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

FORM 10-K

FOR ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2005

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.)
508 Lapp Road, Malvern, Pennsylvania	**19355**
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: **(484) 913-1200**

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock ($.01 par value)

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

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

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 ☑ 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. ☐

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

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated filer ☑

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

The aggregate market value of 26,974,325 shares of the Registrant's Common Stock, par value $.01 per share, held by non-affiliates of the Registrant at June 30, 2005, as computed by reference to the closing price of such stock on such date, was approximately $35,600,000.

The number of shares of the Registrant's Common Stock, par value $.01 per share, outstanding at February 28, 2006 was 54,734,346 shares.

Documents Incorporated By Reference

Portions of the Registrant's Definitive Proxy Statement to be filed no later than 120 days after the fiscal year ended December 31, 2005 in connection with the Registrant's 2006 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K

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PART I

Item 1. *Business*

Overview

During 2005, Novavax successfully transitioned from a specialty pharmaceutical company, which included the sales and marketing of products serving the women's health space, to an innovative, biopharmaceutical company. We have a unique blend of capabilities consisting of formulation technologies, vaccine technologies and drug development infrastructure, including commercial and clinical production facilities. We are leveraging our capabilities to develop differentiated, value-added pharmaceutical and vaccine products and licensing them at various stages of development to realize their value. The portfolio of our technologies and capabilities is summarized in the following table:

Technology/Capability	Description	Product/Examples
Recombinant vaccines	Virus-like particle vaccines produced in cultured insect cells	Pandemic avian influenza & seasonal human influenza, SARS, HIV/AIDS norovirus and other vaccines
Novasomes®	Non-phospholipid vesicles that can be used as adjuvants to enhance vaccine effectiveness; also serve as a vehicle for topical or oral drug delivery of certain molecules	Adjuvants for influenza and HIV-1 and other vaccines
Micellar Nanoparticles	Oil and water nanoemulsion that allows topical systemic delivery of certain molecules	ESTRASORB® and ANDROSORB™
Sterisomes®	Solvent and oil-free emulsion for depot delivery	ANDRO-Ject™
Recombinant tolerogens	Tolerization for prevention of inflammation leading to stroke and other diseases	E-Selectin tolerogen
Facilities	Manufacturing using current Good Manufacturing Practices	Clinical manufacturing for biologics, and clinical and commercial manufacturing for pharmaceuticals

With this portfolio of capabilities, we are uniquely positioned to address the public health threat of a pandemic created by the avian influenza virus, and we are focused to leverage our strengths to develop a vaccine against avian influenza. In addition, we have developed a unique manufacturing process for creating a virus-like particle ("VLP") based avian flu vaccine using Wave Biotech's disposable bag technology that redefines the concept of surge capacity. Our overall solution to the pandemic influenza problem is compelling and we believe it will be competitive for several of the government funds that are being allocated for avian influenza pandemic preparedness. In addition to developing a pandemic flu vaccine, we are also engaged in the development of a seasonal influenza vaccine.

In addition to investing research funds in vaccines, we continue to expand our products and product candidates based on our unique formulation technologies. ESTRASORB, our first internally-developed product using our proprietary micellar nanoparticle ("MNP") technology, is the first topical emulsion for estrogen therapy approved by the U.S. Food and Drug Administration for the treatment of moderate to severe vasomotor symptoms (hot flashes) associated with menopause. ESTRASORB was licensed in October 2005 to Esprit Pharma, Inc. for marketing in North America. This licensing arrangement will provide a minimum cash consideration of $12.5 million within the first year as well as sales-based milestone payments and a double-digit royalty on all sales. We retained rights to manufacture the product for Esprit at set prices and retained marketing rights for all territories outside of North America. Following the success of ESTRASORB's development, we have developed a pipeline of more than ten product candidates using the MNP technology. We are in discussions with several pharmaceutical companies to co-develop and co-market or license these products.

Our strength in formulations is synergistic with our vaccine development efforts in two ways. First, as the MNP-based product candidates become licensed and marketed, they have the potential to partly fund the vaccine research and development by generating cash in the short term. Second, we benefit from the technical know-how in the lipid based formulation area to develop new adjuvants for our vaccine product candidates.

Over the past eight months we have also taken steps to strengthen our balance sheet and significantly improve our capital resources. From July 2005 through February 2006 we completed three equity transactions through the sale of our common stock, with gross proceeds totaling $42.0 million. In addition, the licensing of ESTRASORB, mentioned above, also added $10.0 million of cash in the fourth quarter. We believe the $52.0 million raised from these transactions provides us the capital to execute our strategic plans. (see Item 7. Management Discussion and Analysis, "Significant Transactions" for further details).

Our Strategy

The primary elements of our strategy are:

- ***Leveraging our technological leadership in influenza vaccines.***

  Our recombinant VLP technology is well suited to create a vaccine against pandemic influenza. This technology addresses several of the technical and logistical issues associated with a potential pandemic. It allows rapid creation of new vaccines that have high fidelity to emerging strains of influenza and the manufacturing process can be rapidly commissioned and scaled up. We are leveraging our leadership position in this important public health issue to attract top-notch recruits, government funds, international support and high-quality investors.

- ***Maximizing the commercial impact of ESTRASORB.***

  After licensing ESTRASORB to Esprit Pharma, Inc. for North American rights, we are aggressively looking to license the rights to market this product in other territories. In addition, we continue our efforts to improve the packaging of ESTRASORB to improve our margins on the product.

- ***Continuing to expand on our formulation technologies and our drug development capabilities and infrastructure to generate cash in the short term.***

  Our proven MNP technology has resulted in several product candidates that can be licensed to pharmaceutical companies. We have been able to demonstrate benefits of our formulation for several compounds and are actively seeking to license these product candidates. In addition, we plan to improve utilization of our research and development capabilities and at our current Good Manufacturing Practices ("cGMP") manufacturing facilities in Philadelphia, PA, Pacific Grove, CA, and Rockville, MD.

- ***Leveraging our formulation science to develop adjuvants for better vaccines.***

  Adjuvants improve immunogenicity of vaccines and they are becoming central for competitive advantage of new vaccines. Our inherent strengths in formulations are well suited to develop new adjuvants, such as Novasomes, that can lead to best-in-class vaccines. These adjuvants can also be products in themselves and can be licensed to other companies to be used with their antigens.

- ***Developing new technologies, evaluating strategic alliances and acquisitions and fortifying our intellectual property.***

  We continue to improve upon our current portfolio of technologies in formulations and vaccines. We believe these improvements will result in new intellectual property, making us more competitive.

- ***Leveraging collaborations and partnerships to advance products and technologies***.

  We are engaged in seeking collaborations and partnerships to develop and commercialize our products. These include partnerships with governmental and academic organizations as well as other industry partners. Our collaboration with Wave Biotech for the production of our flu vaccine is an example of such a partnership.

Research and Development Activities

Biologics

We develop and produce biopharmaceutical proteins for use as vaccines against both infectious diseases and cancer, and as tolerogens to prevent inflammatory responses in the initiation and progression of stroke and other illnesses. Our lead vaccine technology platform is based on virus-like particles ("VLPs"), which are self-assembling protein structures that resemble viruses. These are non-infectious particles that for many viral diseases have been shown in animal and human studies to make effective vaccines. VLPs closely mimic natural virus particles with repeating protein structures that can elicit broad and strong antibody and cellular immune responses, but lack genetic material required for replication. We have several ongoing development programs involving VLP vaccines addressing urgent medical needs including pandemic and seasonal influenza, HIV-1/AIDS, and SARS.

We collaborate with governmental, commercial and leading academic institutions in development, safety testing and clinical trials. It is important to note that in almost all cases, grants, contracts and other arrangements with the federal government and agencies thereof are subject to termination at any time at the government's discretion.

Influenza VLP Vaccine. Every year 5 to 20% of the population of the United States suffers infection caused by influenza virus. While the severity of illness varies, influenza causes an estimated 36,000 deaths in the U.S. and some 500,000 world-wide. These seasonal outbreaks of illness have in recent years been caused by subtypes of influenza virus designated as H3N2 and H1N1. More recently, unexpected subtypes of avian origin have resulted in severe morbidity and mortality in a limited number of people. Highly pathogenic H5N1 influenza viruses are now widespread in poultry in Asia and have spread to some European countries where it has been associated with cases of human infection. Genetic reassortment between avian and human influenza subtypes, or genetic mutations may lead to the emergence of a virus capable of causing world-wide illness, a pandemic.

All currently available influenza vaccines are produced by growing virus in hen eggs, from which the virus is extracted and further processed. This 50 year old method of production requires six to nine month lead times and significant investment in fixed production facilities, which once commissioned cannot have their capacity easily increased. The threatened shortage of vaccine in the 2004 flu season highlighted the limitations of current production methods, and the importance of increasing vaccine manufacturing capacity. It also further increased concern regarding manufacturers' capacity to respond to a pandemic, when the number of doses of vaccine required will be higher than for seasonal flu, and the lead times even shorter. We are applying our expertise in the production of VLPs to develop vaccines for both seasonal and pandemic strains of influenza. We produce VLPs using a baculovirus expression system in insect cells, with disposable, low cost equipment that can be readily dispersed both nationally and internationally. By not requiring a fixed plant, production capacity can be increased quickly and to whatever extent is required. Lead times for production are expected to be measured in weeks not months. Proof-of-concept of the VLP approach to influenza vaccination has been obtained. In a recent study, co-expression of three genes, hemagglutinin, neuraminidase and matrix derived from the H9N2 influenza in insect cells resulted in the self-assembly of influenza H9N2 VLPs. The H9N2 VLPs exhibited hemagglutinin and neuraminidase activity and elicited protective immune responses in BALB/c mice. In view of these encouraging pre-clinical data, we have accelerated and prioritized the development of the VLP influenza vaccines. A comprehensive pre-clinical program was initiated in 2005 with the objective of conducting Phase I studies in 2006 with influenza VLP vaccines.

HIV-1/AIDS VLP Vaccine. The human toll of AIDS is staggering and now kills more people worldwide than any other infectious disease. Nearly 40 million people are infected with HIV-1, including four to six million people who were newly infected in 2005 according to the World Health Organization ("WHO"). Under a five-year NIH grant, which was awarded in 2003, we are working with one of the leading scientific teams in the development of a second-generation AIDS vaccine. The HIV-1 vaccine candidates are based on modifications of HIV-1 proteins that are then presented in the form of highly immunogenic VLPs and rely on our knowledge and experience in manufacturing VLPs using our insect cells technology. Promising HIV-1 VLP vaccine candidates will also be formulated with Novasomes, our proprietary adjuvant technology which is designed to boost the body's immune responses to vaccines. HIV-1 VLP vaccine candidates are currently being evaluated in small animal and non-human primate studies. If the safety and immunogenicity of novel HIV-1 VLP vaccines meets certain benchmarks, clinical studies in humans will be run in collaboration with the government.

SARS VLP Vaccine. In 2005, the NIH awarded us a $1.1 million, three-year grant to develop a vaccine to prevent Severe Acute Respiratory Syndrome. SARS is a severe form of pneumonia, accompanied by a fever and caused by a coronavirus. WHO has reported over 8,000 SARS cases with nearly 800 deaths since the first case of SARS was reported in February 2003. Our SARS VLP vaccine is also based on the production of coronavirus-like VLPs in insect cells and will be tested first in animal models for safety and ability to protect against disease and death.

Melanoma Vaccine. Melanoma is a cancer of the melanocytes, the cells that produce pigment in the skin. This type of cancer is most common among people with fair skin, but it can strike people of all races and skin pigmentations. The risk of melanoma increases with overexposure to the sun and with sunburns. For this reason, fair skinned people and those with a family history of melanoma should always use a sunscreen with high SPF whenever they are outdoors. Detected early, melanoma is usually treatable, but undetected or untreated melanomas can spread and are often fatal.

We have produced two anti-cancer vaccines for the treatment of melanoma in collaboration with the National Cancer Institute and delivered these for testing in human clinical trials. We believe cancer vaccines that are presented to the immune system in an effective manner have great promise in the treatment of this often deadly form of skin cancer. The first vaccine is in a Phase I clinical trial conducted by the NCI and the National Institutes of Health and the second is anticipated to begin trials in 2006.

Hepatitis E Vaccine. Hepatitis E is the most prevalent form of acute hepatitis in the developing world. Hepatitis E is transmitted through contaminated water and is indistinguishable from the disease caused by the Hepatitis A virus. The disease is rarely fatal, although the risk of death and the intensity of the illness increase with age, with pregnant women being at a particularly high risk.

In collaboration with the National Institute of Allergy and Infectious Disease, Walter Reed Army Institute for Research, and GlaxoSmithKline Pharmaceuticals, we have developed vaccines to prevent hepatitis caused by the Hepatitis E virus. The recombinant Hepatitus E vaccine produced by us is in Phase III clinical trials conducted by GlaxoSmithKline. GlaxoSmithKline has commercial rights and we will share royalties with the NIH, if marketed.

E-Selectin Tolerogen. In collaboration with the National Institute of Neurological Disorders and Stroke we have been developing E-selectin-based molecularly-derived products for the prevention of strokes. In September 2002, a published report in the professional journal Stroke provided experimental evidence on prevention of stroke in stroke-prone rats. These results provided supportive evidence that E-selectin tolerization may help in the prevention of strokes and other illness where inflammatory and immune responses are involved in the initiation and progression of disease. We were awarded a government contract for the pre-clinical development and manufacture of E-selectin for Phase I clinical trials to be run by the National Institute of Neurological Disease and Stroke and the NIH.

Novasome Adjuvant Program. Adjuvants are agents that enhance the immune response generated by antigens. As a consequence, smaller amounts of antigen can elicit the desired immune response, referred to as an antigen sparing effect. In addition, adjuvants may elicit responses from multiple components of the immune system leading to an improved level of immunity and protection. Novasomes, our proprietary adjuvants, are currently being evaluated in both the influenza and the HIV-1/AIDS VLP vaccine programs. Preclinical data have demonstrated an encouraging degree of improvement in immune responses with a variety of antigens. If warranted by future studies, Novasomes will be included in human studies of our VLP vaccines.

Formulation Science

The formulations group is committed to the creation and development of innovative and effective technologies for enhancing the performance of Active Pharmaceutical Ingredients ("APIs") that are approved by the FDA. The key drivers for these research programs are those therapeutic segments and clinical conditions that can not be satisfied by the conventional dosage forms.

We have three drug delivery platform technologies:

- Micellar Nanoparticles: This is a nanotechnology-based, lotion-like formulation that has achieved a significant break-through in transdermal therapeutics. Upon topical application, an MNP formulation deposits the API in both a readily-available solution form as well as in a long-acting particulate depot form onto the skin. The inactive ingredients used in the formulation not only help in forming an occlusive barrier that acts as a pseudo-patch, but also drives the drug into the systemic circulation. Unlike conventional passive transdermal delivery systems such as patches, gels, and creams with chemical permeation enhancers, the MNPs have been shown to accommodate and deliver a wide spectrum of drugs having diverse lipophilicities (i.e., affinities for a hydrophobic or oil phase), molecular weights, melting points, and dosages.
- Novasomes: These are non-phospholipid-based, proprietary vesicular structures that can be either used for delivery of drugs or as vaccine adjuvants. Typically, Novasomes can be utilized for encapsulation of both hydrophilic and lipophilic drugs. The formulation design enhances deposition and retention of the active ingredients within the superficial skin layers (epidermis) but limits their passage into the systemic circulation. Novasomes, when formulated as vaccine adjuvants for co-administration with a vaccine preparation, have demonstrated a significantly improved immunogenicity profile.

- Sterisomes: These represent a depot-forming sterile dosage form that can effectively prolong the delivery of the drugs over time periods of up to a few weeks. The proof-of-concept has been demonstrated with testosterone in our ANDRO-Ject product candidate.

The focus of our product development is transdermal delivery – both from a traditional and a non-traditional perspective. Traditionally, this route of administration is known to offer therapeutic benefits like avoiding hepatic first pass metabolism, overcoming stability and toxicity issues related to oral administration, and has been viewed as a non-invasive pathway to achieve drug transport into the systemic circulation through topical application. It is generally accepted that the best drug candidates for transdermal delivery are non-ionic, lipophilic and potent and have a low molecular weight and a low melting point. Our first set of product candidates falls in this category, which includes testosterone, nicotine, fentanyl, clonidine, loratadine and oxybutynin.

ESTRASORB, our topical estradiol replacement lotion validates the MNP-based transdermal technology. This product is unique in that it is the first commercial nanoparticle-based transdermal pharmaceutical product. ESTRASORB has undergone the complete product development-to-commercialization cycle and was licensed to Esprit Pharma, Inc. in October 2005. ANDROSORB, a topical testosterone replacement lotion, is the second product in our pipeline and is poised for evaluation in Phase II clinical trials.

Our belief in the MNP technology as a unique transdermal delivery vehicle has prompted us to expand the scope of this technology by using non-traditional, but logical, choices of APIs, such as cetirizine, naltrexone, raloxifene, and alendronate which create a more technically challenging developmental program with a potentially higher value.

As we are expanding our pipeline, we have proven our capabilities to not only deliver a variety of APIs across the skin but also to modulate their positioning within different layers of the skin and hence tailor the rate and extent of bioavailability – whether systemic or local. Our efforts to design improved topical formulations using MNP technology have resulted in a novel preparation of acyclovir designed to attain significantly higher skin concentrations and higher flux of the drug compared to the commercial product.

The next development level of the MNP technology comes from such other routes of administration, as oral, rectal, nasal and vaginal. We are exploring the oral route using water-insoluble drugs that show poor bioavailability – like fenofibrate, sirolimus and cyclosporine. The pre-clinical results obtained for one of the candidates have been very promising as a proof-of-principle and generating more data on this high-value product line is our priority for 2006.

The MNP platform addresses several issues related to product development:

- Ability to formulate APIs with a wider range of physicochemical parameters compared to traditional transdermal drug delivery technologies.
- Rapid and reliable product development, optimization, and screening.
- Simplified, quick, and cost-effective regulatory approval route via 505(b)2 approval.

Our in-house manufacturing capabilities, which include batch sizes up to one metric ton, inexpensive costs of raw materials and manufacturing processes increase the value of the MNP-based technology as a route for extending the product life cycle for a number of drugs.

The following table includes drug candidates that we are currently formulating using MNP technology:

Drug Candidate	Product Development & Optimization	Proof-of-Principle (Pre-Clinical)			Clinical
		In-vitro (Cadaver Skin)	*In-vivo* (Animal Data)	IND	Phase 1
Novavax Pipeline					
Naltrexone					
Anti-osteoporotic					
Raloxifene					
Immunosuppressant I					
Immunosuppressant II					
Naproxen					
Fenofibrate					
Potential Partner Pipeline					
Testosterone					
Acyclovir					
Anti-fungal					
Anti-allergic					
Nicotine					
Clonidine					
Oxybutynin					
Fentanyl					
Ketoprofen					
Cetirizine					

Research and Development Funding

Total externally contracted research and development costs were $1.8 million in 2005, $1.7 million in 2004 and $1.3 million in 2003. Total internally-sponsored research and development costs were $3.3 million in 2005, $5.6 million in 2004 and $8.8 million in 2003. Our manufacturing start-up costs related to preparing our manufacturing facility for commercial production of ESTRASORB were included in research and development until April 2004, at which time the manufacturing costs have been included in cost of sales and inventory. Total manufacturing start-up costs related to ESTRASORB included in research and development were $1.7 million in 2004 and $5.4 million in 2003. Further development costs of $0.2 million for ESTRASORB were included in 2005 internally- sponsored research and development costs.

Manufacturing

We have three cGMP manufacturing sites. The descriptions of the three sites are as follows:

- We have a state-of-the-art, 24,000 square foot manufacturing facility situated within a Cardinal Health, Inc. facility in Philadelphia, Pennsylvania. It is staffed by our employees and operates under our quality system. ESTRASORB, our commercial product, is being manufactured at this facility. There have been no adverse 483 observations from FDA inspections associated with the production of ESTRASORB. A portion of this facility is being renovated in order to accommodate the manufacture of multiple clinical trial materials for both client and internal projects. We are in the process of obtaining a Drug Enforcement Administration license to allow us to manufacture controlled substances.
- We have a manufacturing facility located in Rockville, Maryland with our biological group. This facility is dedicated to our vaccine business and is capable of manufacturing both pre-clinical and clinical trial materials. The facility is nearing completion on a renovation of cGMP suites which will incorporate Wave Biotech's disposable cell culture technology to support the manufacturing of our pandemic avian influenza virus vaccine and other biological products.
- Our manufacturing facility in Pacific Grove, California is part of our drug delivery research group and is capable of producing Phase I and II clinical trial materials. It has a DEA license in place to permit the manufacture of controlled substances.

We have the quality infrastructure to support release testing and stability evaluation of cGMP materials. We also have the regulatory support to ensure full compliance with FDA and other regulatory authorities.

Competition

Technologies

The biopharmaceutical industry is intensely competitive and is characterized by rapid technological progress. We compete in two primary technology areas – vaccines and novel transdermal pharmaceutical delivery.

We compete in a competitive and capital intensive vaccine arena. Our technology is based upon utilizing the baculovirus expression system in insect cells to make VLPs. We believe this system offers many advantages when compared to other technologies and is uniquely well suited for developing pandemic and seasonal influenza vaccines. The table below provides a list of key competitors and corresponding influenza vaccine technologies.

Company	Competing Technology Description
Sanofi Pasteur, Inc.	Inactivated sub-unit – egg based
Medimmune Vaccines, Inc.	Nasal, live attenuated – cell based
GlaxoSmithKline Biologicals	Inactivated – egg based
Chiron Corporation	Inactivated sub-unit – egg based
Protein Sciences Corporation	Recombinant hemagglutinin
Powdermed ltd.	DNA vaccine
Merck & Co., Inc.	Novel vaccines

The transdermal drug delivery arena is highly competitive with a broad array of passive and active transdermal drug delivery technologies. Our technologies include MNPs, Novasomes and Sterisomes. The MNP technology which is the basis for our FDA- approved product ESTRASORB competes with a number of companies and technologies. The following table highlights several competitors and their corresponding technologies.

Company	Competing Technology Description
Noven Pharmaceuticals	Passive transdermal patches
Antares Pharma, Inc.	Passive topical gels
Acrux Limited	Passive metered dose transdermal spray
Solvay Group	Passive topical gels
Alza Corporation	Active transdermal – microprojection enhanced permeation, electrotransport
Transpharma Medical Ltd.	Active transdermal – radio-frequency enhanced permeation
Altea Therapeutics Corporation	Active transdermal – thermally enhanced permeation

New and Existing Products

We are currently completing the development of a prenatal vitamin product platform that we intend to outsource for commercialization. The prenatal vitamin market is very fragmented with many competitors. A number of larger companies with greater resources sell prenatal vitamins, including KV Pharmaceuticals, First Horizon Pharmaceuticals, Mission Pharmacal Company and several other branded and generic manufacturers. The competition to develop new prenatal vitamins is also intense. There is no guarantee that we will successfully complete the development of the prenatal vitamin product platform or successfully outsource the product for commercialization.

We compete with specialty biopharmaceutical firms and large pharmaceutical companies in the United States, Europe and elsewhere that are engaged in the discovery, development and marketing of hormone therapies, and other products that do or could compete with our currently marketed products and product candidates. These companies, as well as academic institutions, governmental agencies and private research organizations, also compete with us in recruiting and retaining highly qualified scientific personnel and consultants.

In 2005, we licensed ESTRASORB to Esprit Pharma, Inc. In addition to up-front payments, the agreement allows us to obtain milestone payments and royalties for future sales of ESTRASORB in the North American market. The estrogen therapy market is highly competitive, well-established and includes many products marketed by major pharmaceutical companies. The oral segment, which accounts for over 75% of the estrogen therapy market, is dominated by Wyeth's Premarin®, an oral estrogen tablet. Wyeth commits significant resources to promoting its portfolio of estrogen products and has a dominant presence with healthcare professionals that utilize oral estrogen therapy products. Further, we compete with Wyeth and numerous other companies marketing oral products, including manufacturers of generic 17 ß-estradiol. Gynodiol, our marketed oral estrogen therapy product also competes in the crowded, competitive oral estrogen therapy market. Transdermal estrogen therapy products (patches) currently account for approximately 15% of the estrogen therapy market. Patch products are well accepted and many, such as Vivelle DOT®, have been marketed for several years. Solvay Pharmaceuticals, a large international pharmaceutical company, recently introduced an ethanol-based gel product, Estrogel, that is directly competing with ESTRASORB. In addition to the currently approved and marketed products, several estrogen therapy products are in development.

In general, competition among pharmaceutical products will be based in part on product efficacy, safety, reliability, availability, price and patent position. An important factor will be the relative timing of the market introduction of our products and our competitors' products. Accordingly, the speed with which we 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. Our competitive position will also depend upon our ability to attract and retain qualified personnel, obtain patent protection or otherwise develop proprietary products or processes, and secure sufficient capital resources for the often substantial period between technological conception and commercial sale.

Prior to the sale of our prenatal vitamin product line to Pharmelle, LLC this line generated $0.9 million of sales in 2005, $2.3 million of sales in 2004 and $5.7 million in 2003. Prior to the sale of AVC Cream to Pharmelle, LLC this product generated $0.7 million of sales in 2005, $0.9 million in 2004 and $1.8 million in 2003. ESTRASORB generated $2.0 million of sales in 2005 and $1.8 million in 2004. Gynodiol generated $0.9 million of sales in 2005, $1.0 million in 2004 and $2.2 million in 2003.

Patents and Proprietary Information

We currently have 57 U.S. patents and corresponding foreign patents and patent applications relating to vaccines, biologics, and drug delivery systems and applications for various biological and chemical uses. We have pending U. S. patent applications in both the United States and worldwide covering the composition, manufacture and use of our organized lipid structures and related technologies. A current U.S. patent issued in 1997 covers our MNP technology and methods of their production. In addition, the company continues to build upon its technology portfolio and file appropriate intellectual property disclosures and patent applications.

Consistent with statutory guidelines issued under the Federal Technology Transfer Act of 1986 designed to encourage the dissemination of science and technology innovation and provide sharing of technology that has commercial potential, our collaborative research efforts with the U.S. government and with other private entities receiving federal funding provide that developments and results will be freely published, that information or materials supplied by us will not be treated as confidential and that we will be required to negotiate a license to any such developments and results in order to commercialize products. There can be no assurance that we will be able to successfully obtain any such license at a reasonable cost, or that such developments and results will not be made available to our competitors on an exclusive or nonexclusive basis.

Government Regulations

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

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 Investigational New Drug application, 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 for a new drug and (v) FDA approval of the New Drug Application or Product License Application prior to any commercial sale or shipment of the product. Preclinical tests include laboratory evaluation of product formulation and 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 current good manufacturing practices and preclinical safety tests must be conducted by laboratories that comply with FDA regulations regarding good laboratory practices.

The results of the preclinical tests are submitted to the FDA as part of an Investigational New Drug application and are reviewed by the FDA prior to the commencement of human clinical trials. There can be no assurance that submission of an Investigational New Drug application will result in FDA authorization to commence clinical trials. The FDA may deny a New Drug Application or Product License Application if applicable regulatory criteria are not satisfied or additional testing or information is required. The FDA may also require post-marketing testing and surveillance to monitor the safety of the applicable products.

In addition to obtaining FDA approval for each Product License Application, an Establishment License Application 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. This regulatory process may take many years and requires the expenditure of substantial resources.

We are also 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 federal, state or local regulations. Our research and development involves the controlled use of hazardous materials, chemicals and viruses. Although we believe that our 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, we could be held liable for any damages that result, and any such liability could exceed our resources. Additionally, for formulations containing controlled substances, we are subject to DEA regulations.

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

Government Relations

In 2005, we formed a Government Relations Committee, led by former United States Representative from Virginia, John O. Marsh, Jr., a director of the company since 1991. The purpose of the committee is to monitor legislative and regulatory initiatives and guide management of the company in pursuing research and development funding specifically relating to vaccines as well as our other current and future products and product development efforts. The committee also will be responsible, among other things, for assisting management of the company in communicating, working with and educating local, regional and national legislators and regulators on the efforts of, and issues of interest to us. In 2005, the Executive Branch of the U.S. federal government proposed several billion dollars in funding to address the threat of an avian influenza pandemic. The majority of proposed funding, $6.6 billion, will be allocated to the Department of Health and Human Services which will be used for vaccine, antiviral drugs, surveillance activities, state and local preparedness, and general research and development. We intend to pursue appropriate government funding opportunities as the company believes that it has vaccine technologies uniquely suited for addressing specific challenges related to avian influenza.

Employees

We currently have 47 full-time employees and 5 part time employees for a total of 52, 31 of whom are employed in research and development. Of those 31 employees in research and development, nine have earned Ph.D. degrees and two are medical doctors. We have no collective bargaining agreement with our employees and believe that our employee relations are good.

Availability of Information

Novavax was incorporated in 1987 under the laws of the State of Delaware. Our principal executive offices are located at 508 Lapp Road, Malvern, Pennsylvania 19355. Our telephone number is (484) 913-1200 and our Internet address is www.novavax.com. The contents of our website are not part of this Annual Report on Form 10-K.

We make available, free of charge and through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to any such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after filed with or furnished to the SEC.

Item 1A. ***Risk Factors***

You should carefully consider the following risk factors in evaluating our business. Some of the risks described relate principally to our business and the industry in which we operate. Others relate principally to the securities market and ownership of our common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. You should also consider the other information included in this Annual report on Form 10-K for the 2005 fiscal year.

We have repositioned ourselves from a specialty biopharmaceutical company to a biopharmaceutical company and face all the risks inherent in the implementation of a new business strategy.

In conjunction with the sale of our prenatal and related product lines and the grant of an exclusive North American license to our lead product ESTRASORB, we have changed the focus of the company from the development and commercialization of specialty pharmaceutical products to the research and development of new products using our proprietary drug delivery and biological platforms. We cannot predict whether we will be successful in implementing our new business strategy.

We intend to focus our research and development activities on areas in which we have particular strengths and on technologies that appear promising. These technologies often are on the cutting edge of modern science. As a result, the outcome of any research or development program is highly uncertain. Only a very small fraction of these programs ultimately result in commercial products or even product candidates and a number of events could delay our development efforts and negatively impact our ability to obtain regulatory approval for, and to market and sell, a product candidate. Product candidates that initially appear promising often fail to yield successful products. In many cases, preclinical or clinical studies will show that a product candidate is not efficacious, or that it raises safety concerns or has other side effects that outweigh the intended benefit. Success in preclinical or early clinical trials may not translate into success in large-scale clinical trials. Further, success in clinical trials will likely lead to increased investment, adversely affecting short-term profitability, to bring such products to market. Even after a product is approved and launched, general usage or post-marketing studies may identify safety or other previously unknown problems with the product, which may result in regulatory approvals being suspended, limited to narrow indications or revoked, or which may otherwise prevent successful commercialization.

We must identify products and product candidates for development with our technologies and establish successful government and third-party relationships.

Our long-term ability to generate product-related revenue depends in part on our ability to identify products and product candidates that may utilize our drug delivery and biological technologies. If internal efforts do not generate sufficient product candidates, we will need to identify third parties that wish to license our technologies for development of their products or product candidates. We may be unable to license our technologies to third parties for a number of reasons, including:

- an inability to negotiate license terms that would allow us to make an appropriate return from resulting products;
- an inability to identify suitable products or product candidates within, or complementary to, our areas of expertise; or
- an unwillingness on the part of competitors to utilize the technologies of a competing company or disclose the existence or status of new products or products candidates under development.

Our near and long-term viability will also depend in part on our ability to successfully establish new strategic collaborations with pharmaceutical and biotechnology companies and government agencies. Establishing strategic collaborations and obtaining government funding are difficult and time-consuming. Potential collaborators may reject collaborations based upon their assessment of our financial, regulatory or intellectual property position; government agencies may reject contract or grant applications based on their assessment of public need, the public interest and our products' ability to address these areas. If we fail to establish a sufficient number of collaborations or government relationships on acceptable terms, we may not generate sufficient revenue.

Even if we successfully establish new collaborations or obtain government funding, these relationships may never result in the successful development or commercialization of any product candidates or the generation of any sales or royalty revenue. Reliance on such relationships also exposes us to a number of risks. We may not have the ability to control the activities of our partners and cannot assure you that they will fulfill their obligations to us, including with respect to the license, development and commercialization of products and product candidates, in a timely manner or at all. We cannot assure you that such partners will devote sufficient resources to our products and product candidates or properly maintain or defend our intellectual property rights; we also can give no assurances that our partners will not utilize such rights in such a way as to invite or cause litigation. Any failure on the part of our partners to perform or satisfy their obligations to us could lead to delays in the development or commercialization of products and product candidates, and affect our ability to realize product revenues. Disagreements, including disputes over the ownership of technology developed with such collaborators, could result in litigation, which would be time-consuming and expensive, and may delay or terminate research and development efforts, regulatory approvals, and commercialization activities. If we or our partners fail to maintain our existing agreements or in the event we fail to establish agreements as necessary, we could be required to undertake research, development, manufacturing and commercialization activities solely at our own expense. These activities would significantly increase our capital requirements and, given our current limited sales, marketing and distribution capabilities, significantly delay the commercialization of products and product candidates.

Our success depends on our ability to maintain the proprietary nature of our technology.

Our success in large part depends on our ability to maintain the proprietary nature of our technology and other trade secrets, including our proprietary drug delivery and biological technologies. To do so, we must prosecute and maintain existing patents, obtain new patents and pursue trade secret and other intellectual property protection. We also must operate without infringing the proprietary rights of third parties or letting third parties infringe our rights. We currently have 57 U.S. patents and corresponding foreign patents and patent applications covering our technologies. However, patent issues relating to pharmaceuticals involve complex legal, scientific and factual questions. To date, no consistent policy has emerged regarding the breadth of biotechnology patent claims that are granted by the U.S. Patent and Trademark Office or enforced by the federal courts. Therefore, we do not know whether our patent applications will result in the issuance of patents, or that any patents issued to us will provide us with any competitive advantage. We also cannot be sure that we will develop additional proprietary products that are patentable. Furthermore, there is a risk that others will independently develop or duplicate similar technology or products or circumvent the patents issued to us.

There is a risk that third parties may challenge our existing patents or claim that we are infringing their patents or proprietary rights. We could incur substantial costs in defending patent infringement suits or in filing suits against others to have their patents declared invalid or claim infringement. It is also possible that we may be required to obtain licenses from third parties to avoid infringing third-party patents or other proprietary rights. We cannot be sure that such third-party licenses would be available to us on acceptable terms, if at all. If we are unable to obtain required third-party licenses, we may be delayed in or prohibited from developing, manufacturing or selling products requiring such licenses.

Although our patents include claims covering various features of our products and product candidates, including composition, methods of manufacture and use, our patents do not provide us with complete protection against the development of competing products. Some of our know-how and technology is not patentable. To protect our proprietary rights in unpatentable intellectual property and trade secrets, we require employees, consultants, advisors and collaborators to enter into confidentiality agreements. These agreements may not provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure.

We have limited financial resources and we are not certain that we will be able to obtain financing to maintain our operations or to fund the development of future products.

Over the next few years we may not generate revenues from product sales, licensing fees, royalties, milestones, contract research and other sources in an amount sufficient to fund our operations, and we will therefore use our cash resources and could require additional funds to maintain our operations, continue our research and development programs, commence future preclinical and clinical trials, seek regulatory approvals and market our products. We will seek such additional funds through public or private equity or debt financings, collaborative arrangements and other sources. We cannot be certain that adequate additional funding will be available to us on acceptable terms, if at all. If we cannot raise the additional funds required for our anticipated operations, we may be required to delay significantly, reduce the scope of or eliminate one or more of our research or development programs, downsize our general and administrative infrastructure or programs, or seek alternative measures to avoid insolvency, including arrangements with collaborative partners or others that may require us to relinquish rights to certain of our technologies, product candidates or products. If we raise additional funds through future offerings of shares of our common stock or other securities, such offerings would cause dilution of existing stockholders' percentage ownership in the company. These future offerings also could have a material and adverse effect on the price of our common stock.

We have a history of losses and our future profitability is uncertain.

