasurer (or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Treasurer.

3.12 Salaries. Officers of the corporation shall be entitled to such salaries, compensation or reimbursement as shall be fixed or allowed from time to time by the Board of Directors.

## ARTICLE 4 - Capital Stock

4.1 Issuance of Stock. Unless otherwise voted by the stockholders and subject to the provisions of the Certificate of Incorporation, the whole or any part of any unissued balance of the authorized capital stock of the corporation or the whole or any part of any unissued balance of the authorized capital stock of the corporation held in its treasury may be issued, sold, transferred or otherwise disposed of by vote of the Board of Directors in such manner, for such consideration and on such terms as the Board of Directors may determine.

4.2 Certificates of Stock. Every holder of stock of the corporation shall be entitled to have a certificate, in such form as may be prescribed by law and by the Board of Directors, certifying the number and class of shares owned by him in the corporation. Each such certificate shall be signed by, or in the name of the corporation by, the Chairman or Vice Chairman, if any, of the Board of Directors, or the President or a Vice President, and the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the corporation. Any or all of the signatures on the certificate may be a facsimile.



Each certificate for shares of stock which are subject to any restriction on transfer pursuant to the Certificate of Incorporation, the By-Laws, applicable securities laws or any agreement among any number of stockholders or among such holders and the corporation shall have conspicuously noted on the face or back of the certificate either the full text of the restriction or a statement of the existence of such restriction.

4.3 Transfers. Except as otherwise established by rules and regulations adopted by the Board of Directors, and subject to applicable law, shares of stock may be transferred on the books of the corporation by the surrender to the corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment or power of attorney properly executed, and with such proof of authority or the authenticity of signature as the corporation or its transfer agent may reasonably require. Except as may be otherwise required by law, by

the Certificate of Incorporation or by these By-Laws, the corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect to such stock, regardless of any transfer, pledge or other disposition of such stock until the shares have been transferred on the books of the corporation in accordance with the requirements of these By-Laws.

4.4 Lost, Stolen or Destroyed Certificates. The corporation may issue a new certificate of stock in place of any previously issued certificate alleged to have been lost, stolen, or destroyed, upon such terms and conditions as the Board of Directors may prescribe, including the presentation of reasonable evidence of such loss, theft or destruction and the giving of such indemnity as the Board of Directors may require for the protection of the corporation or any transfer agent or registrar.

4.5 Record Date. The Board of Directors may fix in advance a date as a record date for the determination of the stockholders entitled to notice of or to vote at any meeting of stockholders, or entitled to receive payment of any dividend or other distribution or allotment of any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action. Such record date shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action to which such record date relates.

If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day before



the day on which notice is given, or, if notice is waived, at the close of business on the day before the day on which the meeting is held. The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating to such purpose.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

## ARTICLE 5 - General Provisions

5.1 Fiscal Year. Except as from time to time otherwise designated by the Board of Directors, the fiscal year of the corporation shall begin on the first day of January in each year and end on the last day of December in each year.

5.2 Corporate Seal. The corporate seal shall be in such form as shall be approved by the Board of Directors.

5.3 Waiver of Notice. Whenever any notice whatsoever is required to be given by law, by the Certificate of Incorporation or by these By-Laws, a waiver of such notice either in writing signed by the person entitled to such notice or such person's duly authorized attorney, or by telegraph, cable or any other available method, whether before, at or after the time stated in such waiver, or the appearance of such person or persons at such meeting in person or by proxy, shall be deemed equivalent to such notice.

5.4 Voting of Securities. Except as the directors may otherwise designate, the President or Treasurer may waive notice of, and act

as, or appoint any person or persons to act as, proxy or attorney-in-fact for this corporation (with or without power of substitution) at, any meeting of stockholders or shareholders of any other corporation or organization, the securities of which may be held by this corporation.



5.5 Evidence of Authority. A certificate by the Secretary, or an Assistant Secretary, or a temporary Secretary, as to any action taken by the stockholders, directors, a committee or any officer or representative of the corporation shall as to all persons who rely on the certificate in good faith be conclusive evidence of such action.

5.6 Certificate of Incorporation. All references in these By-Laws to the Certificate of Incorporation shall be deemed to refer to the Certificate of Incorporation of the corporation, as amended and in effect from time to time.

5.7 Transactions with Interested Parties. No contract or transaction between the corporation and one or more of the directors or officers, or between the corporation and any other corporation, partnership, association, or other organization in which one or more of the directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or a committee of the Board of Directors which authorizes the contract or transaction or solely because his or their votes are counted for such purpose, if:

(1) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum;

(2) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(3) The contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee of the Board of Directors, or the stockholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

5.8 Severability. Any determination that any provision of these By-Laws is for any reason inapplicable, illegal or ineffective shall not affect or invalidate any other provision of these By-Laws.

5.9 Pronouns. All pronouns used in these By-Laws shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

ARTICLE 6 - Amendments

6.1 By the Board of Directors. These By-Laws may be altered, amended or repealed or new by-laws may be adopted by the affirmative vote of a majority of the directors present at any regular or special meeting of the Board of Directors at which a quorum is present.

6.2 By the Stockholders. Except as otherwise provided in Section 6.3, these By-Laws may be altered, amended or repealed or new by-laws may be adopted by the affirmative vote of the holders of a majority of the shares of the capital stock of the corporation issued and outstanding and entitled to vote at any regular or special meeting of stockholders, provided notice of such alteration, amendment, repeal or adoption of new by-laws shall have been stated in the notice of such regular or special meeting.

6.3 Certain Provisions. Notwithstanding any other provision of law, the Certificate of Incorporation or these By-Laws, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the shares of the capital stock of the corporation issued and outstanding and entitled to vote shall be required to amend or repeal, or to adopt any provision inconsistent with Section 1.3, Section 1.10, Section 1.11, Section 1.12, Section 1.13, Article 2 or Article 6 of these By-Laws.

1

EXHIBIT 10.7

2

AGREEMENT OF LEASE
by and between
RIVERS CENTER ASSOCIATES LIMITED PARTNERSHIP
(Landlord) and
NOVAVAX, INC. (Tenant)
R & D Lease

RIVERS CENTER ASSOCIATES LIMITED PARTNERSHIP

LEASE AGREEMENT

THIS AGREEMENT OF LEASE (this "Lease") is made this 25th day of September, 1996, by and between RIVERS CENTER ASSOCIATES LIMITED PARTNERSHIP, a limited partnership formed under the laws of the State of Maryland (hereinafter referred to as "Landlord"), and NOVAVAX, INC., a corporation organized under the laws of the State of Delaware (hereinafter referred to as "Tenant").

WITNESSETH, that the parties hereby covenant, promise and agree as follows:

1. Leased Premises.

(a) Landlord is the developer of the building known as Building E, 8320 Guilford Road (hereinafter referred to as the "Building"), in an office/warehouse/research and development complex containing three office/ warehouse/research and development buildings and two office buildings located in the Rivers Corporate Park, Columbia, Maryland 21046. Landlord does hereby lease unto Tenant and Tenant does hereby rent from Landlord, that portion of the Building known as Suite C-E and containing, as confirmed by Landlord's architect, twelve thousand twelve (12,012) rentable square feet (which does not include any "core factor") (hereinafter referred to as the "Leased Premises") as more particularly described on "Exhibit A" attached hereto, incorporated by reference herein and initialed by the parties. In addition thereto, Landlord has caused RECRA Environmental, Inc. ("RECRA"), the existing tenant of the Leased Premises, to vacate the Leased Premises early and leave those items (the "Personalty") now in the Leased Premises, thereby causing the Personalty to be owned by Landlord, which Personalty Landlord shall convey to Tenant effective on the Commencement Date (defined below). Tenant agrees to accept the Personalty in its present, "as is" condition. As an inducement to Landlord to obtain the early release of the existing lease for the Leased Premises with RECRA, Tenant shall pay Landlord, on the Commencement Date, a fee of $2,500.00 to cover Landlord's lost rent otherwise payable by RECRA.

(b) Landlord, at Landlord's expense, shall cause to be made those improvements to the Leased Premises described on "Exhibit C-1" attached hereto and incorporated herein by reference (the "Base Finish Work"). In addition to the Base Finish Work, Tenant has requested, and Landlord has agreed to make, those additional improvements to the Leased Premises (the "Additional Finish Work") all as described and for the cost shown on "Exhibit C-2" attached hereto and incorporated herein. Landlord shall contribute $36,036.00 towards the cost of the Additional Finish Work (the "Landlord's Contribution"). All charges and expenses, which shall be deemed additional rent, incurred for work and material respecting the Additional Finish Work which are in excess of Landlord's Contribution, and are estimated to be $18,265.20, are to be paid by Tenant on the Commencement Date. The Base Finish Work and Additional Finish Work is hereinafter collectively referred to as "Landlord's Work". All charges and expenses incurred in connection with any change orders authorized by Tenant will be paid by Tenant at the time Tenant executes such change order. Landlord further agrees to provide to Tenant a refurbishment allowance of $18,018.00 at the end of the fifth lease year; said allowance shall be paid to Tenant upon submission



by Tenant of invoices and other documentation for such refurbishment work to the Leased Premises.

(c) Landlord hereby agrees that, with respect to Landlord's Work or latent defects, Landlord, for a period of one hundred eighty (180) days from the Commencement Date, will repair or have repaired, all defects in Landlord's Work or latent defects in the Leased Premises, to the extent that the need therefor is not caused by the negligence or willful

misconduct of Tenant, its employees and invitees (in which case, such defects will be repaired at Tenant's sole cost).

2. Term. This Lease shall be for a term of ten (10) years (the "Lease Term") commencing on or about five weeks after the date on which Tenant delivers to Landlord this Lease, executed by Tenant, together with all payments due at such time (the "Commencement Date") and terminating at 11:59 p.m. on the last day of the tenth (10th) full lease year, unless otherwise terminated or extended in accordance with the provisions hereof. The term "Lease Year" means each respective period of twelve (12) successive calendar months during the Lease Term or any renewals thereof. If the Commencement Date does not occur on the first day of a month, the first Lease Year will include the twelve (12) calendar months and the period from the Commencement Date until the first day of the following month. SEE RIDER NO. 1 - RIGHT OF CANCELLATION; RIDER NO. 2 - RIGHT OF FIRST OFFER; AND, RIDER NO. 3 - RENEWAL OPTION

Landlord shall deliver the Leased Premises to Tenant on the Commencement Date in good condition (i) with all Landlord's Work complete in accordance with "Exhibit C-1" and "Exhibit C-2", as applicable (minor punchlist items excepted) and (ii) upon the Leased Premises passing final inspection, as may be required by Howard County. At the time the Leased Premises are delivered to Tenant, Landlord, Tenant and Landlord's architect shall conduct a walk-through of the Leased Premises and agree upon a "punchlist" of items, if any, relating to Landlord's Work that need to be corrected or completed. All items on the punchlist shall promptly be completed by Landlord.

In the event that Landlord shall be unable, by reason of construction delays or otherwise, to deliver possession of the Leased Premises on the estimated Commencement Date set forth in the first paragraph of this Section 2, then this Lease shall nevertheless continue in full force and effect, and Tenant shall have no right to rescind, cancel or terminate the same if possession is given within forty-five (45) days thereafter; provided, however, that in such event Tenant's liability for rent shall commence on the date on which Landlord shall deliver possession to Tenant, as provided in the preceding paragraph, which date shall thereafter be deemed the Commencement Date for all purposes of this Lease. Whether or not Landlord shall deliver possession of the Leased Premises on the Commencement Date, or within such additional forty-five (45) day period, Tenant agrees that in no event shall Landlord be liable for damages, if any, sustained by Tenant as a result of Landlord's failure to deliver possession.

In the event Landlord does not deliver the Leased Premises to Tenant within such five-week period, then Landlord shall provide Tenant with at least five (5) days written notice of the date on which it will deliver the Leased Premises to Tenant.

In the event Landlord shall not deliver the Leased Premises to Tenant as provided hereinabove, on or before December



1, 1996, then Tenant shall have the right to terminate this Lease by written notice sent to Landlord prior to Landlord's delivery of the Leased Premises, in which event Landlord and Tenant shall have no further obligations to one another under this Lease.

Landlord agrees and warrants to Tenant, to Landlord's knowledge, the Building and Leased Premises (as modified by Landlord's Work) comply (to the extent, if any, so required) with all applicable local, state and federal laws (including the law known as the Americans with Disabilities Act and the regulations promulgated thereunder (the "ADA")).

