NOVAVAX INC
Form 10-Q
May 11, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For Quarterly Period Ended March 31, 2009

or

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

Commission File No. 0-26770
NOVAVAX, INC.
(Exact name of registrant as specified in its charter)

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

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

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.

þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes þ No

The number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Shares of Common Stock Outstanding at May 5, 2009: 86,518,220

NOVAVAX, INC.
Form 10-Q
For the Quarters Ended March 31, 2009 and 2008 (unaudited)
Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	March 31, 2009 (unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,629	$ 26,938
Short-term investments classified as available for sale	5,958	6,962
Accounts and other receivables, net of allowance for doubtful accounts of $218 as of March 31, 2009 and December 31, 2008	61	290
Prepaid expenses and other current assets	994	774
Current assets of discontinued operations		132
Total current assets	26,642	35,096
Property and equipment, net	8,019	8,228
Goodwill	33,141	33,141
Other non-current assets	160	160
Total assets	$ 67,962	$ 76,625
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	1,024	1,750
Accrued expenses and other current liabilities	3,208	2,969
Current portion of notes payable	385	650
Current liabilities of discontinued operations		242
Convertible notes, current	21,881	21,778
Deferred rent	334	328
Total current liabilities	26,832	27,717
Non-current portion of notes payable	468	480
Deferred rent	2,868	2,939
Total liabilities	30,168	31,136
Commitments and contingencies		
Stockholders equity:		

Preferred stock, $0.01 par value, 2,000,000 shares authorized; no shares issued and outstanding		
Common stock, $0.01 par value, 100,000,000 shares authorized; 69,310,521 shares issued and 68,855,091 shares outstanding at March 31, 2009 and 69,220,221 shares issued and 68,764,591 shares outstanding at December 31, 2008	693	692
Additional paid-in capital	285,248	284,595
Notes receivable from directors	(1,572)	(1,572)
Accumulated deficit	(244,125)	(235,776)
Treasury stock, 455,430 shares at March 31, 2009 and December 31, 2008, cost basis	(2,450)	(2,450)
Total stockholders equity	37,794	45,489
Total liabilities and stockholders equity	$ 67,962	$ 76,625

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

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

	Three months ended March 31, 2009	Three months ended March 31, 2008
Revenues	$ 21	$ 458
Operating costs and expenses:		
Research and development	4,266	4,434
Selling, general and administrative	2,892	3,244
Total operating costs and expenses	7,158	7,678
Loss from continuing operations before other (expense) income, net	(7,137)	(7,220)
Other (expense) income, net	(1,212)	117
Loss from continuing operations	(8,349)	(7,103)
Loss from discontinued operations		(652)
Net loss	$ (8,349)	$ (7,755)
Basic and diluted net loss per share:		
Loss per share from continuing operations	$ (0.12)	$ (0.12)
Loss per share from discontinued operations		(0.01)
Net loss per share	$ (0.12)	$ (0.13)
Basic and diluted weighted average number of common shares outstanding	68,692,455	61,280,155

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

NOVAVAX, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
For the Three Months Ended March 31, 2009
(in thousands, except share information)
(unaudited)

	Common Stock		Additional Paid-in	Notes Receivable From	Accumulated	Treasury	Total Stockholders
	Shares	Amount	Capital	Directors	Deficit	Stock	Equity
Balance, December 31, 2008	**69,220,021**	**$ 692**	**$ 284,595**	**$ (1,572)**	**$ (235,776)**	**$ (2,450)**	**$ 45,489**
Non-cash compensation costs for stock options			350				350
Exercise of stock options	20,000		35				35
Issuance of stock	70,500	1	121				122
Amortization of restricted stock for compensation			147				147
Net loss					(8,349)		(8,349)
Balance, March 31, 2009	**69,310,521**	**$ 693**	**$ 285,248**	**$ (1,572)**	**$ (244,125)**	**$ (2,450)**	**$ 37,794**

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

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

	Three months ended March 31, 2009	Three months ended March 31, 2008
Operating Activities:		
Net loss	$ (8,349)	$ (7,755)
Plus net income from discontinued operations		652
Net loss from continuing operations	(8,349)	(7,103)
Reconciliation of net loss to net cash used in operating activities:		
Depreciation	294	209
Amortization of debt discount	103	102
Loss on disposal of property and equipment	29	18
Amortization of net discounts on short-term investments		(147)
Reserve for notes receivable and accrued interest		194
Amortization of deferred financing costs	64	65
Deferred rent	(66)	(1)
Impairment of short-term investments	879	
Non-cash stock compensation	497	450
Changes in operating assets and liabilities:		
Accounts and other receivables	216	20
Inventory	(2)	(18)
Prepaid expenses and other current assets	(150)	196
Accounts payable and accrued expenses	(242)	(1,172)
Other non-current assets		(28)
Net cash used in operating activities from continuing operations	(6,727)	(7,215)
Net cash provided by operating activities from discontinued operations		2,013
Net cash used in operating activities	(6,727)	(5,202)
Investing Activities:		
Capital expenditures	(63)	(1,631)
Proceeds from disposal of property and equipment	6	
Purchases of short-term investments		(15,650)
Proceeds from maturities of short-term investments	125	31,745
Net cash provided by investing activities from continuing operations	68	14,464
Net cash provided by investing activities from discontinued operations		1,134
Net cash provided by investing activities	68	15,598