Our expenses have exceeded our revenues since our formation in 1987, and our accumulated deficit at December 31, 2005 was $141.9 million. Our net revenues for the last three years were $7.4 million in 2005, $8.3 million in 2004 and $11.8 million in 2003. We have received a limited amount of product-related revenue from research contracts, licenses and agreements to provide vaccine products, services and adjuvant technologies. We cannot be certain that we will be successful in entering into strategic alliances or collaborative arrangements with other companies that will result in other significant revenues to offset our expenses. Our net losses for the last three years were $11.2 million in 2005, $25.9 million in 2004 and $17.3 million in 2003.

Our losses have resulted from research and development expenses, sales and marketing expenses for ESTRASORB, protection of our intellectual property and other general operating expenses. Our losses increased due to the launch of ESTRASORB as we expanded our manufacturing capacity and sales and marketing capabilities, and may increase as and when we conduct additional and larger clinical trials for our product candidates. Therefore, we expect our cumulative operating loss to increase until such time, if ever, product sales, licensing fees, royalties, milestones, contract research and other sources generate sufficient revenue to fund our continuing operations. We cannot predict when, if ever, we might achieve profitability and cannot be certain that we will be able to sustain profitability, if achieved.

Many of our competitors have significantly greater resources and experience, which may negatively impact our commercial opportunities and those of our current and future licensees.

The biotechnology and pharmaceutical industries are subject to intense competition and rapid and significant technological change. We have many potential competitors, including major drug and chemical companies, specialized biotechnology firms, academic institutions, government agencies and private and public research institutions. Many of our competitors have significantly greater financial and technical resources, experience and expertise in:

- research and development;
- pre-clinical testing;
- clinical trials;
- regulatory processes and approvals;
- production and manufacturing; and
- sales and marketing of approved products.

Large and established companies such as Merck & Co., Inc., GlaxoSmithKline PLC, Chiron Corp. and MedImmune Inc., among others, compete in the vaccine market. In particular, these companies have greater experience and expertise in securing government contracts and grants to support their research and development efforts, conducting testing and trials, obtaining regulatory approvals to market products, and manufacturing such products on a broad scale.

Smaller or early-stage companies and research institutions may also prove to be significant competitors, particularly through collaborative arrangements with large and established pharmaceutical or other companies. We will also face competition from these parties in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials, and in acquiring and in-licensing technologies and products complementary to our programs or potentially advantageous to our business. If any of our competitors succeeds in obtaining approval from the FDA or other regulatory authorities for their products sooner than we do or for products that are more effective or less costly than ours, our commercial opportunity could be significantly reduced.

In order to effectively compete, we will have to make substantial investments in sales and marketing or partner with one or more established companies. There is no assurance that we will be successful in gaining significant market share for any product or product candidate. Our technologies and products also may be rendered obsolete or noncompetitive as a result of products introduced by our competitors to the marketplace more rapidly and at a lower cost.

The return on our investment in ESTRASORB depends in large part on the success of our relationship with Esprit and our ability to manufacture the product.

In October 2005, we entered into a License Agreement and a Supply Agreement with Esprit Pharma for ESTRASORB. Under the License Agreement, we granted Esprit exclusive rights to market ESTRASORB in North America. In consideration for such rights, Esprit will pay $12.5 million within the first year as well as sales-based milestone payments, and Novavax also is entitled to receive a royalty on all future net sales of ESTRASORB.

While our License Agreement with Esprit gives us some limited protections with respect to that company's ESTRASORB marketing and sales efforts and, we believe, creates incentives for Esprit consistent with our own, we cannot control the amount and timing of the marketing efforts that Esprit devotes to ESTRASORB or make any assurances that Esprit's promotion and marketing of ESTRASORB in North America will be successful. We do not have a history of working together with Esprit and cannot predict the success of the collaboration, nor can we give any assurances that Esprit will not reduce or curtail its efforts to market ESTRASORB because of factors affecting its business or operations beyond our control. Any loss of Esprit as a partner in the commercialization of ESTRASORB, dispute over the terms of or decisions regarding the License and Supply Agreements, or other adverse developments in our relationship with Esprit may harm our business and might accelerate our need for additional capital. We also can give no assurances that Esprit will be more successful than Novavax in gaining market acceptance of ESTRASORB. Prescription trends for ESTRASORB have not met our expectations to date and Esprit will face similar obstacles to gaining market share of the estrogen therapy market, including competition from large and established companies with similar estrogen therapy products.

Numerous companies worldwide currently produce and sell estrogen products for clinical indications identical to those for ESTRASORB. Currently, the oral and patch product segments account for approximately 75% and 15% of the market, respectively, according to 2004 Verispan data. Wyeth commits significant resources to the sale and marketing of its product, Premarin®, in order to maintain its market leadership position. Several other companies compete in the estrogen category including Berlex Laboratories, Inc., Novartis Pharma AG and Solvay Pharmaceuticals. In particular, Solvay has introduced an alcohol-based gel product, Estrogel, which is directly competitive with ESTRASORB. These and other products sold by our competitors have all achieved a degree of market penetration superior to ESTRASORB.

In addition, under the Supply Agreement, we are obligated to supply Esprit with ESTRASORB through the manufacture of the product at our manufacturing facility in Philadelphia, Pennsylvania. We have only limited experience with the large capacity manufacturing required for the commercial sale of a product. Although we have validated our manufacturing methods for the product with the FDA, we will remain subject to that agency's rules and regulations regarding good manufacturing practices, which are enforced by the FDA through its facilities inspection program. Compliance with such rules and regulations requires us to spend substantial funds and hire and retain qualified personnel. We face the possibility that we may not be able to meet Esprit's supply requirements under the agreement in a timely fashion at acceptable quality, quantity and prices or in compliance with applicable regulations. If our facility fails to comply with applicable regulations, we will be forced to utilize a third party contractor to manufacture the product. We may not be able to enter into alternative manufacturing arrangements at commercially acceptable rates, if at all. Moreover, the manufacturers we use may not provide sufficient quantities of product to meet our specifications or our delivery, cost and other requirements.

We must utilize our manufacturing facility for products other than ESTRASORB in order to avoid operating the facility at a loss.

Currently we are manufacturing ESTRASORB at our facility in Philadelphia and will manufacture the product at a loss until production volumes increase or we enter into additional contract manufacturing arrangements with third parties to more fully utilize the facility's capacity. The facility is able to accommodate a much greater production schedule than its currently schedule, and offset the fixed costs related to the manufacturing process and facility. Until we increase production of ESTRASORB or enter into such contract manufacturing arrangements for sufficient quantities, the cost of products sold percentages will continue to be unusually high and we will continue to manufacture the product at a loss. In addition, while the company was successful in negotiating a substantial reduction in its monthly rent for the facility during 2005, such reductions will expire in the summer of 2006 and the company expects lease costs to increase, potentially by a material amount. Although we are working to design alternative packaging solutions to further streamline production and lower costs of production, there can be no assurances that such efforts will result in meaningful cost savings or otherwise be successful.

We have not completed the development of products other than ESTRASORB and we may not succeed in obtaining the FDA approval necessary to sell additional products.

The development, manufacture and marketing of our pharmaceutical and biological products are subject to government regulation in the United States and other countries. In the United States and most foreign countries, we must complete rigorous preclinical testing and extensive human clinical trials that demonstrate the safety and efficacy of a product in order to apply for regulatory approval to market the product. ESTRASORB is the only product developed by the company to have been approved for sale in the United States. Approval outside the U.S. may take longer or may require additional clinical trials. Our product candidate ANDROSORB has completed Phase I human clinical studies. Additional product candidates are in preclinical laboratory or animal studies.

Before applying for FDA approval to market any new drug product candidates, we must first submit an IND that explains to the FDA the results of pre-clinical testing conducted in laboratory animals and what we propose to do for human testing. At this stage, the FDA decides whether it is reasonably safe to move forward with testing the drug on humans. We must then conduct Phase I studies and larger-scale Phase II and III human clinical trials that demonstrate the safety and efficacy of our products to the satisfaction of the FDA. Once these trials are complete, an NDA can be filed with the FDA requesting approval of the drug for marketing.

Vaccine clinical development follows the same general pathway as for drugs and other biologics. A sponsor who wishes to begin clinical trials with a vaccine must submit an IND describing the vaccine, its method of manufacture and quality control tests for release. Pre-marketing (pre-licensure) vaccine clinical trials are typically done in three phases. Initial human studies, referred to as Phase I, are safety and immunogenicity studies performed in a small number of closely monitored subjects. Phase II studies are dose-ranging studies and may enroll hundreds of subjects. Finally, Phase III trials typically enroll thousands of individuals and provide the critical documentation of effectiveness and important additional safety data required for licensing.

If successful, the completion of all three phases of clinical development can be followed by the submission of a Biologics License Application. Also during this stage, the proposed manufacturing facility undergoes a pre-approval inspection during which production of the vaccine as it is in progress is examined in detail. Vaccine approval also requires the provision of adequate product labeling to allow health care providers to understand the vaccine's proper use, including its potential benefits and risks, to communicate with patients and parents, and to safely deliver the vaccine to the public. Until a vaccine is given to the general population, all potential adverse events cannot be anticipated. Thus, many vaccines undergo Phase IV studies after a BLA has been approved and the vaccine is licensed and on the market.

These processes are expensive and can take many years to complete, and we may not be able to demonstrate the safety and efficacy of our products to the satisfaction of such regulatory authorities. Regulatory authorities may also require additional testing and we may be required to demonstrate that our proposed products represent an improved form of treatment over existing therapies, which we may be unable to do so without conducting further clinical studies. Moreover, if the FDA grants regulatory approval of a product, the approval may be limited to specific indications or limited with respect to its distribution. Expanded or additional indications for approved drugs may not be approved, which could limit our revenues. Foreign regulatory authorities may apply similar limitations or may refuse to grant any approval. Consequently, even if we believe that preclinical and clinical data are sufficient to support regulatory approval for our product candidates, the FDA and foreign regulatory authorities may not ultimately grant approval for commercial sale in any jurisdiction. If our drug candidates are not approved, our ability to generate revenues may be limited and our business will be adversely affected.

We may fail to obtain regulatory approval for our products on a timely basis or comply with our continuing regulatory obligations after approval is obtained.

Delays in obtaining regulatory approval can be extremely costly in terms of lost sales opportunities and increased clinical trial costs. The speed with which we complete our clinical trials and our applications for marketing approval will depend on several factors, including the following:

- the rate of patient enrollment and retention, which is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the study and the nature of the protocol;
- Institutional Review Board approval of the protocol and the informed consent form;
- prior regulatory agency review and approval;
- our ability to manufacture or obtain sufficient quantities of materials for use in clinical trials;

- negative test results or side effects experienced by trial participants;
- analysis of data obtained from preclinical and clinical activities, which are susceptible to varying interpretations and which interpretations could delay, limit or prevent regulatory approval;
- changes in the policies of regulatory authorities for drug or vaccine approval during the period of product development; and
- the availability of skilled and experienced staff to conduct and monitor clinical studies and to prepare the appropriate regulatory applications.

We have limited experience in conducting and managing the preclinical and clinical trials necessary to obtain regulatory marketing approvals. We may not be able to obtain the approvals necessary to conduct clinical studies. We also face the risk that the results of our clinical trials may be inconsistent with the results obtained in preclinical studies or that the results obtained in later phases of clinical trials may be inconsistent with those obtained in earlier phases. A number of companies in the specialty biopharmaceutical and product development industry have suffered significant setbacks in advanced clinical trials, even after experiencing promising results in early animal and human testing. If regulatory approval of a drug is granted, such approval is likely to limit the indicated uses for which it may be marketed.

Furthermore, even if a product gains regulatory approval, the product and the manufacturer of the product will be subject to continuing regulatory review, including adverse event reporting requirements and the FDA's general prohibition against promoting products for unapproved uses. Failure to comply with any post-approval requirements can, among other things, result in warning letters, product seizures, recalls, fines, injunctions, suspensions or revocations of marketing licenses, operating restrictions and criminal prosecutions. Any of these enforcement actions, any unanticipated changes in existing regulatory requirements or the adoption of new requirements, or any safety issues that arise with any approved products, could adversely affect our ability to market products and generate revenues and thus adversely affect our ability to continue our business.

We also may be restricted or prohibited from marketing or manufacturing a product, even after obtaining product approval, if previously unknown problems with the product or its manufacture are subsequently discovered and we cannot assure you that newly discovered or developed safety issues will not arise following any regulatory approval. With the use of any drug by a wide patient population, serious adverse events may occur from time to time that initially do not appear to relate to the drug itself, and only if the specific event occurs with some regularity over a period of time does the drug become suspect as having a causal relationship to the adverse event. Any safety issues could cause us to suspend or cease marketing of our approved products, possibly subject us to substantial liabilities, and adversely affect our ability to generate revenues and our financial condition.

Our substantial indebtedness could adversely affect our cash flow and prevent us from fulfilling our obligations.

As of December 31, 2005, we had $30.5 million of outstanding indebtedness. Our substantial amount of outstanding indebtedness could have significant consequences. For example, it:

- could increase our vulnerability to general adverse economic and industry conditions;
- requires us to dedicate a substantial portion of our cash flow from operations to service payments on our indebtedness, reducing the availability of our cash flow to fund future capital expenditures, working capital, execution of our growth strategy, research and development costs and other general corporate requirements;
- could limit our flexibility in planning for, or reacting to, changes in our business and the industry, which may place us at a competitive disadvantage compared with competitors that have less indebtedness; and
- could limit our ability to obtain additional funds, even when necessary to maintain adequate liquidity.

We may incur additional indebtedness for various reasons, which would increase the risks associated with our substantial leverage.

Health care insurers and other payors may not pay for our products or may impose limits on reimbursement.

Our ability and the ability of our licensees to successfully commercialize ESTRASORB and future products will depend, in part, on the extent to which reimbursement for such products will be available from third-party payors such as Medicare, Medicaid, health maintenance organizations, health insurers and other public and private payors. If we succeed in bringing products to the market, we cannot be assured that third-party payors will pay for such products or establish and maintain price levels sufficient for realization of an appropriate return on our investment in product development. For example, ESTRASORB currently is being sold as an outpatient prescription drug. Medicare does not cover the costs of most outpatient prescription drugs. We expect that over time ESTRASORB will be treated the same as other estrogen therapy products with respect to government and third-party payor reimbursement, however, additional time is required to increase the number of payors who currently accept our product for reimbursement. There can be no assurance that ESTRASORB will receive similar reimbursement treatment.

Many health maintenance organizations and other third-party payors use formularies, or lists of drugs for which coverage is provided under a health care benefit plan, to control the costs of prescription drugs. Each payor that maintains a drug formulary makes its own determination as to whether a new drug will be added to the formulary and whether particular drugs in a therapeutic class will have preferred status over other drugs in the same class. This determination often involves an assessment of the clinical appropriateness of the drug and, in some cases, the cost of the drug in comparison to alternative products. There can be no assurance that ESTRASORB or any of our future products will be added to payors' formularies, that our products will have preferred status to alternative therapies, or that the formulary decisions will be conducted in a timely manner. We may also decide to enter into discount or formulary fee arrangements with payors, which could result in us receiving lower or discounted prices for ESTRASORB or future products.

We may have product liability exposure.

The administration of drugs to humans, whether in clinical trials or after marketing clearances are obtained, can result in product liability claims. We maintain product liability insurance coverage in the total amount of $10.0 million for claims arising from the use of our currently marketed products and products in clinical trials prior to FDA approval. Coverage is becoming increasingly expensive, however, and we may not be able to maintain insurance at a reasonable cost. There can be no assurance that we will be able to maintain our existing insurance coverage or obtain coverage for the use of our other products in the future. This insurance coverage and our resources may not be sufficient to satisfy liabilities resulting from product liability claims. A successful claim may prevent us from obtaining adequate product liability insurance in the future on commercially desirable terms, if at all. Even if a claim is not successful, defending such a claim would be time-consuming and expensive, may damage our reputation in the marketplace, and would likely divert management's attention.

We have made loans to certain of our directors, and have guaranteed a brokerage margin loan for one of these directors, which could have a negative impact on our stock price.

In 2002, pursuant to our 1995 Stock Option Plan, we approved the payment of the exercise price of options by two of our directors through the delivery of full-recourse, interest-bearing promissory notes in the aggregate principal amount of approximately $1.5 million, secured by a pledge of the underlying shares. As of December 31, 2005, accrued interest receivable related to the borrowing was $284,000. In addition, in 2002 we executed a conditional guaranty of a brokerage margin account for a director in the amount of $500,000. Due to heightened sensitivity in the current environment surrounding related-party transactions, these transactions could be viewed negatively in the market and our stock price could be negatively affected. Our corporate governance policies have been revised and our 2005 Stock Incentive Plan prohibits any additional loans or guarantees to directors.

The price of our common stock has been and may continue to be volatile.

Historically, the market price of our common stock has fluctuated over a wide range. In fiscal year 2005, our common stock traded in a range from $0.70 to $6.01. It is likely that the price of our common stock will fluctuate in the future. The market prices of securities of small-capitalization, specialty biopharmaceutical companies, including ours, from time to time experience significant price and volume fluctuations unrelated to the operating performance of these companies. In particular, the market price of our common stock may fluctuate significantly due to a variety of factors, including:

- our ability to obtain government contracts to develop vaccines and other biological products and technologies;
- governmental agency actions including the FDA's determination with respect to new drug applications for new products;
- our ability to obtain financing; and

- our ability to develop additional products, including biologicals and vaccines.

In addition, the occurrence of any of the risks described in Items 1A could have a material and adverse impact on the market price of our common stock.

The conversion of our outstanding convertible debt, and the issuance of shares of our common stock upon conversion or exercise of preferred stock and/or warrants or in future offerings would cause dilution of existing security holders' interests in the company and may cause the price of our common stock to go down.

As of December 31, 2005, we had outstanding convertible notes in the aggregate principal amount of $29,000,000 that as of such date were convertible into an aggregate of 5,215,827 shares of our common stock. The issuance of shares of our common stock upon conversion of such notes, as well as in connection with future capital raising activities, would cause immediate and potentially substantial equity dilution for existing stockholders and the price of our common stock could be subject to significant downward pressure.

We have never paid dividends on our capital stock, and we do not anticipate paying any such dividends in the foreseeable future.

We have never paid cash dividends on our common stock. We currently anticipate that we will retain all of our earnings for use in the development of our business and do not anticipate paying any cash dividends in the foreseeable future. In addition, the terms of our existing and any future debt may preclude us from paying dividends. As a result, capital appreciation, if any, of our common stock would be the only source of gain for stockholders until dividends are permitted and paid.

Provisions of our Certificate of Incorporation and By-laws, Delaware law, and our Shareholder Rights Plan could delay or prevent the acquisition of the company, even if such acquisition would be beneficial to stockholders, and could impede changes in our Board.

Provisions of Delaware corporate law and our organizational documents could hamper a third party's attempt to acquire, or discourage a third party from attempting to acquire control of, the company. Moreover, our shareholder rights plan empowers our Board to delay or negotiate, and thereby possibly thwart, any tender offer or takeover attempt the Board opposes. Stockholders who wish to participate in these transactions may not have the opportunity to do so. These provisions also could limit the price investors are willing to pay in the future for our securities and make it more difficult to change the composition of our Board in any one year. These provisions include the right of the Board to issue preferred stock with rights senior to those of the common stock without any further vote or action by stockholders, the existence of a staggered Board with three classes of directors serving staggered three-year terms, advance notice requirements for stockholders to nominate directors and make proposals, and a Delaware statutory provision prohibiting certain transactions between Novavax and interested stockholders.

Item 1B. ***Unresolved Staff Comments***

Not applicable.

Item 2. ***Properties***

We have current operations in four leased facilities. We lease approximately 32,900 square feet for administrative office space, research and development and future product development activities at our corporate headquarters in Malvern, Pennsylvania. We lease approximately 11,700 square feet at our facility in Rockville, Maryland for contract vaccine research, development and manufacturing of Phase I products and we are currently reviewing alternatives to expand the Rockville facility to accommodate planned requirements for our avian and pandemic flu efforts. We have another approximately 2,800 square foot facility in Pacific Grove, California for new product research and development activities. Our manufacturing facility for ESTRASORB and other contract manufacturing is in Philadelphia, Pennsylvania where we lease approximately 24,000 square feet of manufacturing space. The lease of our former administration offices in Columbia, Maryland expires in October 2006.

A summary of our current facilities is set forth below.

Property Location	Approximate Square Footage	Purpose
Malvern, Pennsylvania	32,900	Corporate headquarters and future product development activities
Rockville, Maryland	11,700	Vaccine research and development activities and office space
Pacific Grove, California	2,800	Research and development activities
Philadelphia, Pennsylvania	24,000	Manufacturing and packaging facility with office space
Columbia, Maryland	12,000	Prior corporate headquarters; lease expires October 2006; currently attempting to sublease

Item 3. ***Legal Proceedings***

We are a defendant in a lawsuit filed in December 2003 by a former director alleging that we wrongfully terminated the former director's stock options. We believe that the termination and cancellation of the options were in accordance with the terms of the option agreements, following his termination for cause by a former parent company, IGI, Inc., and we believe the lawsuit is without merit and we are vigorously defending the claim. The lawsuit is currently scheduled for trial in April 2006 in Atlantic County, New Jersey. We cannot reasonably estimate the liability, if any, related to this claim, or the likelihood of an unfavorable settlement. Accordingly, no liability related to this contingency is accrued in the consolidated balance sheet as of December 31, 2005. An unfavorable settlement, however, may have a material adverse impact on future operating results.

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, 2005.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock ($.01 par value) is traded on the Nasdaq National Market under the symbol NVAX. The following table sets forth, for the periods presented, the high and low sales prices for our common stock.

Quarter Ended	High	Low
December 31, 2005	$ 6.01	$ 1.67
September 30, 2005	2.56	0.70
June 30, 2005	1.64	1.13
March 31, 2005	3.35	1.35
December 31, 2004	$ 4.10	$ 2.98
September 30, 2004	5.71	2.88
June 30, 2004	6.47	4.11
March 31, 2004	6.99	5.15

Our common stock was held by approximately 12,500 stockholders of record as of February 28, 2006. We have never paid cash dividends on our common stock. We currently anticipate that we will retain all of our earnings for use in the development of our business and do not intend to pay any cash dividends in the foreseeable future.

Unregistered Sales of Equity Securities; Use of Proceeds from Registered Securities

During the 2005 fiscal year, the Company issued unregistered shares of its common stock to two individuals. In August 2005, the Company issued 50,000 shares of restricted common stock to its former Chairman of the Board, Denis M. O'Donnell, M.D., in connection with his separation from the Company as an employee. He agreed to pledge such shares to the broker of his margin account to secure a debt guaranteed by the Company.

Also in August 2005, the Company issued 250,000 shares of restricted common stock to Nelson M. Sims, the Company's former President, Chief Executive Officer and director, in connection with his separation from the Company. In accordance with his separation agreement, Mr. Sims agreed to the cancellation of all then-outstanding options and other rights to purchase shares of the Company. In exchange, Mr. Sims received his salary through the date of resignation and reimbursement of certain expenses. The Company also agreed to pay him severance benefits, part of which included the 250,000 shares of restricted common stock.

In each case, the Company issued such shares in reliance on an exemption from registration under the Securities Act of 1933, as amended, predicated on such shares being issued in a private placement transaction.

Securities Authorized for Issuance under our Equity Compensation Plans

See Part III, Item 12.

Issuer Purchases of Equity Securities

During the fourth quarter of the fiscal year ended December 31, 2005, neither the Company nor any affiliated purchaser of the Company purchased shares of the Company's common stock.

Item 6. ***Selected Financial Data***

The selected financial data set forth below has been derived from our audited consolidated financial statements. This information should be read in conjunction with the financial statements and the related notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 herein, and in Item 1A "Risk Factors", and other financial information included elsewhere in this Annual Report on Form 10-K.

	For the years ended December 31,				
	2001	2002	2003	2004	2005
	(amounts in thousands, except share and per share information)				
Statements of Operations Data:					
Revenues	$ 24,066	$ 15,005	$ 11,785	$ 8,260	$ 7,388
Loss from operations	(9,255)	(21,558)	(16,054)	(24,464)	(9,171)
Net loss	(9,745)	(22,697)	(17,273)	(25,920)	(11,174)
Basic and diluted per share information:					
Loss applicable to common stockholders	$ (0.43)	$ (0.93)	$ (0.58)	$ (0.70)	$ (0.26)
Weighted average number of shares outstanding	22,670,274	24,433,868	29,852,797	36,926,034	42,758,302

	As of December 31,				
	2001	2002	2003	2004	2005
Balance Sheets Data:					
Total current assets	$25,027	$ 6,242	$32,062	$23,937	$37,611
Working capital	18,030	378	27,226	15,361	32,735
Total assets	67,115	57,505	84,159	77,993	84,382
Long term obligations	30,000	41,103	41,100	35,970	29,678
Stockholders' equity	27,493	8,073	35,944	33,281	49,652

Summarized Quarterly Financial Information for the Fiscal Years ended December 31, 2005 and 2004:

	Quarter Ended (in thousands except per share data) Unaudited			
	March 31	June 30	September 30	December 31
2005				
Revenues	$ 962	$ 2,315	$ 1,867	$ 2,244
Cost of products sold	1,979	2,027	1,068	717
Excess inventory costs over market	—	—	—	1,519
Research and development costs	1,222	1,377	1,161	1,315
Selling and marketing	4,057	1,844	930	89
General and administrative	2,121	2,294	1,694	2,005
Facility exit costs	—	(2)	107	—
Gain on sales of product assets	—	—	(856)	(10,109)
Net income (loss)	(8,886)	(5,716)	(2,727)	6,155
Net income (loss) per share	$ (.22)	$ (.14)	$ (.06)	$ .13
2004				
Revenues	$ 3,220	$ 3,005	$ (11)	$ 2,046
Cost of products sold	263	1,501	364	1,362
Research and development costs	3,047	1,229	1,552	1,541
Selling and marketing	2,774	5,556	8,931	6,327
General and administrative	2,032	2,059	1,901	2,724
Facility exit costs	—	—	723	—
Gain on redemption of debt	—	—	(11,162)	—
Net loss	(5,258)	(7,717)	(2,657)	(10,288)
Net loss per share	$ (.15)	$ (.22)	$ (.07)	$ (.26)

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Certain statements contained herein or as may otherwise be incorporated by reference herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements regarding product sales, future product development and related clinical trials, and future research and development, including Food and Drug Administration approval. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from those expressed or implied by such forward-looking statements.

Such factors include, among other things, the following: general economic and business conditions; competition; ability to enter into future collaborations with industry partners; unexpected changes in technologies and technological advances; ability to obtain rights to technology; ability to obtain and enforce patents; ability to commercialize and manufacture products; ability to maintain commercial-scale manufacturing capabilities; results of clinical studies; progress of research and development activities; business abilities and judgment of personnel; availability of qualified personnel; changes in, or failure to comply with, governmental regulations; ability to obtain adequate financing in the future through product licensing, co-promotional arrangements, public or private equity financing or otherwise; and other factors referenced herein.

All forward-looking statements contained in this annual report are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements, except as specifically required by law. Accordingly, past results and trends should not be used to anticipate future results or trends.

Overview

During 2005, Novavax successfully transitioned from a specialty pharmaceutical company, which included the sales and marketing of products serving the women's health space, to an innovative, biopharmaceutical company leveraging our proprietary technologies in vaccines, adjuvants, and drug delivery. We are now focused on creating differentiated, value-added pharmaceutical and vaccine products and licensing them at various stages of development to realize their value. Our drug delivery technologies include our Micellar Nanoparticle ("MNP") technology, which is the basis for the development of our first FDA approved product, ESTRASORB®. In addition to MNP, our drug delivery technologies include Novasomes® (paucillamellar non-phospholipid liposomes) and Sterisomes®. Our vaccine technologies include functional virus-like particle ("VLP") manufacturing utilizing the baculovirus expression system in insect cells as well as novel vaccine adjuvants based on Novasomes and dendrimer technologies.

Currently, our main focus is to develop a vaccine against a potential avian influenza pandemic, using our VLP vaccine technology. VLPs are genetically-engineered particles that imitate the important three-dimensional structures of viruses but are composed of recombinant proteins and therefore are believed incapable of causing infection and disease. Our proprietary production technology employs insect cells rather than eggs. We can more rapidly produce a safe, effective low-cost vaccine as compared with the labor-intensive egg-based process. Key advantages of the technology are the ability to rapidly respond to emerging threats of new strains and a reduced risk of allergic reaction. A proof-of-concept study, conducted in collaboration with the NIH and CDC, demonstrated that a recombinant VLP vaccine against the H9N2 strain of avian influenza reduced disease morbidity in mice against a live challenge of the H9N2 virus when compared with unvaccinated animals. This study is the basis for the development of VLP vaccines against the H5N1 strain of avian and human seasonal influenza. In addition, the company is studying the applicability of its proprietary adjuvants in conjunction with the VLP vaccines to improve immunogenicity of the vaccine. Other projects in development using our proprietary VLP technology include vaccines for HIV, SARS and seasonal influenza. We are also developing E-Selectin tolerogen for the prevention of secondary strokes.

We will also continue to leverage our drug delivery technologies by developing and licensing new products based on our MNP technology. ESTRASORB, our first internally-developed product using MNP technology, is the first topical emulsion for estrogen therapy approved by the FDA for the treatment of moderate to severe vasomotor symptoms (hot flashes) associated with menopause. ESTRASORB was licensed in October 2005 to Esprit Pharma, Inc., for marketing in North America (see "Significant Transactions" below). Following the successful development of ESTRASORB, we have developed a pipeline of over ten product candidates using the MNP technology and we remain active with several pharmaceutical companies to co-develop and co-market or license these products.

Significant Transactions

License Agreement renewal with IGI, Inc.

In December 2005, we received a $1,000,000 payment from IGI, Inc. in accordance with an option in a licensing agreement signed between the Company and IGI in December 1995. This payment gives IGI a ten year renewal on licensed technologies in specific fields and was recorded as licensing fee income for the year ended December 31, 2005.

License and Supply Agreements with Esprit Pharma, Inc. (the "Esprit Transaction")

In October 2005, we entered into License and Supply Agreements for ESTRASORB with Esprit Pharma, Inc. Under the License Agreement, Esprit obtained exclusive rights to market ESTRASORB in North America and we will continue to manufacture ESTRASORB.

In consideration for the rights granted, Esprit will pay us a minimum cash consideration of $12.5 million: $2.0 million which was paid at closing, $8.0 million which was paid in December 2005, and the remaining $2.5 million will be paid on the first anniversary date of the License Agreement. We will receive a royalty on all net sales of ESTRASORB as well as milestone payments based on specific pre-determined net sales levels of ESTRASORB We also wrote off $2.2 million, the remaining net balance of its intangible asset for ESTRASORB rights at the date of the transaction. As part of this transaction, Esprit paid us $0.3 million for inventory and sales and promotional materials for which we had a book value of $0.4 million. We incurred $.02 million of fees related to this transaction and recorded a gain of $10.1 million.

Asset Purchase Agreement with Pharmelle, LLC (the "Pharmelle Transaction")

In September 2005, we entered into an Asset Purchase Agreement with Pharmelle, LLC for the sale of assets related to the AVC Cream and Suppositories, NovaNatal and NovaStart products, as well as assets relating to certain formerly-marketed products Vitelle, Nestabs, Gerimed, Irospan and Nessentials. The assets sold included, but were not limited to, intellectual property, the New Drug Application for AVC products, inventory and sales and promotional materials. In connection with the sale, Pharmelle agreed to assume those liabilities and obligations arising after the closing date of the transaction in connection with the performance by Pharmelle of certain assumed contracts, those liabilities and obligation arising after the closing date in connection with products sold by Pharmelle after the closing date or the operation of the business relating to such products or the assets after such date (including any product liability claims associated with such products), and all liability and responsibility for returns of the products made after the closing date, regardless of when such products were produced, manufactured or sold.

In consideration for the sale of these assets, Pharmelle paid us $2.5 million in cash and assumed the liabilities noted above. In addition, we are entitled to royalties on AVC for a five-year period if net sales exceed certain levels. We wrote off $1.1 million, the net balance of the intangible assets related to the AVC product acquisition and $0.3 million of inventory, recorded a $0.3 million liability for future obligations and recorded a gain on the transaction of $0.8 million.

Equity Financing Transactions

In February 2006, subsequent to year-end, we completed an offering of 4,597,700 shares of common stock at $4.35 per share for gross proceeds of $20.0 million with a group of institutional investors including Kleiner Perkins Caufield & Byers and Prospect Venture Partners.

In November 2005, we completed an additional agent-led offering of 4,186,047 shares of common stock at $4.30 per share for gross proceeds of $18.0 million. The stock was issued pursuant to an existing shelf registration statement with net proceeds of approximately $17.0 million.

In July 2005, we completed an agent-led offering of 4,000,000 shares of common stock at $1.00 per share, for gross proceeds of $4.0 million. The stock was issued pursuant to an existing shelf registration statement with net proceeds of approximately $3.6 million.

Convertible Notes Conversion

In October 2005, certain holders of $6.0 million face amount of our 4.75% senior convertible notes due July 15, 2009 exercised their optional conversion right to convert their notes plus accrued interest of $81,000 into 1,070,635 shares of Novavax common stock, at the per share conversion price of $5.68. This reduces the aggregate principal amount of such notes outstanding from $35.0 million to $29.0 million.

Restructuring of the Sales Force

From March through August 2005, we implemented measures to reduce costs associated with our commercial operations by downsizing our sales force to correspond with our strategy of transitioning from a commercial business model to that of one focused on our core competency of new product development. The March restructuring reduced our sales force numbers significantly while the August restructuring eliminated the remaining sales force. Included in 2005 sales and marketing expenses is $0.4 million related to these two restructurings.

Cancellation of King Pharmaceuticals Agreements

In January 2001, we entered into a co-promotion agreement with King Pharmaceuticals, Inc. for our topical estrogen therapy, ESTRASORB, in the United States and Puerto Rico (the "Territory"). We also entered into a license agreement with King for many countries outside the United States. The co-promotion and license agreements (the "Agreements") granted King the right to share equally in the revenues and expenses for manufacturing and marketing ESTRASORB in the Territory and exclusive rights to many countries outside the United States. The Agreements also entitled us to up to $5.0 million in milestone payments from King for achievement of milestones outlined in the Agreements.

In June 2001, we amended the Agreements (the "Amended Agreements"). The Amended Agreements clarified the terms of two milestone payments totaling $5.0 million. The Amended Agreements also granted King exclusive rights to promote, market and distribute ESTRASORB in Canada, Switzerland, Greece, Italy, Spain and the Netherlands, the only countries excluded from the original license agreement. In addition, the Amended Agreements included the co-promotion and license of ANDROSORB, a topical testosterone therapy for testosterone deficient women, that was in development.

In July 2004, we mutually agreed to terminate the Amended Agreements, (the "King Transaction"). The King Transaction included the return to us of all worldwide rights for ESTRASORB and ANDROSORB, as well as all rights to other women's health products that we may successfully develop utilizing the MNP technology. The King Transaction also included the redemption of $40.0 million of our convertible notes held by King. Additionally, we hired 50 members of King's women's health sales force to provide competitive sales force coverage. As part of this transaction, we paid King a net of $14.0 million in cash and issued King 3,775,610 shares of common stock, which at the time of closing were valued at approximately $18.1 million.

The King Transaction resulted in a gain on the redemption of the convertible notes held by King of $11.2 million for the year ended December 31, 2004. This gain was determined based on the fair value of the convertible notes plus accrued interest as of the transaction date compared to the notes' total book value. In addition, an intangible asset for ESTRASORB rights of $2.5 million was recorded, which represents the difference between assets and liabilities acquired or written off, the net cash paid in the transaction, the common stock issued and transaction fees and expenses. The recorded intangible was determined to be a fair value for the rights re-acquired based on the sales levels of ESTRASORB, the status of obtaining product approvals outside the United States and the deferred further development of ANDROSORB. Included in the assets and liabilities written off were deferred financing costs of $0.4 million relating to the convertible notes held by King, and remaining deferred revenue of $2.2 million relating to previous licensing fees for ESTRASORB, mentioned above.

Critical Accounting Policies and Changes to Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ, and actual results that do differ from our estimates could have a significant adverse effect on our operating results and financial position. We believe that the following significant accounting policies and assumptions may involve a higher degree of judgment and complexity than others.

For further discussion of our accounting policies see Note 2 "Summary of Significant Accounting Policies" in the Notes to the Consolidated Financial Statements included herewith.