On the Commencement Date or such later date as Landlord may

request, Tenant shall promptly enter into one or more supplementary written agreements in such form as Landlord shall prescribe, thereby specifying the date as of which the Lease Term shall have begun, and as of which the Lease Term shall end.

3. Security Deposit. Tenant, contemporaneously with the execution of this Lease, shall deposit with Landlord the sum of Nine Thousand Five Hundred Nine Dollars and Fifty Cents ($9,509.50) as a security deposit (the "Deposit"), which, to the extent the same has not been applied or exhausted pursuant to the further terms hereof, shall be returned by Landlord to Tenant within forty-five (45) days following the expiration of the Lease Term. Landlord shall have the right to apply the Deposit to cure any breach by Tenant of any of Tenant's obligations or duties pursuant to this Lease, upon any such application of the Deposit by Landlord, Tenant shall immediately restore the same to the dollar amount set forth in this Section. Landlord shall be entitled to the full use of the Deposit, shall not be required to escrow or otherwise segregate the Deposit, and no interest shall accrue thereon or be paid or payable by Landlord with respect to the Deposit.

4. Use. Landlord and Tenant expressly agree that the Leased Premises shall be used or occupied by Tenant for the following purposes and none other: general office, warehouse and laboratory. Notwithstanding the foregoing, Tenant shall be allowed to perform vaccine and/or pharmaceutical testing on only the following animals: mice, rats, rabbits and guinea pigs (with there being a prohibition against the presence of any other animals or animal testing on the Leased Premises); and, further provided, that no more than five hundred (500) contiguous square feet of the Leased Premises (regardless of whether such original Leased Premises have been expanded) may be used for animal testing and/or caging of such animals. The laboratory area shall be subject to Landlord's reasonable approval in all respects, including without limitation, as to sound control, odor, controlled access, venting and other environmental or aesthetic conditions. Landlord hereby agrees that Tenant may use those portions (and only those portions) of the Leased Premises so designated on Exhibit "A" for laboratory purposes.

The Real Property (defined herein) is subject to certain covenants and restrictions, referred to as the General Restrictions and the Special Restrictions (hereafter together the "Restrictions"), copies of which have been provided to Tenant by Landlord. Tenant acknowledges receipt of same and that it is cognizant of the terms and provisions of those Restrictions and covenants and agrees to be bound by them. Landlord and Tenant agree that The Howard Research And Development Corporation ("HRD") is a third party beneficiary to the covenants and representations herein made by Tenant and may remedy any violation of the Restrictions occasioned by Tenant's use and occupancy of the



Leased Premises, in the manner and to the extent provided in the Restrictions, including but not limited to, bringing suit, at law or in equity, directly against Tenant.

5. Basic Annual Rent. Tenant shall pay to Landlord during the Lease Term "Basic Annual Rent" as follows:

| Basic Annual Rent | Monthly Installment | Annual Square foot Amount |
|---|---|---|

| | | | |
|---|---|---|---|
| Lease Year 1 | $119,759.64 | $9,979.97 | $9.97 |
| Lease Year 2 | $119,759.64 | $9,979.97 | $9.97 |
| Lease Year 3 | $125,165.04 | $10,430.42 | $10.42 |
| Lease Year 4 | $128,768.64 | $10,730.72 | $10.72 |
| Lease Year 5 | $132,492.36 | $11,041.03 | $11.03 |
| Lease Year 6 | $136,216.08 | $11,351.34 | $11.34 |
| Lease Year 7 | $140,180.04 | $11,681.67 | $11.67 |
| Lease Year 8 | $144,264.12 | $12,022.01 | $12.01 |
| Lease Year 9 | $148,348.20 | $12,362.35 | $12.35 |
| Lease Year 10 | $152,672.52 | $12,722.71 | $12.71 |

All monthly installments of Basic Annual Rent shall be made without any deductions or set-offs, and without demand, in advance on the first (1st) day of each and every month for which payment is applicable; provided, however, that if the Lease Term shall commence on a day other than the first day of a month, Tenant shall pay on the Commencement Date for the fractional part of a month at the beginning of the term, a prorated amount of one month's rent.

The annual square foot amount shown for each Lease Year includes $0.47, which represents that certain portion of Landlord's Contribution equal to $36,036.00, which has been amortized at ten percent (10%) per annum over the ten (10) year Lease Term; such amount of $0.47 shall be referred to in Rider No. 2 as the "Additional Improvement Allowance" and shall be deducted from the Basic Annual Rent for the Expansion Space, if Tenant elects to lease the Expansion Space as provided in Rider No. 2.

5.1. Definitions. For purposes of this Lease, the following meanings or definitions shall apply:

(a) "Rentable Area of the Building" shall, as confirmed by Landlord's architect, for all purposes of this Lease, be deemed to be thirty-nine thousand six hundred fifty (39,650) square feet. The Rentable Area of the three research/development buildings on the Real Property with which Tenant shares certain common maintenance and repair expenses shall be deemed to be, as confirmed by Landlord's architect, 116,350 square feet.

(b) "Rentable Area of the Leased Premises" shall, for all purposes of this Lease, as confirmed by Landlord's architect, be deemed to be twelve thousand twelve (12,012) square feet. Therefore, Tenant's pro-rata portion of those expenses payable in accordance with Section 5.2 shall be thirty and three-tenths percent (30.3%) (12,012/39,650) ("Tenant's Portion").



(c) The term "Common Area Expenses" shall mean all actual expenses directly paid or incurred by Landlord in connection with Landlord's management of the Real Property and the management, maintenance, operation and repair of the common areas of the Real Property, including, but

not limited to, (i) keeping the driveways, parking areas, sidewalks and steps free and clear of ice, snow and debris; (ii) maintaining all grass and landscaping on the Real Property; (iii) maintaining the common areas of the buildings of the Real Property (including the Building), including the utility rooms and security systems, if any, and repair of normal wear and tear of the roof and caulking; (iv) trash removal from dumpsters on the Real Property, if any; (v) monitoring, repairing and payment of all common utilities, including water, sewerage, unmetered or metered sprinkler and exterior electrical utilities on the Real Property; (vi) repairing and maintaining the driveways and parking areas of the Real Property; (vii) reasonable reserves for non-recurring expenses; and, (viii) a management fee not to exceed three percent (3%) of the Basic Annual Rent for the applicable Lease Year. Notwithstanding the foregoing, Landlord will be allowed reasonably to allocate the costs of trash removal based on actual use of such service. SEE RIDER NO. 4 - - - EXCLUSIONS.

(d) The term "HVAC Expense" shall mean the total costs and expenses incurred by Landlord in maintaining a full service contract on the heating, ventilating and air conditioning systems servicing the Leased Premises (the "HVAC System"). Landlord shall provide Tenant with copies of any service contract it is then maintaining on the HVAC System.

(e) "Taxes" shall mean any present or future federal, state, municipal, local and/or any other taxes, assessments, levies, benefit charges, and/or other governmental and/or private impositions (including business park charges and dues), levied, assessed and/or agreed to be imposed upon the Real Property of which the Leased Premises are a part or any part or parts of said Real Property, or upon the rent due and payable hereunder (other than income taxes thereon), whether or not now customary or within the contemplation of the parties hereto and regardless of whether the same shall be extraordinary or ordinary, general or special, foreseen or unforeseen, or similar or dissimilar to any of the foregoing but shall not include any inheritance, estate, succession, income, profits or franchise tax, provided, however, if at any time during the Lease Term or any extension thereof the method of taxation prevailing at the commencement of the Term shall be altered or eliminated so as to cause the whole or any part of the items defined as Taxes above to be replaced by a levy, assessment or imposition, wholly or partly as a capital levy, or otherwise, on the rents or income (provided the tax on such income is not a tax levied on taxable income generally) received from the Building, wholly or partly in place of an imposition on or as a substitute for, or an increase of, taxes in the nature of real estate taxes issued against the Real Property, then the charge to Landlord resulting from such altered or replacement method of taxation shall be deemed to be within the definition of "Taxes". All reasonable expenses incurred by Landlord (including attorneys' fees and costs) in contesting any increase in Taxes or any increase in the assessment of the Real Property shall be included as an item of Taxes for the purpose of computing additional rent due hereunder.

(f) "Real Property" shall mean the two lots (the "lots") more particularly described as Parcels N-1 and N-2 on plat 5473 of Rivers Corporate Park, Howard County, Maryland, and all fixtures, equipment and other improvements in or upon said



lots, and shall include the sidewalks, areaways, parking areas, loading areas, gardens and lawns.

(g) "Insurance" shall mean all insurance, that are of the types and amounts of insurance coverage reasonable and customary for a first-class office/warehouse/research and development complex in the Columbia, Maryland area, kept or caused to be kept by Landlord out of or in connection with its ownership of the Real Property, the buildings, equipment,

fixtures and other improvements installed and/or owned by Landlord and used in connection with the buildings and/or the Real Property and/or all alterations, rebuildings, replacements and additions thereto, including, but not limited to, insurance insuring the same against loss or damage by, resulting from fire, and other such hazards, casualties and contingencies (including, but not limited to, war risk insurance, if available), liability and indemnity insurance.

(h) "Lot" shall mean Parcel N-2 upon which the Building is situated.

(i) The term "Operating Year" shall mean: (i) when used in context with Common Area Expenses, Insurance and HVAC Expense, such applicable fiscal year as Landlord may adopt from time to time during the Lease Term, and (ii) when used in context with Taxes, each respective tax year (i.e., the fiscal year beginning July 1) during the Lease Term, or such other fiscal year as the applicable authorities may select.

5.2. Rent Adjustment. Tenant agrees to pay to Landlord, as additional rent, with and at the same time as the payments of Basic Annual Rent, the following amounts:

(a) Seven Hundred Eighty Dollars and Seventy-eight Cents ($780.78) per month as one-twelfth of Tenant's estimated Portion of Common Area Expenses (calculated on the basis of $0.78 per square foot); and

(b) Seventy Dollars and Seven Cents ($70.07) per month as one-twelfth of Tenant's estimated Portion of Insurance premiums (calculated on the basis of $0.07 per square foot); and

(c) Two Hundred Dollars and Twenty Cents ($200.20) per month as one-twelfth of Tenant's estimated HVAC Expense (calculated on the basis of $0.20 per square foot).

At any time during a Lease Year (but not more often than once per calendar year), Landlord may revise its estimate of Tenant's Portion of Common Area Expenses, Insurance and of Tenant's HVAC Expense (collectively, the "Expenses") as set forth above and adjust Tenant's monthly installments to reflect the revised estimate. Landlord will give Tenant prior written notice of the revised estimate and the amount by which Tenant's monthly installments will be adjusted, and Tenant will pay the adjusted installments with each payment of the rent, beginning with the first payment of the Basic Annual Rent to come due after Tenant's receipt of such notice. Notwithstanding anything to the contrary in the foregoing, those Common Area Expenses within Landlord's reasonable control shall not increase by more than five percent (5%) of the cost of such controllable item during the previous Operating Year.

Landlord will deliver to Tenant, within one hundred twenty (120) days (or such longer time as is reasonable under the circumstances) after the end of each applicable



Operating Year for the Expenses, a statement for such Operating Year (the "Statement"), showing Tenant's applicable portion of such Expenses (that is, either its applicable percentage or with respect to the HVAC Expense, 100%). Tenant will pay Landlord within thirty (30) days of the receipt of the Statement, such amounts as may be necessary to adjust Tenant's estimated payments for such preceding Operating Year so that such payments will equal Tenant's applicable portion of the actual Expenses for such Operating Year. If the actual amount of Tenant's applicable portion of such Expenses is less than the amounts paid by Tenant as installments of its applicable portion of such Expenses, then Landlord will credit Tenant's account by the amount of the

excess or, if at the end of the Lease Term, refund to Tenant the amount of the excess.

Failure of Landlord to provide any Statement within the time prescribed will not relieve Tenant of its obligations under this Section 5.2.