Financing Activities:		
Principal payments of notes payable	(807)	(658)
Net proceeds from sales of common stock	122	
Proceeds from the exercise of stock options	35	35
Bank overdraft		579
Net cash (used in) financing activities	(650)	(44)
Net (decrease) increase in cash and cash equivalents	(7,309)	10,352
Cash and cash equivalents at beginning of period	26,938	4,350
Cash and cash equivalents at end of period	$ 19,629	$ 14,702
Supplemental disclosure of cash flow information:		
Cash interest payments	$ 523	$ 688
Supplemental disclosure of non-cash activities:		
Equipment purchases included in accounts payable	$ 47	$ 1,128

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

NOVAVAX, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization

Novavax, Inc., a Delaware corporation (Novavax or the Company), was incorporated in 1987, and is a clinical-stage biopharmaceutical company focused on creating differentiated, value-added vaccines that improve upon current preventive options for a range of infectious diseases. These vaccines leverage the Company s virus-like-particle (VLP) platform technology coupled with a unique, disposable production technology.

VLPs are genetically engineered three-dimensional nanostructures, which incorporate immunologically important lipids and recombinant proteins. The Company s VLPs resemble the virus but lack the genetic material to replicate the virus. The Company s proprietary production technology uses insect cells rather then chicken eggs or mammalian cells. The Company s current product targets include vaccines against the H5N1 and other subtypes of avian influenza with pandemic potential, human seasonal influenza, Varicella Zoster (VZV), which causes Shingles, and Respiratory Syncytial Virus (RSV).

Subsequent Events

Cadila Pharmaceuticals Ltd.

On March 31, 2009, the Company and Cadila Pharmaceuticals Ltd., a company incorporated under the laws of India (Cadila), entered into a Joint Venture Agreement (the JVA) pursuant to which the Company and Cadila formed CPL Biologicals Limited, a joint venture (the JV), of which 80% will be owned by Cadila and 20% is owned by the Company. The JV must obtain approval from India s Foreign Investment Promotion Board (the FIPB) prior to issuing shares to Novavax. The JV will develop and commercialize the Company s seasonal influenza virus-like-particle (VLP)-based vaccine candidate and Cadila s therapeutic vaccine candidates against cancer as well as its adjuvants, biogeneric products and other diagnostic products for the territory of India. Novavax will also contribute to the JV technology for the development of several other VLP vaccine candidates against diseases of public health concern in the territory, such as hepatitis E and chikungunya fever. Cadila will contribute approximately $8 million over three years to support the JV s operations. The JV will be responsible for clinical testing and registration of products that will be marketed and sold in India.

The board of directors of the JV consists of five members, three of whom (including the Chairman of the board) are nominated by Cadila and two of whom are nominated by Novavax. If the board is not in unanimous agreement on an issue, the Chief Executive Officers (CEOs) of the Company and Cadila will work to resolve the issue. If the CEOs cannot resolve the issue in five business days, a vote by the majority of the board will decide. However, the approval of the Company and Cadila, as shareholders of the JV, and the board of directors of the JV is required for (1) the sale of all or most of the assets of the JV, (2) a change in control of the JV, (3) the liquidation, dissolution, or winding up of the JV, (4) any occurrence of indebtedness that results in the JV having a debt-to-equity ratio of 3-to-1 or greater, or (5) most amendments of the JVA or the JV s Articles of Association.

The JV has the right to negotiate a definitive agreement for rights to certain future Novavax products (other than RSV) and certain future Cadila products in each case for the territory of India prior to Novavax or Cadila licensing such rights to a third party. Novavax has the right to negotiate the licensing of vaccines developed by the joint venture using Novavax s technology for commercialization in every country except for India and vaccines developed by the joint venture using Cadila s technology for commercialization in certain countries, including the United States.

In connection with the JVA, on March 31, 2009, the Company also entered into license agreement, an option to enter into a license agreement, a technical services agreement and a supply agreement with the JV.

Also on March 31, 2009, Novavax entered into a binding, non-cancellable Stock Purchase Agreement (the SPA) with Satellite Overseas (Holdings) Limited (SOHL), a subsidiary of Cadila, pursuant to which SOHL agreed to purchase 12.5 million shares of Company common stock, par value $0.01 (the Common Stock) at the market price of $0.88 per share.

NOVAVAX, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The stock purchase was consummated on April 1, 2009. The Company raised gross proceeds of $11 million in the offering. The net proceeds to the Company from the sale of the Common Stock, after deducting estimated offering expenses payable by the Company, was approximately $10.5 million.