Revenue Recognition and Allowances

We recognize revenue in accordance with the provisions of Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB No. 104"). For our product sales, revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured. We recognize these sales net of allowances for returns, rebates and chargebacks. A large part of our product sales is to distributors and to Esprit who resell the products to their customers. We provide rebates to members of certain buying groups who purchase from our distributors, to distributors that sell to their customers at prices determined under a contract between us and the customer, and to state agencies that administer various programs such as the federal Medicaid and Medicare programs. Rebate amounts are usually based upon the volume of purchases or by reference to a specific price for a product. We estimate the amount of the rebate that will be paid, and record the liability as a reduction of revenue when we record our sale of the products. Settlement of the rebate generally occurs from three to 12 months after sale. We regularly analyze the historical rebate trends and make adjustments to recorded reserves for changes in trends and terms of rebate programs In a similar manner, we estimate amounts for returns based on historical trends, distributor inventory levels, product prescription data and generic competition and make adjustments to recorded reserves for changes in trends and competition.

Under the terms of the Asset Purchase Agreement with Pharmelle, LLC (see "Significant Transactions") we no longer have responsibility for rebates or returns related to AVC™ Cream and Suppositories, NovaNatal and NovaStart as of the date of the sale of such assets. Under the Supply Agreement with Esprit Pharma, Inc. (see "Significant Transactions") we no longer have responsibility for rebates related to ESTRASORB, 90 days subsequent to entering into the Supply Agreement and we no longer have responsibility for returns related to ESTRASORB sales made subsequent to the entering into the Supply Agreement.

A non-recurring reserve of $1.3 million for anticipated returns of vitamins negatively impacted by generic competition was netted against product sales for 2004. We based this reserve on estimated current wholesaler inventory levels compared to projected demand until product expiration.

The shipping and handling costs we incur are included in cost of products sold in the accompanying statements of operations.

For up-front payments and licensing fees related to our contract research or technology, we follow the provisions of SAB No. 104 in determining if these payments and fees represent the culmination of a separate earnings process or if they should be deferred and recognized as revenue as earned over the life of the related agreement. Milestone payments are recognized as revenue upon achievement of contract-specified events and when there are no remaining performance obligations.

For 2005, 2004 and 2003, revenues earned under current biological technologies research contracts were recognized per the terms and conditions of such contracts for invoicing of costs incurred and defined milestones. In 2005, revenue earned under a drug development contract was recognized on the percentage-of-completion method whereby revenue was recognized in proportion to the estimated cost-to-complete the contract. In 2005, revenue earned under the renewal of the IGI agreement (see "Significant Transactions") was recognized upon receipt of payment. Also in 2005, revenue earned under the Esprit Transaction (see "Significant Transactions") was recognized at the time of the agreement since we had no further performance obligations related to the license.

Research and Development Costs

Research and development costs are expensed as incurred. We will continue to incur research and development costs as we expand our product development activities utilizing our proprietary drug delivery and biological technologies. Our research and development costs have included, and will continue to include, expenses for internal development personnel, supplies and facilities, clinical trials, regulatory compliance and reviews, validation of processes and start-up costs to establish commercial manufacturing capabilities. At the time our new product candidates are approved by the FDA and we begin commercial manufacturing, we will allocate costs at our manufacturing location to inventory and cost of products sold. In 2004, we began allocating our costs to manufacture ESTRASORB to inventory and cost of sales. As a result, our research and development costs decreased and our inventory and cost of sales increased.

Depreciation and Amortization

Depreciation of furniture, fixtures and equipment is provided under the straight-line method over the estimated useful lives, generally three to 10 years. Amortization of leasehold improvements is provided over the estimated useful lives of the improvements or the term of the lease, whichever is shorter.

We completed the build-out and validation of our manufacturing facility in Philadelphia in 2004. In addition, we purchased, validated and installed equipment for ESTRASROB manufacturing in 2004. The total investment in 2004 for the facility and equipment was approximately $13.8 million. We began recognizing amortization or depreciation on these assets in 2004. Total amortization and depreciation expense for the years ended December 2005, 2004, and 2003 was $2.8 million, $2.3 million and $0.5 million respectively.

Accounting for Facility Exit Costs

In July 2004, we entered into a long-term agreement to lease a 32,900 square foot facility in Malvern, Pennsylvania for the consolidation and expansion of our corporate headquarters and product development activities. The lease, with a commencement date of September 15, 2004, has an initial term of 10 years with two five-year renewal options. Standard annual escalation rental rates are in effect during the initial lease term. With six months advance notice, we also have an option to lease adjoining space of 17,000 square feet, which could be built out for future manufacturing needs.

We applied the principles of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* in accounting for contract termination costs and associated costs that will continue to be incurred under the operating lease expiring on October 31, 2006 relating to our former corporate offices located in Columbia, Maryland. We recorded a liability of $105,000 in 2005 and $252,000 in 2004 for the difference between the fair value of the remaining lease payments, reduced by current estimated sublease rentals that could be reasonably obtained and included the corresponding expense in facility exit costs. As of December 31, 2005 the remaining liabilities were $138,000.

We applied the principles of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* and APB No. 20, *Accounting Changes,* in writing off the remaining useful lives of the leasehold assets relating to the Columbia facility. For the year ended December 31, 2004, $471,000 was included in facility exit costs associated with the moving of corporate offices.

Goodwill and Intangibles Assets

Goodwill originally results from business acquisitions, in particular, the $35.6 million of goodwill we recognized for our acquisition of Fielding Pharmaceuticals in December 2000. Assets acquired and liabilities assumed are recorded at their fair values; the excess of the purchase price over the identifiable net assets acquired is recorded as goodwill. Intangible assets other than goodwill are the result of product acquisitions, non-compete arrangements, and internally-discovered patents. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from five to 17 years. We periodically evaluate the periods of amortization to determine whether later events and circumstances warrant revised estimates of useful lives. As a result of the License and Supply Agreements with Esprit Pharma, Inc. and the Asset Purchase Agreement with Pharmelle, LLC (see "Significant Transactions") we wrote off net intangible assets totaling $3.3 million in 2005.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142, *Goodwill and Other Intangible Assets*, which is effective for fiscal years beginning after December 15, 2001. Under these rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to impairment tests annually or more frequently should indicators of impairment arise. Other intangible assets continue to be amortized over their useful lives beginning in the first quarter of 2002. The Company utilizes a discounted cash flow analysis, which includes profitability information, estimated future operating results, trends and other information in assessing whether the value of indefinite-lived intangible assets can be recovered. Under SFAS No. 142, goodwill impairment is deemed to exist if the carrying value of a reporting unit exceeds its estimated fair value. In accordance with the requirements of SFAS No. 142, the Company tested its goodwill for impairment as of January 1, 2002 and determined that no impairment was present. During 2003, 2004, and 2005, the Company performed the required annual impairment test on the carrying amount of its goodwill, which indicated the Company's estimated fair value of goodwill exceeded its carrying value; therefore, no impairment was identified at December 31, 2003, 2004 or 2005. If the appraisal had determined that the goodwill was impaired, the write down would have increased our net loss by a comparable amount.

Stock Options and Stock-Based Compensation

We apply the principles of APB No. 25, *Accounting for Stock Issued to Employees*, in accounting for stock options issued to our employees. APB No. 25 generally does not require that options granted to employees be expensed. Had we applied the fair value principles of SFAS No. 123, *Accounting for Stock-Based Compensation*, our net loss for the years ended December 31, 2005, 2004 and 2003 would have increased to approximately $16.5 million, $30.1 million and $23.5 million, respectively, as compared to approximately $11.2 million, $25.9 million and $17.3 million, respectively. The Financial Accounting Standards Board eliminated the alternative use of APB No. 25's intrinsic value method of accounting starting with the first fiscal year that begins after June 15, 2005. We will be required to record the effect of applying this revision as of January 1, 2006.

During the year ended December 31, 2005 we granted 552,434 restricted shares of common stock totaling $0.6 million in value at the date of grant to various employees, officers and a board member, which vest over periods of up to three years. In accordance with APB No. 25, for the year ended December 31, 2005, $0.2 million was included in non-cash stock compensation expense related to this restricted stock.

During 2004, we granted stock options to purchase an aggregate of 26,450 shares of common stock to two consultants as compensation for services in 2004. We included $53,000 of non-cash stock compensation expense in sales and marketing expense, which represents the fair value as of the grant date.

Guaranty

In April 2002, we executed a conditional guaranty of a brokerage margin account for a director, in the amount of $500,000. Prior to demanding payment from the Company, the brokerage firm must first make demand for payment to the director and then liquidate the account. Thereafter, if there remains a shortfall, they may demand payment from the Company. As of December 31, 2005 and 2004, the Company has not recorded any liability on its balance sheet related to this guarantee as we believe the possibility of required payment by the Company to be unlikely.

In August 2005, we approved the issuance of 50,000 shares of common stock in a private placement to this director for, among other things, his agreement to pledge such shares to the brokerage firm to secure the guarantee mentioned above.

Results of Operations for Fiscal Years 2005, 2004 and 2003 (In thousands, except percentage changes and share and per share information)

Revenues:

	2005	Change from 2004		2004	Change from 2003		2003
Revenues:							
Vitamins	$ 877	$ (1,408)	-62%	$ 2,285	$ (3,418)	-60%	$ 5,703
Gynodiol	904	(119)	-12%	1,023	(1,181)	-54%	2,204
AVC line	715	(225)	-24%	940	(899)	-49%	1,839
ESTRASORB	2,046	254	14%	1,792	1,792	100%	—
Other	7	(350)	-98%	357	(106)	-23%	463
Net product sales	4,549	(1,848)	-29%	6,397	(3,812)	-37%	10,209
Contract research	1,798	60	3%	1,738	437	34%	1,301
Royalties, milestone and licensing fees	1,041	916	733%	125	(150)	-55%	275
	$ 7,388	$ (872)	-11%	$ 8,260	$ (3,525)	-30%	$ 11,785

Revenues for 2005 consisted of product sales of $4.5 million, compared to $6.4 million in 2004; contract revenues of $1.8 million, compared to $1.7 million in 2004; and milestone and licensing fees of $1.0 million in 2005, compared to $0.1 million in 2004. Total revenues for 2005 were $7.4 million, as compared to $8.3 million for 2004, a $0.9 million or 11% decrease. Of the total decrease in revenues, product sales accounted for $1.8 million partially offset by a $0.9 million increase in royalties, milestone and licensing fees. The reason for the net decrease in net product sales is primarily due to:

- In September 2005, we entered into the Pharmelle Transaction for the sale of assets related to AVC Cream and Suppositories, NovaNatal and NovaStart products. As a result the 2005 vitamin and AVC product sales only reflect a partial year of revenues for these products.
- During 2005, the vitamin lines continued to be negatively impacted by generic and new product competition.
- 2005 Gynodiol sales were lower than in 2004 primarily due to an out-of stock situation for certain prescription strengths.
- In October 2005, we entered into the Esprit Transaction. Under these agreements Esprit obtained exclusive rights to market ESTRASORB in North America and we will continue to manufacture and sell ESTRASORB to Esprit for a lower price than what we previously sold ESTRASORB to our distributors. 2005 ESTRASORB net product sales includes sales to our distributors through the date of this agreement and to Esprit after this date.

Contract research revenues in 2005 of $1.8 million were comparable to 2004 contract research revenues of $1.7 million. Royalties, milestone and licensing fees increased by $0.9 million from $0.1 million in 2004 to $1.0 million in 2005 primarily due to a $1.0 million license renewal fee received from IGI, Inc. for a ten year renewal on licensed technologies in specific fields.

Revenues for the fiscal year ended December 31, 2004 were $8.3 million compared to $11.8 million in 2003. This represents a year-to-year decrease of $3.5 million, or 30%. Of the $3.5 million total revenue decrease from 2003 to 2004, a decline in product sales accounted for $3.8 million of that shortage. The product sales decrease was attributable to an overall decline in sales of our prenatal vitamin lines, Gynodiol and AVC Cream, as well as increased returns for these products from our wholesalers. In addition a non-recurring reserve of $1.3 million was taken in 2004 for anticipated returns of vitamins negatively impacted by generic competition.

Contract research revenue increased $0.4 million from $1.3 million in 2003 to $1.7 million in 2004 primarily due to $0.8 million we received from an NIH grant to develop a second generation AIDS vaccine, as well as, $0.5 million we received from an NIH contract that was cancelled in July 2004. This increase in contract research revenues was partially offset by the completion of several contracts in 2003. Royalties, milestone and licensing fees decreased $0.2 million from $0.3 million in 2003 to $0.1 million in 2004.

Operating Costs and Expenses:

Operating costs and expenses:	2005	Change from 2004		2004	Change from 2003		2003
Cost of products sold	$ 5,791	$ 2,301	66%	$ 3,490	$ 1,433	70%	$ 2,057
Excess inventory costs over market	1,519	1,519	100%	—	—	—	—
Research and development	5,075	(2,294)	-31%	7,369	(2,689)	-27%	10,058
Selling	5,190	(5,791)	-53%	10,981	3,423	45%	7,558
Marketing	1,730	(10,877)	-86%	12,607	12,375	5334%	232
General and administrative	8,114	(602)	-7%	8,716	782	10%	7,934
Facility exit costs	105	(618)	-85%	723	723	100%	—
Gain on sales of product assets	(10,965)	(10,965)	-100%	—	—	—	—
Gain on redemption of debt	—	11,162	100%	(11,162)	(11,162)	-100%	—
	$ 16,559	$(16,165)	-50%	$ 32,724	$ 4,885	18%	$ 27,839

Cost of Products Sold

Cost of products sold, which includes fixed idle capacity costs at our manufacturing facility, increased to $5.8 million in 2005, compared to $3.5 million in 2004 a 66% increase. Of the $5.8 million cost of products sold for 2005, $3.2 million was due to idle plant capacity costs at our manufacturing facility compared to $0.7 million in 2004. The remaining $2.6 million increase was primarily due to ESTRASORB, which accounted for 45% of net product sales in 2005, as opposed to 28% of net product sales in 2004, and carries a much higher cost of product sold than our other products. ESTRASORB cost of product sold percentages have been and will continue to be high until we increase production volumes for both ESTRASORB and other manufactured products to offset the fixed costs and depreciation related to the manufacturing facility, on-going facility costs and costs associated with the personnel required to manufacture products at this facility. With the sale of vitamin and AVC lines, future cost of products sold will correspond to our ESTRASORB sales to Esprit, Gynodiol sales to distributors and manufacturing costs related to other products produced at our manufacturing facility. Until this facility reaches maximum capacity fixed idle capacity costs will continue to be included in cost of products sold.

Cost of products sold was $3.5 million in 2004, which includes fixed idle capacity costs at our manufacturing facility of $0.7 million, compared to 2003 cost of products sold of $2.1 million, despite the decrease in product sales of $3.8 million. The $1.4 million increase was primarily due to the launch and sale of ESTRASORB in the second quarter of 2004 as well as the idle plant costs at our manufacturing facility of $0.7 million. ESTRASORB accounted for 28% of net product sales and carries a much higher cost of sales than our other products. A high volume of returns for our products, other than ESTRASORB, in 2004 has also negatively affected our margins.

Excess Inventory Costs over Market

As part of the Esprit Transaction (see “Significant Transactions”) we agreed to sell ESTRASORB at a price that was lower than our current inventory carrying value and was below our manufacturing costs for the inventory manufactured and sold during the fourth quarter of 2005. This resulted in a write down of $1.5 million at December 31, 2005. We anticipate these costs to be lower in 2006 as our manufacturing facility will be more fully utilized manufacturing ESTRASORB as well as fulfilling other manufacturing contracts.

Research and Development Expenses

Research and development costs decreased from $7.4 million in 2004 to $5.1 million in 2005. The decrease of $2.3 million or 31% was due to manufacturing start-up costs in 2004 being accounted for in the research and development category until April 2004. The first quarter of 2004 manufacturing costs totaling $1.7 million were incurred to prepare and validate the ESTRASORB facility for good manufacturing practices and FDA compliance and not to build inventory. Beginning in April 2004, manufacturing costs have been included in cost of sales and inventory. Vaccine contract research costs, which are included in total research and development expenses, decreased from $3.2 million in 2004 to $2.6 million in 2005. This decrease was due to higher costs related to a government contract in 2004, as well as a reduction in facility costs for 2005.

Research and development expenses were $10.1 million in 2003, compared to $7.4 million for 2004. The decrease of $2.7 million, or 27%, was primarily due to manufacturing start-up costs in being accounted for in the research and development category for all of 2003 and only until April 2004. This was partially offset by $1.1 million increase in 2004 of research costs related to new product development and other unallocated costs.

Reconciliation of Significant Research and Development Projects

The following table reconciles the direct and indirect costs incurred to date for our major projects to our total research and development expense.

Project	2005	2004	2003
ESTRASORB	$ 172	$ 1,704	$ 5,417
ANDROSORB	—	32	269
Vaccine contracts and research	2,592	3,183	3,001
Allocated project costs	2,764	4,919	8,697
New drug development and other unallocated costs	2,311	2,450	1,371
Total	$ 5,075	$ 7,369	$ 10,058

Estimated Cost and Time to Complete Major Projects

The expenditures that will be necessary to execute our business plan are subject to numerous uncertainties, which may adversely affect our liquidity and capital resources. As of December 31, 2005, our proprietary product and vaccine candidates were in early stages of development. Due to the inherent nature of product development, future market demand for products and factors outside of our control, such as clinical results and regulatory approvals, we are unable to estimate the completion dates and the estimated total costs for those product candidates. The duration and the cost of clinical trials may vary significantly over the life of a project as a result of differences arising during clinical trial protocol, including, but not limited to, the following:

- number of patients that ultimately participate in the trial;
- duration of the patient follow-up that seems appropriate in view of the results;
- number of clinical sites included in the trials; and
- length of time required to enroll suitable patient subjects.

In addition, we test our potential products and vaccines in numerous preclinical studies to identify, among other things, the daily dosage amounts. We may conduct multiple clinical trials to cover a variety of indications for each product candidate. As we obtain results for our trials we may elect to discontinue clinical trials for certain product candidates or indications. We further believe that it is not possible to predict the length of regulatory approval time. Factors that are outside our control could significantly delay the approval and marketability of our product candidates.

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

Selling Expenses

Selling expenses were $5.2 million in 2005 compared to $11.0 million in 2004. The decrease of $5.8 million, or 53%, was due to the reduction on the sales force in March 2005 and the elimination of the remaining sales force in August 2005. This corresponded with our strategy of transitioning from a commercial business model to that of one focused on our core competency of new product development. With the sale of our vitamin and AVC lines to Pharmelle and licensing ESTRASORB in North America to Esprit, the only remaining product that we are selling directly to our distributors is Gynodiol. Gynodiol's selling expenses going forward will be minimal.

Selling expenses were $11.0 million in 2004 compared to $7.6 million in 2003. The increase of $3.4 million, or 45%, was primarily due to the hiring of 50 of King's sales personnel in conjunction with the termination of our co-promotion agreements with King in July 2004.

Marketing Expenses

Marketing expenses were $1.7 million in 2005 compared to $12.6 million in 2004. The decrease of $10.9 million or 86%, was due to the major marketing investment in 2004 for the initial launch of ESTRASORB as well as our strategy of transitioning from a commercial business model to that of one focused on our core competency of new product development. With the sale of our vitamin and AVC lines to Pharmelle and the licensing of ESTRASORB in North America to Esprit, our ongoing marketing expenses will be minimal.

Marketing expenses were $12.6 million in 2004 compared to $0.2 million in 2003. The increase of $12.4 million was due to the 2004 product launch advertising and promotion for ESTRASORB, as well as increases in marketing personnel.

General and Administrative

General and administrative costs were $8.1 million in 2005 compared to $8.7 million in 2004. The $0.6 million decrease, or 7% is partially due to receiving $0.4 million from the Commonwealth of Pennsylvania for the reimbursement of certain costs incurred with the move to our corporate headquarters and product development activities to Malvern, Pennsylvania as well as cost saving measures implemented in 2004 and 2005. This decrease was partially offset by increases in legal fees and business development costs, related to strategic initiatives.

General and administrative costs were $8.7 million in 2004 compared to $7.9 million in 2003. The $0.8 million increase, or 10%, is primarily due to increases in accounting and consulting fees related to the implementation of internal control evaluation and reporting procedures as required by the Sarbanes-Oxley Act of 2002, as well as other increases in legal, insurance and facility expenses.

Other

A charge for facility exit costs of $0.7 million was recorded in 2004. As previously described, in September 2004 we moved to Malvern, Pennsylvania for the consolidation and expansion of corporate headquarters and product development activities. We vacated our facility in Columbia, Maryland and recorded a liability of $0.2 million for contract termination costs and wrote-off the net value of the Columbia leasehold assets of $0.5 million. A further adjustment was made in 2005 of $0.1 million to the contract termination costs.

The gain on the sales of product assets of $11.0 million recorded in 2005 includes a $10.1 million gain from the Esprit Transaction and $0.9 million gain from the Pharmelle Transaction (see "Significant Transactions").

The one time gain on the redemption of debt of $11.2 million we recorded in 2004 relates to the King Transaction.

Interest Income/ (Expense):

	2005	Change from 2004		2004	Change from 2003		2003
Interest income (expense)							
Interest income	$ 330	$ 12	-4%	$ 318	$ 123	-63%	$ 195
Interest expense	(2,333)	(489)	27%	(1,844)	(430)	30%	(1,414)
	$ (2,003)	$ (477)	31%	$ (1,526)	$ (307)	25%	$ (1,219)

Net interest expense was $2.0 million in 2005, $1.5 million in 2004, and $1.2 million in 2003. Our interest expense relates primarily to the promissory notes with King of $40.0 million in 2003 through July 2004, at which time those notes were redeemed and we issued new convertible notes totaling $35.0 million to a group of institutional investors. In October 2005, certain holders of $6.0 million face amount of the convertible notes exercised their optional conversion rights to convert their notes plus accrued interest into 1,070,635 shares of Novavax common stock. This reduced the aggregate principal amount of the convertible notes outstanding to $29.0 million. Included in interest expense for 2005 is a $0.3 million write-off of deferred financing costs that corresponds to the $6.0 million convertible debt. Also included in interest expense for 2005 and 2004 is $0.4 million and $0.2 million, respectively, of amortization of deferred financing costs that corresponds to the convertible debt.

Net Losses:

	2005	Change from 2004		2004	Change from 2003		2003
Net loss	$ (11,174)	$ 14,746	57%	$ (25,920)	$ (8,647)	50%	$ (17,273)
Net loss per share	$ (0.26)	$ 0.44	63%	$ (0.70)	$ (0.12)	-21%	$ (0.58)
Weighted shares outstanding	42,758,302,			36,926,034			29,852,797

Net loss for 2005 was $11.2 million or $(0.26) per share, as compared to $25.9 million or $(0.70) per share for 2004, a decrease of $14.7 million, or $0.44 per share. The decreased loss was due to the gain on sales of product assets of $11.0 million, a decrease of $15.7 million in operating expenses and $0.6 million in facility exit costs, partially offset by the decrease in revenues of $0.9 million, the gain on redemption of debts of $11.2 million and an increase of $0.5 million in interest expense, all previously discussed.

Net loss for 2004 was $25.9 million, or $(0.70) per share, compared to $17.3 million, or $(0.58) per share for 2003 an increase of $8.6 million or $0.12 per share. The increased loss was due to the gain on redemption of debt of $11.2 million, offset by a decrease in revenue of $3.5 million, $0.7 million for facility exit costs and an increase in other operating expenses of $15.3 million, all previously discussed.

Liquidity and Capital Resources

Our capital requirements depend on numerous factors, including but not limited to the commitments and progress of our research and development programs, the progress of preclinical and clinical testing, the time and costs involved in obtaining regulatory approvals, the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, competing technological and market developments, and manufacturing costs related to ESTRASORB. We plan to have multiple products and vaccines in various stages of product development and we believe our research and development as well as general administrative expenses and capital requirements will continue to exceed our revenues. Future activities, particularly product development, are subject to our ability to raise funds through debt or equity financing, or collaborative arrangements with industry partners.

	Year ended December 31, 2005 (in thousands)
Summary of Cash Flows:	
Net cash (used) provided by:	
Operating activities	$ (5,809)
Investing activities	(162)
Financing activities	19,988
Net change in cash and cash equivalents	14,017
Beginning cash and cash equivalents	17,876
Ending cash and cash equivalents	$ 31,893

In addition to revenues of $27.4 million from 2003 through December 31, 2005, we have financed our operations primarily from:

Net proceeds (in millions)	2003	2004	2005	Total
Sales of common stock in public offerings	$ 25.9	$ —	$ 20.7	$ 46.6
Sales of product assets	—	—	12.7	12.7
Issuance of convertible notes	—	32.9	—	32.9
Uses associated with the King Transaction	—	(15.0)	—	(15.0)
Sales of common stock in a private placement	16.6	4.7	—	21.3
Exercise of stock options and warrants	1.6	0.4	0.4	2.4
	$ 44.1	$ 23.0	$ 33.8	$ 100.9

Cash and cash equivalents were $31.9 million at December 31, 2005, an increase of $14.0 million from the December 31, 2004 balance of $17.9 million. The Esprit and Pharmelle Transactions and the two Equity Financings, as previously discussed, added over $33.4 million to our cash balance in 2005. The February 2006 equity financing (see "Significant Transactions") further adds approximately $19.9 million to the year end cash position. Of the $14.0 million of cash increase in 2005, $20.0 million was obtained from financing activities, offset by $5.8 million used in operating activities and $0.2 million for investing activities. Operating activities consisted of the net loss of $11.2 million, as previously discussed, and non-cash activities of $(6.2) million, including the $11.0 million gain on sales of product assets, $(1.1) million of net changes in balance sheet accounts and $12.7 million net proceeds from the Esprit and Pharmelle Transactions. Cash used in investing activities consisted primarily of general capital expenditures needs. Working capital was $32.7 million at December 31, 2005 compared to $15.4 million at December 31, 2004. The increase in working capital of $17.3 million, or 112% was primarily due to the cash flow activities described above.

We intend to use the proceeds from the Esprit and Pharmelle and Equity Financing Transactions for general corporate purposes, including but not limited to our internal research and development programs, such as preclinical and clinical testing and studies for our product candidates and the development of new technologies, capital improvement and general working capital. We will continue to pursue obtaining capital through product licensing, co-development arrangements on new products, or the public or private sale of securities of the Company. We have demonstrated our ability to obtain capital, as required; however, there can be no assurance that we will be able to obtain additional capital or, if such capital is available, that the terms of any financing will be satisfactory to the Company. Based on our assessment of the availability of capital and our business operations as currently contemplated, in the absence of new financings, licensing arrangements or partnership agreements, we believe we will have adequate capital resources through 2007.

If we are unable to obtain additional capital, we will continue to assess our capital resources and we may be required to delay, reduce the scope of, or eliminate one or more of our product research and development programs, downsize our organization, or reduce general and administrative infrastructure.

Contractual Obligations and Commitments

The following table summarizes our current obligations and commitments (in thousands) as of December 31, 2005:

Commitments & Obligations	Total	Less than 1 Year	1 - 3 Years	4 – 5 Years	More than 5 Years
Convertible notes	$ 29,000	$ —	$ —	$ 29,000	$ —
Operating leases	5,021	897	1,344	1,117	1,663
Notes payable	1,393	715	446	232	—
Manufacturing facility lease	800	720	80	—	—
Total principal payments	36,214	2,332	1,870	30,349	1,663
Interest	4,948	1,410	2,780	758	—
Total commitments & obligations	$ 41,162	$ 3,742	$ 4,650	$ 31,107	$ 1,663

Off-Balance Sheet Arrangements

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

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

The Company is exposed to interest rate risk primarily through its investments in cash equivalents. The Company's investment policy requires investments in short-term, low-risk instruments. At December 31, 2005, the Company had $31.9 million in cash and cash equivalents. If interest rates fall, floating rate securities will generate less interest income. The Company does not believe that it is exposed to any material interest rate risk as a result of its investments in cash equivalents.

At December 31, 2005, the Company had a total debt of $30.5 million, most of which bears interest at fixed interest rates. The Company therefore does not believe that it is exposed to any material interest rate risk as a result of its borrowing activities.

Information required under this section is also contained in Part I, Item IA of this report and in Item 8 of this report, and is incorporated herein by reference.

Item 8. ***Financial Statements and Supplementary Data***

The financial statements and notes thereto listed in Item 15 – Exhibits and Financial Statement Schedules, are filed as part of this Annual Report on Form 10-K and are incorporated herein by reference. Supplementary data thereto included in Item 6 – Selected Financial Data, is incorporated herein by reference.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Not applicable.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

The Company's chief executive officer and chief financial officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this annual report. Based on that review and evaluation, which included the participation of management and certain other employees of the Company, the chief executive officer and chief financial officer have concluded that the Company's current disclosure controls and procedures, as designed and implemented, are reasonably adequate to ensure that such officers are provided with information relating to the Company required to be disclosed in the reports the Company files or submits under the Exchange Act and that such information is recorded, processed, summarized and reported within the specified time periods.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2004 based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

Changes in Internal Control over Financial Reporting

The Company has taken all actions necessary to fully comply with all criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company continuously reviews internal control over financial reporting and has tightened and/or increased controls as deemed necessary. None of the changes in our internal control over financial reporting materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. ***Other Information***

Not applicable.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

Certain of the information required by this item is set forth below. The remainder is contained in our definitive Proxy Statement for our 2006 Annual Meeting of Stockholders to be held on April 26, 2006 (the "2006 Proxy Statement") under the caption "Proposal I — Election of Class II Directors" and is incorporated herein by this reference. We expect to file the 2006 Proxy Statement within 120 days after the close of the fiscal year ended December 31, 2005.

Executive Officers of the Registrant

Our 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 our By-laws.

The following table provides certain information with respect to our executive officers.

Name	Age	Principal Occupation and Other Business Experience During the Past Five Years
Rahul Singhvi	41	President, Chief Executive Officer and director of Novavax since August 2005. Senior Vice President and Chief Operating Officer of Novavax from April 2005 to August 2005 and Vice President – Pharmaceutical Development and Manufacturing Operations from April 2004 to April 2005. For 10 years prior to joining the Company, served in several positions with Merck & Co., culminating as Director of the Merck Manufacturing Division from 1999 to 2004.
Dennis W. Genge	53	Vice President, Chief Financial Officer and Treasurer of Novavax since October 2000.
Raymond J. Hage	38	Senior Vice President and Chief Operating Officer since August 2005. Vice President of Marketing and Corporate Development of Novavax from January 2004 to August 2005. Prior to joining the Company, served in several positions including an independent marketing consultant with CHS, Inc. in 2003, Director of Marketing with Cephalon, Inc. from 2002 to 2003 and for 10 years held various marketing and sales roles at Eli Lilly and Company culminating as Director of US Women's Health from 2001 to 2002.

Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics applicable to its principal executive officer, principal financial officer, controller, and persons performing similar functions, and has made the code an exhibit to its Annual Report on Form 10-K for the 2003 Fiscal Year ended December 31, 2003. The Code is also available, and the Company will file and post a current report on Form 8-K for amendments to and waivers of its Code for its principal executive and financial officers, on its website at www.novavax.com.

Item 11. ***Executive Compensation***

The information required by this item is contained in the 2006 Proxy Statement under the captions "Executive Compensation" and "Proposal I – Election of Class II Directors " and is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Certain of the information required by this item is contained in the 2006 Proxy Statement under the captions "Beneficial Ownership of Common Stock" and "Executive Compensation – Stock Options" and is incorporated herein by reference.

The following table provides the Company's equity compensation plan information as of December 31, 2005. Under these plans, the Company's common stock may be issued upon the exercise of options. See also the information regarding stock options of the Company in Note 9, "Stock Options" to the Consolidated Financial Statements included herewith.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	5,394,086	$ 3.66	2,021,443

(1) Includes the Company's 2005 Stock Option Plan, 1995 Stock Option Plan and 1995 Director Stock Option Plan.

Item 13. ***Certain Relationships and Related Transactions***

The information required by this item is contained in the 2006 Proxy Statement under the caption "Proposal I – Election of Class II Directors – Certain Relationships and Related Transactions" and is incorporated herein by reference.

Item 14. ***Independent Registered Public Accounting Firm Fees and Services***

The information required by this item is contained in the 2006 Proxy Statement under the caption "Independent Registered Public Accounting Firm" and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a)(1) Financial Statements:

Reports of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2005 and 2004
Consolidated Statements of Operations for the years ended December 31, 2005, 2004 and 2003
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2005, 2004 and 2003
Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003
Notes to Consolidated Financial Statements.

(a)(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 Novavax is omitted since there are no substantial amounts of restricted net assets applicable to Novavax's wholly-owned, consolidated subsidiary.

(a)(3) Exhibits:

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

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

All other exhibits listed have previously been filed with the Commission and are incorporated herein by reference.