Upon reasonable written notice, Landlord shall make available for Tenant's inspection or audit at Landlord's office, during normal business hours, Landlord's records relating to the Expenses for the immediately preceding Lease Year; provided, however, that unless Tenant shall have given Landlord written notice of its exception to any such Statement for additional rent within sixty (60) days after delivery thereof, the same shall be conclusive and binding on Tenant; and provided further, that in the event that Tenant shall give to Landlord written notice of its exception to such Statement within such sixty (60) day period, Tenant shall nevertheless be obligated to pay the additional rent pursuant to the provisions of this Section, but shall have the right, following such payment, to contest the amount set forth in such Statement in a court of competent jurisdiction without being in breach or default of this Lease. In the event as a result of such audit it shall be determined that Landlord overcharged Tenant more than three percent (3%) of Tenant's share of any such items, Landlord shall reimburse Tenant all reasonable costs incurred by Tenant with respect to its audit. Any amounts due Landlord or Tenant, determined as a result of such audit, shall be paid or credited as provided above for reconciliation of Tenant's estimated payments with the actual costs.

5.3. Tax Adjustment. Tenant acknowledges that Landlord must pay the Taxes for an entire tax year (i.e., July 1 - June 30) in advance. Therefore, on the Commencement Date, Tenant shall reimburse Landlord for Tenant's Portion of Taxes for the portion of the tax year (the "Commencement Tax Year") from the Commencement Date to the next succeeding June 30. Thereafter, Tenant shall pay to, or reimburse, Landlord for Tenant's Portion of Taxes, by paying to Landlord, within thirty (30) days after receipt of Landlord's invoice therefor (to be sent on or about July 1 of each year) such Tenant's Portion of Taxes for each of the next succeeding Tax Years. Following termination of the Lease Term by passage of time or for any reason other than Tenant's default of this Lease (the "Termination Date"), Tenant shall be reimbursed by Landlord to the extent of any Portion of Taxes which it has pre-paid as of such Termination Date for the period beyond such Termination Date.

5.4. Summary of Payments. The following is a list of the various payments and installments of Basic Annual Rent and additional rent under this Lease pursuant to this Section 5 as of the Commencement Date. The amounts for Common Area Expenses, Insurance and HVAC Expense may change during the Lease Term.



| | Monthly Installments | Annual s.f. Amounts |
|---|---|---|
| Basic Annual Rent - | | |
| Lease Year 1 | $9,979.97 | $9.97 |
| Lease Year 2 | $9,979.97 | $9.97 |
| Lease Year 3 | $10,430.42 | $10.42 |

| | | | |
|---|---|---|---|
| | Lease Year 4 | $10,730.72 | $10.72 |
| | Lease Year 5 | $11,041.03 | $11.03 |
| | Lease Year 6 | $11,351.34 | $11.34 |
| | Lease Year 7 | $11,681.67 | $11.67 |
| | Lease Year 8 | $12,022.01 | $12.01 |
| | Lease Year 9 | $12,362.35 | $12.35 |
| | Lease Year 10 | $12,722.71 | $12.71 |
| Common Area Expenses (estimate) | | $780.78 | $0.78 |
| Insurance (estimate) | | $70.07 | $.07 |
| HVAC Expense (estimate) | | $200.20 | $.20 |
| Total - | Lease Year 1 | $11,031.02 | $11.02 |
| | Lease Year 2 | $11,031.02 | $11.02 |
| | Lease Year 3 | $11,481.47 | $11.47 |
| | Lease Year 4 | $11,781.77 | $11.77 |
| | Lease Year 5 | $12,092.08 | $12.08 |
| | Lease Year 6 | $12,402.39 | $12.39 |
| | Lease Year 7 | $12,732.72 | $12.72 |
| | Lease Year 8 | $13,073.06 | $13.06 |
| | Lease Year 9 | $13,413.40 | $13.40 |
| | Lease Year 10 | $13,773.76 | $13.76 |

5.5. Utilities.

(a) Notwithstanding that certain utilities are commonly metered on the Real Property and the costs of such utilities are included within the Common Area Expenses set forth above, Landlord (if it reasonably determines that Tenant's water usage is excessive, as compared to other tenants of the Building) or Tenant shall have the right, at Tenant's sole cost and expense, to have a water meter (but only one (1) such water meter, if so required by Landlord) installed upon the Leased Premises and thereafter to pay to Landlord all charges respecting the Leased Premises based upon readings of said meter.

(b) Tenant shall pay on a timely basis to the appropriate utility or other supplier, all charges for gas, steam, electricity, light, heat, power, telephone and all other utility and communication services, used, rendered and/or supplied upon or in connection with the Leased Premises.



5.6. Payments. All payments or installments of any rent hereunder (except Basic Annual Rent) and all sums whatsoever due under this Lease (including attorneys' fees) shall be deemed additional rent and shall be paid to Landlord at the address designated for notice to Landlord herein, or as otherwise designated by Landlord. If any rent or additional rent is not paid within five days of when due, such arrearage shall bear a late charge equal to $25.00 for each day such sum is in arrears in consideration of Landlord's additional expense caused by such failure to pay. Such late charges shall be payable simultaneously with the arrearage payment, without demand. Time is of the essence with respect to Tenant's monetary obligations in this Lease. Unless otherwise stated, any additional rent shall be due within thirty (30) days after the Landlord has submitted a written statement to Tenant showing the amount due, and Tenant's obligation to pay any such additional rent

shall survive the termination of this Lease.

6. Requirements of Law. Tenant shall, at Tenant's sole cost and expense, observe and comply with all laws, requirements, rules, orders, ordinances and regulations applicable to its use of the Leased Premises, the Real Property or the Building.

7. Tenant's Improvements. Tenant shall not make any alterations, decorations, installations, additions and/or improvements to the Leased Premises, including, but not limited to, the installation of any fixtures (except trade fixtures), equipment (except movable equipment), or other apparatus (collectively, the "Work"), without Landlord's prior written consent (which consent shall not be unreasonably withheld or delayed), and then only by contractors or mechanics reasonably acceptable to Landlord. All such Work shall be done at Tenant's sole cost and expense and at such times and in such manner as Landlord may from time to time reasonably and timely designate. All such Work shall be done under the general supervision of Landlord to assure standard quality improvements on the Real Property for which Landlord shall be paid a reasonable supervisory fee, which supervisory fee shall be at prevailing market rates for such services (but not to exceed $150 per hour); Landlord agrees to cause such supervision to be limited to such periodic inspections as may be required based on the Work and otherwise to use its best efforts to minimize the fees in connection therewith. All such Work done by either of the parties hereto upon the Leased Premises (including those items set forth in Exhibits C-1 and C-2), except other movable furniture and trade fixtures put in at the expense of Tenant, shall be the property of Landlord and shall remain upon and be surrendered with the Leased Premises at the termination of this Lease without molestation or injury; provided, however, that Landlord may elect, at the time it approves such Work, to require Tenant to remove all or any part of said Work (including those items set forth on Exhibits C-1 and C-2) at the expiration of this Lease, in which event such removal shall be done at Tenant's sole cost and expense. Tenant shall, at its sole cost and expense, repair any damage to the Leased Premises and/or the Building caused by such removal or by the removal of its personalty.

8. Condition of Premises.

(a) Except as otherwise expressly provided in this Lease, Tenant shall at all times during the Lease Term take good care of and keep the Leased Premises and the improvements, fixtures, equipment and appurtenances therein and thereto (including, but not limited to, interior and exterior windows, interior and exterior doors, including locks and hardware, pipes,



plumbing, water and sewer connections, and light fixtures) in the same order and condition it received the Leased Premises (normal wear and tear and insured casualty excepted) and, at Tenant's sole cost and expense, shall make all necessary repairs thereto, which repairs shall be in quality and class at least equal to the original work. Tenant shall not commit or suffer any waste of the Leased Premises. At the expiration of the Lease Term, or at the sooner termination of this Lease as herein provided, Tenant shall deliver up the Leased Premises in the same order and condition, reasonable wear and tear excepted, as at the beginning of the tenancy, broom clean and (subject to the provisions of the preceding Section hereof) Tenant shall remove all of its property and/or property maintained and/or stored for or on the account of others therefrom prior to such termination. Any items of Tenant's personalty remaining in the Leased Premises after the termination of the Lease shall be deemed abandoned by Tenant and become the sole property of Landlord. Landlord shall maintain exterior walls (excluding windows), downspouts and the roof as well as all common areas of the Building and Real Property (including, without limitation, the parking areas and sidewalks servicing the Building), so long as

such maintenance is not required as a result of any negligent or willful acts of Tenant, or Tenant's agents, employees or invitees. Notwithstanding the foregoing, any costs incurred by Landlord in storing and/or disposing of such abandoned property shall remain the sole obligation of Tenant, which obligation shall survive the termination of this Lease.

(b) Landlord will secure and maintain a full service contract on the HVAC System, the cost of which will be paid by Tenant as the HVAC Expense as set forth above. Landlord will make all necessary repairs or replacements to the HVAC System which are not covered under the full service contract (a copy of which was previously delivered to Tenant). All costs incurred which are not covered by the full service contract shall be paid for by Tenant except for the cost of replacing or making any repairs of a capital nature to the compressor or heat exchanger (the "Shared Expenses"), the cost of which shall be shared between Tenant and Landlord as described below. Tenant will pay that percentage of the cost of any Shared Expenses which is equal to the ratio by which the length of the remaining years of Tenant's Lease Term (without taking into consideration any renewal or cancellation options not yet exercised by Tenant) bears to the useful life of such repair or replacement, as determined in accordance with generally accepted accounting principles; provided, however, in no event may such percentage be greater than 100%. Notwithstanding the foregoing, any maintenance or repair to the HVAC System which is required as a result of any acts or omissions of Tenant, or Tenant's agents, employees or visitors, or as a result of Tenant's use of such HVAC System in excess of the customary use of 12 hours per day, six days per week, will be made by Landlord at Tenant's sole cost and expense. Notwithstanding the foregoing, Landlord (i) warrants that the HVAC System shall be in good and operable condition as of the Commencement Date and operating in conformity with the specifications for such HVAC equipment a copy of which is attached hereto as "Exhibit D", and incorporated herein by reference, and (ii) agrees that any repair or replacement of the HVAC System, that may be required to maintain the HVAC System in good operating condition during the six (6) month period commencing with the Commencement Date, shall be made at Landlord's sole cost and expense.

9. Conduct on Premises. Tenant shall not do, or permit anything to be done in the Leased Premises, or bring or keep anything therein which will, in any way invalidate or conflict with the fire insurance policies on the Real Property;



obstruct or interfere with the rights of Landlord or other tenants; or interfere with the good order of the Building. Tenant agrees that any increase in fire or other insurance premiums on the Real Property and/or the contents thereof caused by the use or occupancy of Tenant shall, as they occur or accrue, be added to the rent heretofore reserved and be paid as a part thereof; and Landlord shall have all the rights and remedies for the collection of same as are conferred upon Landlord for the collection of rent provided to be paid pursuant to the terms of this Lease.

Notwithstanding the foregoing, Landlord has been advised by its insurance carrier that the uses of the Leased Premises as described in Section 4 of this Lease, will not cause, at this time, any increase in any insurance premiums on the Real Property. Landlord warrants, in reliance solely on the letter dated August 23, 1996 (the "Zoning Letter") from the Department of Planning & Zoning of Howard County, Maryland, a copy of which is attached hereto as "Exhibit E", that the proposed uses of the Leased Premises as described in the Zoning Letter are permitted under current applicable laws, ordinances and the Restrictions.

10. Insurance.

(a) At all times during the Lease Term, Tenant, at its sole cost and expense, shall provide and keep in full force and effect a policy of public liability and property damage insurance, naming Landlord and Manekin Corporation as insureds, as their interests may appear, with respect to the Leased Premises and the business of Tenant in, on, within, from or connected with the Leased Premises, pursuant to which the limits of liability shall be $1,000,000.00 in respect to any one occurrence, and in respect to the aggregate, at least $2,000,000.00 in respect to the combined limit of liability. Tenant shall use its best efforts to cause all insurance policies to contain a clause that the insurer will not cancel or change the insurance without first giving Landlord thirty (30) days' prior written notice. Said insurance policy shall be carried with an insurance company reasonably satisfactory to Landlord, and a certificate of insurance shall be delivered to Landlord at the inception of each policy and renewal thereof.

(b) Landlord shall maintain fire and extended coverage insurance covering the Building for one hundred percent (100%) replacement value.

11. Mechanics' and Materialmen's Liens and Other Liens. Tenant shall not do or suffer to be done any act, matter or thing whereby the Leased Premises (or Tenant's interest therein), or any part thereof, may be encumbered by any mechanics' or materialmen's lien and/or any other lien or encumbrance. Tenant shall discharge, within ten (10) days after notice thereof, any mechanics' or materialmen's liens filed against the Leased Premises (or Tenant's interest therein), or any part thereof, purporting to be for work or material furnished or to be furnished to Tenant.