3.1 Amended and Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, File No. 0-26770, filed March 21, 1997 (the "1996 Form 10-K")), as amended by the Certificate of Amendment dated December 18, 2000 (Incorporated by reference to Exhibit 3.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, File No. 0-26770, filed March 29, 2001 (the "2000 Form 10-K")), as further amended by the Certificate of Amendment dated July 8, 2004 (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004, File No. 0-26770, filed August 9, 2004 (the "2004 2Q Form 10-Q"))

3.2 Amended and Restated By-Laws of the Company (Incorporated by reference to Exhibit 3.5 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2001, File No. 0-26770, filed August 13, 2001 (the "2001 Q2 Form 10-Q"))

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

4.2 Rights Agreement, dated as of August 8, 2002, by and between the Company and Equiserve Trust Company, which includes the Form of Summary of Rights to Purchase Series D Junior Participating Preferred Stock as Exhibit A, the Form of Right Certificate as Exhibit B and the Form of Certificate of Designation of Series D Junior Participating Preferred Stock as Exhibit C. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed August 9, 2002)

4.3 Registration Rights Agreement, dated as of July 16, 2004, by and between the Company and the Buyers identified therein. (Incorporated by reference to Exhibit 4.7 to the Registration Statement on Form S-3, File No. 333-118210, filed August 13, 2004)

††10.1 Novavax, Inc. 1995 Stock Option Plan, as amended (Incorporated by reference to Appendix A of the Company's Definitive Proxy Statement filed March 31, 2003 in connection with the Annual Meeting held on May 7, 2003)

††10.2 Novavax, Inc. 1995 Director Stock Option Plan (Incorporated by reference to Exhibit 10.5 to the Form 10)

††10.3	Employment Agreement, dated January 1, 2002, by and between the Company and Dennis W. Genge (Incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, File No. 0-26770, filed March 15, 2002 (the "2001 Form 10-K"))
††10.4	Employment Agreement, dated August 7, 2003, by and between the Company and Nelson M. Sims (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, File No. 000-26770, filed August 13, 2003)
††10.5	Separation Agreement, entered into as of August 8, 2005, by and between the Company and Nelson M. Sims (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed August 10, 2005)
††10.6	Employment Agreement, dated as of November 9, 2005, by and between the Company and Rahul Singhvi (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 15, 2005)
††10.7	Employment Agreement, dated as of November 9, 2005, by and between the Company and Raymond J. Hage, Jr. (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed November 15, 2005)
††10.8	Change in Control Severance Benefit Plan, as adopted August 10, 2005 (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed August 16, 2005)
††10.9	Form of Indemnity Agreement, as authorized August 10, 2005 (Incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K, filed August 16, 2005)
10.10	Secured Promissory Note, dated March 21, 2002, by and between the Company and Mitchell J. Kelly (Incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, File No. 0-26770, filed March 28, 2003 (the "2002 Form 10-K"))
10.11	Pledge Agreement, dated March 21, 2002, by and between the Company and Mitchell J. Kelly (Incorporated by reference to Exhibit 10.10 to the 2002 Form 10-K)
10.12	Secured Promissory Note, dated March 21, 2002, by and between the Company and Denis M. O'Donnell, M.D. (Incorporated by reference to Exhibit 10.11 to the 2002 Form 10-K)
10.13	Pledge Agreement, dated March 21, 2002, by and between the Company and Denis M. O'Donnell, M.D. (Incorporated by reference to Exhibit 10.12 to the 2002 Form 10-K)
10.14	Guaranty of Account, dated April 29, 2002, by and between the Company and CIBC World Markets Corporation for Denis M. O'Donnell, M.D. (Incorporated by reference to Exhibit 10.13 to the 2002 Form 10-K)
10.15	Agreement of Lease, dated September 25, 1996, by and between the Company and Rivers Center Associates Limited Partnership (Incorporated by reference to Exhibit 10.7 to the 1996 Form 10-K)
10.16	Facilities Reservation Agreement, dated as of February 11, 2002, by and between the Company and Packaging Coordinators, Inc. (Incorporated by reference to Exhibit 10.13 to the 2001 Form 10-K)
10.17	Lease Agreement, dated as of July 15, 2004, between Liberty Property Limited Partnership and the Company (Incorporated by reference to Exhibit 10.1 to the 2004 2Q Form 10-Q)
10.18	Lease, commencing April 1, 2005, by and between United Health Care Services, Inc. and the Company (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, File No. 0-26770, filed August 9, 2005)
10.19	License Agreement between IGEN, Inc. and Novavax, Inc. (formerly 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)

10.20	Note, dated December 20, 2002, by and between the Company and PIDC Local Development Corporation (Incorporated by reference to Exhibit 10.35 to the 2002 Form 10-K)
10.21	Security Agreement, dated December 20, 2002, by and between the Company and PIDC Local Development Corporation (Incorporated by reference to Exhibit 10.36 to the 2002 Form 10-K)
10.22	Note, dated December 20, 2002, by and between the Company and PIDC Local Development Corporation (Incorporated by reference to Exhibit 10.37 to the 2002 Form 10-K)
10.23	Security Agreement, dated December 20, 2002, by and between the Company and PIDC Local Development Corporation (Incorporated by reference to Exhibit 10.38 to the 2002 Form 10-K)
10.24	Common Stock Purchase Agreement, dated as of February 17, 2003, by and among the Company and the purchasers named therein (Incorporated by reference to Exhibit 99.2 to the Company's Current Report on form 8-K, filed February 25, 2003)
10.25	HIV Vaccine Design and Development Agreement, effective September 26, 2003, by and between the Company and the National Institute of Allergy and Infectious Diseases, a component of the National Institutes of Health, an agency of the Department of Health and Human Services (Incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K (as amended) for the fiscal year ended December 31, 2004, File No. 0-26770, filed March 15, 2005)
10.26	Common Stock Purchase Agreement, dated as of July 16, 2004 between the Company and Joseph R. Gregory. (Incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K, filed July 19, 2004)
10.27	Securities Purchase Agreement, dated as of July 16, 2004, between the Company and Smithfield Fiduciary LLC, SF Capital Partners LTD, Portside Growth and Opportunity Fund, Winchester Global Trust Company Limited as Trustee for Caduceus Capital Trust, Caduceus Capital II, L.P., UBS Eucalyptus Fund, L.L.C., PW Eucalyptus Fund, LTD., HFR SHC Aggressive Fund, Finsbury Worldwide Pharmaceutical Trust and Deutsche Bank AG London. (Incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K, filed July 19, 2004)
10.28	Form of Senior Convertible Note (Incorporated by reference to Exhibits 99.4 to the Company's Current Report on Form 8-K, filed July 19, 2004)
10.29	Exchange Agreement, dated July 16, 2004, between the Company, King Pharmaceuticals, Inc. and Parkedale Pharmaceuticals, Inc. (Incorporated by reference to Exhibit 99.5 to the Company's Current Report on Form 8-K, filed July 19, 2004)
10.30	Termination Agreement, dated as of July 16, 2004 among King Pharmaceuticals, Inc., Parkedale Pharmaceuticals, Inc. and the Company (Incorporated by reference to Exhibit 99.6 to the Company's Current Report on Form 8-K, filed July 19, 2004)
10.31	Placement Agent Agreement, dated June 30, 2005, by and between the Company and Lane Capital Markets, LLC (Incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed July 5, 2005)
10.32	Asset Purchase Agreement, dated and entered into as of September 22, 2005, by and among the Company, Fielding Pharmaceutical Company and Pharmelle, LLC (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 28, 2005)
*10.33	License Agreement by and between the Company and Esprit Pharma, Inc., dated October 18, 2005. Confidential information has been omitted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.
*10.34	Supply Agreement by and between the Company and Esprit Pharma, Inc., dated October 18, 2005. Confidential information has been omitted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

10.35	Agreement, dated November 1, 2005, by and between the Company and Rodman & Renshaw, LLC (Incorporated by reference to Exhibit 4 to the Company's Current Report on Form 8-K, filed November 2, 2005)
10.36	Form of Securities Purchase Agreement dated November 1, 2005 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 2, 2005)
14	Code of Business Conduct and Ethics (Incorporated by reference to Exhibit 14 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed March 15, 2004)
*21	List of Subsidiaries
*23	Consent of Independent Registered Public Accounting Firm
*31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Rahul Singhvi, President and Chief Executive Officer of the Company
*32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Dennis W. Genge, Vice President and Chief Financial Officer of the Company

SIGNATURES

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

Date: March 6, 2006

NOVAVAX, INC.

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

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

Name	Title	Date
/s/ RAHUL SINGHVI Rahul Singhvi	President and Chief Executive Officer and Director	March 6, 2006
/s/ DENNIS W. GENGE Dennis W. Genge	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 6, 2006
/s/ GARY C. EVANS Gary C. Evans	Director	March 6, 2006
/s/ MITCHELL J. KELLY Mitchell J. Kelly	Director	March 6, 2006
/s/ J. MICHAEL LAZARUS, M.D. J. Michael Lazarus, M.D.	Director	March 6, 2006
/s/ JOHN O. MARSH, JR. John O. Marsh, Jr.	Director	March 6, 2006
/s/ MICHAEL A. MCMANUS Michael A. McManus	Director	March 6, 2006
/s/ DENIS M. O'DONNELL, M.D. Denis M. O'Donnell, M.D.	Director	March 6, 2006

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Years ended December 31, 2005, 2004 and 2003

Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Novavax, Inc.

We have audited the accompanying consolidated balance sheets of Novavax, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Novavax, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Novavax, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

March 3, 2006
Philadelphia, Pennsylvania

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Novavax, Inc.

We have audited management's assessment, included in Item 9A. Controls and Procedures; Management's Report on Internal Control over Financial Reporting, that Novavax Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Novavax Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Novavax Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Novavax Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Novavax Inc. as of December 31, 2005 and 2004 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005 of Novavax, Inc. and our report dated March 3, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

March 3, 2006
Philadelphia, Pennsylvania

NOVAVAX, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share information)

	December 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,893	$ 17,876
Accounts and other receivables, net of allowance for doubtful accounts of $429 and $752 as of December 31, 2005 and 2004	3,571	827
Inventory	800	3,464
Prepaid expenses and other current assets	1,347	1,770
Total current assets	37,611	23,937
Property and equipment, net	11,589	14,147
Goodwill	33,141	33,141
Other intangible assets, net	1,110	5,048
Other non-current assets	931	1,720
Total assets	$ 84,382	$ 77,993
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,426	$ 3,242
Accrued expenses	2,597	4,140
Current portion of notes payable	715	1,071
Current portion of facility exit costs	138	123
Total current liabilities	4,876	8,576
Convertible notes	29,000	35,000
Deferred rent	176	166
Non-current portion of notes payable	678	892
Non-current portion of facility exit costs	—	78
Stockholders' equity:		
Preferred stock, $.01 par value, 2,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $.01 par value, 100,000,000 shares authorized; 50,259,494 issued and 50,005,646 outstanding at December 31, 2005, and 39,807,724 issued and 39,553,876 outstanding at December 31, 2004	503	398
Additional paid-in capital	195,361	167,496
Unearned compensation	(425)	—
Notes receivable from directors	(1,480)	(1,480)
Accumulated deficit	(141,894)	(130,720)
Treasury stock, 253,848 shares, cost basis, at December 31, 2005 and 2004, respectively	(2,413)	(2,413)
Total stockholders' equity	49,652	33,281
Total liabilities and stockholders' equity	$ 84,382	$ 77,993

See accompanying notes.

NOVAVAX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share information)

	For the years ended December 31,		
	2005	**2004**	**2003**
Revenues:			
Net product sales	$ 4,549	$ 6,397	$ 10,209
Contract research and development	1,798	1,738	1,301
Royalties, milestone and licensing fees	1,041	125	275
Total revenues	7,388	8,260	11,785
Operating costs and expenses:			
Cost of products sold	5,791	3,490	2,057
Excess inventory costs over market	1,519	—	—
Research and development	5,075	7,369	10,058
Selling and marketing	6,920	23,588	7,790
General and administrative	8,114	8,716	7,934
Facility exit costs	105	723	—
Gain on sales of product assets	(10,965)	—	—
Gain on redemption of debt	—	(11,162)	—
Total operating costs and expenses	16,559	32,724	27,839
Loss from operations	(9,171)	(24,464)	(16,054)
Interest expense, net	(2,003)	(1,526)	(1,219)
Other Income	—	70	—
Net loss	$ (11,174)	$ (25,920)	$ (17,273)
Basic and diluted loss per share	$ (0.26)	$ (0.70)	$ (0.58)
Basic and diluted weighted average number of common shares outstanding	42,758,302	36,926,034	29,852,797

See accompanying notes.

NOVAVAX, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2005, 2004 and 2003
(in thousands, except share information)

	Common Stock		Additional Paid-in Capital	Unearned Compensation	Notes Receivable From Directors	Accumulated Deficit	Treasury Stock	Total Stockholder's Equity
	Shares	Amount						
Balance, December 31, 2002	**25,222,110**	**$ 252**	**$102,361**	**$ —**	**$ (1,480)**	**$ (87,527)**	**$ (5,533)**	**$ 8,073**
Exercise of stock options	506,000	5	1,816	—	—	—	(212)	1,609
Shares retired	(5,927)	—	(31)	—	—	—	31	—
Sales of common stock	9,250,000	92	42,385	—	—	—	—	42,477
Shares issued to King and other non-cash expense	—	—	(2,242)	—	—	—	3,300	1,058
Net loss	—	—	—	—	—	(17,273)	—	(17,273)
Balance, December 31, 2003	**34,972,183**	**$ 349**	**$144,288**	**—**	**$ (1,480)**	**$ (104,800)**	**$ (2,413)**	**$ 35,944**
Exercise of stock options	107,550	1	368	—	—	—	—	369
Stock options issued as compensation	—	—	53	—	—	—	—	53
Shares issued for King Transaction	3,775,610	38	18,085	—	—	—	—	18,123
Sale of common stock	952,381	10	4,990	—	—	—	—	5,000
Financing costs allocated to raising additional capital	—	—	(288)	—	—	—	—	(288)
Net loss	—	—	—	—	—	(25,920)	—	(25,920)
Balance, December 31, 2004	**39,807,724**	**$ 398**	**$167,496**	**$ —**	**$ (1,480)**	**$ (130,720)**	**$ (2,413)**	**$ 33,281**
Exercise of stock options	342,654	3	392	—	—	—	—	395
Issuance of common stock for prior services	300,000	3	252	—	—	—	—	255
Restricted stock issued as compensation	552,434	6	570	(425)	—	—	—	151
Conversion of convertible debt	1,070,635	11	6,070	—	—	—	—	6,081
Sales of common stock	8,186,047	82	21,918	—	—	—	—	22,000
Financing costs allocated to raising additional capital	—	—	(1,337)	—	—	—	—	(1,337)
Net loss	—	—	—	—	—	(11,174)	—	(11,174)
Balance, December 31, 2005	**50,259,494**	**$ 503**	**$195,361**	**$ (425)**	**$ (1,480)**	**$ (141,894)**	**$ (2,413)**	**$ 49,652**

See accompanying notes.

NOVAVAX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the years ended December 31,		
	2005	2004	2003
Operating Activities			
Net loss	$ (11,174)	$ (25,920)	$ (17,273)
Reconciliation of net loss to net cash used by operating activities:			
Retirement of capital assets	65	58	129
Amortization	681	776	656
Depreciation	2,794	2,277	530
Provision for bad debts	4	413	183
Deferred financing	662	166	—
Deferred rent	10	12	64
Deferred revenue	—	(125)	(275)
Non-cash expense	—	—	258
Non-cash stock compensation	406	53	—
Non-cash facility exit costs	105	723	—
Gain on redemption of debt	—	(11,162)	—
Gain on sales of product assets	(10,965)		
Net proceeds from sales of product assets	12,733	—	—
Changes in operating assets and liabilities:			
Accounts and other receivables	(248)	720	(261)
Inventory	2,102	(2,609)	(222)
Prepaid expenses and other assets	852	(1,128)	51
Accounts payable and accrued expenses	(3,866)	5,436	(1,387)
Facility exit costs	(168)	(51)	—
Other non-current assets	198	262	—
Net cash used by operating activities	(5,809)	(30,099)	(17,547)
Investing activities			
Capital expenditures	(230)	(1,608)	(2,018)
Proceeds from disposal of property and equipment	68	—	100
Net cash used in investing activities	(162)	(1,608)	(1,918)
Financing activities			
Net proceeds from issuance of convertible notes	—	32,943	—
Net payments associated with King Transaction	—	(15,010)	—
Borrowing of long-term debt	—	—	226
Principal payment of capital lease obligations and notes payables	(1,070)	(1,064)	(219)
Net proceeds from sales of common stock	20,663	4,712	42,477
Proceeds from the exercise of stock options and warrants	395	369	1,609
Net cash provided by financing activities	19,988	21,950	44,093
Net change in cash and cash equivalents	14,017	(9,757)	24,628
Cash and cash equivalents at beginning of year	17,876	27,633	3,005
Cash and cash equivalents at end of year	$ 31,893	$ 17,876	$ 27,633
Non-cash transactions			
Conversion of convertible debt and accrued interest to common stock	$ 6,081	$ —	$ —
Equipment purchases included in accounts payable	$ 139	$ 101	$ 330
Financed insurance premiums	$ 501	$ 862	$ 844
Cashless stock option exercises	$ —	$ —	$ 181
Treasury stock reissued for accrued interest to King	$ —	$ —	$ 800

See accompanying notes.

1. Organization

Novavax, Inc., a Delaware corporation ("Novavax" or the "Company"), was incorporated in 1987, and is a biopharmaceutical company focused on the research, development and commercialization of proprietary products utilizing its proprietary drug delivery and biological technologies for large and growing markets. The Company's drug delivery technologies include the micellar nanoparticle ("MNP") technology, which is the basis for the development of the Company's first Food and Drug Administration approved product ESTRASORB®. In addition to MNP, the Company's drug delivery technologies include Novasomes® (paucillamellar non-phospholipid liposomes) and Sterisomes®. The Company's vaccine technologies include its virus-like particle ("VLP") manufacturing utilizing the baculovirus expression system in insect cells as well as novel vaccine adjuvants based on Novasomes and dendrimer technologies. The Company plans to continue leveraging its technologies to develop other new product candidates to be sold or licensed to pharmaceutical companies

In October 2006, the Company entered into License and Supply Agreements for ESTRASORB. Under the agreements, the Company will continue to manufacture ESTRASORB and the licensee, Esprit Pharma, Inc., which was granted an exclusive license, will sell ESTRASORB in North America.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts appearing in the prior year's footnote disclosure have been re-classified to conform to the current year's presentation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States 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. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with insignificant interest rate risk and original maturities of three months or less from the date of purchase to be cash equivalents. Substantially all cash equivalents are held in short-term money market accounts with banks and brokerage accounts with large, high-quality financial institutions.

Financial Instruments and Concentration of Credit Risk

Financial instruments, which possibly expose the Company to concentration of credit risk, consist primarily of cash and cash equivalents, accounts receivable and convertible notes payable. The Company maintains its cash and cash equivalents in bank and brokerage accounts with high-quality financial institutions. The balances, at times, may exceed federally insured limits. The Company has not experienced any losses on such accounts and management believes the risk of loss to be minimal. The carrying value of cash and cash equivalents and accounts receivable approximates their fair value based on their short-term maturities at December 31, 2005 and 2004. The fair values of convertible notes approximate their carrying value as of December 31, 2005 and 2004 based on rates currently available to the Company for debt with similar terms and remaining maturities.

2. Summary of Significant Accounting Policies (Continued)

Accounts and Other Receivables

Accounts receivables are reported in the consolidated balance sheets as outstanding principal less any charge-offs and the allowance for doubtful accounts. The Company charges off uncollectible receivables when the likelihood of collection is remote. Generally, the Company considers receivables past due 30 days subsequent to the billing date. The Company performs ongoing credit evaluations of its customers and generally extends credit without requiring collateral. The Company maintains an allowance for doubtful accounts that is determined based on historical experience and management's expectations of future losses. In 2004, losses were above management's expectations due to a high volume of returns as a result of generic competition. As of December 31, 2005 and 2004, the Company had an allowance for doubtful accounts of approximately $429,000 and $752,000, respectively.

Included in other receivables as of December 31, 2005 is $2,500,000 due from Esprit Pharma, Inc. related to the License Agreement with Esprit (see Note 3 *Summary of Significant Transactions*) and is due in October 2006.

As of December 31, 2005 and 2004, three customers accounted for 80% and 81% of the Company's gross product sales and 98% and 74% of the Company's product sales accounts receivable, respectively.

Inventories

Inventories are priced at the lower of cost or market using the first-in-first-out method and consist of the following at December 31:

	2005	2004
	(in thousands)	
Raw materials	$ 358	$ 351
Work-in-progress	38	700
Finished goods	404	2,413
	$ 800	$ 3,464

During the year ended December 31, 2005, the Company implemented SFAS No. 151, *Inventory Costs- an amendment of ARB No. 43, Chapter 4* ("SFAS No. 151"). Under SFAS No. 151, the Company allocated fixed production overheads to inventories based on the anticipated normal capacity of the manufacturing facility at that time. Included in cost of products sold for the year ended December 31, 2005 is $3,198,000, $(.03) per share, of idle capacity costs which represents the excess of fixed production overhead over that allocated to inventories.

During the year ended December 31, 2005, $1,519,000 of inventory costs in excess of market value were included in the accompanying consolidated statement of operations and related to the Supply Agreement with Esprit (see Note 3 *Summary of Significant Transactions*). Under the terms of this agreement the Company sells ESTRASORB at a price that was lower than its current inventory carrying value and was below its manufacturing costs for the inventory manufactured and sold during the fourth quarter of 2005. The Company anticipates these costs to be lower in 2006 as our manufacturing facility will be more fully utilized manufacturing ESTRASORB as well as fulfilling other manufacturing contracts.

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 of the assets, generally three to 10 years. Amortization of leasehold improvements is provided over the shorter of the estimated useful lives of the improvements or the term of the lease. Repairs and maintenance costs are expensed as incurred.

2. Summary of Significant Accounting Policies – (Continued)

Goodwill and Other Intangible Assets

Goodwill originally results from business acquisitions. Assets acquired and liabilities assumed are recorded at their fair values; the excess of the purchase price over the identifiable net assets acquired is recorded as goodwill. Other intangible assets are a result of product acquisitions, non-compete arrangements, and internally-discovered patents. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"), goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to impairment tests annually, or more frequently should indicators of impairment arise. The Company utilizes a discounted cash flow analysis that includes profitability information, estimated future operating results, trends and other information in assessing whether the value of indefinite-lived intangible assets can be recovered. Under SFAS No. 142, goodwill impairment is deemed to exist if the carrying value of a reporting unit exceeds its estimated fair value. In accordance with the requirements of SFAS No. 142, the Company initially tested its goodwill for impairment as of January 1, 2002 and determined that no impairment was present. The Company thereafter performed the required annual impairment test as of December 31 of each year on the carrying amount of its goodwill, which indicated the Company's estimated fair value of goodwill exceeded its carrying value, therefore, no impairment was identified during December 31, 2004 or 2005. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from five to 17 years.

Goodwill and other intangible assets consist of the following at December 31:

	2005			2004		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(in thousands)					
Goodwill						
Goodwill-Company acquisition	$ 33,141	$ —	$ 33,141	$ 33,141	$ —	$ 33,141
Other intangible assets, net						
ESTRASORB rights	$ —	$ —	$ —	$ 2,514	$ (136)	$ 2,378
AVC-Product acquisition	—	—	—	3,332	(1,904)	1,428
Patents	2,525	(1,415)	1,110	2,525	(1,283)	1,242
Total other intangible assets, net	$ 2,525	$ (1,415)	$ 1,110	$ 8,371	$ (3,323)	$ 5,048

Amortization expense was $681,000, $776,000 and $656,000 for the years ended December 31, 2005, 2004 and 2003, respectively. Estimated future amortization expenses for intangible assets as of December 31, 2005 are as follows:

Year	Amortization Expense
2006	$ 132
2007	132
2008	132
2009	132
2010	132
Thereafter	450
	$ 1,110

The Company evaluates the recoverability of the carrying value of its long-lived assets and identifiable intangibles periodically and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Examples of events or changes in circumstances that indicate that the recoverability of the carrying value of an asset should be assessed include but are not limited to the following: a significant decrease in the market value of an asset, a significant change in the extent or manner in which an asset is used, a significant physical change in an asset, a significant adverse change in legal factors or in the business climate that could affect the value of an asset, an adverse action or assessment by a regulator, an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset, a current period operating or cash flow loss combined with a history of operating or cash flow losses, and/or a projection or forecast that demonstrates continuing losses associated with an asset used for the purpose of producing revenue. The Company considers historical performance and anticipated future results in its evaluation of potential impairment. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of these assets in relation to the operating performance of the business and future discounted and undiscounted cash flows expected to result from the use of these assets. Impairment losses are recognized when the sum of expected future cash flows is less than the assets' carrying value. No such impairment losses have been recognized to date, with the exception of the leasehold assets written off in relation to the facility exit mentioned in Note 4 *Long-term Lease and Accounting for Facility Exit Costs*.

2. Summary of Significant Accounting Policies — (Continued)

Revenue Recognition and Allowances

The Company recognizes revenue in accordance with the provisions of Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB No. 104"). For product sales, revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured. The Company recognizes these sales net of allowances for returns, rebates and chargebacks. A large part of the Company's product sales are to distributors or to Esprit who resell the products to their customers. The Company provides rebates to members of certain buying groups who purchase from the Company's distributors, to distributors that sell to their customers at prices determined under a contract between the Company and the customer and to state agencies that administer various programs such as the federal Medicaid and Medicare programs. Rebate amounts are usually based upon the volume of purchases or by reference to a specific price for a product. The Company estimates the amount of the rebate that will be paid, and records the liability as a reduction of revenue when the Company records our sale of the products. Settlement of the rebate generally occurs from three to 12 months after sale. The Company regularly analyzes the historical rebate trends and makes adjustments to recorded reserves for changes in trends and terms of rebate programs. In a similar manner, the Company estimates amounts for returns based on historical trends, distributor inventory levels, product prescription data and generic competition and makes adjustments to the recorded reserves for changes in trends and competition.

Under the terms of the Asset Purchase Agreement with Pharmelle, LLC (see Note 3 *Summary of Significant Transactions*) the Company no longer has responsibility for rebates or returns related to AVC™ Cream and Suppositories, NovaNatal and NovaStart as of the date of the sale of such assets. Under the License and Supply Agreements with Esprit Pharma, Inc. (see Note 3 *Summary of Significant Transactions*) the Company no longer has responsibility for rebates related to ESTRASORB 90 days subsequent to entering into the License Agreement and no longer has responsibility for returns related to ESTRASORB sales made subsequent to entering into the License Agreement.

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

For upfront payments and licensing fees related to contract research or technology, the Company follows the provisions of SAB No. 104 in determining if these payments and fees represent the culmination of a separate earnings process or if they should be deferred and recognized as revenue as earned over the life of the related agreement. Milestone payments are recognized as revenue upon achievement of contract-specified events and when there are no remaining performance obligations.

In 2005, 2004 and 2003, revenue earned under current biological technologies research contracts was recognized per the terms and conditions of such contracts for invoicing of costs incurred and defined milestones. In 2005, revenue earned under a drug development contract was recognized on the percentage-of-completion method, whereby revenue was recognized in proportion to the estimated cost-to-complete the contract. In 2005, revenue earned under the renewal of the IGI agreement (see Note 3 *Summary of Significant Transactions*) was recognized completely upon receipt of payment. Also in 2005, revenue earned under the License Agreement with Esprit Pharma, Inc. (see Note 3 *Summary of Significant Transactions*) was recognized at the time of the agreement since the Company had no further performance obligations related to the license agreement.

Net Loss per Share

Basic loss per share is computed by dividing the net loss available to common shareholders (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period that they were outstanding. The computation of diluted loss per share is similar to the computation of basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued (e.g. upon exercise of stock options). Potentially dilutive common shares are not included in the computation of diluted earnings per share if they are anti-dilutive. Net loss per share as reported was not adjusted for potential common shares, as they are anti-dilutive.

2. Summary of Significant Accounting Policies — (Continued)

Stock-Based Compensation

The Company currently applies the principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"), in accounting for stock options issued to its employees APB No. 25 generally does not require that options granted to employees be expensed. Had the Company applied the fair value principles of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123") as amended by Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure* ("SFAS No. 148"), for its employee options, its net loss for the years ended December 31, 2005, 2004 and 2003 would have increased as follows:

	Year Ended December 31, (in thousands, except per share data)		
	2005	2004	2003
Net loss, as reported	$ (11,174)	$ (25,920)	$ (17,273)
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards (1)	(5,334)	(4,131)	(6,254)
Pro forma net loss	$ (16,508)	$ (30,051)	$ (23,527)
Net loss per share:			
Basic and diluted — as reported	$ (0.26)	$ (0.70)	$ (0.58)
Basic and diluted — pro forma	$ (0.39)	$ (0.81)	$ (0.79)

(1) Does not include restricted stock compensation expense which is reported in the consolidated statement of operations.

These pro forma amounts are not necessarily indicative of future effects of applying the fair value-based method due to, among other things, the vesting period of the stock options and the fair value of the additional stock options issued in future years.

During the year ended December 31, 2005, the Company granted 552,434 shares of restricted Common Stock under the 2005 Stock Incentive Plan totaling $576,000 in value at the date of grant to various employees, officers and a board member of the Company, which vest over periods of up to three years. In accordance with APB No. 25 and using the straight-line method of amortization, for the year ended December 31, 2005, $150,000 of non-cash stock compensation expense was included in total operating costs and expenses related to this restricted stock and additional paid-in capital was increased accordingly.

In September 2004, the Company granted stock options to purchase an aggregate 26,450 shares to two consultants as compensation for services through the end of October 2004. For the year ended December 31, 2004, $53,000 of non-cash stock compensation expense was included in sales and marketing expense, which represents the fair value of the grants as of that date.

Advertising and Promotion Costs

All costs associated with advertising and promotions are expensed as incurred. Advertising and promotion expense was $1,730,000 in 2005, $12,607,000 in 2004, and were insignificant in 2003.

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs include salaries and benefits, outside services, materials and supplies, facility costs and allocations of certain support costs.

The Company is part of a consortium that received a NIAID project program grant to develop another set of HIV vaccine candidates. The Company expects to receive approximately $2,200,000 through February 2008 for its participation in this grant effort.

2. Summary of Significant Accounting Policies — (Continued)

Income Taxes

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

The effect of changes in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce net deferred tax assets to the amount expected to be realized. The Company has provided a full valuation allowance against its net deferred tax assets as of December 31, 2005 and 2004.

Comprehensive Loss

Under SFAS No. 130, *Reporting Comprehensive Income*, the Company is required to display comprehensive loss and its components as part of its consolidated financial statements. Comprehensive loss is comprised of the net loss and other comprehensive income (loss), which includes certain changes in equity that are excluded from the net loss. Comprehensive loss for the Company was the same as net loss for the years ended December 31, 2005, 2004 and 2003.

Segment Information

The Company currently operates in one business segment, which is the research, development and commercialization of proprietary products utilizing its proprietary drug delivery and biological technologies. The Company is managed and operated as one business. A single management team that reports to the Chief Executive Officer comprehensively manages the entire business. The Company does not operate separate lines of business with respect to its products or product candidates. Accordingly, the Company does not have separately reportable segments as defined by SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*.

Recent Accounting Pronouncements

In December 2004, the FASB issued Statement No. 123 (revised) *Share-Based Payment* ("SFAS No. 123R"), which is a revision of Statement No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"). SFAS No. 123R supersedes APB No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows.* Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer an alternative.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using the intrinsic value method permitted by APB No. 25 and, as such, generally recognizes no compensation cost for employee stock options.

The Company will adopt SFAS No. 123R using the modified prospective method beginning with the first quarter of 2006. The impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. The adoption of SFAS No. 123R's fair value method will have a significant impact on the Company's results of operations, although it will have no impact on the Company's overall financial position.

Had the Company adopted SFAS No. 123R in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share in this Note 2 to the consolidated financial statements. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. For the years ended December 31, 2005, 2004 and 2003, the Company did not pay any taxes, therefore, there was no effect on operating cash flows for such excess tax deductions.

2. Summary of Significant Accounting Policies — (Continued)

Recent Accounting Pronouncements (continued)

In March 2005, the FASB issued Interpretation No. 47 *Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143* ("FIN 47"). FIN 47 clarifies the term "conditional asset retirement obligation" used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, and refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the Company. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Accordingly, FIN 47 requires the Company to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation is to be recognized when incurred. FIN 47 became effective for the Company with the year ended December 31, 2005. The adoption of FIN 47 did not have a material effect on the Company's consolidated financial statements.

In May 2005, the FASB issued Statement No. 154 *Accounting Changes and Error Corrections — a Replacement of APB Opinion No. 20 and FASB Statement No.3* ("SFAS No. 154"). SFAS No. 154 changes the requirements for the accounting for, and reporting of, a change in accounting principle. SFAS No. 154 requires that a voluntary change in an accounting principle be applied retrospectively with all prior period financial statements presented using the new accounting principle. SFAS No. 154 is effective for accounting changes and corrections or errors in fiscal years beginning after December 15, 2005. The Company will apply the requirement of SFAS No. 154 on any changes in principle made on or after January 1, 2006.

3. Summary of Significant Transactions

License agreement renewal with IGI, Inc.

In December 2005, The Company received a $1,000,000 payment from IGI, Inc. in accordance with an option in a licensing agreement signed between the Company and IGI in December 1995. This payment gives IGI a ten year renewal on licensed technologies in specific fields and was included in royalties, milestone and licensing fees on the accompanying consolidated statement of operations for the year ended December 31, 2005.

License and Supply Agreements with Esprit Pharma, Inc.

In October 2005, the Company entered into License and Supply agreements for ESTRASORB with Esprit Pharma, Inc. Under the License Agreement, Esprit obtained exclusive rights to market ESTRASORB in North America and under the Supply Agreement the Company will continue to manufacture ESTRASORB.

In consideration for the rights granted, Esprit will pay the Company a minimum cash consideration of $12,500,000: $2,000,000 which was paid at closing, $8,000,000 which was paid in December 2005, and the remaining $2,500,000 is included in accounts receivable and other receivables as of December 31, 2005 and is due on the first anniversary date of the License Agreement. The Company will also receive a royalty on all net sales of ESTRASORB as well as milestone payments based on specific pre-determined net sales levels of ESTRASORB. The Company wrote off $2,175,000, the remaining net balance of its intangible asset for ESTRASORB rights (see *Cancellation of King Pharmaceuticals Agreements* below), at the date of the transaction. As part of the Supply Agreement, Esprit paid the Company $273,000 for inventory and sales and promotional materials for which the Company had a book value of $437,000. The Company incurred $200,000 of fees related to this transaction and recorded a gain of $10,125,000, which is included in gain on sales of product assets on the accompanying consolidated statement of operations for the year ended December 31, 2005.

Asset Purchase Agreement with Pharmelle, LLC

In September 2005, the Company entered into an Asset Purchase Agreement with Pharmelle, LLC for the sale of assets related to the AVC Cream and Suppositories, NovaNatal and NovaStart products, as well as assets relating to certain formerly-marketed products Vitelle, Nestabs, Gerimed, Irospan and Nessentials. The assets sold included, but were not limited to, intellectual property, the New Drug Application for AVC products, inventory and sales and promotional materials. In connection with the sale, Pharmelle agreed to assume those liabilities and obligations arising after the closing date of the transaction in connection with the performance by Pharmelle of certain assumed contracts, those liabilities and obligation arising after the closing date in connection with products sold by Pharmelle after the closing date or the operation of the business relating to such products or the assets after such date (including any product liability claims associated with such products), and all liability and responsibility for returns of the products made after the closing date, regardless of when such products were produced, manufactured or sold.

3. Summary of Significant Transactions — (Continued)

Asset Purchase Agreement with Pharmelle, LLC — continued

In consideration for the sale of these assets, Pharmelle paid the Company $2,500,000 in cash and assumed the liabilities noted above. In addition, the Company is entitled to royalties on AVC for a five year period if net sales exceed certain levels. The Company wrote off $1,082,000, the net balance of its intangible assets related to the AVC product acquisition and $289,000 of inventory, recorded a $289,000 liability for future obligations and recorded a gain on the transaction of $840,000. This gain is included in gain on sales of product assets on the accompanying consolidated statement of operations for the year ended December 31, 2005.

Restructuring of the Sales Force

From March through August 2005, the Company implemented measures to reduce costs associated with its commercial operations by downsizing its sales force to correspond with the Company's strategy of transitioning from a commercial business model to that of one focused on the Company's core competency of new product development. The March restructuring reduced the Company's sales force numbers significantly while the August restructuring eliminated the remaining sales force. Included in sales and marketing expenses in the accompanying consolidated statement of operations for the year ended December 31, 2005 is $444,000 related to these two restructurings. Included in this amount are (i) one-time termination benefits of $305,000, all of which were paid as of December 31, 2005, (ii) auto lease contract termination costs of approximately $125,000, of which $2,000 is still included in accrued expenses as of December 31, 2005, and (iii) $14,000 of other associated costs, all of which were paid as of December 31, 2005.

Opportunity Grant Funds

In July 2005, the Company received $400,000 from the Commonwealth of Pennsylvania for the reimbursement of certain costs incurred with the move of our corporate headquarters and product development activities to Malvern, Pennsylvania. These funds were included as an offset to general and administrative expenses included in the accompanying consolidated statement of operations for the year ended December 31, 2005.

Cancellation of King Pharmaceuticals Agreements

In January 2001, the Company entered into a co-promotion agreement with King Pharmaceuticals, Inc. for the Company's topical estrogen therapy, ESTRASORB, in the United States and Puerto Rico (the "Territory"). The Company also entered into a license agreement with King for many countries outside the United States. The co-promotion and license agreements (the "Agreements") granted King the right to share equally in the revenues and expenses for manufacturing and marketing ESTRASORB in the Territory and exclusive rights to many countries outside the United States. The Agreements also entitled the Company to up to $5,000,000 in milestone payments from King for achievement of milestones outlined in the Agreements.

In June 2001, the Company amended the Agreements (the "Amended Agreements"). The Amended Agreements clarified the terms of two milestone payments totaling $5,000,000. The Amended Agreements also granted King exclusive rights to promote, market and distribute ESTRASORB in Canada, Switzerland, Greece, Italy, Spain and the Netherlands, the only countries excluded from the original license agreement. In addition, the Amended Agreements included the co-promotion and license of ANDROSORB™, a topical testosterone therapy for testosterone deficient women, that was in development.

In July 2004, King and the Company mutually agreed to terminate the Amended Agreements, among others, (the "King Transaction"). The King Transaction included the return to Novavax of all rights worldwide for ESTRASORB and ANDROSORB, as well as all rights to other women's health products that the Company may successfully develop utilizing the MNP technology. The transaction also included the redemption of $40.0 million of the Company's convertible notes held by King. Additionally, Novavax hired 50 members of King's women's health sales force to provide competitive sales force coverage. As part of the King Transaction, the Company paid King a net of $14.0 million in cash and issued King 3,775,610 shares of common stock, which at the time of closing were valued at approximately $18,123,000.

3. Summary of Significant Transactions — (Continued)

Cancellation of King Pharmaceuticals Agreements — continued

The King Transaction resulted in a gain on the redemption of the convertible notes held by King of $11,162,00, which is included in gain on redemption of debt on the accompanying consolidated statement of operations for the year ended December 31, 2004. This gain was determined based on the fair value of the convertible notes plus accrued interest as of the transaction date compared to the notes' total book value. In addition, an intangible asset for ESTRASORB rights of $2,514,000 was recorded, which represents the difference between assets and liabilities acquired or written off, the net cash paid in the transaction, the common stock issued and transaction fees and expenses. The recorded intangible was determined to be a fair value for the rights re-acquired based on the sales levels of ESTRASORB, the status of obtaining approval outside the United States and the deferred further development of ANDROSORB. Included in the assets and liabilities written off were deferred financing costs of $351,000 relating to the convertible notes held by King, and remaining deferred revenue of $2,250,000 relating to previous licensing fees for ESTRASORB, mentioned above.

4. Long-term Lease and Accounting for Facility Exit Costs

In December 2003, the Company prepared for the consolidation of warehousing and distribution functions for all its products by closing its distribution facility in Maryland Heights, Missouri. The Company entered into a service arrangement with Cardinal Health in Nashville, Tennessee for customer service, warehousing and product shipment to distribute current and future products. Prior to this restructuring, the Company purchased its prenatal vitamins in bulk and packaged the vitamins at the Missouri facility. As part of the restructuring, the Company also entered into an agreement with a third-party packager for the vitamin line of products.

One time costs associated with this restructuring included moving costs of approximately $15,000, along with transition payments to 10 production and support employees of approximately $75,000 in the aggregate were included in general and administrative expenses in the accompanying consolidated statement of operations for the year ended December 31, 2003. In addition, the Company held an auction, selling off most of the fixed assets that were located at the facility. The auction resulted in a loss on disposal of assets of approximately $129,000. As of December 31, 2004, all costs associated with the restructuring had been paid.

In July 2004, the Company entered into a long-term agreement to lease a 32,900 square foot facility in Malvern, Pennsylvania for the consolidation and expansion of corporate headquarters and product development activities. The lease, with a commencement date of September 15, 2004, has an initial term of 10 years with two five-year renewal options. Standard annual escalation rental rates are in effect during the initial lease term. With six months advance notice, the Company also has an option to lease adjoining space of 17,000 square feet, which could be built out for future manufacturing needs.

In June 2005, the Company renewed a long-term agreement to lease a 11,700 square foot facility in Rockville, Maryland for contract vaccine research, development and manufacturing of Phase I products. The lease, with a commencement date of April 1, 2005, has a 5 year term. A 3% annual escalation rental increase is in effect during the lease term.

The Company applied the principles of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* in accounting for contract termination costs and associated costs that will continue to be incurred under the operating lease expiring on October 31, 2006 related to its former corporate offices located in Columbia, Maryland. For the years ended December 31, 2005 and 2004, $105,000 and $252,000, respectively, was included in facility exit costs line in the accompanying consolidated statements of operations, which represents the difference between the fair value of the remaining lease payments, reduced by current estimated sublease rentals that could be reasonably obtained.

A roll-forward of facility exit cost liability is as follows:

	Current	Non-Current
	(in thousands)	
Original amount expensed and set up as a liability	$ 151	$ 101
Lease payments applied to the liability	(28)	(23)
Balance as of December 31, 2004	123	78
Lease payments applied to the liability	(30)	(138)
Adjustment to original estimate	45	60
Balance as of December 31, 2005	$ 138	$ —

4. Long-term Lease and Accounting for Facility Exit Costs — (Continued)

The Company applied the principles of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* and APB No. 20, *Accounting Changes,* in writing off the remaining useful lives of the leasehold assets relating to the Columbia facility. For the year ended December 31, 2004, $471,000 or ($0.01) per share, was included in the facility exit costs line item in the accompanying consolidated statement of operations associated with the moving of corporate offices.

5. Supplemental Financial Data

Allowance for Doubtful Accounts

A roll-forward of the allowance for doubtful accounts is as follows:

	(in thousands)
Balance, December 31, 2002	$ 193
Provision for bad debts	257
Write off bad debts	(74)
Balance, December 31, 2003	$ 376
Provision for bad debts	413
Other adjustments	(37)
Balance, December 31, 2004	$ 752
Provision for bad debts	4
Write off bad debts	(327)
Balance, December 31, 2005	$ 429

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at December 31:

	2005	2004
	(in thousands)	
Prepaid insurance	$ 593	$ 898
Current portion of deferred financing	341	411
Non-trade receivables	75	218
Interest on shareholders notes	284	209
Other current assets	54	34
	$ 1,347	$ 1,770

Property and Equipment

Property and equipment is comprised of the following at December 31:

	2005	2004
	(in thousands)	
Machinery and equipment	11,275	11,471
Leasehold improvements	6,201	6,048
Computer software and hardware	320	480
	17,796	17,999
Less accumulated depreciation	(6,207)	(3,852)
	$ 11,589	$ 14,147

Depreciation expense was approximately $2,794,000, $2,277,000, and $530,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

5. Supplemental Financial Data — (Continued)

Accrued Expenses

Accrued expenses consist of the following at December 31:

	2005	2004
	(in thousands)	
Sales return allowance	$ 282	$ 1,274
Sales rebate allowance	18	45
Employee benefits and compensation	754	1,427
Operating expenses	917	638
Interest	626	756
	$ 2,597	$ 4,140

Sales Return Allowance

A roll-forward of the sales return allowances is as follows:

	(in thousands)
Balance, December 31, 2002	$ 44
Provision for returns for 2003 sales	359
Additional provision for returns for sales prior to 2003	952
Returns received for 2001 sales	(699)
Returns received for 2002 sales	(498)
Balance, December 31, 2003	158
Provision for returns for 2004 sales	885
Additional provision for returns for 2003 sales	771
Additional provision for returns for 2002 sales	463
Returns received for 2002 sales	(447)
Returns received for 2003 sales	(556)
Balance, December 31, 2004	1,274
Provision for 2005 sales	95
Additional provision for 2004 sales	98
Additional provision for 2003 sales	341
Returns received from 2003 sales	(926)
Returns received from 2004 sales	(600)
Balance, December 31, 2005	$ 282

6. Long-term debt

Notes Payable

Notes payable consist of the following at December 31:

	2005	2004
	(in thousands)	
Note payable; bears interest at 3.00% per annum; principal and interest due in monthly installments of $6,600 through December 2009	$ 287	$ 356
Note payable; bears interest at 2.850% per annum; principal and interest due in monthly installments of $6,573 through January 2010	303	373
Note payable; bears interest at 2.38% per annum; principal and interest due in monthly installments of $6,468 through January 2010	302	372
Note payable; insurance financing; bears interest at 5.09% per annum; principal and interest due in monthly installments of $56,868 through September 2006	501	—
Note payable; insurance financing; bears interest at 4.69% per annum; principal and interest due in monthly installments of $88,035 through October 2005	—	862
Total	1,393	1,963
Less current portion	(715)	(1,071)
Long-term portion	$ 678	$ 892

The notes (except for the notes payable for financing insurance premiums) are secured by $2.4 million of the Company's machinery and equipment located in the Company's manufacturing site in Philadelphia, Pennsylvania.

Convertible Notes

From 2000 to 2002, the Company entered into a series of note purchase agreements with King totaling $40,000,000. All of the notes would have matured on December 19, 2007 with interest payable in semi-annual installments on June 30 and December 31. As part of the King Transaction, the Company redeemed these notes on July 19, 2004. For the six months ended June 30, 2004, the Company accrued interest of $800,000 relating to the King notes. This accrued interest was written off as part of the King Transaction and included in the resulting gain on the redemption of the convertible notes held by King (see Note 3 *Summary of Significant Transactions*). For the year ended December 31, 2003, the Company made cash interest payments of $1.6 million for the King notes. For the year ended December 31, 2002, the Company made cash interest payments of $600,000 and accrued an additional $800,000 for interest expense at year-end for which King agreed to accept payment in common stock. In February 2003, the Company issued King 307,692 shares of common stock to satisfy the accrued interest payable. For the year ending December 31, 2003, the Company capitalized $386,717 for interest incurred on debt used to finance the build-out of its manufacturing facility.

Concurrent with the King Transaction, in July 2004 the Company also entered into definitive agreements for the private placement of $35,000,000 aggregate principal amount of senior convertible notes to a group of institutional investors. The notes carry a 4.75% coupon, payable semi-annually, mature in five years and are currently convertible into shares of common stock at $5.56 per share. From the third anniversary of the issue date of the notes, and subject to certain conditions, the Company shall have the right to effect a mandatory conversion of the notes if the weighted average price of the common stock exceeds 175% of the then conversion price for each of 15 trading days out of any 30 consecutive trading days. Note holders shall have the right to require the Company to redeem all or a portion of the notes if the weighted average price of the common stock for each of 30 trading days out of 40 consecutive trading days prior to either the third or fourth anniversary of the issue date of the notes is less than the then applicable conversion price of the Company's common stock, *provided*, that a holder's right to effect this optional redemption will not apply if certain revenue targets for ESTRASORB are achieved. The notes are also redeemable upon the occurrence of specified events of default as well as a "change of control" (as that term is defined in the notes) of Novavax. At December 31, 2005 and 2004, the Company had accrued interest of $626,000 and $756,000, respectively, relating to these notes.

6. Long-term debt — (Continued)

Convertible Notes — continued

In October 2005, certain holders of $6,000,000 face amount of the Company's senior convertible notes exercised their optional conversion right to convert their notes plus accrued interest of $81,000 into 1,070,635 shares of Novavax common stock, at the per share conversion price then in effect of $5.68. This reduces the aggregate principal amount of such notes outstanding from $35,000,000 to $29,000,000.

As a result of both of the financing and the King Transaction, the Company incurred $3,355,000 of transaction expenses, which increased the intangible asset for ESTRASORB rights by $1,010,000 (included in the total intangible asset for ESTRASORB rights of $2,514,000), decreased additional paid-in capital by $288,000, and increased deferred financing costs by $2,057,000. The deferred financing costs are being amortized over the life of the convertible notes. During the years ended December 31, 2005 and 2004, $400,000 and $184,000, respectively, of deferred financing costs amortization was included in interest expense on the accompanying consolidated statements of operations. Concurrent with the conversion of the Company's $6,000,000 senior convertible debt (mentioned above), the Company wrote off $262,000 of deferred financing costs that corresponds to the $6,000,000 of senior convertible debt, which is included interest expense on the accompanying statement of operations for the year ended December 31, 2005.

Convertible notes consist of the following on December 31:

	2005	2004
	(in thousands)	
Note payable; 4.75% senior convertible, issued July 19, 2004, due July 15, 2009, currently convertible into 5,215,827 shares of Novavax common stock at $5.56 per share	$ 29,000	$ 35,000

Aggregate future minimum principal payments on debt at December 31, 2005 are as follows:

Year	Amount (in thousands)
2006	$ 715
2007	220
2008	226
2009	29,219
2010	13
	$ 30,393

Total cash interest payments for the three years December 31, 2005, 2004 and 2003 were $1,719,000, $54,000 and $1,700,000 respectively.

7. Sale of Common Stock

In February 2003, the Company completed the private placement of 4,750,000 shares of common stock at $3.50 per share to an accredited investor, for net proceeds of $16,600,000. The shares were issued in reliance on Section 4(2) of the Securities Act of 1933, as amended. A resale registration statement was filed with the Commission in April 2003, and was declared effective in May 2003.

In May 2003, the Company received net proceeds of approximately $1,500,000 from the exercise of 400,000 common stock options at $3.63 per share.

In November 2003, the Company completed an offering of 4,500,000 shares of common stock at $6.15 per share. The stock was offered and sold pursuant to an existing shelf registration statement. Net proceeds after deducting underwriter fees of approximately $1,700,000, as well as legal, accounting and other miscellaneous fees, were approximately $25,900,000.

During 2004, the Company received net proceeds of $369,000 from the exercise of 107,550 common stock options at a range of $3.24 to $4.30 per share.

7. Sale of Common Stock — (Continued)

Concurrent with the King Transaction, in July 2004 the Company issued 952,381 shares of common stock at $5.25 per share, for gross proceeds of $5.0 million to an accredited investor in reliance on Regulation D promulgated under the Securities Act of 1933, as amended. A resale registration statement was filed and declared effective for such shares in August 2004.

In July 2005, the Company completed an agent-led offering of 4,000,000 shares of common stock at $1.00 per share for gross proceeds of $4,000,000. The stock was issued pursuant to an existing shelf registration statement. Net proceeds after deducting underwriter, legal, accounting and other miscellaneous fees were approximately $3,631,000.

In August 2005, the Company issued 250,000 shares of common stock in a private placement to its former Chief Executive Officer for prior services, which had a fair market value of $215,000 at the time of issuance.

In August 2005, the Company approved the issuance of 50,000 shares of common stock to a director in a private placement for prior services and for his agreement to pledge such shares to a brokerage firm to secure the debt guarantee by the Company (see Note 13 *Related Party Transactions*). The fair value at the time of the approval of these shares was $37,000 and they were issued in December 2005.

In November 2005, the Company completed an offering of 4,186,047 shares of common stock at $4.30 per share. The stock was offered and sold pursuant to an existing shelf registration statement. Net proceeds after deducting underwriter fees, legal and other miscellaneous fees were approximately $17,032,000.

During 2005, the Company received net proceeds of $395,000 for the exercise of 342,654 common stock options at a range of $.01 to $3.75 per share.

8. Stockholders' Equity

On August 7, 2002, the Company adopted a Shareholder Rights Plan which provides for the issuance of rights to purchase shares of Series D Junior Participating Preferred Stock, par value $0.01 per share (the "Preferred Shares"), of the Company. Under the Shareholder Rights Plan, the Company distributed one preferred share purchase right (a "Right") for each outstanding share of common stock, par value $.01 (the "Common Shares"), of the Company. The Rights were distributed to stockholders of record on August 16, 2002.

Each Right entitles the holder to purchase from the Company one-thousandth of a Preferred Share at a price of $40, subject to adjustment. The rights become exercisable, with certain exceptions, 10 business days after any party, without prior approval of the Board of Directors, acquires or announces an offer to acquire beneficial ownership of 15% or more of the Company's Common Shares. In the event that any party acquires 15% or more of the Company's common stock, the Company enters into a merger or other business combination, or if a substantial amount of the Company's assets are sold after the time that the Rights become exercisable, the Rights provide that the holder will receive, upon exercise, shares of the common stock of the surviving or acquiring company, as applicable, having a market value of twice the exercise price of the Right.

The Rights expire August 7, 2012, and are redeemable by the Company at a price of $0.00025 per Right at any time prior to the time that any party acquires 15% or more of the Company's Common Shares. Until the earlier of the time that the Rights become exercisable, are redeemed or expire, the Company will issue one Right with each new Common Share issued.

9. Stock Options

Under the 2005 Stock Incentive Plan (the "2005 Plan"), approved in May 2005 by the stockholders of the Company, options may be granted to officers, employees, consultants and advisors to Novavax and any present or future subsidiary to purchase a maximum of 2,000,000 shares of Novavax common stock and an additional 565,724 shares of common stock that had been held in reserve under the Company's 1995 Stock Option Plan (the "1995 Plan"), were unused and were transferred to the Company 2005 Plan. In addition, a maximum 5,746,468 shares of common stock subject to existing options under the 1995 Plan may revert to and become issuable under the 2005 Plan if such existing options granted under the 1995 Plan should for any reason expire or otherwise terminate.

Under the 2005 Plan, the 1995 Plan and the 1995 Director Stock Option Plan (the "1995 Director Plan") incentive stock options, having a maximum term of 10 years, can be or were granted at no less than 100% of the fair market value of Novavax's stock at the time of grant and are generally exercisable in cumulative increments over several years from the date of grant. Both incentive and non-statutory stock options may be granted under these plans. There is no minimum exercise price for non-statutory stock options.

9. Stock Options — (Continued)

The exercise price is the fair market value per share of the Company's common stock on the date of grant. Options granted to eligible directors are exercisable in full beginning six months after the date of grant and expire 10 years from the grant date. All options available under the 1995 Director Plan have been granted. 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 or her death, any 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 10 years from its date of grant).

Activity under the 2005 Plan, 1995 Plan and Director Plan was as follows:

	2005 Stock Option Plan		1995 Stock Option Plan		1995 Director Stock Option Plan	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Balance, December 31, 2002			3,601,796	$ 6.10	300,000	$ 4.01
Granted			2,091,000	5.16	—	—
Exercised			(506,000)	4.30	—	—
Expired or canceled			(975,153)	7.93	(30,000)	3.85
Balance, December 31, 2003			4,211,643	5.61	270,000	4.03
Granted			1,308,150	5.46	—	—
Exercised			(107,550)	3.43	—	—
Expired or canceled			(350,275)	7.69	—	—
Balance, December 31, 2004			5,061,968	5.48	270,000	4.03
Granted	2,192,775	$ 1.22	486,825	2.13	—	—
Exercised	—	—	(312,654)	0.96	(30,000)	3.15
Expired or canceled	(88,850)	1.46	(2,115,978)	5.64	(70,000)	4.61
Balance, December 31, 2005	2,103,925	$ 1.21	3,120,161	$ 5.30	170,000	$ 3.95
Shares exercisable at December 31, 2003	—	$ —	2,180,439	$ 5.32	270,000	$ 4.03
Shares exercisable at December 31, 2004	—	$ —	2,683,195	$ 5.40	270,000	$ 4.03
Shares exercisable at December 31, 2005	354,165	$ 1.31	2,220,857	$ 5.71	170,000	$ 3.95
Available for grant at December 31, 2005	2,021,443					

The weighted-average fair value of the stock options outstanding as of December 31, 2005, 2004 and 2003 is estimated as $3.17, $3.32, and $3.10 per share, respectively. The fair value of awards was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Year Ended December 31		
	2005	2004	2003
Risk-free interest rate	4.0%	3.0%	3.5%
Dividend yield	0.0%	0.0%	0.0%
Volatility	129.0%	59.0%	72.0%
Expected life (in years):			
Employees	6.0	6.0	6.0
Directors	3.0	3.0	3.0

9. Stock Options — (Continued)

The following table provides certain information with respect to stock options outstanding and exercisable at December 31, 2005:

	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
Options issued at market value:					
$0.00 - $1.17	710,000	9.6	$ 0.87	79,165	$ 1.03
$1.17 - $2.33	1,706,363	9.4	1.51	305,938	1.45
$2.33 - $3.50	276,450	4.4	3.30	276,450	3.30
$3.50 - $4.66	1,082,645	5.9	4.00	858,437	4.01
$4.66 - $5.83	267,000	3.9	5.45	240,500	5.42
$5.83 - $6.99	683,983	8.0	6.03	322,687	6.06
$6.99 - $8.16	233,334	2.0	7.43	233,334	7.43
$8.16 - $9.32	267,825	5.3	8.84	267,825	8.84
$9.32 - $10.49	131,486	5.5	9.54	125,686	9.50
$10.49- $11.65	35,000	4.9	10.98	35,000	10.98
	5,394,086	7.4	$ 3.66	2,745,022	$ 5.04

10. Employee Benefits

The Company maintains a defined contribution 401(k) retirement plan, pursuant to which employees who have completed 90 days of service may elect to contribute up to 15% of their compensation on a tax deferred basis up to the maximum amount permitted by the Internal Revenue Code of 1986, as amended.

The Company currently matches 25% of the first 6% of the participants' deferral. Contributions to the 401(k) plan vest equally over a three-year period. The Company has expensed approximately $77,000, $96,000, and $73,000 in 2005, 2004, and 2003, respectively.

11. Income Taxes

Deferred tax assets (liabilities) consist of the following at December 31:

	2005	2004
	(in thousands)	
Net operating losses	$ 46,213	$ 40,706
Research tax credits	2,725	2,667
Disqualifying stock options	—	673
Alternative-minimum tax credit	94	94
Intangibles from acquisition	152	506
Allowance for doubtful accounts	166	290
Accrued vacation pay	66	115
Accrued bonuses	209	—
Deferred rent	68	64
Facility exit costs	54	78
Restricted stock grants	36	—
Other	15	18
Total deferred tax assets	49,798	45,211
Deferred patent costs	(433)	(485)
ESTRASORB rights	—	(546)
Depreciation	(744)	(49)
State taxes	(2)	(2)
Total deferred tax liabilities	(1,179)	(1,082)
Net deferred tax assets	48,619	44,129
Less valuation allowance	(48,619)	(44,129)
Deferred tax assets, net	$ —	$ —

11. Income Taxes — (Continued)

The differences between the United States federal statutory tax rate and the Company's effective tax rate are as follows:

	2005	2004
Statutory federal tax rate	(34)%	(34)%
State income taxes, net of federal benefit	(5)%	(4)%
Research and development credit	(0)%	(1)%
Other	(1)%	1%
Change in valuation allowance	40%	38%
	—%	—%

Realization of net deferred tax assets is dependent on the Company's ability to generate future taxable income, which is uncertain. Accordingly, a full valuation allowance was recorded against these assets as of December 31, 2005 and 2004.

Novavax has recorded no net benefit for income taxes in 2005, 2004 and 2003 in the accompanying consolidated financial statements due to the uncertainty regarding ultimate realization of certain net operating losses and other tax credit carryforwards.

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

	2005 (in thousands)
Federal net operating losses expiring through the year 2025	$ 119,661
State net operating losses expiring through the year 2025	119,661
Research tax credits expiring through the year 2025	2,725
Alternative-minimum tax credit (no expiration)	94

Utilization of the net operating loss carryforwards and credit may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The Company has not performed a detailed analysis to determine whether an ownership change under Section 382 of the Internal Revenue Code occurred. The effect of an ownership change would be the imposition of an annual limitation on the use of net operating loss carryforwards attributable to periods before the change.

12. Commitments and Contingencies

Litigation

The Company is a defendant in a lawsuit filed in December 2003 by a former director alleging that the Company wrongfully terminated the former director's stock options. Management believes that the termination and cancellation of the options were in accordance with the terms of the option agreements following his termination for cause by a former parent company, IGI, Inc., and also believes the lawsuit is without merit and we are vigorously defending the claim. The lawsuit is scheduled to go to trial in April 2006 in Atlantic County, New Jersey. Management cannot reasonably estimate the liability, if any, related to this claim, or the likelihood of an unfavorable settlement. Accordingly, no liability related to this contingency is accrued in the consolidated balance sheet as of December 31, 2005; however, an unfavorable settlement may have a material adverse impact on future operating results.

Operating Leases

Novavax leases manufacturing, laboratory and office space and machinery and equipment under non-cancelable operating lease agreements expiring at various dates through September 2014. Several of these leases contain renewal options at the Company's option and standard annual escalation rental rates. Future minimum rental commitments under non-cancelable leases as of December 31, 2005 are as follows:

Year	Operating Leases (in thousands)
2006	$ 1,617
2007	772
2008	652
2009	665
2010	452
Thereafter	1,663
Total minimum lease payments	$ 5,821

Aggregate rental expenses approximated $2,307,000, $3,199,000, and $3,940,000 in 2005, 2004 and 2003, respectively.

13. Related Party Transactions

On March 21, 2002, pursuant to the Plan, the Company approved the payment of the exercise price of options by two of its directors, through the delivery of full-recourse, interest-bearing promissory notes in the aggregate amount of $1,480,000. The borrowings accrue interest at 5.07% per annum and are secured by an aggregate of 261,667 shares of common stock owned by the directors. The notes are payable upon the earlier to occur of the following: (i) the date on which the director ceases for any reason to be a director of the Company, (ii) in whole, or in part, to the extent of net proceeds, upon the date on which the director sells all or any portion of the pledged shares or (iii) payable in full on March 21, 2007. As of December 31, 2005 and 2004, accrued interest receivable related to the borrowing was $284,000 and $209,000, respectively.

In addition, in April 2002, the Company executed a conditional guaranty of a brokerage margin account for a director, in the amount of $500,000. Prior to demanding payment from the Company, the brokerage firm must first make demand for payment to the director and then liquidate the account. Thereafter, if there remains a shortfall, they may demand payment from the Company. As of December 31, 2005 and 2004, the Company has not recorded any liability on its balance sheet related to this guarantee as the Company believes the possibility of required payment by the Company to be unlikely.

In August 2004, the Company approved the payment of $75,000 to the employer of one of its directors as compensation for services as an advisor for the King Transaction and related financing. The King Transaction may also be deemed to be a related party transaction.

14. Subsequent Event

In February 2006, the Company completed an offering of 4,597,700 shares of common stock at $4.35 per share. The stock was offered and sold pursuant to an existing shelf registration statement. Net proceeds after deducting legal and miscellaneous fees were approximately $19.9 million.

Exhibit 10.33

THE REGISTRANT HAS APPLIED FOR CONFIDENTIAL TREATMENT OF CERTAIN PROVISIONS OF THIS EXHIBIT WITH THE SECURITIES AND EXCHANGE COMMISSION. THE CONFIDENTIAL PORTIONS OF THIS EXHIBIT ARE MARKED WITH ASTERISKS (*****) AND HAVE BEEN OMITTED. THE OMITTED PORTIONS OF THIS EXHIBIT WILL BE FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.

LICENSE AGREEMENT

This agreement ("**Agreement**") entered into this 18th day of October, 2005 by and between NOVAVAX, INC., a Delaware corporation having an address at 508 Lapp Road Malvern, Pennsylvania 19355 (hereinafter referred to as "**NOVAVAX**" or "**Party**") and ESPRIT Pharma, Inc, having an address at 2 Tower Center Boulevard, East Brunswick, NJ 08816, (hereinafter referred to as "**ESPRIT**" or "**Party**"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed in Article 1.

W I T N E S S E T H

WHEREAS, NOVAVAX currently markets an estradiol-containing drug product called ESTRASORB and is the owner of a New Drug Application relating to ESTRASORB as well as U.S. Patent No. 5,629,021, Canadian Patent No. 2,211,262, and other patents and patent applications relating to micellar nanoparticle technology.

WHEREAS, ESPRIT wishes to acquire an exclusive license under such patents and patent applications from NOVAVAX, and NOVAVAX is willing to grant such license to ESPRIT under the terms and conditions of this Agreement.

WHEREAS, concurrently with the execution and delivery of this Agreement, the parties have entered into the Supply Agreement relating to the manufacture of Licensed Product and the provision of related services and technology by NOVAVAX to ESPRIT.

WHEREAS, concurrently with the execution and delivery of this Agreement and the Supply Agreement, ESPRIT has executed and delivered to NOVAVAX the Promissory Note relating to $8.0 million of the consideration for this Agreement.

WHEREAS, concurrently with the execution and delivery of this Agreement, the Supply Agreement and the Promissory Note, *****.

WHEREAS, the parties intend that this Agreement, other than Sections 3(a), 3(b), and 3(c) hereof which will be effective on the date of this Agreement, will not be effective until the Business Day immediately following the satisfaction in full of ESPRIT's obligations to pay principal and interest under the Promissory Note on the Maturity Date (as defined therein).

NOW, THEREFORE, in consideration of the above premises and the covenants contained herein, the parties agree as follows:

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* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

ARTICLE 1 — DEFINITIONS

As used in this Agreement, the following terms, when used with initial capital letters, shall have the following meanings, the singular shall include the plural and vice-versa:

"**Affiliate**" means any entity that directly or indirectly controls, is controlled by, or is under common control with a Party, and for such purpose "control" shall mean (i) directly or indirectly owning, controlling or holding more than fifty percent (50%) of the securities or other ownership interests representing the equity, the voting stock or general partnership interest in an entity or (ii) the possession, direct or indirect, of the power to direct or cause the direction of the management or the policies of the entity, whether through the ownership of voting securities, by contract or otherwise. Any such corporation, entity or business structure shall only be considered an Affiliate for so long as such ownership or control exists.

"**Business Day**" means any day other than Saturday, Sunday, holiday or any other day on which banks in New York, New York are permitted or required to be closed. Unless otherwise specified herein, "day" will mean calendar day.

"**Calendar Quarter**" means each of the periods of time between January and March, April and June, July and September, and October and December.

"**Calendar Year**" means the period of time commencing on 1 January and ending on the following December 31.

"**Commercial Sale**" and words of similar import means, an arm's length transaction and shipment by ESPRIT, its Affiliates or each of its sublicensees of a Licensed Product to an independent third party in a country of the Territory.

"**Commitment to Fund**" means the agreement by each of the Private Equity Investors to fund ESPRIT with the principal amount due under the Promissory Note within ten (10) Business Days of such default for the express purpose of satisfying ESPRIT's obligations under the Promissory Note.

"**Confidential Information**" has the meaning set forth in Section 6.1.

"**Dollar**" means the legal currency of the U.S.

"**Effective Date**" means, (a) with respect to ESPRIT's obligations under Section 3.1(a), 3.1(b), and 3.1(c), the date of this Agreement and (b) with respect to all other terms and conditions of this Agreement, the Business Day immediately following the satisfaction in full of ESPRIT's obligations to pay principal and interest under the Promissory Note on the Maturity Date (as defined therein).

"**ESPRIT Improvement**" means any and all Improvements created, conceived or first reduced to practice by ESPRIT, or its Affiliates, agents, subcontractors or sublicensees, alone or with others (excluding NOVAVAX).

"**ESPRIT Improvement Intellectual Property**" means Intellectual Property included in ESPRIT Improvements.

"**ESPRIT Improvement Patents**" means patents and patent applications that describe and claim ESPRIT Improvements.

"**ESPRIT Sole Technology**" means Intellectual Property that is first conceived and first reduced to practice during the term of this Agreement solely by personnel employed by or on behalf of ESPRIT.

"**FDA**" means the United States Food and Drug Administration and successor bodies or corresponding foreign administrative bodies.

"**Field**" means the use, manufacture or sale of topically- or transdermally-administered products containing no active ingredient other than17ß estradiol (excluding contraceptive products, Selective Estrogen Receptor Modulators and products administered vaginally, orally, nasally, through the gum or by injection) which utilize NOVAVAX's micellar nanoparticle technology in the field of women's health in products that are marketed under NOVAVAX's NDA #21-371.

"**First Commercial Sale**" means, with respect to any Licensed Product, the first Commercial Sale.

"**Fiscal Year**" means the period of time commencing on the Monday following the Sunday closest to the end of the calendar month of December and terminating on the Sunday closest to the end of the immediately succeeding December.

"**GAAP**" means U.S. generally accepted accounting principles, consistently applied.

"**Improvement**" means any change, improvement, development, or modification of a Licensed Product with respect to formulation technology, any component/material utilized in the formulation technology, or the method or process of making or using a Licensed Product utilizing the formulation technology, that (a) is made, conceived of or reduced to practice by either Party or their Affiliates, agents, subcontractors or sublicensees, alone or with others, or as a result of work performed on a Licensed Product during the term of this Agreement and (b) is covered by or derived or resulting from the practice of Licensed Patents, patents, patent applications and other Intellectual Property rights in or that cover any of the foregoing.

"**Improvement Patent**" means patents and patent applications that describe and claim Improvements.

"**IND**" has the meaning set forth in Section 10.3(c).

"**Intellectual Property**" has the meaning set forth in Section 5.1.

"**Joint Improvement**" means any and all Improvements created, conceived or first reduced to practice during the term of this Agreement by NOVAVAX, or its Affiliates, agents, subcontractors or sublicensees, and ESPRIT, or its Affiliates, agents, subcontractors or sublicensees. Joint Improvement shall not include any Improvement that is a NOVAVAX Improvement or an ESPRIT Improvement.

"**Joint Improvement Intellectual Property**" means Intellectual Property included in Joint Improvements.

"**Joint Improvement Patents**" means patents and patent applications that describe and claim Joint Improvements.

"**Launch**" means the date of the First Commercial Sale of any Licensed Product.

"**Licensed Know-How**" means, to the extent relating and necessary to the manufacture of a Licensed Product, all information or special knowledge on the part of NOVAVAX as of the Effective Date not generally known to the public, including but not limited to inventions, discoveries, reports, protocols, processes, apparati, techniques, methods, models, screens, assays, products, regulatory submissions, and technical information, together with all experience, data, formulas, procedures and results, and including all chemical, pharmacological, toxicological, clinical, analytical, quality control, and safety data (including but not limited to data from use of the Licensed Product), and any other materials or compositions relating to the manufacture of a Licensed Product or being useful in the manufacture, use, sale or Registration of a Licensed Product as reasonably determined by NOVAVAX; except to the extent that the disclosure of such information or special ability is prohibited by law, rule, regulation, order, treaty, contract, agreement or other obligation. Licensed Know-How also includes the NOVAVAX Improvement Intellectual Property as set forth in section 5.2.4 hereof to the extent not disclosed in any patent or patent application of the Licensed Patents. Licensed Know-How shall constitute Confidential Information of NOVAVAX in accordance with Section 6.

"**Licensed Patent**" means U.S. Patent No. 5,629,021, Canadian Patent No. 2,211,262, including any other of their respective counterparts in the Territory, as well as all continuations, continuations-in-part, divisions, renewals, reissues, reexaminations, extensions, and patents of addition and patents of importation of the foregoing containing a Valid Claim that would be infringed by the use or sale of a Licensed Product by ESPRIT, its affiliates or its permitted sublicensees, in the Territory but for the licenses granted herein. In addition, Licensed Patents shall include NOVAVAX Improvement Patents, NOVAVAX's interests in Joint Improvement Patents and any other patents owned by NOVAVAX that are necessary for ESPRIT to practice the patents described in the preceding sentence.

"**Licensed Product**" means any topically- or transdermally-administered product containing no other active ingredient other than 17ß estradiol which is marketed under NOVAVAX's NDA #21-371, the use, sale or manufacture of which would, but for a license, infringe a Valid Claim of a Licensed Patent or an Improvement Patent in the country in which it is sold. Licensed Products include Improvements made by NOVAVAX related to formulation and for Licensed Product packaging.

"**Licensed Technology**" means Licensed Patents and Licensed Know-how.

"**NDA**" has the meaning set forth in Section 10.3(c).

"**Net Sales**" means, on a country-by-country basis (a) for any bona fide arm's length transaction in which Licensed Products are Commercially Sold separately by ESPRIT, its Affiliates, and its permitted sub-licensees to independent third parties (rather than bundled with any other products or services), the amount invoiced for the sale of Licensed Products in finished packaged form, and (b) for all other transactions in which Licensed Products are sold, used or otherwise disposed of by ESPRIT, its Affiliates and its permitted sublicensees (including in barter or similar transactions, or transactions that are not at arm's length to a third party, or transactions in which Licensed Products are not sold separately), the total sales price for Products in such transactions; less, in the case of clause (a) and (b) above (i) all normal and customary trade and quantity discounts, (ii) allowances, chargebacks, wholesaler fees and deductions, retailer fees and deductions, rebates, including government and managed care rebates, and credits determined in accordance with GAAP, and returns and replacements determined in accordance with GAAP, less any freight charges paid by third parties for delivery and less excise, value added and other taxes and or/duties applicable to sales of Licensed Products which the selling party has to pay or absorb on such sales. Further, Net Sales shall not include normal and customary promotional samples, including, subject to the foregoing, any samples affixed to or accompanying other products of ESPRIT or any of its Affiliates, coupons or other promotional incentives.

"**NOVAVAX Improvement**" means any and all Improvements created, conceived or first reduced to practice by NOVAVAX, or its Affiliates, agents, subcontractors or sublicensees, alone or with others (excluding ESPRIT).

"**NOVAVAX Improvement Intellectual Property**" means Intellectual Property included in NOVAVAX Improvements.

"**NOVAVAX Improvement Patents**" means patents and patent applications that describe and claim NOVAVAX Improvements.

"**Promissory Note**" means that certain $8.0 million promissory note due December 30, 2005 issued and delivered on the date hereof by ESPRIT to NOVAVAX.

"**Registration**" means a filing with a governmental authority for the purpose of obtaining legal and regulatory approval to conduct clinical trials for a product or to commence making, using, and/or selling a product, including an NDA filing or its equivalent in the Territory.

"**Supply Agreement**" means a separate agreement to be executed and delivered concurrently with this Agreement under which NOVAVAX shall supply Licensed Product to ESPRIT.

"**Territory**" means the United States (including Puerto Rico), Mexico and Canada.

"**Trademarks**" means all registered and unregistered trademarks listed on Schedule 1 attached hereto.

"**Valid Claim**" means a claim or pending claim in any unexpired, enforceable, issued patent within the Licensed Patent or Improvement Patent which has not been held invalid by a non-appealed or unappealable decision by a court or other appropriate body of competent jurisdiction, and which is not admitted to be invalid through disclaimer or dedication to the public.

"**Year**" shall mean the period of time commencing on the calendar day of the First Commercial Sale of a Licensed Product and ending three hundred and sixty four (364) days thereafter.

ARTICLE 2 — GRANT OF RIGHTS

2.1 Subject to the terms and conditions hereof, NOVAVAX hereby grants to ESPRIT, commencing on the Effective Date, an exclusive license under the Licensed Patents and Licensed Know-how to make and have made, import, use, sell, offer for sale, and have sold Licensed Product (including under the Trademark) in the Territory in the Field.