12. Failure to Perform.

(a) In the event that Tenant shall fail, after fifteen (15) days written notice from Landlord, to keep the Leased Premises in the state of condition and repair required by this Lease; to do any act; make any payment; and/or perform any term or covenant on Tenant's part required under this Lease, Landlord may (at its option, but without being required to do so) immediately, or at any time thereafter and without notice, perform



the same for the account of Tenant (including, but not limited to, entering upon the Leased Premises at any time to make repairs). Any costs incurred by Landlord in so performing Tenant's obligations, together with a reasonable rate of interest on such sums, shall be deemed additional rent and shall be due within ten (10) days of receipt of a statement therefor from Landlord. All rights given to Landlord in this Section shall be in addition to any other right or remedy of Landlord herein contained.

(b) In addition to all other remedies available at law, Tenant shall have the right, after providing thirty days written notice to Landlord (which period may be extended for whatever period of time is reasonably required if such default cannot be reasonably cured within thirty days so long as Landlord commences such cure within said thirty day period and thereafter diligently prosecutes such cure until completion), to cure a default of Landlord in which event Landlord shall be liable to Tenant for all reasonable costs and expenses incurred by Tenant in curing such default; provided, however, in no event shall Tenant be entitled to deduct the costs and expenses of curing such default from any amounts payable by Tenant pursuant to the terms of the Lease, including all Basic Annual Rent and additional rent.

13. Loss, Damage, Injury.

(a) Tenant hereby expressly agrees that Landlord shall not be liable or responsible in any manner for any damage or destruction

to the property of Tenant or of any other person or entity and/or for injury or death to the person of Tenant or of any other person or entity directly or indirectly due to any cause whatsoever other than the willful misconduct or negligence of Landlord or Landlord's contractors, agents, servants, employees, licensees or invitees.

(b) Subject to Section 13(c) below, Tenant shall indemnify and hold harmless Landlord for all losses, costs and expenses (including reasonable attorneys' fees), settlement payments and, whether or not reduced to final judgment, all liabilities, damages and/or fines paid, incurred or suffered by Landlord: (i) by reason of any breach, violation and/or nonperformance by Tenant and/or Tenant's servants, employees, agents, licensees or invitees, of any covenant or provision of this Lease; (ii) by reason of or arising out of the occupancy or use by Tenant of the Leased Premises, the Building and/or the Real Property, or any part thereof; (iii) by reason of or arising out of any claim, action, suit or proceeding, threatened, instituted and/or made against Landlord arising out of or in connection with Tenant's use and/or occupancy of the Leased Premises; and/or (iv) from any other cause whatsoever due to the negligence or intentional act or omission of Tenant and/or Tenant's contractors, servants, employees, agents, licensees and/or invitees. This indemnification by Tenant shall survive the termination or expiration of this Lease.

(c) Landlord and Tenant hereby mutually waive all claims for recovery from the other for any insured or insurable loss or damage to any of Landlord's property or Tenant's property and each party agrees to look to its own insurance for collection and, to that end, the parties agree to a mutual subrogation clause to be inserted or endorsed on each policy setting forth that the insurance shall not be invalidated in the event that the insured should waive in writing prior to any loss, any or all right of recovery against the other party for any insured loss.



(d) Notwithstanding anything in this Lease to the contrary, neither party shall be liable to the other for, and hereby waives its rights to any, incidental, consequential or special damages or lost profits.

14. Destruction--Fire or Other Casualty. In the event of partial or total damage or destruction insured against by Landlord to the Leased Premises by fire, other casualty, or any other cause whatsoever (except condemnation), Tenant shall give immediate notice thereof to Landlord and: (a) this Lease shall continue in full force and effect, and (b) Landlord, to the extent that insurance proceeds respecting such damage or destruction are subject to being utilized for and, in fact, may be utilized by Landlord therefor, shall thereupon cause such damage or destruction to property owned by Landlord to be repaired with reasonable speed at the expense of Landlord, due allowance being made for reasonable delay which may arise by reason of adjustment of loss under insurance policies on the part of Landlord and/or Tenant, and for reasonable delay on account of "labor troubles" or any other cause beyond Landlord's control. To the extent that the Leased Premises are rendered untenable, in whole or in part, the rent shall proportionately abate. In the event the damage or destruction shall be so extensive to the Building as to render it uneconomical, in Landlord's reasonable opinion, to restore the Building, or Landlord shall decide within sixty (60) days after the date of such damage not to repair or rebuild the Building, this Lease, at the option of Landlord, shall be terminated upon written notice to Tenant within seventy-five (75) days after the date of such damage and the rent shall, in such event, be paid to or adjusted as of the date of such damage, and the terms of this Lease shall expire by lapse of time upon the third day after such notice is mailed. Tenant shall thereupon vacate the Leased Premises and surrender the same to Landlord, but no such termination shall release Tenant from any liability to Landlord arising from such damage or from any of the obligations or duties

imposed on Tenant hereunder prior to such termination.

Notwithstanding the foregoing, Tenant shall have the right to terminate this Lease (i) if it can reasonably be expected, as determined by Landlord, that the repair, restoration or reconstruction of the Building cannot be completed within one hundred eighty days from the date of such damage, provided Tenant is not then in default and Tenant gives Landlord written notice of such election within forty-five (45) days after the date of such damage, or, (ii) Landlord is unable to restore the Leased Premises within two hundred ten (210) days after the date of such damage.

15. Eminent Domain. If the entire Leased Premises shall be substantially taken (either temporarily or permanently) for public purposes, or in the event Landlord shall convey or lease the Leased Premises to any public authority in settlement of a threat of condemnation or taking, the rent shall be adjusted to the date of such taking or leasing or conveyance, and this Lease shall thereupon terminate. If only a portion of the Leased Premises shall be so taken, leased or condemned, and as a result of such partial taking, Tenant, in Tenant's reasonable judgment, is reasonably able to conduct its business in the ordinary course, then this Lease shall not terminate but, effective as of the date of such taking, leasing or condemnation, the rent hereunder shall be abated in an amount thereof proportionate to the area of the Leased Premises so taken, leased or condemned, and Landlord, at Landlord's expense, shall construct any necessary demising walls. If, following such partial taking, Tenant, in Tenant's reasonable judgment, is not reasonably able to conduct its business in the ordinary course, then this Lease shall terminate as if the entire




Leased Premises had been taken, leased or condemned. In the event of a taking, leasing or condemnation as described in this Section, whether or not there is a termination hereunder, Tenant shall have no claim against Landlord, other than an adjustment of rent, to the date of taking, leasing or condemnation, and Tenant shall not be entitled to any portion of any amount that may be awarded as damages or paid as a result or in settlement of such proceedings or threat, except that Tenant may assert a separate claim to an award for its moving expenses and for fixtures and personal property installed by Tenant at its expense.

16. Environmental Assurances.

(a) Covenants. Tenant covenants with Landlord:

(1) that it shall not Generate Hazardous Substances at, to or from the Leased Premises unless the same is specifically approved in advance by Landlord in writing, which approval shall not be unreasonably withheld or delayed; provided, however, that Landlord hereby consents to Tenant's use on the Leased Premises of Hazardous Substances associated or otherwise used in connection with the operation of Tenant's vaccine and/or pharmaceutical testing laboratory, so long as such Hazardous Substances are used, kept and stored in a manner that complies with all laws, rules, statutes and ordinances regulating any such Hazardous Substances or otherwise regulating bio-pharmaceutical research and development including all applicable laws and regulations of the United States Food and Drug Administration (collectively, the "Environmental Laws"), so brought upon or used or kept in or about the Leased Premises;

(2) to comply with all obligations imposed by applicable law, and regulations promulgated thereunder, and all other restrictions and regulations upon the Generation of Hazardous Substances (whether or not at, to or from the Leased Premises);

(3) to deliver promptly to Landlord true and complete copies of all notices received by Tenant from any governmental authority with respect to the Generation by Tenant of Hazardous Substances (whether or not at, to or from the Leased Premises);

(4) to complete fully, truthfully and promptly any questionnaires sent by Landlord with respect to Tenant's use of the Leased Premises and Generation of Hazardous Substances;

(5) to permit entry onto the Leased Premises by Landlord or Landlord's representatives at any reasonable time with reasonable notice (which may be verbal) and accompanied by a representative of Tenant (and otherwise in conformity with Tenant's security requirements of which Tenant has provided Landlord notice) to verify and monitor Tenant's compliance with its representations, warranties and covenants set forth in this Section;

(6) to pay to Landlord, as additional rent, the reasonable actual costs incurred by Landlord hereunder, including the costs of such monitoring and verification (such routine monitoring costs not to exceed $1,000.00 in any twelve (12) month period); and

(7) to furnish to Landlord, at the expiration of the Lease Term or at the sooner termination of the



Lease Term as herein provided, a certification in form and content reasonably satisfactory to Landlord from an environmental audit company reasonably acceptable to Landlord to the effect that, based upon an inspection conducted by such environmental audit company not more than thirty (30) days prior to the expiration or termination of the Lease Term, the Leased Premises are free from Hazardous Substances.

(b) Compliance and Indemnification by Tenant. If as a result of an inspection conducted pursuant to Sections 16(a)(5) or (6) or otherwise, it appears that Tenant is in violation of any Environmental Laws, (i) Landlord shall notify Tenant and Tenant shall promptly take all actions as may be necessary to conform in all respects to the Environmental Laws and (ii) Landlord may request and Tenant shall then provide Landlord with reasonable financial assurances (for example, but without limitation, a bond for Landlord's and its lender's benefit; an increase in the security deposit; a letter of credit, etc.) with regard to such use of Hazardous Substances as may be reasonably requested in writing by Landlord (or Landlord's lenders) as reasonably believed necessary by Landlord (or Landlord's lenders) based upon the actual business practices of Tenant at the Leased Premises as determined by an inspection thereof by Landlord's environmental consultants. Tenant agrees to indemnify and defend Landlord (with legal counsel reasonably acceptable to Landlord) from and against any costs, fees or expenses (including, without limitation, environmental assessment, investigation and environmental remediation expenses, third party claims and environmental impairment expenses and reasonable attorneys' fees and expenses) incurred by Landlord in connection with Tenant's Generation of Hazardous Substances at, to or from the Leased Premises or in connection with Tenant's failure to comply with its representations, warranties and covenants set forth in this Section. This indemnification by Tenant shall survive the termination or expiration of this Lease.

(c) Indemnification by Landlord.. Landlord agrees to indemnify and defend Tenant (with legal counsel reasonably acceptable to Tenant) from and against any costs, fees or expenses (including, without limitation, environmental assessment, investigation and environmental remediation expenses, third party claims and environmental impairment expenses

and reasonable attorneys' fees and expenses) incurred by Tenant in connection with Landlord's Generation of Hazardous Substances at, to or from the Leased Premises. This indemnification by Landlord will remain in effect after the termination or expiration of this Lease.

(d) Representation by Landlord. Landlord, to its actual knowledge, and without investigation, warrants to Tenant that as of the Commencement Date no Hazardous Substances exist on the Leased Premises except as set forth in the Environmental Report dated July 25, 1996, prepared by E.A. Engineering, Science and Technology. If the Leased Premises, the Building or the Real Property is found to be contaminated or otherwise affected by Hazardous Substances, through no fault of Tenant or Tenant's agents, employees, contractors or invitees, then Landlord shall diligently institute or cause to be instituted proper clean-up procedures at no cost to Tenant. Landlord further agrees that neither it nor its agents, employees or contractors will introduce, store or dispose of Hazardous Substances within the Leased Premises, the Building or the Real Property in violation of any federal, state or local law, ordinance or other statute of a governmental or quasi-governmental authority relating to pollution or protection of the environment, and Landlord agrees to indemnify



and hold Tenant harmless from all claims, demands, actions, liabilities, costs, expenses, damages and obligations of any nature arising from or as a result of any breach of the foregoing covenant by Landlord. The foregoing indemnification and the responsibility of Landlord shall survive the termination or expiration of this Lease.

(e) Office Supplies . Notwithstanding anything to the contrary contained in this Section 16, Tenant may use and store within the Leased Premises such reasonable quantities of consumable Hazardous Substances as are used by Tenant in the ordinary course of its office operations (and not in its laboratory or testing operations) and which are customarily found in first-class offices; provided such reasonable quantities and use do not constitute a danger to health of individuals or a danger to the environment and which are used, stored and disposed of in accordance with all applicable governmental laws, rules and regulations.