2.2 Subject to the terms and conditions hereof, NOVAVAX hereby grants to ESPRIT, commencing on the Effective Date, an exclusive license to the NOVAVAX Improvement Intellectual Property to make and have made, import, sell, offer to sell, and have sold Licensed Product in the Territory in the Field.

2.3 ESPRIT shall have the right to sublicense commencing on the Effective Date the rights granted under Sections 2.1 and Section 2.2 of this Agreement on terms substantially similar to those contained herein to a controlled Affiliate of ESPRIT and to non-Affiliated third parties, provided that any such sublicense to non-Affiliated third parties would require the prior written approval of NOVAVAX which will not be unreasonably withheld or delayed; and provided, further that ESPRIT shall require its permitted sublicensees to comply with all of the obligations of ESPRIT contained in this Agreement and ESPRIT shall be responsible for the performance by such sublicensees of such obligations.

2.4 ESPRIT hereby grants to NOVAVAX an exclusive, perpetual, worldwide paid up royalty-free license, with rights to sublicense, under ESPRIT Improvement Intellectual Property and ESPRIT's interests in Joint Improvement Intellectual Property for use outside the Field.

2.5. Except as otherwise expressly provided in this Agreement, under no circumstances shall a Party hereto, as a result of this Agreement, obtain any ownership interest or license in or other right to any technology, know-how, patents, patent applications, products, or biological materials of the other Party, including, but not limited to, items owned, controlled or developed by the other Party, at any time pursuant to this Agreement. This Agreement does not create, and shall under no circumstances be construed or interpreted as creating, an obligation on the part of either Party to grant any license to the other Party other than as expressly set forth herein. Any further contract or license agreement between the Parties shall be in writing.

2.6 All rights and interests not expressly granted to ESPRIT are reserved by NOVAVAX (the "**Reserved Interests**") for itself, its Affiliates and partners (other than ESPRIT) and other licensees and sublicensees, including, but not limited to, the rights to use and grant licenses under the Licensed Technology or any other technology owned or controlled by NOVAVAX to make, have made, use, offer to sell, sell, have sold and import products

(other than a license under Licensed Technology for Licensed Products in the Field, for so long as ESPRIT has an exclusive license under Licensed Technology for Licensed Products in the Field). It shall not be a breach of this Agreement for NOVAVAX, acting directly or indirectly, to exploit its Reserved Interests in any manner anywhere in the Territory, provided, however, that under no circumstances shall NOVAVAX utilize its Reserved Interests to make, have made, use, offer to sell, sell, have sold or import Licensed Products or related Improvements in the Territory in the Field.

ARTICLE 3 — PAYMENTS

3.1 In consideration of the license granted hereunder, ESPRIT shall make the following payments in Dollars to NOVAVAX as follows:

(a) Upon the Business Day immediately following the date of this Agreement, ESPRIT shall pay NOVAVAX an amount equal to Two Million Dollars ($2,000,000) in cash by wire transfer.

(b) Upon the Business Day immediately following the date of this Agreement, ESPRIT shall pay NOVAVAX an amount equal to Eight Million Dollars ($8,000,000) in the form of the Promissory Note.

(c) Upon the first anniversary of the date of this Agreement, ESPRIT shall pay NOVAVAX an amount equal to Two Million Five Hundred Thousand Dollars ($2,500,000) in cash by wire transfer.

(d) ESPRIT will, or will cause its designated Affiliates to, pay NOVAVAX the following one-time sales milestone payments (each a "**Milestone Payment**") within ***** (*****) days after the first satisfaction of the following sales milestones (each a "**Milestone**"):

Milestone	Milestone Payment
1. Upon reaching an annual Net Sales level of ***** Dollars ($*****), a one-time payment during the period in which this sales level is first reached	***** Dollars ($*****)
2. Upon reaching an annual Net Sales level of ***** Dollars ($*****), a one-time payment during the period in which this sales level is first reached	***** Dollars ($*****)
3. Upon reaching an annual Net Sales level of ***** Dollars ($*****), a one-time payment payable during the period in which this sales level is first reached	***** Dollars ($*****)
4. Upon reaching an annual Net Sales level of ***** Dollars ($*****), a one-time payment payable during the period in which this sales level is first reached	***** Dollars ($*****)
5. Upon reaching an annual Net Sales level of ***** Dollars ($*****), a one-time payment payable during the period in which this sales level is first reached	***** Dollars ($*****)

* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

The Net Sales levels shall not be cumulative from annual Net Sales period to annual Net Sales period. The parties understand that more than one payment may be made during any single annual Net Sales period. The annual Net Sales shall be calculated in the following two ways: (1) on December 31st of each Calendar Year (commencing with the first Calendar Year following Launch) for the previous twelve (12) months; and (2) on July 1 of each Calendar Year (commencing with the first Calendar Year following Launch) for the previous twelve (12) months. If, according to at least one of the foregoing calculations, the annual Net Sales level reaches a Milestone as specified in the above table, ESPRIT or its Affiliates shall pay NOVAVAX a specified Milestone Payment during the period in which the Milestone is first reached. For example, if the Net Sales in calendar year 2006 is $ *****, then no Milestone Payment would be made. If by July 1, 2007, the Net Sales for the twelve months prior to July 1, 2007 equals or exceeds $ *****, ESPRIT or its Affiliates would pay NOVAVAX a $ ***** in Payments with respect to such Period.

ARTICLE 4 — ROYALTIES

4.1 ESPRIT will, or will cause its designated Affiliates to, pay NOVAVAX quarterly royalties on the sales of Licensed Products in the Territory in an amount equal to ***** percent (*****%) of the Net Sales in any Calendar Quarter commencing in the first Calendar Year following Launch.

4.2 No royalties due under this Article shall be payable on sales transactions as among ESPRIT, any of its Affiliates and sublicensees. The final vendee sale to a third party alone shall be used for the purposes of determining the royalty payments due hereunder. Only one royalty payment shall be payable on the sale of each Licensed Product, and the amount of such royalty will be provided in accordance with this Article 4 and the sales date of the Licensed Product to an independent third party. Licensed Products shall be sold only for cash consideration and there shall be no discounting of price to the disadvantage of the price of Licensed Products that are included in or made part of any bundling of Licensed Products with any existing or future ESPRIT or Affiliate product(s) as part of a sale to independent third parties.

4.3 ESPRIT shall not be obligated to pay any royalty payments based upon sales of a given Licensed Product in a country of the Territory after the expiration of the last to expire Licensed Patent or Improvement Patent having at least one (1) Valid Claim that would be infringed by the sale of that Licensed Product by ESPRIT, its Affiliates or its sublicensees in that country but for the licenses granted herein.

4.4 All royalties shall be calculated and payable on a Calendar Quarter basis as of the end of the each Calendar Quarter, and royalties shall be paid within ***** (*****) days following the end of such Calendar Quarter. All royalties shall be calculated on a Licensed Product by Licensed Product basis. Each royalty payment and Milestone Payment shall be accompanied by a written report indicating the amount of Net Sales during such Calendar quarter or applicable period together with a calculation of the royalties and Sales Milestone Payments due. ESPRIT shall deliver the written report for each such Calendar Quarter or applicable period, regardless of whether when any royalty payments or Milestone Payments are required to be paid in that Calendar Quarter or applicable period, commencing in the first Calendar Year following Launch.

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4.5 NOVAVAX shall have the right, at its own expense, for the period during which a royalty or Milestone Payment is due to NOVAVAX, to have a firm of independent certified public accountants, to whom ESPRIT has no reasonable objection and subject to customary confidentiality restrictions, solely to examine the relevant books and records of account of ESPRIT relating to the Licensed Product during reasonable business hours and no more than ***** during each Fiscal Year, to determine whether appropriate payment (including, without limitation, payment pursuant to Sections 3.1(c), 4.1 and 5.1) has been made by ESPRIT hereunder. The accountant shall disclose to NOVAVAX only information relating to the accuracy of the royalty and Sales Milestone Payment reports and the royalty payments and Milestone Payments made according to this Agreement. The information received by the accountant, except for information necessary for disclosure to NOVAVAX to establish the accuracy of such reports, shall be held confidential. If such accounting firm correctly concludes that additional royalties or Milestone Payments were owed during such period, ESPRIT shall pay the additional royalties within thirty (30) days of the date NOVAVAX delivers to ESPRIT such accounting firm's written report so correctly concluding. If the amount of such additional royalties or Milestone Payments owed exceeds ***** percent (*****%) of the amount of royalty payments or Sales Milestone Payments actually made by ESPRIT for such period, ESPRIT shall reimburse NOVAVAX for the commercially reasonable fees and expenses of the accounting firm incurred in the conduct of the applicable audit.

4.6 The remittance of Milestone Payments or royalties payable on sales outside the U.S. will be payable to NOVAVAX in Dollars according to the official rate of exchange of the currency of the country from which the royalties are payable as quoted by The Wall Street Journal, New York edition, for the last day of the Fiscal Quarter or other applicable period for which the royalty payment is made. If the transfer or the conversion into U.S. Dollars in any such instance is not lawful or possible, the payment of such part of the Milestone Payment of royalties as is necessary shall be made by the deposit thereof, in whatever currency is allowable and acceptable by NOVAVAX, to the credit and account of NOVAVAX or its nominees in any commercial bank or trust company of its choice located in that country. ESPRIT shall give prompt notice of such deposit to NOVAVAX.

4.7 All royalties, Milestone Payments and other payments required hereunder shall be paid in accordance with the instructions provided by NOVAVAX in immediately available funds by wire transfer to a bank or other institution designated in writing by NOVAVAX from time to time.

ARTICLE 5 — LICENSED PRODUCT MANUFACTURE; INTELLECTUAL PROPERTY; REGULATORY MATTERS

5.1 Intellectual Property. Any intellectual property rights, including without limitation, patents, patent applications, inventions, and know-how (hereinafter referred to as "**Intellectual Property**") owned or controlled by either Party prior to the parties entering into this Agreement shall remain the property of such Party, subject only to the rights and licenses granted herein.

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* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

5.1.1 Any Intellectual Property that is first conceived and first reduced to practice during the term of this Agreement solely by personnel employed by or on behalf of NOVAVAX shall remain the property of NOVAVAX, subject to the rights and licenses granted herein.

5.1.2 Any Intellectual Property that is first conceived and first reduced to practice during the term of this Agreement solely by personnel employed by or on behalf of ESPRIT shall remain the property of ESPRIT, subject to the rights and licenses granted herein ("**ESPRIT Sole Technology**").

5.1.3 Any Intellectual Property that is first conceived or first reduced to practice during the term of this Agreement by personnel employed by or on behalf of ESPRIT and personnel employed by or on behalf of NOVAVAX (other than the Intellectual Property described in Section 5.1.1 and Section 5.1.2) shall be and shall remain the joint property of NOVAVAX and ESPRIT, subject to the rights and licenses granted herein ("**Joint Intellectual Property**"). The parties agree to keep the Joint Intellectual Property in confidence on a basis consistent with Article 6 and not to publicly disclose the same except in accordance with Article 6.

5.1.4 NOVAVAX Improvement Intellectual Property shall constitute Licensed Technology throughout the term of this Agreement to the extent that such Intellectual Property is relevant to the use, sale or Registration of a Licensed Product and to the extent that the licensing of such Intellectual Property by NOVAVAX to ESPRIT pursuant to the terms of this Agreement would not be prohibited by law, rule, regulation, order, treaty, contract, agreement, or other obligation.

5.2 Transfer of NDA and IND. The Parties agree and acknowledge that within 20 days after the Effective Date and receipt of ESPRIT's written request, NOVAVAX shall provide ESPRIT with a letter addressed to the FDA authorizing and requesting that each NDA and IND owned by NOVAVAX and pertaining to the Licensed Product in the Territory, as the case maybe, be transferred, in its entirety, to the name of ESPRIT. NOVAVAX shall provide ESPRIT with a copy of the letter and ESPRIT shall promptly send a letter to the FDA accepting the NDA and IND. NOVAVAX will be entitled to copy and reference the NDA and IND, and any safety database or other safety information related to the Licensed Product, outside the Territory freely as it determines. Each party will notify the other immediately by telephone (with prompt written follow-up) of any inquiry, contact or communication received from any governmental regulatory agency or other official body (within or outside of the Territory) which relates to the Licensed Product or any component or ingredient thereof, and will promptly furnish the other party with copies of all written communications relating thereto sent to or received from such regulatory agency. ESPRIT shall consult with NOVAVAX prior to making a material modification to the NDA or IND pertaining to the Licensed Product, and shall consider in good faith NOVAVAX's views with respect to the impact any such modification may have on the marketing and commercialization of the Licensed Product outside of the Territory. ESPRIT shall provide, at NOVAVAX's expense, such cooperation as may be reasonably to assist NOVAVAX in referencing the NDA or IND pertaining to Licensed Product or safety information related to Licensed Product in connection with regulatory applications and approvals for Licensed Product outside of the Territory made by NOVAVAX or NOVAVAX's licensees; provided that, in ESPRIT's reasonable judgment, such assistance is not unduly burdensome to ESPRIT's senior management. NOVAVAX hereby retains and

ESPRIT hereby grants to NOVAVAX the perpetual exclusive, fully paid up right to use with the right to sublicense ((i) outside the Field and (ii) in the Field but outside the Territory) all data created by under or in connection with the NDA and the IND.

5.3 Maintenance of NDA. ESPRIT shall bear responsibility for, and shall bear all costs related thereto, to take such actions as may be necessary, in accordance with accepted business practices and legal requirements, to obtain and maintain the authorization and/or ability to market the Licensed Product in the Territory. Without limiting the generality of effect of the foregoing, ESPRIT shall be responsible for all of the PDUFA fees, including, without limitation, establishment fees and product fees, associated with NDA. The establishment fees will be allocated on a pro rata basis agreed upon by the parties in the event other FDA approved product(s) are manufactured by Novavax at the Cardinal facility.

5.4 Communications with Regulatory Authorities. ESPRIT shall have the responsibility, and shall bear all costs related to, communications with any government agencies to satisfy its requirements regarding the authorization and/or continued authorization to market the Licensed Product in commercial quantities in the Territory. NOVAVAX shall promptly notify ESPRIT of any inquiry or other communication that it receives from the FDA concerning the Licensed Product. ESPRIT shall handle all communications with the FDA concerning the Licensed Product (other than with respect to the manufacture thereof which will be handled by NOVAVAX), including but not limited to reporting adverse reactions and responding to any inquiries concerning advertising or promotional materials, and shall provide copies of all such communication to NOVAVAX. NOVAVAX, however, shall be able to communicate with such governmental agency regarding the Licensed Product if:

(a) Such communication is necessary to comply with the terms of this Agreement or the requirements of any law, governmental order or regulation; or

(b) NOVAVAX, if practical, made a request of such agency to communicate with ESPRIT instead, and such agency refused such request;

(c) Such communication relates to the CMC Section of the NDA for the Licensed Product, manufacturing specifications related to the Licensed Product;

(d) provided, however, that before making any communication under (a), (b) or (c) of this Section, NOVAVAX shall give ESPRIT notice as soon as possible of NOVAVAX's intention to make such communication, and ESPRIT shall be permitted to accompany NOVAVAX, take part in any such communications and receive copies of all such communications.

5.5 Medical Inquiries. ESPRIT shall respond to medical questions or inquiries relating to the Licensed Product and shall instruct its sales force to direct medical inquiries either to its own medical personnel or to the ESPRIT toll-free number referred to in Section 5.6, within a reasonable time from the Effective Date. ESPRIT shall designate an individual to serve as medical liaison in order to ensure consistency in the handling of medical inquiries. The medical liaison will regularly review Licensed Product inquiries and responses and will also be available for responding to non-routine inquiries should these arise.

5.6 Toll-Free Number. ESPRIT shall maintain a toll-free telephone number to provide information in response to inquiries from health care professionals and consumers. This number shall be noted in all appropriate advertising and promotional materials, except that NOVAVAX may, at its own option, use a different number in advertising and promotional materials that it develops for use outside of the Territory.

5.7 Adverse Reactions; Recalls. Except as otherwise set forth in the Supply Agreement, ESPRIT shall be responsible for handling all complaints from customers in the Territory relating to adverse reaction reports, adverse events, and recall activities with respect to the Licensed Product. NOVAVAX shall promptly transfer and notify ESPRIT of any such complaints, and shall cooperate with ESPRIT as necessary to resolve or address the situation, including, without limitation, by providing detailed distribution records to ESPRIT.

5.8 NDC Number. The Parties acknowledge and agree that (a) the Licensed Product may be distributed initially for up to 90 days under the National Drug Code number for the Licensed Product assigned to NOVAVAX and (b) ESPRIT shall be responsible, at its expense, for complying with on NOVAVAX's behalf, or assisting NOVAVAX in its compliance, with all FDA and other obligations or requirements (including without limitation adverse reaction reports, adverse events, and recall activities) applicable to NOVAVAX as a result of any and all distribution of the Licensed Product under the National Drug Code number for the Licensed Product assigned to NOVAVAX.

5.9 Withdrawal of NDA. ESPRIT will not take any action or omit to take any action that could reasonably be expected to result in withdrawal of the NDA.

5.10 Recall. In the event that either Party determines that an event, incident or circumstance has occurred which may result in the need for a recall or other removal of any Licensed Product, or any lot or lots thereof, from the market, it shall promptly advise and consult with the other Party with respect thereto. The parties shall jointly make the final determination to recall or otherwise remove a Licensed Product or any lot or lots thereof from the market. ESPRIT shall be responsible for the costs of any recall except if such recall is solely the result of any failure of NOVAVAX to manufacture Licensed Product in accordance with written specifications agreed upon by the parties under the Supply Agreement.

5.11 Commercially Reasonable Efforts. ESPRIT agrees that it will and will cause its sublicensees and Affiliates to use commercially reasonable efforts to market and sell the Licensed Product.

5.12 LED Studies. The costs and expenses of any lowest effective dose study relevant to Licensed Product (an "**LED Study**") will be borne as follows: (a) the first $***** by ESPRIT and (b) any amount in excess of $***** by ESPRIT subject to reimbursement by NOVAVAX of *****% of such excess (such reimbursement not to exceed $***** in any single Calendar Year) if and only to the extent that Milestone Payments have been made in accordance with this Agreement. Without limiting the generality or effect of the foregoing, NOVAVAX will be entitled to review and approve protocols relating to any LED Study.

ARTICLE 6 — CONFIDENTIALITY AND PUBLICITY

6.1 All information disclosed by one Party to the other(s) or developed by the parties pursuant to the terms of this Agreement (the "**Confidential Information**") shall be maintained strictly confidential and used only for the purposes of this Agreement in accordance with this Article 6 ("**Purposes**"). Each Party may also disclose the other's information to an Affiliate,

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* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

agent or consultant, who is under a written obligation of confidentiality and non-use at least substantially equivalent to the obligations of this Article 6, with the exceptions that (i) ESPRIT may disclose such information to its Affiliates who agree to maintain such information in confidence and to use such information only for the Purposes and (ii) the Parties shall each be free to disclose the existence of this Agreement and the nature of the licenses granted hereunder to its Affiliates and other prospective licensees and sub-licensees, investors or prospective investors, lenders and other potential funding sources, or to a third party in connection with a merger or acquisition or proposed merger or acquisition, subject to an obligation of confidentiality and non-use, provided that such Party shall have used commercially reasonable efforts to obtain a written confidentiality agreement from such third party contemplated by this sentence**.** Each Party shall guard any confidential information of the other Party with the same level of diligence as it normally guards any of its own internal confidential, proprietary information. Each Party shall be responsible for the breach of any of the provisions of this Article 6 by a person or entity to whom such Party discloses information contemplated hereby. Notwithstanding the foregoing, each Party shall be relieved of the confidentiality and limited use obligations of this Agreement if:

(a) the information was previously known to the receiving Party as evidenced by the prior written records of such Party without disclosure by the disclosing Party;

(b) the information is or becomes generally available to the public through no fault of the receiving Party;

(c) the information is acquired in good faith in the future by the receiving Party from a third party not under an obligation of confidence to the disclosing Party with respect to such information; or

(d) the information is independently developed by the receiving Party without reliance on, reference to, or knowledge of, the information disclosed by the disclosing Party.

The parties understand and agree that it shall be the receiving Party's burden of proof to show the applicability of any of the exceptions set forth in clauses (a), (b) (c) or (d) above.

6.2 Notwithstanding the above obligations of confidentiality and non-use a Party may:

(a) disclose information to a regulatory agency that is necessary to obtain regulatory approval in a particular jurisdiction; or

(b) disclose information to a government agency if the disclosure is necessary to protect the health and safety of the Party's workers or the public or as required by law; or

(c) disclose information as and to the extent required to comply with applicable laws and regulations, including the rules and regulations of the U.S. Securities and Exchange Commission.

In making such disclosures as set forth in this Section 6.2, the disclosing Party shall use reasonable efforts to promptly first notify the owner of the confidential information so as to allow the owner of the confidential information an opportunity to seek a protective order or otherwise limit any such disclosure. In any event, the disclosing Party shall use reasonable efforts to only disclose such information as is required to be disclosed pursuant to the law, regulation, rule or order, and shall use its reasonable efforts to obligate the recipient to secrecy on the same terms as set forth herein. Each Party shall restrict the disclosure of confidential information of the other so that only the persons that need to know it shall be informed and the disclosure be limited to only such portions as necessary for the purposes of this Agreement.

6.3 Each Party shall not state or imply, in any publication, advertisement, sales promotional material, or other medium:

a) the name of the other Party or the name(s) of any employee(s) of the other Party; or

b) the name of any Affiliate of the other Party or the name(s) of any employee(s) of such Affiliate

without the prior written consent of the other Party.

6.4 Except for the filing of a copy of this Agreement with the Securities and Exchange Commission or other securities commission of such other jurisdictions whose laws may apply to either Party to the extent required by law and such other public announcements as may hereafter become required by law, regulation or rule due to changes from the facts and circumstances in existence as of the Effective Date, no Party hereunder shall disclose this Agreement or make any public announcement or filing concerning this Agreement or the subject matter hereof without the prior written consent of the other. In the event that pursuant to the foregoing a Party shall file a copy of this Agreement with the Securities and Exchange Commission or other securities commission of such other jurisdictions whose laws may apply to either Party, it shall use reasonable efforts seek confidential treatment for all portions thereof reasonably requested by the other Party. Any proposed announcement or filing by a Party shall be made available to the other Party in advance of publication or filing, as the case may be, for review and comment. If a Party decides to make an announcement or disclosure required by law or as otherwise permitted under this section of this Agreement, it will provide the other Party with at least ten (10) Business Days, where possible, advance written notice of the text of any such written announcement or disclosure or content of any non-written disclosure or announcement, except to the extent applicable law requiring disclosure would not permit such advance notice (such as in the case of certain securities filings), in which case the disclosing Party will give the maximum notice possible under the circumstances, so that the other Party will have an opportunity to comment upon the announcement or disclosure.

6.5 Except for permissible publications under this Article 6, neither Party will publish any information based upon or derived from the work performed under this Agreement without the prior review and consent of the Parties pursuant to this Section 6.5.

6.6 With respect to information disclosed on or after the Effective Date between ESPRIT and NOVAVAX under the provisions of this Agreement, the provisions of this Agreement shall govern and prevail. In the event of any conflict between this Agreement and any other pending confidentiality agreement between ESPRIT and NOVAVAX, with respect to information disclosed on or after the Effective Date, the terms of this Agreement shall govern and prevail.

ARTICLE 7 — PATENT PROSECUTION AND MAINTENANCE

7.1 Subject to Section 7.4 of this Agreement, NOVAVAX shall have sole authority and agrees to prosecute or cause to be prosecuted to allowance or final rejection the patent applications (including any reissue patent applications or reexamination patent applications) included in the Licensed Patents that are owned or controlled by NOVAVAX, in whole or in part, including the Joint Improvement Intellectual Property (hereinafter collectively "**Patent Applications**"), in the countries in which the Licensed Patents are being prosecuted or maintained as of the Effective Date. NOVAVAX shall issue as a patent each such Patent Application prosecuted to allowance at NOVAVAX's sole expense. NOVAVAX shall pay all attorneys fees and other costs associated with the preparation, filing, and prosecution of such Patent Applications in the Territory included in the Licensed Patents.

7.2 NOVAVAX agrees to promptly provide (if not already provided and on an ongoing basis, as the case may be) ESPRIT with copies of:

(a) All Patent Applications included in the Licensed Patents;

(b) All prior art searches it has performed (or has had performed) related to such Patent Applications; and

(c) All correspondence to and from the U. S. Patent and Trademark Office and foreign patent offices relating to such Patent Applications.

7.3 ESPRIT shall have the right to consult with NOVAVAX from time to time and on a reasonable basis regarding the content of the Patent Applications included in the Licensed Patents, as well as the prior art searches and correspondence related thereto, and to comment thereon. NOVAVAX shall consider all such comments offered by ESPRIT, it being agreed, however, that all final decisions respecting conduct of the prosecution of said patent applications shall rest solely in the discretion of NOVAVAX.

7.4 NOVAVAX shall promptly notify ESPRIT in the event NOVAVAX decides at any time to abandon or discontinue prosecution of any one or more of the Patent Applications included in the Licensed Patents. Such notification will be given as early as possible which in no event will be less than forty-five (45) days prior to the date on which such Patent Application(s) will become abandoned. ESPRIT shall have the option, exercisable upon written notification to NOVAVAX, to assume full responsibility for the prosecution of the affected Patent Application(s), in which event such affected Patent Application(s) shall, at ESPRIT's option, be promptly exclusively licensed royalty-free to ESPRIT and its sublicensees to make and have made, import, sell, offer to sell, and have sold Licensed Product in the Territory in the Field.

7.5 NOVAVAX shall pay all official taxes, annuities and fees required to keep in force all Patent Applications and patents, which are included in the Licensed Patents, and shall submit evidence, upon written request, to ESPRIT that said government fees have been timely paid. In the event NOVAVAX decides not to pay the maintenance fee due on any one or more of said patents or Patent Applications, NOVAVAX will give ESPRIT written notice of such decision at least sixty (60) days in advance of the payment date. ESPRIT shall thereupon have the option to pay the maintenance fees due on the affected patents or Patent Applications, in which case the affected Patent(s) or Patent Application(s) shall, at ESPRIT's option, be promptly exclusively licensed on an exclusive, royalty free, perpetual and fully paid up basis to ESPRIT to make and have made, import, sell, offer to sell, and have sold Licensed Product in the Territory in the Field.

7.6 Each Party shall promptly disclose to the other any Improvements made, conceived or reduced to practice by the disclosing Party or its Affiliates, agents, subcontractors or sublicensees.

ARTICLE 8 — COMPETING PRODUCTS AND INFRINGEMENT

8.1.1 If, during the term of this Agreement, NOVAVAX or ESPRIT becomes aware of infringing sales of product competitive with Licensed Products by a third party in a given

Calendar Quarter in a country of the Territory that are greater than ***** percent (*****%) of ESPRIT's Commercial Sales of such Licensed Products, by Dollar or equivalent legal currency of the given country in the Territory, of Licensed Products in the Field in the same country of the Territory and in the same Calendar Quarter that constitute infringement by a third party of any issued patent (except for a patent relating to ESPRIT Sole Technology) included in the Licensed Patents, that Party shall promptly notify the other Party in writing to that effect. ESPRIT shall have the right, but not the obligation, to bring suit against any infringer of a patent relating to ESPRIT Sole Technology at its own cost and expense.

8.1.2 NOVAVAX shall have the initial right, but not the obligation, to initiate or prosecute an infringement or other appropriate suit or action against any third party infringer of a Licensed Patent at its own expense. ESPRIT has the right to join such suit or action at its own expense. If, (a) after the expiration of ninety (90) days from said notice, NOVAVAX has not obtained a discontinuance of such infringement or brought suit against the third party infringer, and (b) the infringing product is competitive with Licensed Products, ESPRIT shall have the right, but not the obligation, to bring suit (at ESPRIT's sole expense) against such third party infringer, provided that if NOVAVAX is joined to the suit, NOVAVAX will pay for its own litigation expenses.

8.1.3 If, prior to the expiration of ninety (90) days from given notice under Section 8.1.1, NOVAVAX obtains a discontinuance of such infringement or brings suit against the third party infringer, and ESPRIT does not join the suit, then NOVAVAX shall retain all damages or other monies awarded or received in settlement of such suit. ESPRIT will cooperate with NOVAVAX in any such suit and shall have the right to consult with NOVAVAX and be represented by its own counsel at its own expense.

8.1.4 If, prior to the expiration of ninety (90) days from given notice under Section 8.1.1, NOVAVAX brings suit against the third party infringer, and ESPRIT exercises its right to join the suit, then each Party shall have the right to be represented by independent counsel in such litigation at its own expense and neither Party shall incur any liability to the other Party as a consequence of such litigation or any unfavorable decision resulting therefrom, including any decision holding the patent invalid or unenforceable. Furthermore, any amounts recovered as a result of any infringement action taken by the Parties hereunder shall be split equally.

8.1.5 If, after the expiration of said ninety (90) days from the date of given notice under Section 8.1.1, NOVAVAX has not obtained a discontinuance of such infringement or brought suit against the third party infringer, and ESPRIT decides to exercise its right, after such ninety (90) notice period, to bring suit against such infringer and join NOVAVAX as a party plaintiff, then NOVAVAX will reasonably cooperate with ESPRIT in any suit for infringement of a patent of the Licensed Patents brought by ESPRIT against a third party, and shall have the right to consult with ESPRIT and to participate in and be represented by independent counsel in such litigation at its own expense. Neither Party shall incur any liability to the other as a consequence of such litigation or any unfavorable decision resulting therefrom, including any decision holding the patent invalid or unenforceable. Furthermore, any amounts recovered as a result of any infringement action taken by the Parties hereunder shall be split equally.

8.1.6 Neither NOVAVAX nor ESPRIT may agree to settle pursuant to Section 8.1.4 or Section 8.1.5 without the prior written consent of the other Party, which shall not be unreasonably withheld or delayed.

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* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

8.1.7 Notwithstanding anything to the contrary contained herein, royalties, Milestone Payments and all other payments hereunder shall continue unabated in accordance with the terms and conditions of this Agreements during the pendancy (including all appeals) of any action contemplated by Section 8. 1. 1 through and including Section 8.1.7.

8.2.1 In the event NOVAVAX or ESPRIT receive notice or otherwise become actually aware of any facts that that ESPRIT's making, using or selling of a Licensed Product in the Field infringes, will infringe or is alleged by a third party to infringe a third party patent, the Party becoming aware of same shall promptly notify the other. NOVAVAX and ESPRIT shall thereafter attempt to agree upon a course of action, which may include: (a) modifying of a Licensed Product or its use and manufacture so as to be non-infringing; or (b) obtaining a license or assignment from said third party.

8.2.2 ESPRIT and NOVAVAX shall have the right to negotiate with said third party for such license or assignment to the third party patent. In the event that such negotiation results in a consummated agreement, then ESPRIT shall pay any lump sum payment and/or royalties to be paid thereunder provided NOVAVAX has had an opportunity to review and consent to such license agreement, which shall not be unreasonably withheld or delayed. Any of such lump sum payments or royalties to be paid by ESPRIT and its sublicensees under such ESPRIT negotiated agreement shall be creditable against royalties then due NOVAVAX hereunder. In no event shall ESPRIT be entitled to credit against any royalty payments owed to the extent that any infringement claim by a third party is not based solely upon a Licensed Product described in the above-mentioned NDA (#21-371) or where the infringement claim is not based solely on ESPRIT's use of the Licensed Technology.

8.2.3. In the event that ESPRIT is charged with patent infringement by a third party as a result of ESPRIT's making, using, and/or selling a Licensed Product and it cannot settle or has not settled such infringement pursuant to the terms above, ESPRIT shall have the right to defend against such charge of infringement. NOVAVAX shall have the opportunity to fully participate in such defense at its own expense. If as a result of a final unappealable judgment in the litigation or settlement thereof with the third party as described in the immediately preceding two sentences, ESPRIT is required to pay royalties or other monies to such third party ("Third Party Payment"), ESPRIT may thereafter offset such Third Party Payment (including running royalties and any and all lump sum payments) against any royalties due but not yet paid hereunder to NOVAVAX, unless such infringement claim by a third party is not based solely upon a Licensed Product described in the above-mentioned NDA or where the infringement claim is not based solely on ESPRIT's use of the Licensed Technology. Any damages or other monies awarded or received in settlement of such litigation against such adverse party shall be shared in accordance with Sections 8.1.4 and 8.1.5.

8.2.4. Other than as expressly set forth to the contrary in Section 8.2.3, royalties and all other payments hereunder shall continue unabated in accordance with the terms and conditions of this Agreements during the pendancy (including all appeals) of any action contemplated by Section 8.2.1. through and including Section 8.2.4.

ARTICLE 9 — WARRANTIES, REPRESENTATIONS AND ACKNOWLEDGEMENTS

9.1.1 NOVAVAX expressly warrants and represents that (a) it exclusively owns all of the rights, title and interest in and to the Licensed Patents as defined herein existing as of the date hereof and (b) it has the full corporate right and authority to enter into this Agreement and to carry out the transactions contemplated herein. NOVAVAX further represents and warrants that no academic institution, member of an academic institution, corporation, local, state or federal government, or any other third party holds any property rights in the Licensed Patents, or to its knowledge other Licensed Technology, that pertains to a Licensed Product existing as of the date hereof. Further, NOVAVAX represents that the patent applications and patents of Schedule A are all the current existing Licensed Patents reasonably relevant to the Licensed Product In the Territory having the formulation described on Schedule B attached hereto (the "**Formulation**").

9.1.2 NOVAVAX expressly warrants and represents that, there are no outstanding encumbrances or agreements, either written, or to its knowledge if oral or implied, on the Licensed Technology that are inconsistent with the obligations undertaken by NOVAVAX herein, and that it has not granted and will not grant during the term of this Agreement or any renewal hereof, any license or other privilege under the Licensed Technology with respect to the exclusive rights granted hereunder for a Licensed Product in the Territory in the Field which conflicts, or which could reasonably be expected to conflict, with the terms and conditions of this Agreement.

9.1.3 NOVAVAX expressly warrants and represents that, to its knowledge, it has disclosed to ESPRIT all reasonably relevant and material regarding pre-clinical and clinical studies and the Licensed Product in its possession or control which NOVAVAX is not otherwise prohibited from disclosing pursuant to law, regulation, order, treaty, agreement, contract or other obligation. NOVAVAX expressly warrants and represents that, at the time of execution of this Agreement, to its knowledge, it does not know of any third party patents or pending applications that would prohibit NOVAVAX's ability to obtain and enforce its patent protection for Licensed Patents existing as of the date hereof in the Territory to the extent necessary for a Licensed Product having the Formula which has not otherwise been cited in any patent filings by NOVAVAX with the relevant patent offices. NOVAVAX further represents and warrants that as of the date hereof, to NOVAVAX's knowledge as of the Effective Date, there have been no public uses or public disclosures of the inventions claimed in the patents and patent applications of the Licensed Patents prior to the earliest filing date of each such respective patent or patent application.

9.1.4 NOVAVAX expressly warrants and represents that it is not required to obtain the consent of any third party to grant the rights granted herein to ESPRIT. NOVAVAX further expressly warrants and represents that the rights granted herein do not conflict with any existing or pending written agreement (or to its knowledge, any existing or pending oral or implied agreement) of NOVAVAX with a third party pertaining to use of the Licensed Technology for a Licensed Product in the Territory.

9.1.5 NOVAVAX expressly warrants and represents that: a) it has not been notified in writing of any claims of infringement from any third party with respect a Licensed Products as they currently exist, and, to its knowledge, no third party has threatened to make any such claim; and b) that, to its knowledge, it solely owns all of the data and results from any and all preclinical and clinical development and testing of Licensed Products that it conducted or

authorized to have conducted prior to the Effective Date of this Agreement, and that NOVAVAX has used reasonable efforts to disclose all of the data from such preclinical and clinical development and testing to ESPRIT in connection with this Agreement. NOVAVAX represents that it has not received written notice of any issued patent owned by a third party which would be infringed by the making, using, and selling of a Licensed Product having the Formula in the countries of the Territory utilizing the Licensed Patents of NOVAVAX as currently in existence as of the date hereof in any in those countries of the Territory.

9.1.6 NOVAVAX represents and warrants that, to its knowledge, it has undertaken all necessary legal and factual steps to ensure that NOVAVAX is able to license the Licensed Technology to ESPRIT in accordance with this Agreement to ESPRIT.