(f) Definitions. The term "Hazardous Substance" means (i) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976 (42 U.S.C. Section 6901 et seq.), as amended from time to time, and regulations promulgated thereunder; (ii) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. Section 9601 et seq.), as amended from time to time, and regulations promulgated thereunder; (iii) any "oil, petroleum products, and their by-products" as defined by the Maryland Environment Code Ann. Section 4-411(3)(i), as amended from time to time, and regulations promulgated thereunder; (iv) any "controlled hazardous substance" or "hazardous substance" as defined by the Maryland Environment Code Ann., Title 7, subtitle 2, as amended from time to time, and regulations promulgated thereunder; (v) any "infectious waste" as defined by the Maryland Environment Code Ann. Section 9-227, as amended from time to time, and regulations promulgated thereunder; (vi) any substance the presence of which on the Real Property is prohibited, regulated or restricted by any law or regulation similar to those set forth in this definition; and (vii) any other substance which by law or regulation requires special handling in its Generation. The term "To Generate" means to use, collect, generate, store, transport, treat or dispose of.

17. Assignment/Subletting. Except as otherwise provided in this Section 17, Tenant is the only party that may use or occupy the Leased Premises. No assignment of this Lease or subletting of all or any part of the Leased Premises is permitted without the prior written consent of Landlord. The

granting or withholding of such consent will be given solely within the discretion of Landlord. Notwithstanding the foregoing, Landlord's consent to an Assignment of the types described in clauses (1), (2) and (6) of the following paragraph shall not be unreasonably withheld, delayed or conditioned so long as the proposed assignee is no less creditworthy than Tenant as of the date hereof, and the proposed use is acceptable to Landlord, in each instance as determined by Landlord in its sole, but reasonable, discretion.

The foregoing restriction will include, but not be limited to, the following (all of which will be deemed to be an "Assignment"): (1) any assignment of this Lease or a subletting of the Leased Premises; (2) any permission to a third party to use all or part of the Leased Premises; (3) any mortgage or other encumbrance of this Lease or of the Leased Premises; (4) the appointment of a receiver or trustee of any of the Tenant's property; (5) any assignment or sale in bankruptcy or insolvency;



and (6) if Tenant is privately held, the transfer of majority control of Tenant by any means, including operation of law, to parties other than those maintaining majority control on the date on which the last party executes this Lease.

Notwithstanding the foregoing, so long as Landlord receives prior written notice of such Assignment and Tenant remains primarily liable for all of the terms of this Lease, Tenant may assign all or part of this Lease, or sublease all or part of the Leased Premises without the consent of Landlord, to:

(a) any corporation that has the power to direct Tenant's management and operations, or any corporation whose management and operations are controlled by Tenant;

(b) any corporation, a majority of whose voting stock is owned by Tenant;

(c) any corporation in which or with which Tenant, its corporate successors or assigns, is merged or consolidated in accordance with applicable statutory provisions for merger or consolidation of corporations, so long as the liabilities of the corporations participating in such merger or consolidation are assumed by the corporation surviving such merger or created by such consolidation; or

(d) any corporation acquiring this Lease and a substantial portion of Tenant's assets.

Even if Landlord consents to an Assignment, Tenant will remain primarily liable under this Lease. Also, Tenant will bear all reasonable legal costs incurred by Landlord in connection with Landlord's review of documents concerning an Assignment, whether or not Landlord consents to it, provided such costs and expenses do not exceed $1,000.00. Landlord's consent to a specific Assignment does not waive Landlord's right to withhold consent to any future or additional Assignment. Tenant will give Landlord notice of its intention to make an Assignment at least thirty (30) days prior to such Assignment, which notice will contain such details as Landlord may reasonably request. If Tenant intends to Assign this Lease, Landlord may terminate this Lease by giving fifteen (15) days prior written notice to Tenant after Landlord has received written notice from Tenant of an intended Assignment; provided, however, that Landlord's right to terminate this Lease pursuant to this sentence shall not apply if Tenant wishes to sublet a portion, but not all, of the Leased Premises.

If the amount of rent and other sums received by

Tenant under any Assignment is more than the Rent due from Tenant under this Lease, then Tenant will pay fifty percent (50%) of the full amount of the excess to Landlord on a monthly basis and promptly upon Tenant's receipt of such excess amounts.

If, without Landlord's consent, this Lease is Assigned, or if the Leased Premises are occupied or used by any party other than Tenant, then all resulting expenses (including reasonable attorneys' and brokerage fees) incurred by Landlord will be immediately due and payable by Tenant upon receipt of an invoice. If Tenant defaults, Landlord may collect rent from the assignee, subtenant, occupant or user (the "Assignee") of the Leased Premises and apply it towards the Rent due under this Lease. Such collection will not be deemed an acceptance of the Assignee as tenant, will not waive or prejudice Landlord's right to initiate legal action against Tenant to enforce Tenant's




fulfillment of its obligations under this Lease and will not release Tenant from such obligations.

18. Defaults.

(a) Each of the following shall be deemed a material default by Tenant under this Lease and a substantial breach of this Lease:

(1) The filing of a petition by or against Tenant for debtor relief as defined under the Federal Bankruptcy Code, as now or hereafter amended or supplemented, or for reorganization, arrangement or other rehabilitation within the meaning of the Bankruptcy Code, or the commencement of any action or proceeding for the dissolution or liquidation of Tenant, whether instituted by or against Tenant, or for the appointment of a receiver or trustee of the property of Tenant, in each case filed by a party other than Tenant, if not bonded or discharged within thirty (30) days of the date of filing; for purposes of this subsection, the word "Tenant" shall include any guarantor of Tenant's obligations under this Lease;

(2) The making by Tenant of an assignment for the benefit of creditors;

(3) The suspension of business by Tenant or any act by Tenant amount to a business failure;

(4) The filing of a tax lien against any property of Tenant, which is not removed within fifteen (15) days of notice of the filing;

(5) If the "Net Asset Value" (as hereinafter defined) of Tenant is less than Two Million Dollars ($2,000,000.00), provided, however, that such shall not be a default if Tenant provides Landlord, within five (5) days of Landlord's request therefor, with reasonable financial assurances (for example, but without limitation, a bond for Landlord's benefit, an increase in the Deposit, a letter of credit, etc.) as reasonably believed necessary by Landlord or its lenders. For purposes of this Section 18(a)(5), the term "Net Asset Value" shall mean the difference between the Total Assets of Tenant less the Total Liabilities of Tenant as shown on Tenant's most recent Form 10-Q filed with the Securities and Exchange Commission. Tenant shall furnish Landlord with such Forms promptly after request therefor by Landlord.

(6) Failure of Tenant to make payment of the rent herein reserved, or any part thereof, or any other sum required by the terms of this Lease (including late charges on the foregoing as provided

herein) within five (5) business days after Landlord has given Tenant written notice that such payment is due, provided, however, that no notice shall be required to be given to Tenant, and Tenant shall be in immediate default, if Landlord has given such notice to Tenant two (2) times in the preceding twelve (12) months;

(7) A breach by Tenant in the performance of any other term, covenant, agreement or condition of this Lease, on the part of Tenant to be performed, for a period of ten (10) days after service of notice by Landlord upon Tenant; provided, however, no default shall be deemed to exist if Tenant shall use its best efforts to commence to cure the same within the ten (10) day period and provided such efforts shall be prosecuted to



completion with reasonable diligence, but in any event, within ninety (90) days.

(b) All rights and remedies of Landlord in this Lease enumerated shall be cumulative, and none shall exclude any other right or remedy, now or hereafter allowed by or available under any statute, ordinance, rule of court, or the common law, either at law or in equity or both. For the purposes of any suit brought or based hereon, this Lease shall be construed to be a divisible contract, to the end that successive actions may be maintained on this Lease as successive periodic sums shall mature hereunder. The failure of Landlord to insist, in any one or more instances, upon a strict performance of any of the covenants, terms and conditions of this Lease, or to exercise any right or option herein contained, shall not be construed as a waiver, or a relinquishment for the future, of such covenant, term, condition, right or option, but the same shall continue and remain in full force and effect unless the contrary is expressed by Landlord in writing. The receipt by Landlord of rent, with knowledge of the breach of any covenant hereof, shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision hereof shall be deemed to have been made unless expressed in writing and signed by Landlord.

(c) In the event of a default of the nature set forth above, Landlord may, at any time thereafter, at its election, without further notice to Tenant, terminate this Lease and Tenant's right to possession of the Leased Premises, and take possession of the Leased Premises, and remove Tenant, any occupant, and any property therefrom, without relinquishing any rights of Landlord against Tenant.

(d) Tenant shall be obligated to, and shall pay to Landlord as damages, upon demand, and Landlord shall be entitled to recover of and from Tenant at the election of Landlord all expenses which shall have been incurred in connection with such breach including the expenses of rerenting the Leased Premises (including, but not limited to, any commissions paid to any real estate agent in connection therewith), and actual attorneys' fees at said attorneys' usual and customary rates; plus, in the event this Lease is terminated as set forth above, either:

(1) liquidated damages, in an amount which, at the time of such termination is equal to the installments of Basic Annual Rent and the aggregate of all sums payable hereunder as additional rental (the "Additional Rental") (for such purpose considering the annual amount of such Additional Rental to be equal to the amount thereof due during the twelve months preceding such default, or if less than twelve months have elapsed at such time, such amounts as would have been due on an annual basis) reserved hereunder, for the period which would otherwise have constituted the unexpired portion of the then current term of this Lease, said amount to be discounted at the discount rate then in effect at the Federal Reserve Bank in

Baltimore; or

(2) damages (payable in monthly installments, in advance, on the first day of each calendar month following such termination and continuing until the date originally fixed herein for the expiration of the then current term of this Lease) in an amount or amounts equal to the excess, if any, of the sum of (i) the aggregate expenses (other than Additional Rental) paid by Landlord during the month immediately preceding such calendar month for all such items as, by the terms of this Lease, are required to be paid by Tenant, plus (ii) an



amount equal to the amount of the installment of Basic Annual Rent which would have been payable by Tenant hereunder in respect of such calendar month had this Lease and the Lease Term not been so terminated, and (iii) the monthly average of the Additional Rental payable in the twelve months immediately preceding such default, over the rents, if any, in fact, collected by Landlord in respect of such calendar month pursuant to either rerenting, or from any existing permitted subleases. Any suit, action or proceeding brought to collect the amount of the deficiency for any calendar month shall not prejudice in any way the rights of Landlord to collect the deficiency for any subsequent month by a similar proceeding.

(e) No act or thing done by Landlord shall be deemed to be an acceptance of a surrender of the Leased Premises, unless Landlord shall execute a written release of Tenant. Tenant's liability hereunder shall not be terminated by the execution of a new lease of the Leased Premises by Landlord, regardless of the term of such new lease. Separate actions may be maintained each month by Landlord against Tenant to recover the damages then due, without waiting until the end of the Term of this Lease to determine the aggregate amount of such damages.

(f) Notwithstanding anything in this Section 18 to the contrary, upon the occurrence of any breach by Tenant that is not cured within any applicable grace period, Landlord shall use its reasonable efforts to mitigate its damages, including using reasonable efforts to relet the Leased Premises so long as there is no comparable space then available for leasing within the Rivers Corporate Park. If all amounts required to be paid by Tenant under this Lease as damages and liquidated damages are actually paid to and collected by Landlord, then any rent collected by Landlord with regard to the Leased Premises from a subsequent tenant and attributable to the period for which Tenant has paid liquidated damages, up to a maximum amount equal to the amount of rental paid by Tenant as liquidated damages for such period, shall be rebated to Tenant as and when such amounts are actually collected by Landlord.

19. Acceptance of Leased Premises. Tenant's occupancy of the Leased Premises shall constitute acceptance thereof, subject to the provisions of Section 1(c) and punchlist items as provided in Section 2, as complying with all requirements of Tenant and Landlord with respect to the condition, order and repair thereof.

20. Access to Premises and Change in Services. Landlord and/or the authorized representative of Landlord or any mortgagee or deed of trust holder shall have the right, without abatement of rent, to enter the Leased Premises at any reasonable hour with reasonable prior notice (which may be verbal) and accompanied by a representative of Tenant, or otherwise in conformity with Tenant's security requirements of which Tenant has provided Landlord notice (or at any time without notice in the event of an emergency) to examine the same and/or to make such repairs, improvements and alterations as Landlord and/or such authorized representatives shall deem necessary (but Landlord shall not be obligated to do so) for the safety and preservation of the Building, or for any other reasonable purpose whatsoever, including, but

not limited to, showing the Leased Premises to prospective tenants during the last six (6) months of the Lease Term. In connection with the foregoing, Landlord agrees to use it best efforts to minimize any interference to Tenant's activities on the Leased Premises.