9.1.7 NOVAVAX represents and warrants that (i) Schedule 9.1.7 attached hereto represents a true, complete and accurate report of its sales of the Product into each distribution channel and the Product returns it has received for the 12 month period ending September 30, 2005 broken out by month; (ii) March 31, 2005 , NOVAVAX has conducted its manufacturing and sales activities to third parties regarding the Product in the ordinary course of business consistent with past practice, and (iii) since March 31, 2005 through the date of hereof, NOVAVAX has not offered any extraordinary rebates, extraordinary discounts, or any other extraordinary promotional or marketing incentives relating to the Product and has not had sales or returns at levels higher than those historically obtained in accordance with its ordinary course of business consistent with past practice.

9.2 ESPRIT expressly warrants and represents that (a) it has the full corporate right and authority to enter into this Agreement and to carry out the transactions contemplated herein; (b) it is not required to obtain the consent of any third party to enter into and perform its obligations under this Agreement; (c) its entry into and performance of this Agreement do not conflict with any existing or pending written agreement (or to its knowledge, any existing or pending oral or implied agreement) of ESPRIT with a third party pertaining the subject matter contained herein; (d) it is not aware of any fact or circumstance which would indicate that NOVAVAX is in breach of any of the representations in Sections 9.1.1 through and including 9.1.2; and (e) that the voting equity of ESPRIT is owned by each of the Private Equity Investors as set forth in Schedule 9.2(e) attached hereto.

9.3. THE FOREGOING WARRANTIES OF EACH PARTY ARE IN LIEU OF ANY OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY WARRANTIES OF MERCHANTABILITY OR ANY WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE, VALIDITY, OR NON-INFRINGEMENT, ALL OF WHICH ARE HEREBY SPECIFICALLY EXCLUDED AND DISCLAIMED.

9.4. EXCEPT FOR THEIR RESPECTIVE OBLIGATIONS UNDER ARTICLE 11 ARISING OUT OF THIRD PARTY CLAIMS, SUITS OR DEMANDS, NEITHER PARTY SHALL BE LIABLE TO THE OTHER FOR ANY PUNITIVE, SPECIAL, INCIDENTAL, OR INDIRECT DAMAGES UNDER ANY CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ITS SUBJECT MATTER.

ARTICLE 10 — TERM AND TERMINATION

10.1 The term of this Agreement shall commence on the Effective Date and shall expire upon the expiration of the last-to-expire Licensed Patent or when terminated in accordance with any of the provisions herein. Upon expiration of the term of this License Agreement, ESPRIT shall have a fully paid-up license to make, have made, use and sell Licensed Products under the Licensed Technology in the Territory.

10.2 Termination for Breach: Upon any breach of, or default under, any material provision of this Agreement by a Party, including, without limitation, nonpayment of amounts owed hereunder by ESPRIT for any reason whatsoever except as specifically provided for in this Agreement, the other Party may terminate this Agreement in whole or in part by giving ninety (90) days' written notice (the "**Notice Period**") to the breaching Party; provided however, that the breaching Party shall have seventy-five (75) days to cure any such breach prior to the commencement of the Notice Period. Said notice shall become effective at the end of such Notice Period, unless during said Notice Period the breaching Party shall cure such breach or default within the applicable cure period. Notwithstanding anything to the contrary contained herein, payment defaults will have a notice and cure period of five (5) days. Notwithstanding anything to the contrary contained herein, this Agreement will terminate at the option of NOVAVAX (without notice to ESPRIT or any other precondition on the part of NOVAVAX) upon breach by ESPRIT of any of its obligations under the Promissory Note.

10.3 Effect of Termination for Breach by ESPRIT: Except as otherwise expressly set forth herein, upon termination by NOVAVAX under Section 10.2:

a) all licenses granted to ESPRIT hereunder shall cease and all such licensed rights shall revert to NOVAVAX;

b) ESPRIT shall, and it hereby does effective only upon termination by NOVAVAX as set forth above in 10.2, grant to NOVAVAX an exclusive (even as to ESPRIT), worldwide, irrevocable, perpetual, fully-paid up license, under ESPRIT Improvements and ESPRIT's interest in the Joint Improvements, with the right to grant sublicenses, to make and have made, import, use, sell, offer for sale, and have sold Licensed Product in the Field.

c) ESPRIT shall promptly deliver to NOVAVAX all of the following documents: (1) all confidential information and materials related to any Licensed Product provided by NOVAVAX pursuant to this Agreement, and (2) any New Drug Application (as defined in 21 C.F.R. Part 314) ("**NDA**"), any other filing with any governmental or regulatory authority worldwide in connection with any Licensed Product, and all related data, documents, reports, files (including the related drug master file), filings and correspondence with any governmental or regulatory authority, adverse event reports, clinical trial results, any investigative new drug applications and supporting data and information ("**IND**"), and all other documents or information, in whatever form, relating to the manufacture, use and sale of the Licensed Products;

d) if ESPRIT has applied for or obtained any regulatory approvals in any country for any Licensed Product, then ESPRIT shall, to the extent legally permissible, take all additional action reasonably necessary to assign all of its right, title and interest in and transfer possession and control to NOVAVAX of such applications or regulatory approvals; and

e) any regulatory filings for any Licensed Product which have been submitted in ESPRIT's name, subject to FDA approval, will be transferred to NOVAVAX's name; and

10.4 Effect of Termination for Breach by NOVAVAX: Except as otherwise expressly set forth herein, upon termination by ESPRIT under Section 10.2:

a) ESPRIT shall be free of any obligation to make any further, unaccrued payments to NOVAVAX relating to the terminated license pursuant to Articles 3, 4 or 5; and

b) NOVAVAX shall promptly deliver to ESPRIT all confidential information of ESPRIT, including, confidential information relating to ESPRIT Improvements, then in NOVAVAX's possession and materials related to any Licensed Product provided by ESPRIT to NOVAVAX pursuant to this Agreement.

10.5 Termination for Bankruptcy: NOVAVAX or ESPRIT may terminate this Agreement should the other Party commit an act of bankruptcy, be declared bankrupt, voluntarily file or have filed against it a petition for bankruptcy or reorganization unless such petition is dismissed within sixty (60) days of filing, enter into a procedure of winding up to dissolution or should a trustee or receiver be appointed for its business assets or operations. All rights and licenses granted under or pursuant to this Agreement are, and shall otherwise be deemed to be, for the purposes of Section 365(n) of Title 11, U.S. Code ("**Bankruptcy Code**") license rights to "intellectual property" as defined under Section 101 (35A) of the Bankruptcy Code. The parties agree that ESPRIT, as a licensee of such right, under this Agreement, shall retain and may fully exercise all of its rights and elections under the Bankruptcy Code.

10.6 Certain Effects of Termination; Payments and Dispute Resolution: In the event of termination of this Agreement by NOVAVAX under Section 10.2, ESPRIT shall not be relieved of the duty and obligation to pay in full, payments due, accrued, and unpaid at the effective date of such termination, nor shall any such termination relieve either Party of any obligation arising hereunder prior to such termination. Notwithstanding the foregoing, from the date either Party notifies the other Party that it wishes to commence a proceeding in accordance with the dispute resolution procedures set forth in Article 12 until the date such proceeding has been concluded, the running of the time period referred to in this paragraph for curing a breach shall be suspended with respect to the subject matter of the dispute, claim or controversy.

10.7 Upon termination of any license granted herein, in part or in whole as to any Licensed Product, ESPRIT shall have the right to sell off any of such Licensed Product in its inventory provided ESPRIT pays to NOVAVAX any royalties otherwise calculated in accordance with this Agreement.

10.8. Survival of Provisions Upon Termination. (a) In the event of termination of this Agreement by NOVAVAX under Section 10.2, the provisions of Section 2.4 and the provisions listed in subsection (b) below shall survive the termination of this Agreement to the extent provided for herein, and (b) the following provisions shall survive the termination or expiration of this Agreement to the extent of any claims thereunder arising out of facts or circumstances arising or existing prior to the date of such termination of expiration : Articles 6, 11, 12 and 13, and Sections 9.3, 9.4, 10.6, 10.7 and 10.8.

ARTICLE 11 — INDEMNIFICATION

11.1 NOVAVAX and ESPRIT will each defend as the case maybe (each an "**Indemnifying Party**") , at its own expense, indemnify and hold harmless the other Party and its Affiliates from and against any and all damages, liabilities, losses, costs, and expenses, including attorneys fees, arising out of any claim, suit or proceeding brought against the other Party to the extent such claim, suit, or proceeding is based upon a claim arising out of or relating to (i) any breach or violation of, or failure to perform, any covenant or agreement made by such indemnifying Party in this Agreement, unless waived in writing by the indemnified Party; (ii) any breach of the representations or warranties made by such indemnifying Party in this Agreement; or (iii) the negligence or willful misconduct of the indemnifying Party, except, under clause (ii), to the extent arising out of the breach, violation, failure, negligence or willful misconduct of the indemnified Party. Each Party agrees that it shall promptly notify the other in writing of any such claim or action and give the indemnifying Party full information and assistance in connection therewith. The indemnifying Party shall have the sole right to control the defense of any such claim or action and the sole right to settle or compromise any such claim or action, except that the prior written consent of the other Party shall be required in connection with any settlement or compromise which could (i) place any obligation on or require any action of such other Party; (ii) admit or imply any liability or wrongdoing of such other Party; or (iii) adversely affect the goodwill or public image of such other Party. Notwithstanding the foregoing, the indemnified Party may participate therein through counsel of its choice, but the cost of such counsel shall be borne solely by the indemnified Party. Except as otherwise provided herein, NOVAVAX will defend, at its own expense, indemnify and hold harmless the other ESPRIT and its Affiliates from and against any and all damages, liabilities, losses, costs, and expenses, including attorneys fees, arising out of any claim, suit or proceeding brought against the ESPRIT or any such Affiliate to the extent such claim, suit, or proceeding is based upon a claim arises out of a third party claim or suit or demand based on bodily injury or property damage resulting from the manufacture, use or sale of Licensed Product in the Field by NOVAVAX or its Affiliates or sublicensees pursuant to this Agreement other than in accordance with specifications as provided in the Supply Agreement, unless such claim is due to the negligent, grossly negligent or intentional act or omission of ESPRIT.

11.2 In the event that any Party hereunder seeks indemnification under this Article 11, such Party shall: (a) promptly inform the Indemnifying Party of any claim, suit or demand threatened or filed, and (b) cooperate as requested (at the expense of the Indemnifying Party) in the defense of such claims.

11.3 An Indemnifying Party's (including sublicensees) obligations under this Article 11 shall not extend to any claims, suits or demands for liability, damages, losses, costs and expenses arising from the Indemnified Party's failure to comply with the terms and conditions of this Agreement or arising from the negligence, gross negligence, intentional wrongful act or omission of the Indemnified Party, its agents or employees.

ARTICLE 12 — ARBITRATION

12.1 Any controversy or claim arising out of or relating to this Agreement shall be resolved by arbitration before a panel of three arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("**AAA**") then pertaining (available at www.adr.org), except where those rules conflict with this provision, in which case this provision controls. Any court with jurisdiction shall enforce this clause and enter judgment on any award. The arbitrators shall be selected within twenty Business Days from filing of a

demand for arbitration from the AAA's National Roster of Arbitrators pursuant to agreement or through selection procedures administered by the AAA. Within 45 days of filing of a demand for arbitration, the parties shall reach agreement upon and thereafter follow procedures, including limits on discovery, assuring that the arbitration will be concluded and the award rendered within no more than eight months from selection of the arbitrators or, failing agreement, procedures meeting such time limits will be designed by the AAA and adhered to by the parties. The arbitration shall be held in New York, New York, Borough of Manhattan and the arbitrators shall apply the substantive law of New York, except that the interpretation and enforcement of this arbitration provision shall be governed by the Federal Arbitration Act. Prior to commencement of arbitration, emergency relief is available from any court to avoid irreparable harm. THE ARBITRATOR SHALL NOT AWARD EITHER PARTY PUNITIVE, EXEMPLARY, MULTIPLIED OR CONSEQUENTIAL DAMAGES, OR ATTORNEYS FEES OR COSTS. Prior to commencement of arbitration, the parties must attempt to mediate their dispute using a professional mediator from AAA, the CPR Institute for Dispute Resolution, or like organization selected by agreement or, absent agreement, through selection procedures administered by the AAA. Within a period of 45 days after the request for mediation, the parties agree to convene with the mediator, with business representatives present, for at least one session to attempt to resolve the matter. In no event will mediation delay commencement of the arbitration for more than 45 days absent agreement of the parties or interfere with the availability of emergency relief.

ARTICLE 13 — MISCELLANEOUS

13.1 Any delays in or failures of performance by a Party under this Agreement shall not be considered a breach of this Agreement if and to the extent caused by acts of God; acts, regulations or laws of any government; strikes or other concerted acts of workers; fires; floods; explosions; riots; wars; rebellions; and sabotage (a "**Force Majeure Event**"); and any time for performance hereunder shall be extended by the actual time of delay caused by such occurrence. In the event that a Party's performance of payment obligations is suspended for more than one hundred and twenty (120) days because of a Force Majeure Event, the other Party has the right to terminate this Agreement upon written notice to the non-performing Party.

13.2 This Agreement, or any of the rights and obligations created herein ,including but not limited to the licenses granted under Article 2, shall not be assigned or transferred, in whole or in part, by either Party hereto without the prior written consent of the other Party which will not be unreasonably withheld or delayed; provided, however, that either Party may, without such consent, assign the Agreement and its rights and obligations hereunder (A) to a wholly owned operating Affiliate of such Party or (B) in connection with the transfer or sale of all or substantially all of its assets to a third party so long as: (i) each Party will provide the other Party with at least ten (10) days prior written notice thereof; and (ii) in the event of such a transfer by NOVAVAX, any permitted assignee shall assume all obligations of its assignor under the Agreement in a writing delivered to the other Party. Any attempted assignment or transfer of such rights or obligations without such consent, except as provided herein, shall be void. This Agreement shall binding upon any purchaser of all or substantially all of the assets of the either Party, as the case may be. This Section 13.2 shall not be deemed to otherwise prohibit or otherwise apply to a change in control of NOVAVAX (whether by merger of sale of capital stock or otherwise) at the shareholder or Board of Director levels or otherwise.

13.3 The waiver by a Party, whether express or implied, of any provisions of this Agreement, or of any breach or default of a Party, shall not be construed to be a continuing waiver of such provision, or of any succeeding breach or default or of a waiver of any other provisions of this Agreement.

13.4 All matters affecting the interpretation, validity, and performance of this Agreement shall be governed by the laws of the State of New York, U.S.A., without regard to its choice or conflict of law principles.

13.5 Any provision hereof which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction. The parties shall replace such ineffective provision for such jurisdiction with a valid and enforceable provision which most closely approaches the NOVAVAX, intent, and purpose of this Agreement, and in particular, the provision to be replaced.

13.6 ESPRIT and NOVAVAX are independent contractors and shall not be deemed to be partners, joint venturers or each other's agents, and neither shall have the right to act on behalf of the other except as expressly provided hereunder or otherwise expressly agreed to in writing.

13.7 It is the mutual desire and intent of the parties to provide certainty as to their future rights and remedies against each other by defining the extent of their mutual undertakings as provided herein. The parties have in this Agreement incorporated all representations, warranties, covenants, commitments and understandings on which they have relied in entering into this Agreement and, except as provided for herein, neither Party has made any covenant or other commitment to the other concerning its future action. Accordingly, this Agreement (together with the schedules attached hereto (i) constitute the entire agreement and understanding between the parties with respect to the matters contained herein, and there are no promises, representations, conditions, provisions or terms related thereto other than those set forth in this Agreement, and (ii) supersede all previous understandings, agreements and representations between the parties, written or oral relating to the subject matter hereof. The parties hereto may from time to time during the continuance of this Agreement modify, vary or alter any of the provisions of this Agreement, but only by written agreement of all parties hereto.

13.8 All communications, reports, payments and notices required by this Agreement shall be addressed to the Partied(s) at their respective address(s) set forth below or to such other address as requested by a Party by notice in writing to the other parties.

If to NOVAVAX: Attention: Chief Executive Officer
NOVAVAX, Inc.
508 Lapp Road
Malvern, PA 19355

With a copy to: Ropes & Gray LLP
45 Rockefeller Plaza
New York, NY 10111
Attention: Sanford B. Kaynor, Jr.

If to ESPRIT: Attention: Chief Executive Officer
Esprit Pharma, Inc.
Two Tower Blvd.
East Brunswick, NJ 08816

With a copy to: Steven M. Bosacki, General Counsel
Esprit Pharma, Inc.
Two Tower Blvd.
East Brunswick, NJ 08816

All such notices, reports, payments and communications shall be made by First Class mail; postage prepaid, and shall be considered made as of the date of deposit with the United States Post Office.

13.9 This Agreement may not be amended or modified unless in writing executed by both parties hereto. Except as otherwise expressly set forth herein, neither party will have any rights of setoff or to withhold the performance of any obligation (including with respect to any payment otherwise required to be made) hereunder.

13.10. Unless otherwise expressly provided for herein (i) financial and accounting terms will have the meaning ascribed to such terms in accordance with GAAP, (ii) the word, "including", will mean "including but not limited to" and the word "day" will mean "calendar day", (iii) references to the singular will include the plural and vice versa, (iv) the use of any pronoun will include the neuter and both genders, and (v) references to Sections, Articles, Schedules and Exhibits will be references to Sections, Articles, Schedules and Exhibits to this Agreement and the word, "herein" and words of similar import will be construed to refer to this Agreement, (vi) the word "knowledge" will mean actual knowledge after reasonably diligent inquiry of executive officers of the relevant entity, and (vii) headings and titles of Sections and Articles herein will be construed to be descriptive only and without any substantive or interpretive effect.

13.11 If at any time during the term of this Agreement and prior to *****, NOVAVAX receives a bona fide proposal from a third party to enter into an exclusive license agreement to market a product containing ***** in NOVAVAX's ***** for the treatment of *****. NOVAVAX shall promptly notify ESPRIT in writing. ESPRIT may, but shall not be obligated to deliver to NOVAVAX within in ***** (*****) days of receipt of such notice, a letter stating that ESPRIT wishes to enter into an exclusive license for any of the products herein as the case may be, on substantially the same terms and conditions received in its most favorable third party proposal. The parties hereto agree to diligently negotiate in good faith to complete the transaction contemplated herein. In the event the parties are not able to consummate an agreement ***** (*****) days of receipt of such notice, NOVAVAX shall be entitled to negotiate a transaction with respect to the foregoing product on terms acceptable to NOVAVAX

* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

ARTICLE 14 — TAXES

14.1 ESPRIT will make all payments to NOVAVAX under this Agreement without deduction or withholding for taxes except to the extent that any such deduction or withholding is required by law in effect at the time of payment.

14.2 Any tax required to be withheld on amounts payable under this Agreement will promptly be paid by ESPRIT on behalf of NOVAVAX to the appropriate governmental authority, and ESPRIT will furnish NOVAVAX with proof of payment of such tax.

14.3 ESPRIT and NOVAVAX will cooperate with respect to all documentation required by any taxing authority or reasonably requested by ESPRIT to secure a reduction in the rate of applicable withholding taxes.

NOVAVAX, INC.

By: _____
Name:
Title: President and Chief Executive Officer
Date: _____

ESPRIT PHARMA, INC.

By: _____
Name:
Title:
Date: _____

Schedule A — Patents and Patent Applications

Country	Status	Application No.	Patent No.	Issue Date	Expiration
United States	Granted	08/380942	5629021	05/13/1997	01/31/2015
Mexico	Granted	975663	198438	09/04/2000	01/29/2016
Canada	Granted	2211262	2211262	08/30/2005	01/29/2016

Schedule B — Formulation For Existing Estrasorb®Licensed Product

Formulation (NOVAVAX-033/2)

Ingredient Description	Percent w/w
17 β -Estradiol USP/Ph. Eur.	*****
Soybean Oil USP	*****
Polysorbate 80 NF	*****
190 Proof Ethyl Alcohol USP	*****
Purified Water USP	*****

* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

Schedule 1 — Trademarks

	Application No.	Registration	Status /	Date
ESTRASORB	75/833622	2784534	Registered	18-Nov-2003

Class 5
Goods: pharmaceuticals, namely topical hormone preparations
International Class: 005
First Use Date: 2003-03-03
First Use in Commerce Date: 2003-03-03

Basis: 1(a)

www.estrasorb.com

Schedule 9.1.7 — Product Sales and Returns

Novavax, Inc.
Estrasorb Sales by Month

	Gross Sales		Returns	
	Units	Dollars	Units	Dollars
		$		
Oct-04	*****	*****	*****	*****
Nov-04	*****	*****		
Dec-05	*****	*****		
Jan-05	*****	*****		
Feb-05	*****	*****		
Mar-05	*****	*****		
Apr-05	*****	*****	*****	*****
May-05	*****	*****	*****	*****
Jun-05	*****	*****		
Jul-05	*****	*****		
Aug-05	*****	*****	*****	*****
Sep-05	*****	*****		
Totals	*****	*****		*****

* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

Schedule 9.2(e) — Voting Equity of ESPRIT

Private Equity Investor	Fully Diluted Voting Equity Percentage
*****	*****%
*****	*****%
*****	*****%

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Exhibit 10.34

THE REGISTRANT HAS APPLIED FOR CONFIDENTIAL TREATMENT OF CERTAIN PROVISIONS OF THIS EXHIBIT WITH THE SECURITIES AND EXCHANGE COMMISSION. THE CONFIDENTIAL PORTIONS OF THIS EXHIBIT ARE MARKED WITH ASTERISKS (*****) AND HAVE BEEN OMITTED. THE OMITTED PORTIONS OF THIS EXHIBIT WILL BE FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.

SUPPLY AGREEMENT

AGREEMENT, (this **"Agreement"**) is dated as of October 18, 2005 by and between Novavax, Inc., a Delaware corporation having its principal place of business at 508 Lapp Road, Malvern, Pennsylvania 19355, ("**Novavax**" or **"Supplier"**) and Esprit Pharma, Inc., a Delaware corporation having its principal place of business at 2 Town Center Boulevard, East Brunswick, New Jersey 08816 (**"Esprit"** or **"Buyer"**). Supplier and Purchaser may be referred to individually as a **"Party"** or collectively as the **"Parties."**

WHEREAS, Supplier has been engaged in the of development, manufacture, and supply of a product to be marketed, distributed and sold under the Estrasorb® brand by Supplier;

WHEREAS, on the date hereof, Buyer and Supplier also entered into a license agreement for the license by Supplier to Buyer of certain intellectual property enabling the manufacture sale and use by Purchaser of topically- or transdermally-administered product containing no active ingredient other than17ß estradiol (excluding contraceptive products, Selective Estrogen Receptor Modulators and products administered vaginally, orally, nasally, through the gum or by injection) which utilize Supplier's micellar nanoparticle technology in the field of women's health in product that is marketed under Supplier's NDA #21-371 (the "**License Agreement**");

WHEREAS, concurrently with the execution and delivery of this Agreement and the License Agreement, ESPRIT has executed and delivered to NOVAVAX an $8.0 million promissory note due December 30, 2005 constituting a portion of the consideration for the License Agreement (the "**Promissory Note**");

WHEREAS, concurrently with the execution and delivery of this Agreement, the License Agreement and the Promissory Note, New Enterprise Associates, Domain Associates, LLC and Apax Partners, or certain of their affiliates (the "**Private Equity Investors**") have executed and delivered to NOVAVAX an agreement to fund Esprit with the principal amount due under the Promissory Note within ten (10) business days of Esprit's default of any of its obligations thereunder for the express purpose of satisfying ESPRIT's obligations under the Promissory Note; and

WHEREAS, Buyer desires to have Supplier manufacture Product (as defined in Article 1 below) under the Estrasorb® brand for sale by Buyer or its designee.

NOW, THEREFORE, in consideration of the mutual promises, covenants and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and efficiency of which are hereby acknowledge, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

As used throughout this Agreement, each of the following terms shall have the respective meaning set forth below:

"Affiliate" of a Party shall mean any entity which directly or indirectly controls, is controlled by or is under common control with such entity, and for such purpose "control" shall mean (i) directly or indirectly owning, controlling or holding more than fifty percent (50%) of the securities or other ownership interests representing the equity, the voting stock or general partnership interest in an entity or (ii) the possession, direct or indirect, of the power to direct or cause the direction of the management or the policies of the entity, whether through the ownership of voting securities, by contract or otherwise. Any such corporation, entity or business structure shall only be considered an Affiliate for so long as such ownership or control exists.

"cGMP" shall mean good manufacturing practices according to 21 CFR Parts 210 and 211.

"**CPI**" shall mean United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers, United States City Average, All Items, (1982-84=100) excluding the food and energy components, or the successor index that most closely approximates the CPI.

"Cardinal" shall mean Cardinal Health Inc. as the contract manufacturer of the Product pursuant to the Cardinal Agreement.

"Cardinal Agreement" shall mean the letter agreement between Cardinal, Supplier and Buyer of even date herewith.

"Cardinal Facility" shall mean Cardinal's manufacturing facility for the Product located at 3001 Red Lion Rd., Philadelphia, Pa. 10014

"Damages" shall have the meaning ascribed to such term in Section 16.01.

"FDA" means the United States Food and Drug Administration and successor bodies.

"Intellectual Property Rights" shall mean the intellectual property, trade secrets, know-how, technology and information, whether or not protected by patents, to the extent required in the reasonable judgment of Supplier to manufacture the Product.

"License Agreement" shall mean the license agreement referred to in the second recital of this Agreement.

"**Net Sales** " has the meaning ascribed to such term in the License Agreement.

"Permitted Raw Materials Inventory" shall have the meaning ascribed to such term in Section 8.03(b).

"Product" shall mean Estrasorb, as more fully described on Schedule A to this Agreement, manufactured and packaged in accordance with the Specifications (hereinafter defined).

"Raw Materials" shall mean the materials, components, and packaging required to manufacture and package the Product in accordance with the Specifications.

"Specifications" shall mean the specifications for the design, composition, product safety assurance, manufacture, packaging, and/or quality control of the Product, as set forth on Schedule B attached hereto and made a part hereof, as the same may hereafter be modified by mutual agreement of the parties in writing.

"Supply Year" shall mean each consecutive 365-day period (or 366-day period in the event of a leap year) during the Term, commencing on the date of this Agreement.

"Territory" shall mean the United States, Mexico and Canada.

"Term" shall have the meaning ascribed to such term in Article 6.

"**Unit of Product**" means a month of therapy of Product for an individual end user.

ARTICLE 2

SUPPLY OF PRODUCT

During the Term, Supplier shall supply Buyer with those quantities of Product as ordered by Buyer pursuant to this Agreement, subject to the ordering procedures set forth in Article 4 below. Supplier shall sell Product exclusively to Buyer for sale in the Territory . Each Product sold hereunder will conform to the Specifications for such Product. Subject to the terms and conditions herein, Supplier will provide the facility, equipment , labor, and supervision necessary for the production of the Product in sufficient quantities as required herein.

ARTICLE 3

PRICES FOR PRODUCT

3.01 Transfer Price. The transfer price of Product from Novavax to Esprit during any Supply Year will be equal to (i) $***** per Unit of Product for the first $***** of Net Sales in such Supply Year and (ii) $***** per Unit of Product for the excess over the first $***** of Net

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Sales for such Supply Year. Notwithstanding anything to the contrary contained herein, the transfer price of Product from Novavax to Esprit (a) that constitutes samples (including current sample inventory) as designated by Novavax, will be $***** per week of therapy of Product for an individual end user of Product and (b) that constitutes short-dated trade inventory (in stock for equal to or less than one year from the date of packaging) as designated by Novavax and as set forth on Schedule 3.01 attached hereto will be $***** per Unit of Product. All transfer prices referred to in this Section 3.01 shall be increased (on a compounded basis) on ***** and ***** by and amount equal to the product of (i) the then current transfer price and (ii) *****. For the remainder of the Term, the transfer price of Product from Novavax to Esprit will be *****% of Novavax's fully burdened manufacturing cost. The parties agree that the aggregate amount contemplated by clause (b) above will be paid in cash by wire transfer on the date of this Agreement.

3.02 Payment Terms. Payment terms on all orders shall be ***** (*****) days from the date of invoice. Invoicing shall occur upon shipment.

ARTICLE 4

FORECASTS, CAPACITY; ORDERS

4.01 Forecasts; Capacity; Capital Expenditures. At the beginning of each calendar quarter during the Term, Buyer shall provide Supplier with a binding written forecast of Buyer's requirements for Product for the shorter of the following 12 months or the remainder of the Term (each, a "**Rolling 12 Month Forecast**"). Each Rolling 12 Month Forecast will be binding within a range of ± *****% of the stated amount within such Rolling 12 Month Forecast; provided that the first three months of the each Rolling 12 Month Forecast will be binding without reference to the foregoing range. Attached hereto as Appendix 1 is an initial binding forecast for Product to be purchased pursuant to this Agreement between the date of this Agreement and the placement of subsequent purchase orders for Product in accordance with Section 4.02, below. Appendix 2 sets forth the capacity expectation for Buyer's requirements during the Term on a monthly basis (**"Capacity"**). The parties understand and agree that any capital expenditures, incurred by Supplier in connection with the performance of its obligations under this Agreement will be borne by Supplier, it being understood that Supplier and Buyer will consult in good faith regarding any such capital expenditure prior to its incurrence. Notwithstanding anything to the contrary contained herein, the parties understand and agree that up to $***** of incremental expenses related to increasing manufacturing Capacity shall be borne by Buyer. The parties further understand that the foregoing forecasts and Capacity shall include both sample and trade quantities of Product. Supplier will use commercially reasonable efforts to meet Buyers demand for Product.

4.02 Change Orders. Quarterly requirements contained in any 12 Month Rolling Forecast may be changed with ***** days prior written notice from Buyer to Supplier provided that Supplier consents to such change order in writing (which consent may be withheld by Supplier in its sole discretion)

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4.03 Example. For illustrative purposes only, assuming execution and delivery of this Agreement on September 30, 2005, Buyer will deliver (i) its first 12 Month Rolling Forecast on October 1, 2005 for the succeeding 12 month period and (ii) its second 12 Month Forecast on December 31, 2005 for the succeeding 12 month period. Quarterly requirements contained in the forecasts will be binding, subject to change in accordance with Section 4.01 and Section 4.02.

4.04 Conflicts. To the extent of any conflict or inconsistency between this Agreement and any purchase order, purchase order release, confirmation, acceptance or any similar document, the terms of this Agreement shall govern.

ARTICLE 5

ADDITIONAL UNDERSTANDINGS OF THE PARTIES

5.01 Other Affiliates. If any other Affiliate of Buyer desires to purchase the Product from Supplier under the terms of this Agreement, then, upon the execution of a copy of this Agreement by such Affiliate, Supplier shall accord such Affiliate all of the benefits hereof and treat such affiliate as a **"**Buyer**"** for the purposes of this Agreement; provided, however, that this section will not be construed to relieve Esprit of any of its obligations hereunder

5.02 Exclusive Rights. During the Term, Supplier shall supply Buyer, on an exclusive basis, with the Product for sale in the Territory and neither Supplier nor any of its Affiliates shall sell or distribute the Product.

5.03 Metered Dose Delivery. Notwithstanding anything to the contrary contained herein, the parties understand and agree that Supplier is developing developed a metered dose bottle for the administration of Estrasorb (**"Metered Dose Delivery"**) and that the parties will, commencing on the date hereof, initiate the development and implementation of Metered Dose Delivery. The parties understand and agree that costs and expenses of the development and implementation of Metered Dose Delivery will be borne as follows: (a) the first $***** by Esprit and (b) any amount in excess of $***** by Novavax. All such costs and expenses will be paid by the applicable Party as such costs and expenses are incurred. The parties will work together in good faith to launch Metered Dose Delivery by *****.

5.04 Insurance. Each of Supplier and Buyer agrees to procure and maintain in full force and effect during the Term valid and collectible insurance policies of a type and coverage amount consistent with Supplier's and Buyer's past practice prior to the date hereof. Should Supplier require additional insurance to be carried by Buyer, any incremental cost will be for the account of Buyer. Buyer's and Supplier's existing policies are listed on Schedule D attached hereto. Upon Buyer's request, Supplier shall provide to Buyer a certificate of coverage or other written evidence reasonably satisfactory to Buyer of such insurance coverage. Upon Supplier's request, Buyer shall provide to Supplier a certificate of coverage or other written evidence reasonably satisfactory to Supplier of such insurance coverage.

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5.05 Personnel. During the Term, Supplier shall maintain a workforce of appropriate size, training and experience sufficient in the reasonable judgment of Supplier for manufacturing the Product in an amount not to exceed Capacity. If Buyer requires additional personnel for maintaining its equipment and facilities and otherwise necessary to fulfill Supplier's other obligations hereunder, the incremental cost thereof will be borne solely by Buyer. The parties agree that the personnel requirements associated with the performance of Buyer's obligations hereunder are set forth on Appendix 3 attached hereto.

5.06 Product Returns. All Product returns and all costs and expenses associated therewith (a) for Products sold prior to the date hereof will be for the account of Supplier; (b) for Products sold on or after the date hereof will be for the account of Buyer; and (c) for partial lot #092304T17 will be for the account of Supplier. Medicaid chargebacks and rebates (a) occurring within the first ***** days after the date hereof will be for the account of Supplier and (b) occurring thereafter will be for the account of Buyer.

ARTICLE 6

TERM; EFFECTIVE DATE

The term of this Agreement shall commence on the date hereof and remain in effect until ***** (the **"Expiration Date"**), unless sooner terminated as expressly provided under this Agreement (the **"Term"**). Notwithstanding anything to the contrary contained herein, this Agreement will be effective as follows: with respect to Esprit's obligation under the last sentence of Section 3.01 and under Section 5.03, the date of this Agreement and (b) with respect to all other terms and conditions of this Agreement, the Business Day immediately following the satisfaction in full of Esprit's obligations to pay principal and interest under the Promissory Note on the Maturity Date (as defined therein).

ARTICLE 7

TERMINATION

7.01 Breach. This Agreement may be terminated, prior to the Expiration Date, by either Party by giving 90 days written notice of its intent to terminate and stating the grounds therefor if the other Party shall materially breach or materially fail in the observance or performance of any representation, warranty, guarantee, covenant or obligation under this Agreement. The Party receiving the notice shall have 75 days from the date of receipt thereof to cure the breach or failure. Notwithstanding anything to the contrary contained herein, payment defaults will have a ten (10) day cure period. In the event such breach or failure is cured, the notice shall be of no effect.

7.02 Termination of License Agreement. Subject to earlier expiration or termination, this Agreement will terminate simultaneously with the termination of the License Agreement.

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7.03 Insolvency, Etc. This Agreement may be terminated, prior to the Expiration Date, upon 30 days written notice by either Party: (i) in the event that the other Party hereto shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property, (b) make a general assignment for the benefit of its creditors, (c) commence a voluntary case under the United States Bankruptcy Code, as now or hereafter in effect (the **"Bankruptcy Code"**), (d) file a petition seeking to take advantage of any law (the **"Bankruptcy Laws"**) relating to bankruptcy, insolvency, reorganization, winding-up, or composition or readjustment of debts, or (e) take any corporate action for the purpose of effecting any of the foregoing; or (ii) if a proceeding or case shall be commenced against the other Party hereto in any court of competent jurisdiction, seeking (a) its liquidation, reorganization, dissolution or winding-up, or the composition or readjustment of its debts, (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the Party or of all or any substantial part of its assets, or (c) similar relief under any Bankruptcy Laws, or an order, judgment or decree approving any of the foregoing shall be entered and continue unstayed for a period of 60 days; or (iii) an order for relief against the other Party hereto shall be entered in an involuntary case under the Bankruptcy Code.

7.04 Effect of Termination. Notwithstanding the termination of this Agreement for any reason, each Party hereto shall be entitled to recover any and all Damages which such Party shall have sustained by reason of the breach by the other Party hereto of any of the terms of this Agreement. Termination of this Agreement for any reason shall not release either Party hereto from any liability which at such time has already accrued or which thereafter accrues from a breach or default prior to such expiration or termination, nor affect in any way the survival of any other right, duty or obligation of either Party hereto which is expressly stated elsewhere in this Agreement to survive such termination. In the case of a termination under Section 7.01 above, the non-defaulting Party may pursue any remedy available in law or in equity with respect to such breach, subject to the terms of Section 17.01.