24

21. Estoppel Certificates. Tenant agrees at any time and from time to time upon not less than ten (10) days prior notice by Landlord to execute, acknowledge and deliver to Landlord a statement in writing certifying, among other factual matters, that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications) and the dates to which the rent and other charges have been paid in advance, if any, and stating whether or not, to the best knowledge of the signer of such certificate, Landlord is in breach and/or default in performance of any covenant, agreement or condition contained in this Lease and, if so, specifying each such breach and/or default of which the signer may have knowledge, and any other matters reasonably requested in such estoppel certificate, it being intended that any such statement delivered hereunder may be relied upon by any party not a party to this Lease.

22. Subordination and Non-Disturbance. Tenant accepts this Lease, and the tenancy created hereunder, subject and subordinate to any ground leases, security interests, mortgages, deeds of trust or other financing arrangements now or hereafter a lien upon or affecting the Building or any part or parts thereof and to any extensions, modifications or amendments thereof. Tenant shall, at any time hereafter, on request, execute any instruments which may be required to subordinate, or render prior, Tenant's interest hereunder to such lien and the failure of Tenant to execute any such instruments shall constitute a default hereunder. Landlord agrees to use its best efforts, with Landlord and Tenant to equally bear any lender's charges, to obtain a non-disturbance agreement in form and substance acceptable to Landlord's lender.

23. Attornment. Tenant agrees that upon any termination of Landlord's interest in the Leased Premises, Tenant shall, upon request, attorn to the person or entity then holding title to the reversion of the Leased Premises (the "Successor") and to all subsequent Successors, and shall pay to the Successor all rents and other monies required to be paid by the Tenant, hereunder and perform all of the other covenants, agreements, provisions, conditions, obligations and/or duties of Tenant in this Lease contained.

24. Notices. Except as otherwise provided in this Lease, any requirement for a notice, demand or request under this Lease will be satisfied by a writing (a) hand delivered with receipt; (b) mailed by United States registered or certified mail or Express Mail, return receipt requested, postage prepaid; or (c) sent by Federal Express or any other nationally recognized overnight courier service, and addressed: (i) if to Landlord, c/o Manekin Corporation, 7165 Columbia Gateway Drive, Columbia, Maryland 21046, Attention: General Counsel with a copy to Ann Clary Gordon, Esquire c/o Shapiro and Olander, 36 South Charles Street, Baltimore, Maryland 21201; and (ii) if to Tenant, at the Leased Premises. All notices that are sent in accordance with this Section 24 will be deemed received by the other party on the earliest of the following applicable time periods (a) three business days after being mailed in the aforesaid manner; (b) the date the return receipt is executed; or (c) the date delivered as documented by the overnight courier service or the hand delivery receipt. All rental payments and other charges payable by Tenant under this Lease will be delivered to Landlord at Landlord's address set forth above: Attention: Accounting Department. Either party may designate a change of address by written notice to the other party.

25

25. Landlord's Liability. The term "Landlord" as used in this Lease means only the owner, the mortgagee, or the trustee or the beneficiary under a deed of trust, as the case may be, for the time being, of the Building, so that in the event of any transfer of title to the Building, the transferring entity shall be and hereby is entirely freed and relieved of all covenants and obligations of Landlord hereunder accruing after such transfer. It is understood that Landlord on the date hereof is a Maryland limited partnership, and that no partner, general or limited, of said limited partnership, as it may now or hereafter be constituted, shall have any personal liability to Tenant and/or any person or entity claiming under, by or through Tenant upon any action, claim, suit or demand brought under or pursuant to the terms and conditions of this Lease and/or arising out of the use or occupancy by Tenant of the Leased Premises and as to Landlord, recourse shall be had only to the extent of Landlord's interest in the Building.

26. Separability, Enforceability. If any term or provision of this Lease or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Lease or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and enforceable to the fullest extent permitted by law. Notwithstanding any language in this Lease to the contrary, if the Lease Term does not commence by January 1, 2010, this Lease shall terminate automatically and neither party shall have any further liability to the other.

27. Captions. All headings anywhere contained in this Lease are intended for convenience of reference only and are not to be deemed or taken as a summary of the provisions to which they pertain or as a construction thereof.

28. Recordation. Tenant covenants that if at any time any mortgagee of Landlord's interest in the Leased Premises, any trustee or beneficiary under a deed of trust constituting a lien upon the Building of which deed of trust Landlord is grantor, or a landlord of Landlord in respect of the real property upon which the Building is situate, shall require the recordation of this Lease, or if the recordation of this Lease shall be required by any valid governmental order, or if any governmental authority having jurisdiction in the matter shall assess and be entitled to collect transfer taxes or documentary stamp taxes, or both such taxes on this Lease, Tenant shall execute such acknowledgments as may be necessary to effect such recordations and whichever party requires such recordation shall pay the cost of all recording fees, transfer taxes and/or documentary stamp taxes payable on, and/or in connection with this Lease and/or such recordation.

29. Successors and Assigns. The covenants, conditions and agreements contained in this Lease shall bind and inure to the benefit of Landlord and Tenant, and their respective heirs, distributees, executors, administrators, successors, personal and legal representatives and their permitted assigns.

30. Holding Over. If Tenant holds possession of the Leased Premises after the termination of this Lease without Landlord's written consent, Tenant shall become a tenant from month to month at one and one-half times the rent due during the last year of the Term, and upon all other terms herein specified and shall continue to be such tenant from month to month until such tenancy shall be terminated by either party giving the other

26
a written notice of at least thirty (30) days of its intention to terminate such tenancy. Nothing contained in this Lease shall be construed as a consent by Landlord to the occupancy or possession of the Leased Premises by Tenant after termination of this Lease. Upon the termination of this Lease, Landlord shall be entitled to the benefit of all public general or public local laws relating to the speedy recovery of the possession of lands and tenements held over by tenants, that may now or hereafter be in force.

31. Commissions. Tenant represents that Tenant has dealt directly with, and only with, MANEKIN CORPORATION and THE FRED EZRA COMPANY as brokers in connection with this Lease (which commissions Landlord shall pay pursuant to a separate agreement), and that insofar as Tenant knows, no other broker negotiated this Lease or is entitled to any commissions in connection with it. Tenant shall hold Landlord harmless from and indemnify Landlord for any costs incurred by Landlord arising out of any other broker's claim that such other broker has assisted Tenant with respect to this Lease.

32. Waiver of Jury Trial. Landlord and Tenant desire a prompt resolution of any litigation between them with respect to this Lease. To that end, Landlord and Tenant waive trial by jury in any action, suit, proceeding and/or counterclaim brought by either against the other on any matters whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, Tenant's use or occupancy of the Leased Premises, any claim of injury or damage and/or any statutory remedy. This waiver is knowingly, intentionally and voluntarily made by Tenant. Tenant acknowledges that neither Landlord nor any person acting on behalf of Landlord has made any representations of fact to induce this waiver of trial by jury or in any way to modify or nullify its effect. Tenant further acknowledges that it has been represented (or has had the opportunity to be represented) in the signing of this Lease and the making of this waiver by independent legal counsel, selected of its own free will, and that it has had the opportunity to discuss this waiver with counsel. Tenant further acknowledges that it has read and understands the meaning and ramifications of this waiver of jury trial.

33. Miscellaneous.

(a) As used in this Lease, and where the context requires: (1) the masculine shall be deemed to include the feminine and neuter and vice- versa; and (2) the singular shall be deemed to include the plural and vice- versa.

(b) This Lease was made in the State of Maryland and shall be governed by and construed in all respects in accordance with the laws of the State of Maryland.

(c) Tenant covenants and agrees that it shall not inscribe, affix, or otherwise display signs, advertisements or notices in, on, upon or behind any windows or on any door, partition or other part of the interior or exterior of the Building without the prior written consent of Landlord and HRD (if required). If such consent be given by Landlord, any such sign, advertisement, or notice shall be inscribed, painted or affixed by Landlord, or a company approved by Landlord, but the cost of the same shall be charged to and be paid by Tenant, and Tenant agrees to pay the same promptly, on demand.

(d) Tenant covenants and agrees that it shall not attach or place awnings, antennas or other projections to the

outside walls or any exterior portion of the Building, without the prior written consent of Landlord. No curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Leased Premises, without the prior written consent of Landlord and HRD (if required).

(e) Tenant further covenants and agrees that it shall not pile or place or permit to be placed any goods on the sidewalks or parking lots in the front, rear or sides of the Building or in a place in any manner so as to block said sidewalks, parking lots and loading areas and/or not to do anything that directly or indirectly will take away any of the rights of ingress or egress or of light from any other tenant of Landlord on the Real Property.

(f) Tenant, Tenant's servants, agents, invitees, employees and/or licensees shall not park on, store on, or otherwise utilize any parking or loading areas on the Real Property, except as shown on Exhibit A and then only in the parking places designated by Landlord for such parking and in accordance with such rules and regulations as Landlord may from time to time promulgate with respect thereto.

(g) Except as otherwise specifically provided in this Lease or to a counterclaim which is mandatory or would be lost if not asserted, no abatement, refund, offset, counter-claim, recoupment, diminution or any reduction of rent, charges or other compensation shall be claimed by or allowed to Tenant, or any person claiming under it, under any circumstances, whether for inconvenience, discomfort, interruption of business, or otherwise, arising from the making of alterations, changes, additions, improvements or repairs to the Building or the Leased Premises, by virtue or because of any present or future governmental laws, ordinances, or for any other cause or reason.

(h) All plats, exhibits, riders or other attachments to this Lease shall be deemed a part hereof and incorporated by reference herein.

(i) This Lease contains the entire agreement among the parties regarding the subject matter of this Lease. There are no promises, agreements, conditions, undertakings, warranties or representations, oral or written, express or implied, among them, relating to this subject matter, other than as herein set forth. This Lease is intended by the parties to be an integration of all prior or contemporaneous promises, agreements, conditions, negotiations and undertakings between them. This Lease may not be modified orally or in any other manner than by an agreement in writing signed by all the parties or their respective successors in interest. This Lease may be executed in several counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.

34. Confidentiality. Landlord (to the extent within its reasonable control) and Tenant agree not to disclose to third parties (except if required by Landlord's lender, HRD, or any governmental authority), including without limitation, other tenants of the Building and Rivers Corporate Park, the purposes for which Tenant is utilizing the Leased Premises.

35. Parking. Landlord agrees that, upon the payment of Basic Annual Rent and additional rent provided herein and the performance by Tenant of all the covenants, agreements and provisions of the Lease on Tenant's part to be kept and performed,




Tenant shall be provided three (3) surface parking spaces (around the perimeter

of the building) per each 1,000 square feet of leased space; ten (10) of such parking spaces shall have signage reserving said spaces for Tenant and shall be located as shown on Exhibit "A", provided, however, that Landlord shall have no obligation to enforce such reserved parking. The balance of such spaces shall be available to Tenant in common with other tenants of the Real Property on a first-come, first-served basis.

36. Signage. Tenant shall have the right, at its sole cost and expense, to erect an identification sign on the exterior of the Building, subject, however, to Tenant's obtaining the prior written approval of such signs from Landlord and HRD and provided that Tenant is then occupying more than fifty percent (50%) of the Building (or such lesser percentage as is approved by HRD). Landlord shall not unreasonably withhold its consent to such signs provided same are reasonably similar to other corporate identification signs within Rivers Corporate Park. Such signs shall be installed by a reputable contractor reasonably acceptable to Landlord. Tenant shall hold Landlord harmless from any damage caused to the Building as a result of the installation of such signs. Upon termination of the Lease, it shall be Tenant's obligation, at its sole expense, to remove such signs and to restore the exterior face of the Building to its condition prior to erecting such signs, normal wear and tear excepted.

37. Roof Access. Tenant shall have a limited right of access to the roof of the Building to install, repair or replace any communications equipment (such as satellite dishes or other devices) on the roof of the Building used in connection with the Tenant's use and occupancy of the Leased Premises, provided the same is permitted by applicable law, regulations and other restrictions applicable to the Building; Tenant first obtains the prior written consent of Landlord and HRD; and, such access, installation, repair or replacement is in accordance with all reasonable rules and regulations therefor promulgated from time to time by Landlord.

38. Authority. (a) Tenant warrants to Landlord that Tenant is a corporation organized and validly existing in good standing under the laws of the State of Delaware and qualified to transact business in the State of Maryland. In addition, Tenant warrants to Landlord that this Lease has been properly authorized and executed by Tenant and is binding upon Tenant in accordance with its terms. Tenant's resident agent's name and address in the State of Maryland are The Corporation Trust Incorporated, 32 South Street, Baltimore, Maryland, 21201. Tenant agrees to notify Landlord in writing of any change with respect to its resident agent.

(b) Landlord warrants to Tenant that Landlord is a limited partnership formed and validly existing in good standing under the laws of the State of Maryland. In addition, Landlord warrants to Tenant that this Lease has been properly authorized and executed by Landlord and is binding upon Landlord in accordance with its terms.

39. Intentionally Deleted.

40. Riders. Four riders, numbered 1 through 4 and consisting of seven (7) pages, are attached hereto and incorporated by reference herein.

41. Quiet Enjoyment. Landlord represents to Tenant that, so long as Tenant pays the Basic Annual Rent and all



additional rent and performs all other obligations imposed on Tenant under this Lease, Tenant will peaceably hold and enjoy the Leased Premises throughout the Lease Term without hindrance or impairment from Landlord or those claiming through Landlord.

42. Loading Dock. Subject to the consent and requirements of HRD, and Landlord's prior written approval, Landlord shall permit the location of equipment in or on the exterior loading dock area of the Building; provided, however, that the expense in connection therewith shall be borne by Tenant. Tenant acknowledges that HRD may require the loading dock area (or any other area) to be modified to accommodate such equipment (such as, by way of example only, erection of permanent screening).

IN WITNESS WHEREOF, Landlord and Tenant have respectively signed this Lease under seal as of the day and year first above written.

ATTEST:

RIVERS CENTER ASSOCIATES LIMITED PARTNERSHIP

By: M.O.R. XX Associates Limited Partnership, a general partner

By: RA & DM, INC., general partner

[SIG]
- - ----------

By: /s/ R. Colfax Schnorf,Jr. (SEAL)
---

Name: R.Colfax Schnorf, Jr.
---

Title: Vice President
---

Landlord

WITNESS/ATTEST:

NOVAVAX, INC.

[SIG]
- - ----------

By: /s/ Denis M. O'Donnell, MD (SEAL)
---

Name: Denis M. O'Donnell, MD
---

Title: President
---

Tenant



STATE OF MARYLAND, CITY/COUNTY OF HOWARD, TO WIT:

I HEREBY CERTIFY that on this 25th day of September, 1996, before me, the subscriber, a Notary Public of the State of Maryland, City/County of Howard, personally appeared R. Colfax Schnorf, Jr., Vice President of RA & DM, Inc., general partner of M.O.R. XX Associates Limited Partnership, a general partner of RIVERS CENTER ASSOCIATES LIMITED PARTNERSHIP, Landlord, and he acknowledged the foregoing Lease Agreement to be the act and deed of said limited partnership.

WITNESS my hand and Notarial Seal.

My Commission Expires:

07/1/99
- - ----------

/s/ Jo Ann Yost
---

Notary Public

STATE OF MARYLAND, CITY/COUNTY OF HOWARD, TO WIT:

I HEREBY CERTIFY that on this 25th day of September, 1996, before me, the subscriber, a Notary Public of the State of Maryland, City/County of Howard, personally appeared Denis M. O'Donnell,President of NOVAVAX, INC., Tenant, and she/he acknowledged the foregoing Lease Agreement to be the act and deed of said body corporate.

WITNESS my hand and Notarial Seal.

My Commission Expires:

07/1/99 /s/ Jo Ann Yost

Notary Public

31

EXHIBIT A

Site Plan and Leased Premises

32

EXHIBIT B

Intentionally Omitted

33

EXHIBIT C-1

Base Finish Work

34

EXHIBIT C-2

Additional Finish Work

35

EXHIBIT D

HVAC Specifications

36

EXHIBIT E

Howard County Zoning Letter

37

RIDER NO. 1

Right of Cancellation

Rider to Section 2 - Term

Tenant shall have the right to terminate this Lease as of the

last day of the fifth (5) Lease Year (which date is hereinafter referred to as the "Cancellation Date"), provided that:

(a) Tenant shall have given to Landlord written notice of such election to terminate at least six (6) months prior to the Cancellation Date (the "Notice"); and

(b) Tenant, on the date Landlord receives such Notice and on the Cancellation Date, shall not be in breach or default of any agreement, condition or covenant by which Tenant is obligated under this Lease; and

(c) Tenant shall have paid to Landlord on or before the Cancellation Date, in addition to any other amounts that may be due under this Lease prior to the Cancellation Date, the unamortized balance of Landlord's cost in finishing the Leased Premises pursuant to Section 1 of this Lease, plus the unamortized balance of brokers' commission as of the Cancellation Date plus $41,161.12 (being equal to four (4) monthly installments of Basic Annual Rent for the Sixth Lease Year). Such amounts so payable by Tenant represent liquidated damages for terminating this Lease prior to the expiration of the original Lease Term, such damages not otherwise being susceptible to reasonable calculation.

Time is of the essence with respect to Tenant's exercise of its rights under this Rider, and Tenant acknowledges that Landlord requires strict adherence to the requirement that the Notice be timely made and in writing.



RIDER NO. 2

RIGHT OF FIRST OFFER

Tenant shall have the right of first offer (the "Expansion Space First Offer") to lease space (the "Expansion Space") contiguous to the Leased Premises at a Basic Annual Rent equal to the Basic Annual Rent (as then escalated but exclusive of the Additional Improvement Allowance of $0.47 per square foot per annum described in Section 5 for the Leased Premises as described in the chart below), plus additional rent as provided in the Lease. Tenant must provide written notice to Landlord on or before November 30, 1996 (the "Expansion Notice") if it wants to expand into the approximately 6,780 rentable square feet contiguous to the Leased Premises that will be available for lease commencing on or about January 1, 1997.

In addition, throughout the Lease Term (including any renewals), Tenant shall have the right of first offer (the "First Offer") to lease any space in the Building that becomes available (the "Offer Space") before it is offered for lease by Landlord. Said rent shall be payable at a Basic Annual Rent equal to the Basic Annual Rent (as then escalated but exclusive of the Additional Improvement Allowance of $0.47 per square foot per annum described in Section 5 for the Leased Premises as described in the chart below) plus additional rent as provided for in the Lease in equal monthly installments (and fractions thereof), at the times and subject to the terms and conditions as provided with respect to, and in addition to, the monthly installments of the Basic Annual Rent as set forth in Section 5 of this Lease.

The Basic Annual Rent for the Expansion Space and any Offer Space shall be determined in accordance with the then Lease Year for the Leased Premises, at the following rates:

| Lease Year | Annual Square Foot Amount |
|---|---|

| | |
|---|---|
| 1 | $9.50 |
| 2 | $9.50 |
| 3 | $9.95 |
| 4 | $10.25 |
| 5 | $10.56 |
| 6 | $10.87 |
| 7 | $11.20 |
| 8 | $11.54 |
| 9 | $11.88 |
| 10 | $12.24 |

Tenant's exercise of the First Offer shall be effective only upon written notification by Tenant to Landlord thereof (the "Notice"). Such notification must be given to Landlord before the close of business on the second full business day after Tenant's receipt of Landlord's written notification to Tenant of the availability of the Offer Space and the terms on which Landlord intends to offer the Offer Space for rental (the "Offer"). An Offer does not include the exercise by another tenant of its right of refusal or expansion.

In the event Tenant fails to so notify Landlord within said two business day period with respect to an offer, or by November 30, 1996 as to the Expansion Notice, Landlord shall be free to offer said Expansion Space or Offer Space to third parties and Tenant shall have no further rights in such space.



This Expansion Space First Offer and First Offer are personal to Tenant and shall not be separated from the Lease or transferred by Tenant independently of the leasehold interest without the prior written consent of Landlord.

Notwithstanding any other provision hereof, the following provisions shall apply to the First Offer and Expansion Space First Offer and to Tenant's lease, if any, of the Expansion Space or Option Space:

(i) Tenant shall not be entitled to exercise the rights accorded to Tenant in the first paragraph, unless at the date of such exercise or at the date on which Tenant's lease, if any, of the Expansion Space or Offer Space becomes effective, Tenant is in possession of the Leased Premises and Tenant is not in default in the payment of any sums due hereunder or any other obligation imposed upon Tenant by the Lease;

(ii) Tenant shall have the right to lease and occupy the Offer Space commencing on the date set forth in Landlord's Offer of such space to Tenant and terminating on the termination of the Lease Term, on the same terms, conditions, and provisions as are in this Lease set forth, except to the extent modified by the Offer, with the same force and effect as though this Lease had originally provided for the rental of the Leased Premises and the Offer Space;

(iii) The Expansion Space shall be delivered to Tenant in "as is" condition, provided, however, that Landlord shall provide a reconstruction/finishing allowance of $3.00 per square foot. The Offer Space shall be delivered to Tenant in the condition set forth in the Offer, provided, however, that Landlord shall provide a reconstruction allowance of $3.00 per square foot so long as five or more years remain in the Lease Term, or a prorated amount thereof if less than five years remain; and

(iv) The Lease shall be amended, as may be appropriate, to

reflect the leasing of the Expansion Space or Offer Space.

Time is of the essence with respect to Tenant's exercise of its rights under this Rider and Tenant acknowledges that Landlord requires strict adherence to the requirement that the Notice and the Expansion Notice be timely made and in writing.



RIDER NO. 3

Renewal Option

Rider to Section 2 (Term)

Provided (i) this Lease is then in full force and effect, (ii) Tenant is not in default respecting any provision or condition of this Lease either on the date Tenant elects to renew or on the date the renewal term commences, and, (iii) Tenant has not failed more than two times during the last two Lease Years of the original term of this Lease to pay any payments called for by this Lease on the date such payment is due subject to any notice or grace period provisions, then Tenant shall have the right to renew this Lease for two (2) renewal terms of five (5) years each immediately following the expiration of the original term or the first renewal term, as the case may be, on the same terms, conditions, and provisions as are set forth in this Lease with the same force and effect as though this Lease had originally provided for a fifteen (15) year or twenty (20) year term, save that:

(i) there shall be no further right of renewal, after the renewal term, and

(ii) the Basic Annual Rent payable with respect to the Leased Premises shall be adjusted to reflect ninety-five percent (95%) of the prevailing market rental rate for comparable space within Columbia, Maryland as of the commencement of the renewal term (as determined below), provided, however that in no event shall the Basic Annual Rent be less than $12.76 per square foot per annum.

Tenant shall be deemed to have waived the right to exercise this renewal option unless not less than nine (9) months prior to the date of termination of the original Term or the first renewal term, as the case may be, Tenant shall have notified Landlord in writing of Tenant's election to renew (the "Renewal Notice"). Landlord shall give Tenant written notice of the prevailing rental rate within thirty (30) days after Landlord's receipt of the Renewal Notice (the "Rent Notice"). Tenant may elect to have the prevailing rent determined as set forth below if it does not agree with Landlord's determination thereof provided it gives Landlord written notice (the "Appraisal Notice") within five (5) business days after Tenant's receipt of the Rent Notice.

Within five (5) business days after the Landlord receives the Appraisal Notice from Tenant, Landlord and Tenant shall give written notice to the other that each, at its own expense, has hired and appointed a disinterested real estate broker of recognized competence and professional experience as a broker of comparable commercial and industrial real estate in the Baltimore-Washington Metropolitan Area. The two brokers thus appointed shall mutually agree upon the appointment of a third broker, the cost of which shall be shared equally by Landlord and Tenant, which broker shall also be a disinterested person of recognized competence and professional experience as a broker of comparable commercial and industrial real estate in the Baltimore-Washington Metropolitan Area. In the event that the two brokers shall be unable to agree within ten (10) days after their appointment, on the appointment of the third broker, then Tenant shall choose three brokers from which Landlord shall choose one who shall serve as the third broker. Landlord shall notify Tenant of the selection of the third broker within ten (10) days of Tenant's notice to Landlord of the selection of such

three brokers from which Landlord is to choose. The third broker shall as promptly as possible, but in no event more than thirty (30) days after the date of his selection, conduct an appraisal of the Building for purposes of determining the then prevailing rental rate therein. Upon completion of his appraisal, the third broker shall immediately give written notice to the parties hereto stating his determination, and shall furnish to each party hereto a copy of such determination signed by him which determination shall be final and binding on the parties, provided, however, that Tenant shall have the right to withdraw its election to renew provided (i) it sends notice thereof to Landlord with five (5) days receipt of such rent determination (the "Withdrawal Notice"), and (ii) it solely bears the cost of the appraisal.