(a) In the event that this Agreement expires or is terminated for any reason (other than Supplier's material breach, gross negligence or willful misconduct), Buyer shall be responsible for purchasing from Supplier (at Supplier's cost) such Permitted Raw Materials Inventory conforming with the Specifications to the extent such Permitted Raw Materials Inventory has not been fully utilized prior to the expiry or earlier termination of this Agreement, provided that such Permitted Raw Materials Inventory has a shelf life of not more 365 days. Buyer shall accept delivery of any such Permitted Raw Materials Inventory within five days after such expiration or termination at the location designated by Buyer. If Buyer instructs Supplier to scrap any such Permitted Raw Material Inventory, Buyer shall pay for such Permitted Raw Materials Inventory as provided in the immediately preceding sentence plus reimburse Supplier's incremental expenses directly related to the proper disposition of the scrapped Permitted Raw Materials Inventory.

ARTICLE 8

DELIVERY; INVENTORY.

8.01 Delivery. All charges for packing, hauling, storage, bar coding, and transportation to point of delivery are not included in the Transfer Price and Transfer Price shall be F.O.B. Cardinal Facility (i.e., Buyer will pay for shipment). All shipments must be accompanied by a packing slip which describes the articles, states the purchase order number and shows the shipment's destination. Supplier agrees to promptly forward the original bill of lading or other shipping receipt for each shipment in accordance with Buyer's instructions. Supplier further agrees to promptly render, after delivery of goods or performance of services, correct and complete invoices to Buyer, and to accept payment by check or at Buyer's discretion, other cash equivalent (including electronic transfer of funds).

8.02 Shipment. The risk of loss with respect to Product shall remain with Supplier until the point at which any such Product is delivered to the loading dock at the Cardinal Facility. Supplier will pack all Product ordered hereunder in a manner suitable for shipment and sufficient to enable the Product to withstand the effects of shipping, including handling during loading and unloading.

8.03 Inventory. (a) Supplier will maintain inventory of Product on a first-in, first-out basis. In no event shall Supplier be required to, and Supplier will not, order more than ***** months' Raw Materials at Capacity and Supplier will use commercially reasonable efforts to manage such inventory as efficiently as possible.

(b) To shorten lead times hereunder and to support variations in demand, as and if necessary, Supplier shall during the Term maintain such inventory of Raw Materials as are reasonably required to manufacture and package Product in accordance with the Specifications in a quantity equivalent to ***** (*****) month of Buyer's forecasted purchase volume (the foregoing amount of inventory which conforms to the Specifications being hereinafter referred to collectively as the **"Permitted Raw Material Inventory"**) or such other specific amount of Permitted Raw Material Inventory as may be agreed to by both parties in writing in advance. Supplier's purchase price and the cost of carrying Permitted Raw Material Inventory shall be for the account of Buyer. The quantity of Permitted Raw Material Inventory shall be adjusted by Supplier as needed based upon Buyer's average monthly purchase volume as forecasted in Buyer's rolling forecast. In the event that Buyer's requirements for Product materially exceed Buyer's current forecasted needs, Supplier shall draw from the Permitted Raw Material Inventory to meet such excess requirements. Supplier shall then replenish the Permitted Raw Material Inventory within ***** days.

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ARTICLE 9

INSPECTION

Buyer shall have the right, upon reasonable notice to Supplier and during regular business hours, to inspect and audit not more than ***** per ***** month period the facilities being used by Supplier for production and storage of the Product to assure compliance by Supplier with cGMP and applicable FDA and other rules and regulations and with other provisions of this Agreement. Supplier shall notify Buyer as promptly as practicable of any audit, review or inspection by any regulatory authority relating, directly or indirectly, to the Product, and shall in any event notify Buyer of any such audit, review or inspection within 24 hours of Supplier's first being informed of any such event. Supplier and Buyer will work together to remedy or cause the remedy of any deficiencies which may be noted in any such audit or, if any such deficiencies can not reasonably be remedied within such seven day period, develop a written plan to remedy such deficiencies as soon as possible; and the costs of such remedy shall be borne by the Supplier.

ARTICLE 10

DEFECTIVE PRODUCT/INSPECTIONS/TESTING

10.01 Disposition of Defective Product. Buyer shall notify Supplier of the existence and nature of any non-compliance or defect and Supplier shall have a reasonable opportunity, not to exceed ***** days from receipt of notification, to inspect such defective Product and provide Buyer with detailed written instructions to return or dispose of such defective Product. Buyer shall have no obligation to pay for any Product that is subject to such a claim of non-compliance or defect. If Supplier fails to so inspect and instruct Buyer as to the disposition of such defective Product, Buyer may dispose of such defective Product as it sees fit and Supplier shall promptly (i) reimburse Buyer for all direct, out-of-pocket costs incurred by Buyer in such disposition, and (ii) replace such defective Product at its own cost and expense.

10.02 Independent Testing. If, after Supplier's inspections of such Product, the parties disagree as to the Product's conformance to the Specifications or whether the Product has such a defect, either Party may deliver the Product to an independent third-Party laboratory, mutually and reasonably acceptable to both parties, for analytical testing to confirm the Product's conformance to the Specifications or the presence or absence of defects. All costs associated with such third-Party testing shall be at Supplier's expense. No inspection or testing of or payment for Product by Buyer or any third-Party agent of Buyer shall constitute acceptance by Buyer thereof, nor shall any such inspection or testing be in lieu or substitution of any obligation of Supplier for testing, inspection and quality control as provided in the Specifications or under applicable local, state, or federal laws, rules, regulations, standards, codes or statutes.

10.03 Reports. Promptly after Buyer's reasonable written request, Supplier shall provide Buyer written reports relating to any aspects of the Product that are identified in the Specifications.

10.04 Complaint Handling. Supplier shall promptly convey to and inform Buyer of any customer or user complaints received by Supplier in connection with Product.

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10.05 Quality Control. Prior to each shipment of Product to Esprit, Novavax shall conduct or have conducted quality control testing of Product in accordance with the Specifications and such other Novavax approved quality control testing procedures that are consistent with FDA cGMPs. Novavax shall retain or have retained accurate and complete records pertaining to such testing. Novavax shall notify Esprit in writing at least ten (10) days prior to any change in the testing methods and shall provide Esprit a copy of the revised testing methods within ten (10) days of implementation of the changes. Each shipment of Product hereunder shall be accompanied by a certificate of analysis for each lot of Licensed Product therein.

ARTICLE 11

FAILURE TO SUPPLY; FORCE MAJEURE

11.01 Force Majeure Events. If either Party is prevented from performing any of its obligations hereunder due to any cause which is beyond the non-performing Party's reasonable control, including fire, explosion, flood, or other acts of God; acts, regulations, or laws of any government; war or civil commotion; strike, lock-out or labor disturbances; or failure of public utilities or common carriers (a **"Force Majeure Event"**), such non-performing Party shall not be liable for breach of this Agreement with respect to such non-performance to the extent any such non-performance is due to a Force Majeure Event. Such non-performance will be excused for six (6) months or as long as such event shall be continuing (whichever occurs sooner), provided that the non-performing Party gives prompt written notice to the other Party of the Force Majeure Event. Such non-performing Party shall exercise all commercially reasonable efforts to eliminate the Force Majeure Event and to resume performance of its affected obligations as soon as practicable.

11.02 Failure to Supply. Notwithstanding the provisions of Section 11.01, in the event that Supplier shall be unable or unwilling or shall fail to supply any Product in such quantities as Buyer shall request and in compliance with the delivery periods set forth in Section 4.02 (whether due to the occurrence of a Force Majeure Event, following the commencement of a case by or against Supplier under the Bankruptcy Code or otherwise (hereinafter referred to as a **"Failure to Supply"**), then Buyer shall be permitted (after the expiration of a ***** day cure period following written notice from Buyer to supplier of such Failure to Supply and such Failure to Supply has not been cured by Supplier) to (i) obtain Product directly from Cardinal, (ii) to obtain such Product from another supplier, or (iii) to use, sell, and make Product itself either in the Cardinal Facility or at another location. In this regard, Supplier shall (at no cost to Supplier) take all actions and provide all such cooperation and support reasonably necessary and reasonably within its control to give Buyer the right to enter, upon reasonable notice and during regular business hours, and shall be given access to, the Cardinal Facility (or any other location where the Equipment is used or stored) so that Buyer may use or retrieve all records maintained in connection with the manufacturing equipment. Supplier's obligations under this Section shall survive the termination of this Agreement for a period of ***** months. Upon the occurrence of any such Failure to Supply and through and until such time as Supplier fully resumes its supply obligations hereunder: (a) Supplier shall (at no cost to Supplier) take all reasonable actions within its control, execute and deliver all documents, and provide all such assistance as Buyer reasonably requests to enable Buyer to obtain Product directly from Cardinal; (b) Supplier shall (at no cost to Supplier) make available to Buyer or its designee access to any and all Intellectual

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Property Rights (to the extent not already granted pursuant to the License Agreement) and any other technical and proprietary materials, information and techniques necessary or helpful for Buyer to procure required Raw Materials or produce or arrange an alternative supplier of Product; (c) Supplier shall (at no cost to Supplier) provide advice and consultation in connection therewith; (d) Buyer shall purchase Product from Supplier once Supplier has cured the failure to supply; and (e) Buyer shall terminate any contractual arrangements contemplated by clause (a) of this sentence once Supplier has cured the failure to supply. As soon as reasonably practicable after an uncured Failure to Supply, Supplier shall furnish Buyer with Licensed Know-How (as defined in the License Agreement) which is necessary to enable Buyer to manufacture or have manufactured Product as contemplated by this Agreement.

ARTICLE 12

LABELING; ARTWORK; PROPRIETARY RIGHTS

Buyer shall have the right to determine the appearance and text of any labeling, packaging and promotional material used in connection with the Product or any finished product containing or contained in the Product ("**Packaging and Promotional Material**"). Buyer will, on or before the Effective Date, change all Packaging and Promotional Material to the extent required by applicable law or regulation, including changes to National Drug Codes, and shall, by time the first lot of Product is manufactured under this Agreement, have made all desired changes to Packaging and Promotional Material. Supplier shall cooperate with and provide such support as is reasonably requested by Buyer (at no additional cost to Supplier) in the implementation of any artwork or other Packaging and Promotional Material component changes. All costs and expenses relating to Packaging and Promotional Material used in connection with the Product will be borne by Buyer.

ARTICLE 13

CONFIDENTIALITY

13.01 All information disclosed by one Party to the other(s) or developed by the parties pursuant to the terms of this Agreement (the **"Confidential Information"**) shall be maintained strictly confidential and used only for the purposes of this Agreement in accordance with this Article 13 (**"Purposes"**). Each Party may also disclose the other's information to an Affiliate, agent or consultant, who is under a written obligation of confidentiality and non-use at least substantially equivalent to the obligations of this Article 13, with the exceptions that the Parties shall each be free to disclose the existence of this Agreement and the nature of the Product being manufactured hereunder and the terms to its prospective licensees and sub-licensees, investors or prospective investors, lenders and other potential funding sources, or to a third party in connection with a merger or acquisition or proposed merger or acquisition, subject to an obligation of confidentiality and non-use, and provided that such Party shall have used commercially reasonable efforts to obtain a written confidentiality agreement from such third Party contemplated by this sentence**.** Each Party shall guard any confidential information of the other Party with the same level of diligence as it normally guards any of its own internal

confidential, proprietary information. Each Party shall be responsible for the breach of any of the provisions of this Article 13 by a person or entity to whom such Party discloses information contemplated hereby. Notwithstanding the foregoing, each Party shall be relieved of the confidentiality and limited use obligations of this Agreement if:

(a) the information was previously known to the receiving Party as evidenced by the prior written records of such Party without disclosure by the disclosing Party;

(b) the information is or becomes generally available to the public through no fault of the receiving Party;

(c) the information is acquired in good faith in the future by the receiving Party from a third Party not under an obligation of confidence to the disclosing Party with respect to such information; or

(d) the information is independently developed by the receiving Party without reliance on, reference to, or knowledge of, the information disclosed by the disclosing Party. The parties understand and agree that it shall be the receiving Party's burden of proof to show the applicability of any of the exceptions set forth in clauses (a), (b) (c) or (d) above.

13.02 Notwithstanding the above obligations of confidentiality and non-use a Party may:

(a) disclose information to a regulatory agency that is necessary to obtain regulatory approval in a particular jurisdiction; or

(b) disclose information to a government agency if the disclosure is necessary to protect the health and safety of the Party's workers or the public or as required by law; or

(c) disclose information as and to the extent required to comply with applicable laws and regulations, including the rules and regulations of the U.S. Securities and Exchange Commission.

In making such disclosures as set forth in this Section 13.2, the disclosing Party shall use reasonable efforts to promptly first notify the owner of the Confidential Information so as to allow the owner of the confidential information an opportunity to seek a protective order or otherwise limit any such disclosure. In any event, the disclosing Party shall use reasonable efforts to only disclose such information as is required to be disclosed pursuant to the law, regulation, rule or order, and shall use its reasonable efforts to obligate the recipient to secrecy on the same terms as set forth herein. Each Party shall restrict the disclosure of confidential information of the other so that only the persons that need to know it shall be informed and the disclosure be limited to only such portions as necessary for the purposes of this Agreement.

13.03 Neither Party shall state or imply, in any publication, advertisement, sales promotional material, or other medium (a) the name of the other Party or the name(s) of any employee(s) of the other Party; or (b) the name of any Affiliate of the other Party or the name(s) of any employee(s) of such Affiliate without the prior written consent of the other Party.

13.04 Except for the filing of a copy of this Agreement with the Securities and Exchange Commission or other securities commission of such other jurisdictions whose laws may apply to either Party to the extent required by law and such other public announcements as may hereafter become required by law, regulation or rule due to changes from the facts and circumstances in existence as of the date hereof, no Party hereunder shall disclose this Agreement or make any public announcement or filing concerning this Agreement or the subject matter hereof without the prior written consent of the other. In the event that pursuant to the foregoing a Party shall file a copy of this Agreement with the Securities and Exchange Commission or other securities commission of such other jurisdictions whose laws may apply to either Party, it shall use reasonable efforts seek confidential treatment for all portions thereof reasonably requested by the other Party. Any proposed announcement or filing by a Party shall be made available to the other Party in advance of publication or filing, as the case may be, for review and comment. If a Party decides to make an announcement or disclosure required by law or as otherwise permitted under this section of this Agreement, it will provide the other Party with at least ten days, where possible, advance written notice of the text of any such written announcement or disclosure or content of any non-written disclosure or announcement, except to the extent applicable law requiring disclosure would not permit such advance notice (such as in the case of certain securities filings), in which case the disclosing Party will give the maximum notice possible under the circumstances, so that the other Party will have an opportunity to comment upon the announcement or disclosure.

13.05 Except for permissible publications under this Article 13 neither Party will publish any information based upon or derived from the work performed under this Agreement without the prior review and consent of the Parties pursuant to this Article 13.

13.06 With respect to information disclosed on or after the date hereof between Buyer and Supplier under the provisions of this Agreement, the provisions of this Agreement shall govern and prevail. In the event of any conflict between this Agreement and any other pending confidentiality agreement between Buyer and Supplier, with respect to information disclosed on or after the date hereof, the terms of this Agreement shall govern and prevail.

ARTICLE 14

CERTAIN REPRESENTATIONS, WARRANTIES AND COVENANTS

14.01 Product Warranties. Supplier warrants to Buyer that all Product supplied in connection with this Agreement shall be of merchantable quality, fit for the purpose intended by this Agreement and shall be manufactured and provided in accordance and conformity with the Specifications.

14.02 Execution and Performance of Agreement. Each of Supplier and Buyer represents to the other that (i) it has full right, power and authority to enter into and perform its obligations under this Agreement; (ii) the entry into and performance of this Agreement has been duly authorized, executed and delivered by it; and (iii) this Agreement is the valid binding obligation of it enforceable against it in accordance with its terms subject to bankruptcy, insolvency, reorganization, moratorium and similar laws of general applicability relating to or affecting

creditors' rights and to general principles of equity. Supplier and Buyer further represent and warrants to the other that the performance of its obligations under this Agreement will not result in a violation or breach of, and will not conflict with or constitute a default under any agreement, contract, commitment or obligation to which such Party or any of its Affiliates is a Party or by which it is bound.

14.03 Cardinal. Supplier represents and warrants that, pursuant to the agreements and understandings it has or may during the Term have with Cardinal in connection with the manufacture and packaging of the Product, Buyer has or will have access to the Cardinal Facility and the manufacturing equipment used to manufacture the Product to the extent contemplated by the Cardinal Agreement. Supplier shall use commercially reasonable efforts to enable Buyer to continue to have such access and rights during the Term, it being understood that that Cardinal and Supplier will negotiate in good faith the extension of the Cardinal Agreements for a term at least commensurate with the Term. In addition, Supplier will also use commercially reasonable efforts to assure supply of Licensed Product during the Term should Supplier and Cardinal be unable to consummate the extension of the Cardinal Agreements contemplated above, including consideration of an alternative manufacturing site and building inventory of finished Product.

14.04. THE FOREGOING WARRANTIES OF EACH PARTY ARE IN LIEU OF ANY OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY WARRANTIES OF MERCHANTABILITY OR ANY WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE, VALIDITY, OR NON-INFRINGEMENT, ALL OF WHICH ARE HEREBY SPECIFICALLY EXCLUDED AND DISCLAIMED.

14.05 EXCEPT FOR THEIR RESPECTIVE OBLIGATIONS UNDER ARTICLE 11 ARISING OUT OF THIRD PARTY CLAIMS, SUITS OR DEMANDS, NEITHER PARTY SHALL BE LIABLE TO THE OTHER FOR ANY PUNITIVE, SPECIAL, INCIDENTAL, OR INDIRECT DAMAGES UNDER ANY CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ITS SUBJECT MATTER.

ARTICLE 15

COMPLIANCE

Supplier agrees to comply with the applicable provisions of any Federal or state law and all executive orders, rules and regulations issued thereunder, whether now or hereafter in force, including Executive Order 11246, as amended, Chapter 60 of Title 41 of the Code of Federal Regulations, as amended, prohibiting discrimination against any employee or applicant for employment because of race, color, religion, sex or national origin; Section 60-741.1 of Chapter 60 of 41 Code of Federal Regulations, as amended, prohibiting discrimination against any employee or applicant for employment because of physical or mental handicap; Section 60.250.4 of Chapter 60 of 41 Code of Federal Regulations, as amended, providing for the employment of disabled veterans and veterans of the Vietnam era; Chapter 1 of Title 48 of the Code of Federal Regulations, as Amended, Federal Acquisition Regulations; Sections 6, 7 and 12 of the Fair

Labor Standards Act, as amended, and the regulations and orders of the United States Department of Labor promulgated in connection therewith. Supplier agrees that it shall comply with all present and future statutes, laws, ordinances and regulations relating to the manufacture and supply of the Product being provided hereunder, including, without limitation, those enforced by the FDA (including compliance with good manufacturing practices) and International Standards Organization Rules 9,000 et seq.

ARTICLE 16

INDEMNIFICATION

16.01 Indemnification by Supplier. Supplier shall indemnify and hold harmless Buyer and its directors, officers and employees from and against any and all damages, liabilities, claims, costs, charges, judgments and expenses (including reasonable attorneys' fees) claimed by third parties (collectively **"Damages"**) that may be sustained, suffered or incurred by Buyer or its directors, officers and employees, arising directly from or by reason of (i) the breach by Supplier of any warranty, representation, covenant or agreement made by Supplier in this Agreement; (ii) the negligence or willful misconduct of Supplier and (iii) any claim, suit, or proceeding brought by a third party wherein it is alleged that any property damage, personal injury or death has been caused by the Product; provided that Supplier shall not be liable for any product liability or personal injury claims by third parties arising from the sale, distribution or use of any Product which meets the Specifications and is not otherwise defective.

16.02 Indemnification by Buyer. Buyer shall indemnify and hold harmless Supplier and its directors, officers and employees from and against any and all Damages, that may be sustained, suffered or incurred by Supplier and its directors, officers and employees arising directly from or by reason of (i) the breach by Buyer of any warranty, representation, covenant or agreement made by Buyer in this Agreement, or (ii) the negligence or willful misconduct of Buyer.

16.03 Claims. If any claim (a **"Third Party Claim"**) is made against a party entitled to indemnification hereunder (an "**Indemnified Party"**) that, if sustained, would give rise to Damages to a party (the **"Indemnifying Party"**) under this Agreement, the Indemnified Party shall promptly cause notice of the claim to be delivered to the Indemnifying Party along with all of the facts, information or materials relating to such claim of which the Indemnified Party is aware; provided, however, that failure to give such notification shall not affect the indemnification provided for hereunder except to the extent that the Indemnifying Party shall have been actually prejudiced as a result of such failure. The Indemnified Party shall deliver to the Indemnifying Party, within five days after the Indemnified Party's receipt thereof, copies of all notices and documents (including court papers) received by the Indemnified Party relating to such Third Party Claim. If a Third Party Claim is made against an Indemnified Party, the Indemnifying Party will be entitled to participate in the defense thereof and, if it so chooses, to assume the defense thereof with counsel selected by the Indemnifying Party and reasonably satisfactory to the Indemnified Party. Should the Indemnifying Party so elect to assume the defense of a Third Party Claim, the Indemnifying Party will not be liable to the Indemnified Party for legal expenses subsequently incurred by the Indemnified Party in connection with the defense

thereof, unless the Third Party Claim involves potential conflicts of interest or substantially different defenses for the Indemnified Party and the Indemnifying Party. If the Indemnifying Party assumes such defense, the Indemnified Party shall have the right to participate in the defense thereof and to employ counsel, at its own expense (except as provided in the immediately preceding sentence), separate from the counsel employed by the Indemnifying Party, it being understood that the Indemnifying Party shall control such defense. The Indemnifying Party shall be liable for the reasonable fees and expenses of counsel employed by the Indemnified Party for any period during which the Indemnifying Party has not assumed the defense of any Third Party Claim that, if sustained, would give rise to a Liability of the Indemnifying Party under this Agreement. The parties shall cooperate in the defense or prosecution of any Third Party Claim. Such cooperation shall include the retention and (upon the Indemnifying Party's request) the provision to the Indemnifying Party of records and information that are reasonably relevant to such Third Party Claim, and reasonable efforts to make employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Whether or not the Indemnifying Party shall have assumed the defense of a Third Party Claim, the Indemnified Party shall not admit any Liability with respect to, or settle or compromise a Third Party Claim without the Indemnifying Party's prior written consent (which consent shall not be unreasonably withheld). The Indemnifying Party may pay, settle or compromise a Third Party Claim (i) with the written consent of the Indemnified Party, not to be unreasonably withheld or delayed or (ii) without the written consent of the Indemnified Party, so long as such settlement includes (A) an unconditional release of the Indemnified Party from all Liability in respect of such Third Party Claim and (B) does not subject the Indemnified Party to any injunctive relief or other equitable remedy. In the event an Indemnified Party has a claim against an Indemnifying Party that does not involve a Third Party Claim, the Indemnified Party shall promptly cause notice of such claim to be delivered to the Indemnifying Party. If the Indemnifying Party disputes such claim, the Indemnifying Party and the Indemnified Party shall attempt in good faith for a period of 10 days to settle any such dispute. If the parties are unable to resolve such dispute, the Indemnified Party may pursue any and all courses of action available against the Indemnifying Party.

ARTICLE 17

MISCELLANEOUS

17.01 Arbitration. Any dispute, controversy or claim arising out of or relating to this Agreement or the validity, inducement, or breach thereof, shall be settled by arbitration before a panel of three arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("**AAA**") then pertaining (available at www.adr.org), except where those rules conflict with this provision, in which case this provision controls. Any court with jurisdiction shall enforce this clause and enter judgment on any award. The arbitrators shall be selected within twenty Business Days from filing of a demand for arbitration from the AAA's National Roster of Arbitrators pursuant to agreement or through selection procedures administered by the AAA. Within 45 days of filing of a demand for arbitration, the parties shall reach agreement upon and thereafter follow procedures, including limits on discovery, assuring that the arbitration will be concluded and the award rendered within no more than eight months from selection of the arbitrators or, failing agreement, procedures meeting such time limits will

be designed by the AAA and adhered to by the parties. The arbitration shall be held in New York, New York, Borough of Manhattan and the arbitrators shall apply the substantive law of New York, except that the interpretation and enforcement of this arbitration provision shall be governed by the Federal Arbitration Act. Prior to commencement of arbitration, emergency relief is available from any court to avoid irreparable harm. THE ARBITRATOR SHALL NOT AWARD EITHER PARTY PUNITIVE, EXEMPLARY, MULTIPLIED OR CONSEQUENTIAL DAMAGES, OR ATTORNEYS FEES OR COSTS. Prior to commencement of arbitration, the parties must attempt to mediate their dispute using a professional mediator from AAA, the CPR Institute for Dispute Resolution, or like organization selected by agreement or, absent agreement, through selection procedures administered by the AAA. Within a period of 45 days after the request for mediation, the parties agree to convene with the mediator, with business representatives present, for at least one session to attempt to resolve the matter. In no event will mediation delay commencement of the arbitration for more than 45 days absent agreement of the parties or interfere with the availability of emergency relief.

17.02 Relationship of the Parties. The relationship of Buyer and Supplier established by this Agreement is that of independent contractors, and nothing contained herein shall be construed to (i) give either Party any right or authority to create or assume any obligation of any kind on behalf of the other or (ii) constitute the parties as partners, joint venturers, co-owners or otherwise as participants in a joint or common undertaking.

17.03 Entire Agreement. It is the mutual desire and intent of the parties to provide certainty as to their respective future rights and remedies against each other by defining the extent of their mutual undertakings as provided herein. The parties have, in this Agreement, incorporated all representations, warranties, covenants, commitments and understandings on which they have relied in entering into this Agreement, and, except as provided for herein, neither Party makes any covenant or other commitment to the other concerning its future action. Accordingly, this Agreement and the License Agreement (i) constitute the entire agreement and understanding between the parties with respect to the subject matter hereof and there are no promises, representations, conditions, provisions or Terms related thereto other than those set forth in this Agreement and (ii) supersede all previous understandings, agreements and representations between the parties, written or oral. No modification, change or amendment to this Agreement shall be effective unless in writing signed by each of the parties hereto.

17.04 Construction. Unless otherwise expressly provided for herein (i) financial and accounting terms will have the meaning ascribed to such terms in accordance with U.S. generally accepted accounting principles, consistently applied, (ii) the word, **"**including**"**, will mean **"**including but not limited to**"** and the word **"**day**"** will mean **"**calendar day**"**, (iii) references to the singular will include the plural and vice versa, (iv) the use of any pronoun will include the neuter and both genders, and (v) references to Sections, Articles, Schedules and Exhibits will be references to Sections, Articles, Schedules and Exhibits to this Agreement and the word, **"**herein**"** and words of similar import will be construed to refer to this Agreement, and (vi) headings and titles of Sections and Articles herein will be construed to be descriptive only and without any substantive or interpretive effect.

17.05 Notices. All notices and other communications hereunder shall be in writing. All notices hereunder of an Indemnity Claim, a Force Majeure Event, default or breach hereunder, or, if applicable, Termination or renewal of the Term hereof, or any other notice of any event or development material to this Agreement taken as a whole, shall be delivered personally, or sent by national overnight delivery service or postage pre-paid registered or certified U.S. mail, and shall be deemed given: when delivered, if by personal delivery or overnight delivery service; or if so sent by U.S. mail, three business days after deposit in the mail, and shall be addressed:

If to Supplier:

Chief Executive Officer

Novavax, Inc.
508 Lapp Road
Malvern, Pa. 10355

If to Buyer:

Chief Executive Officer

Esprit Pharma, Inc.
Two Tower Blvd.
East Brunswick, New Jersey 08816

or to such other place as either Party may designate by written notice to the other in accordance with the Terms hereof.

17.06 Failure to Exercise. The failure of either Party to enforce at any time for any period any provision hereof shall not be construed to be a waiver of such provision or of the right of such Party thereafter to enforce each such provision, nor shall any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy. Remedies provided herein are cumulative and not exclusive of any remedies provided at law.

17.07 Assignment. This Agreement may not be assigned by either Party without the prior written consent of the other which will not be unreasonably withheld or delayed, except that either Party may assign its rights and/or obligations hereunder to any of its wholly-owned Affiliates or to a successor to its business in a sale of all or substantially all of the assets of such Party. Subject to the foregoing sentence, this Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns. This Section 17.07 shall not be deemed to prohibit or otherwise apply to a change in control of Supplier (whether by merger of sale of capital stock or otherwise) at the shareholder or Board of Director levels or otherwise.

17.08 Severability. In the event that any one or more of the provisions (or any part thereof) contained in this Agreement or in any other instrument referred to herein, shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, then to the maximum extent permitted by law, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or any other such instrument. Any Term or provision of this Agreement which is invalid, illegal or unenforceable in any jurisdiction shall, to the extent the economic benefits conferred by this Agreement to both parties remain substantially unimpaired, not affect the validity, legality or enforceability of any of the Terms or provisions of this Agreement in any other jurisdiction.

17.09 Further Assurances. Upon reasonable request from Buyer therefor, Supplier shall provide to Buyer, promptly, any product samples, manufacturing information and other information as is necessary for Buyer to complete or obtain U.S. or foreign registration (including reimbursement arrangements) or approval in any territory where Buyer is allowed to sell product or use technology.

17.10 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

17.11 Expenses. Each Party shall pay all of its own fees and expenses (including all legal, accounting and other advisory fees) incurred in connection with the negotiation and execution of this Agreement and the arrangements contemplated hereby.

17.12 Survival. Sections 7.04 and 11.02 and Articles 12, 13, 16, and 17 shall survive the termination of this Agreement in accordance with the respective Terms thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized respective representatives as of the day and year first above written.

ESPRIT PHARMA, INC.

By: _____
Name:
Title:

NOVAVAX, INC.

By: _____
Name:
Title:

SUPPLY AGREEMENT

Schedule A — Product

ESTRASORB a topically- or transdermally-administered product marketed under Seller's NDA 21-37 of the following formulation:

Ingredient Description	Percent w/w
17 β -Estradiol USP/Ph. Eur.	*****
Soybean Oil USP	*****
Polysorbate 80 NF	*****
190 Proof Ethyl Alcohol USP	*****
Purified Water USP	*****

* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

SUPPLY AGREEMENT

Schedule B — Specifications

1. Formula

Formula	Percent w/w
Polysorbate 80, NF	*****
Soybean Oil, USP	*****
190 Proof Ethyl Alcohol, USP	*****
Purified Water, USP	*****
17 β -Estradiol, USP	*****

2. Specifications

Specifications	Limits
Appearance	*****
Submicron particle sizing	*****
pH	*****
Estradiol Identity	*****
Estradiol Assay and Related Substances	
Stability indicating Assay	
Ethanol Assay-	*****
Viscosity	*****
Content Uniformity USP <905>(packaged product only)	*****
In-Vitro Release of Estradiol Assay (bulk only)	*****
Microbial Limits	*****
Crystal Analysis	*****
Quantitative Crystal Analysis	*****

3. Compounding Formula

Raw Materials	*****kg
Polysorbate 80, NF	*****kg
Soybean Oil, USP	*****kg
190 Proof Ethyl Alcohol, USP	*****kg
Purified Water, USP	*****kg
17 β -Estradiol, USP	*****kg

* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

4. Packaging Specifications

Foil-Laminated Pouch

	1000kg	1000kg
Description	*****	*****
Equipment	*****	*****
Dimension	*****	*****
PMS Colors	*****	*****
Manufacturer	*****	*****
Printer	*****	*****

Primary Carton Pouch (Pouch carton)

Description	*****
Material	
Color	
Ink	
Thickness	
Style	
Dimension	*****
Supplier	*****

4. Packaging Specifications (cont.)

Secondary Carton Pouch (Packer)

Description	*****
Material	
Color	
Ink	
Thickness	
Style	
Dimension	*****
Supplier	*****

* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

Insert

Type of Insert	Prescribing Insert	Patient Information
Material	*****	*****
Paper Basic Weight	*****	*****
Style	*****	*****
Flat Size	*****	*****
Folded Size		
Font Size		
Font		
Printing Ink (both side)		
Manufacturer/Supplier	*****	*****

5. Package Specification Weight:

Equipment	Bartelt	Klocker
Weight (Target fill weight)	*****	*****
Foil Weight	*****	*****

Component Specifications

*****

Current Master Label

*****

* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

SUPPLY AGREEMENT

Schedule D — Insurance

TYPE OF POLICY	LIMIT OF INSURANCE	INSURER	POLICY NUMBER	POLICY TERM	POLICY PREMIUM
*****	*****	*****	*****	*****	*****

Policy No.	From	Term	To	Company	Amount Limits	Coverage	Premium	Remarks
*****	*****		*****	*****	*****	*****	*****	*****

* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

SUPPLY AGREEMENT

Appendix 1 — Initial Forecast

Revised
*****

Esprit Pharma
Forecasted Material Requirements for Estrasorb
2006

Per Novavax, Inc.
Estrasorb Inventory Purchased at Closing
As of ***** (before release of shipments on *****)

Finished Product

Lot #	Expiration Date	# of MOTS
*****	*****	***** At SPS
*****	*****	***** At SPS
*****	*****	***** At SPS
*****	*****	***** At SPS
		*****
***** lots due before *****		***** est.
***** lots due before *****		***** est.
Total commitment as of*****		*****

Scenario #1: *****

$ *****	Oct. 19-31-Dec 2005	2006 Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec	Total
Forecasted Demand in $	$*****	$*****	$*****	$*****	$*****	$*****	$*****	$*****	$*****	$*****	$*****	$*****	$*****	$*****
% of year		*****%	*****%	*****%	*****%	*****%	*****%	*****%	*****%	*****%	*****%	*****%	*****%	
MOTS sold $ *****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
*****														
Beginning inventory	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
Requested delivery from Novavax	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****
Ending inventory (***** month safety stock)	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****	*****

*****

* Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

Exhibit 21

LIST OF SUBSIDIARIES

Fielding Pharmacuetical Company, a Delaware Corporation

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Novavax, Inc. of our report dated March 3, 2006, with respect to the consolidated financial statements of Novavax, Inc., included in the 2005 Annual Report to Shareholders of Novavax, Inc.

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-22685) of Novavax, Inc., and

(2) Registration Statement (Form S-3 No. 333-118181) of Novavax, Inc., and

(3) Registration Statement (Form S-3 No. 333-118210) of Novavax, Inc., and

(4) Registration Statement (Form S-3 No. 333-130568) of Novavax, Inc., and

(5) Registration Statement (Form S-8 No. 33-80277) pertaining to the Employee Benefit Plans of Novavax, Inc., and

(6) Registration Statement (Form S-8 No. 33-80279) pertaining to the Employee Benefit Plans of Novavax, Inc., and

(7) Registration Statement (Form S-8 No. 333-77611) pertaining to the Employee Benefit Plans of Novavax, Inc., and

(8) Registration Statement (Form S-8 No. 333-46000) pertaining to the Employee Benefit Plans of Novavax, Inc., and

(9) Registration Statement (Form S-8 No. 333-97931) pertaining to the Employee Benefit Plans of Novavax, Inc., and

(10) Registration Statement (Form S-8 No. 333-110401) pertaining to the Employee Benefit Plans of Novavax, Inc., and

(11) Registration Statement (Form S-8 No. 333-130990) pertaining to the Employee Benefit Plans of Novavax, Inc.;

of our report dated March 3, 2006, with respect to the consolidated financial statements of Novavax, Inc. incorporated herein by reference and our report dated March 3, 2006, with respect to Novavax, Inc. management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting of Novavax, Inc., included herein.

/s/ Ernst & Young LLP

March 3, 2006

Exhibit 31.1

CERTIFICATION

I, Rahul Singhvi, certify that:

1. I have reviewed this Annual Report on Form 10-K of Novavax, Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2006

By: /s/ Rahul Singhvi
President and CEO

Exhibit 31.2

CERTIFICATION

I, Dennis W. Genge, certify that:

1. I have reviewed this Annual Report on Form 10-K of Novavax, Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2006

By: /s/ Dennis W. Genge
Vice President and CFO

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Novavax, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rahul Singhvi, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Rahul Singhvi
Name: Rahul Singhvi
Title: President and CEO

March 6, 2006

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Novavax, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dennis W. Genge, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Dennis W. Genge
Name: Dennis W. Genge
Title: Vice President and CFO

March 6, 2006