Time is of the essence with respect to Tenant's exercise of its rights under this Rider and Tenant acknowledges that Landlord requires strict adherence to the requirement that the Renewal Notice, the Appraisal Notice and the Withdrawal Notice be timely made and in writing.



RIDER NO. 4

Exclusions
Rider to Section 5.1(c)

"Common Area Expenses" shall not include any of the following:

(i) Landlord's debt service, that is, principal or interest payments on any mortgage, deed of trust or other borrowed funds or other costs associated therewith;

(ii) rent payable under any ground or underlying lease;

(iii) the costs of special services separately charged to an individual tenant of the Building or expenses incurred due to acts of an individual tenant of the Building;

(iv) costs for structural repairs of the Building which are the result of Landlord's negligence in the maintenance of the Building;

(v) general overhead of Landlord, that is, wages, salaries, fees, and benefits for the operation, maintenance and management of personnel other than those persons involved in the management of the Building;

(vi) costs of leasing or procuring tenants, that is, marketing fees, negotiation fees, concession fees, legal expenses and brokerage commissions;

(vii) costs incurred by Landlord which only benefit a particular tenant in the Building;

(viii) costs incurred by Landlord due to Landlord's negligence or violation of legal requirements in connection with the construction of the Building;

(ix) insurance costs due to Landlord or any other tenant's acts increasing the risk rating of any coverage carried on the Building;

(x) costs for improving or preparing space for new or existing tenants in the Building;

(xi) any sum paid to any entity affiliated with Landlord which is excess of the amount that would have been payable in the absence of such affiliation with Landlord;

(xii) capital improvements, as determined under sound accounting principles;

(xiii) original construction costs of the Building;

(xiv) accounting or legal fees incurred in tenant disputes, in procuring tenants or otherwise not related to the operation and maintenance of the Building;

(xv) costs of repairs to the extent Landlord receives reimbursement therefor through insurance proceeds or condemnation awards;

(xvi) interest or penalties arising by reason of Landlord's failure to timely pay any Common Area Expenses or Taxes.



(xvii) costs incurred to remove hazardous materials (except those attributable to Tenant); and

(xviii) income taxes.

Common Area Expenses shall be credited with any reimbursement, discount, credit, reduction, warranty, insurance proceeds or other recovery of, or allowance for, expenses received by Landlord.

1

EXHIBIT 10.10

2

[NOVAVAX, INC. LETTERHEAD]

February 26, 1997

Mr. Richard F. Maradie
86 Great Plain Avenue
Wellesley, MA 02181

Dear Rick:

On behalf of Novavax, Inc. (the "Company"), I am pleased to offer you the position of Chief Executive Officer of the Company, subject to approval of the full Board of Directors of the Company and to satisfactory reference checks. We are greatly looking forward to your joining the Company's team.

JOB TITLE: Chief Executive Officer

START DATE: March 4, 1997

SALARY: $220,000 per year payable in accordance with the Company's payroll policies in effect from time to time.

BONUS: You will be entitled to an annual cash incentive bonus based upon the achievement of certain specified goals. The bonus for fiscal year 1997 is expected to be $25,000. Payment of your bonus will be made within 60 days of the end of the Company's fiscal year.

STOCK OPTIONS: The Company will grant you stock options to purchase 200,000 shares of the Company's Common Stock ($.01 par value) at an exercise price equal to the closing price of the Company's Common Stock on the date of grant ($4.0625 per share). The options will vest as to one-third of the shares on the six-month anniversary of the date of grant, as to an additional one-third of the shares on the eighteen-month anniversary of the date of grant and as to the final one-third of the shares on the thirty-month anniversary of the date of grant. Additional shares will be granted to you annually, based on your job performance. The amount will be determined and voted on by the Board of Directors at the December board meetings.

3

BENEFITS: The Company will provide medical and dental benefits, life insurance, and disability insurance in accordance with the Company's policies in effect from time to time. As of the date of this letter, the Company currently pays 100% of the premium for $200,000 of life insurance under the Company's group life insurance plan and 100% of the premium for the Company's long-term disability insurance.

VACATION: You will be entitled to two weeks of

vacation time during the first year, calculated on a calendar year basis in accordance with the Company's policies in effect from time to time. If you remain employed with the Company, you will be entitled to two weeks of vacation plus one day for each year of your employment after the first year, up to a maximum of four weeks per year. All vacation time will be calculated in accordance with the Company's policies in effect from time to time.

EMPLOYMENT REQUIREMENTS AND TERM: You will receive a one year contract which will contain the conditions of your employment as well as the obligations of Novavax and your employment. The contract will include a three month severance program. Your contract will be reviewed by the Chairman and the Compensation Committee after six months from the date of hire for purposes of evaluation and possible extension.

RELOCATION: You will be expected to relocate to the Columbia, Maryland location within six months from the date of hire. It is anticipated that your moving expenses will be approximately $50,000 which will be fully refunded by Novavax. We urge you to be expeditious in this relocation.

BOARD SEAT: You will be eligible to be considered for a board seat after the March 20th board meeting. To become a board member, you must be nominated by the Chairman of Novavax, with acceptance by the overall board. The window for this nomination will be between the first week of April and the Shareholder's meeting. I repeat, there must be an accord between you, the Chairman of Novavax and the Board of Directors before the board seat is granted.

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

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



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

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

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

Very truly yours,

Novavax, Inc.

/s/ Edward B. Hager, MD
---
Edward B. Hager, MD
Chairman

EBH/td

ACCEPTED:

/s/ Richard F. Maradie
- - ------------------------
Richard F. Maradie

EXHIBIT 11

NOVAVAX, INC. AND SUBSIDIARIES
COMPUTATION OF NET LOSS PER COMMON SHARE

| | December 31, | |
|---|---|---|
| | 1996 | 1995 |
| Net loss | $(5,494,985) | $(8,494,358) |
| Weighted average shares outstanding | 10,132,896 | 9,937,936 |
| Net loss and proforma net loss common and common equivalent share | $(.54) | $(.85) |

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement of Novavax, Inc. on Form S-8 (No. 33-80277), the Registration Statement of Novavax, Inc. on Form S-8 (No. 33-80279), the Registration Statement of Novavax, Inc. on Form S-8 (No. 333-3384), the Registration Statement of Novavax, Inc. on Form S-3 (No. 333-14305), the Registration Statement of Novavax, Inc. on Form S-3 (No. 333-5367) and the registration statement Novavax, Inc.on Form S-3 (No. 333-22685) of our report, dated February 7, 1997: except as to Note 13 for which the date is March 14, 1997, on our audits of the consolidated financial statements of Novavax, Inc. and subsidiaries as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996, which report is included in this Annual Report on Form 10-K.

/s/ COOPERS & LYBRAND L.L.P.

COOPERS & LYBRAND L.L.P.

Rockville, Maryland
March 21, 1997

<ARTICLE> 5

| | | |
|---|---|---|
| <PERIOD-TYPE> | 12-MOS | |
| <FISCAL-YEAR-END> | | DEC-31-1996 |
| <PERIOD-END> | | DEC-31-1996 |
| <CASH> | | 2,481,258 |
| <SECURITIES> | | 500,820 |
| <RECEIVABLES> | | 0 |
| <ALLOWANCES> | | 0 |
| <INVENTORY> | | 0 |
| <CURRENT-ASSETS> | | 3,153,105 |
| <PP&E> | | 1,383,123 |
| <DEPRECIATION> | | (405,212) |
| <TOTAL-ASSETS> | | 5,721,952 |
| <CURRENT-LIABILITIES> | | 581,267 |
| <BONDS> | | 0 |
| <PREFERRED-MANDATORY> | | 0 |
| <PREFERRED> | | 0 |
| <COMMON> | | 106,607 |
| <OTHER-SE> | | 0 |
| <TOTAL-LIABILITY-AND-EQUITY> | | 5,721,952 |
| <SALES> | | 55,533 |
| <TOTAL-REVENUES> | | 55,533 |
| <CGS> | | 0 |
| <TOTAL-COSTS> | | 0 |
| <OTHER-EXPENSES> | | 5,589,963 |
| <LOSS-PROVISION> | | 0 |
| <INTEREST-EXPENSE> | | 0 |
| <INCOME-PRETAX> | | (5,396,891) |
| <INCOME-TAX> | | 98,094 |
| <INCOME-CONTINUING> | | (5,494,985) |
| <DISCONTINUED> | | 0 |
| <EXTRAORDINARY> | | 0 |
| <CHANGES> | | 0 |
| <NET-INCOME> | | (5,494,985) |
| <EPS-PRIMARY> | | (.54) |
| <EPS-DILUTED> | | (.54) |

1

EXHIBIT 99

2

IMPORTANT FACTORS REGARDING FORWARD LOOKING STATEMENTS

These cautionary statements are being made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995 (the "Reform Act") with the intention of obtaining the benefits of the "safe harbor" provisions of the Reform Act. The Company cautions investors that any forward-looking statements presented in this report and presented elsewhere by management from time to time are not guarantees of future performance, which may be affected by various trends and factors that are beyond the Company's control. These include, among other factors, changes in general economic conditions, rapid or unexpected changes in technologies and uncertain business conditions that affect the pharmaceutical and vaccine industries. Accordingly, past results and trends should not be used by investors to anticipate future results or trends. The Company's actual results may differ materially from those in the forward-looking statements as a result of various factors, including, but not limited to, the following:

Prior to the Distribution, the Company relied principally on its collaborative relationship with its former parent, IGI, Inc., for the funding of its research and development activities. Although in the future the Company intends to use third-party funding when available, either through government or research grants or through collaborations, joint ventures or strategic alliances with other companies, there is no assurance that such funding will be available or will be adequate for the needs of the Company. If such funding is not available or adequate, the Company may be required to delay or eliminate expenditures for certain of its products or to license third parties to commercialize products or technologies that the Company would otherwise seek to develop itself.

The pharmaceutical and vaccine industries are subject to rapid and substantial technological change, and competitors are numerous. Many of the Company's competitors have substantially greater financial and technical resources and production, marketing and development capabilities and experience than the Company. The Company's operating results may be affected by the actions of existing or future competitors, including technology development, price reductions and new product introductions. The commercialization of the Company's human pharmaceuticals and vaccines will require significant additional research, development, preclinical and clinical testing, regulatory approval and investment. In addition, the Company has no experience in the sales, marketing and distribution of pharmaceutical products. There can be no assurance that the Company will be able to establish sales, marketing and distribution capabilities or make arrangements with its collaborators, licensees or others to perform such activities or that such efforts will be successful.

The Company's product candidates are still undergoing rigorous FDA testing, and there is no assurance that the Company will qualify for approval by the FDA. Historical results of clinical testing are not necessarily predictive of future results. There can be no assurance that clinical studies of products under development will demonstrate the safety and efficacy of such products. The failure to adequately demonstrate the safety and efficacy of a therapeutic product could delay or prevent regulatory approval of the product. There can be no assurance that unacceptable toxicities or side effects will not occur at any time in the course of human clinical trials or commercial use of the Company's products. The appearance of any such unacceptable toxicities or side effects could interrupt, limit, delay or abort the development of any of the Company's products or, if previously approved, necessitate their withdrawal from the market. There can be no assurance that even if the FDA grants approval of a product, that the product will be a commercial success.

No assurance can be given that the Company's patent applications will issue as patents or that any patents that may be issued will provide the Company with adequate protection for the covered products or technology. Additionally, there can be no assurance that the Company's activities will not infringe on the patents or proprietary rights of others or that the Company will be able to obtain licenses to any technology that it may require to conduct its business or that, if obtainable, such technology can be licensed at a reasonable cost.

Due to the specialized nature of the Company's business, it is highly dependent on its ability to attract and retain qualified scientific personnel. The loss of executive officers or scientific staff would be materially detrimental to the Company. There are a limited number of individuals qualified to participate in the pharmaceutical and vaccine industries and there is intense competition to attract and retain such qualified persons. There can be no assurance that the Company will be able to continue to attract or retain the qualified personnel necessary for the development of its current product candidates or any future products. Loss of the services of or failure to recruit additional key scientific personnel would be detrimental to the Company's research and development programs and business.