The SPA provides that, as long as SOHL owns more than 5% of the Company s then-outstanding Common Stock, SOHL may purchase a pro-rata portion of any Company Common Stock sale or issuance. Under the SPA, certain issuances are exempt from SOHL s pre-emptive right, including shares issued (1) as stock dividends, stock splits, or otherwise payable pro rata to all holders of Common Stock; (2) to employees, officers, directors or consultants of the Company pursuant to an employee benefit program; (3) upon the conversion or exercise of any options, warrants or other rights to purchase Common Stock; and (4) as consideration for a merger, consolidation, purchase of assets, or in connection with a joint venture or strategic partnership. However, any issuances pursuant to (4) above, must be approved by a majority of the full board and, if the transaction exceeds 5% of the Company s then issued and outstanding shares of Common Stock, the per share purchase price cannot be less than $0.88.

Under the SPA, for so long as SOHL owns 5% of the Company s Common Stock, SOHL may designate one member of the Company s board of directors.

Finally, on March 31, 2009, Novavax and Cadila entered into a Master Services Agreement (the Master Services Agreement) pursuant to which Novavax may request services from Cadila in the areas of biologics research, preclinical development, clinical development, process development, manufacturing scale up, and general manufacturing related services in India. If, at the third anniversary of the Master Services Agreement, the amount of services provided by Cadila is less than $7.5 million, Novavax will pay Cadila a portion of the shortfall. Novavax will have to pay Cadila the portion of the shortfall amount that is less than or equal to $2.0 million and 50% of the portion of the shortfall amount that exceeds $2.0 million. When calculating the shortfall, the amount of services provided by Cadila includes amounts that have been paid under all project plans, the amounts that will be paid under ongoing executed project plans and amounts for services that had been offered to Cadila, that Cadila was capable of performing, but exercised its right not to accept such project. The term of the Master Services Agreement is five years, but may be terminated by either party if there is a material breach that is not cured within 30 days of notice or, at any time after three years, provided that 90 days prior notice is given to the other party.

As a result of the contribution of the intellectual property to the joint venture, the company could recognize a taxable gain. Furthermore, since the Company has not analyzed whether it has had a change in ownership under Internal Revenue Code section 382, a gain could result in a tax liability to the Company since the Company s tax net operating losses could be limited by section 382.

At the Market Issuance

On January 12, 2009 the Company entered into an At Market Issuance Sales Agreement (the Sales Agreement), with Wm Smith & Co. (Wm Smith), under which the Company may sell an aggregate of up to $25.0 million in gross proceeds of the Company s common stock from time to time through Wm Smith, as the agent for the offer and sale of the common stock. The board of directors has authorized the sale of up to 12.5 million shares of common stock under the Sales Agreement. Based on the trading price of the Company s common stock, the Company may not be able to raise the full $25.0 million in gross proceeds permitted under the Sales Agreement. Wm Smith may sell the common stock by any method permitted by law, including sales deemed to be an at the market offering as defined in Rule 415 of the Securities Act, including without limitation sales made directly on NASDAQ Global Market, on any other existing trading market for the common stock or to or through a market maker. Wm Smith may also sell the common stock in privately negotiated transactions, subject to the Company s prior approval. The Company will pay Wm Smith a commission equal to 3% of the gross proceeds of the sales price of all common stock sold through it as sales agent under the Sales Agreement. During the first quarter of 2009, the Company sold 70,500 shares and received net proceeds in the amount of $121,457, under the Sales Agreement. As of May 5, 2009, the Company sold approximately an additional 3.1 million shares for net proceeds approximately of $7.5 million.

NOVAVAX, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Amendments to Convertible Notes

As of March 31, 2009, the Company had $22.0 million of senior convertible notes outstanding (the Notes). The Notes carried a 4.75% coupon; are convertible into shares of Novavax common stock at $4.00 per share; and mature on July 15, 2009. On April 29, 2009, the Company entered into amendment agreements (the 2009 Amendments) with holders of the outstanding 4.75% Note representing $17.0 million of the $22.0 million outstanding principal amount of the Notes to amend the terms of the Notes to allow for early payment under specific terms described below.

The 2009 Amendments (i) provide for payment of $17.0 million aggregate principal amount of the Notes on April 29, 2009, (ii) provide for 70% of this principal amount plus accrued and unpaid interest to be paid in cash and (iii) provide for the remaining portion of this principal amount to be paid in that number of shares of common stock that equals 30% of this principal amount divided by $2.50. The Company paid $12.1 million in principal and accrued interest and issued 2,040,000 shares in accordance with the 2009 Amendments on April 29, 2009. After payment of this $17.0 million in principal amount, $5.0 million aggregate principal amount remains outstanding under the Notes and will mature on July 15, 2009.

Under the terms of the Notes, Novavax, at its option, can pay up to 50% of the remaining $5.0 million outstanding Notes in Novavax common stock on the due date of July 15, 2009, subject to the satisfaction of certain conditions, including, among other things, a requirement that the shares issued upon conversion be registered or freely tradable without registration, that Novavax s shares of common stock have not been suspended from trading on NASDAQ Global Market during the applicable measurement period and there is no threatened delisting or suspension, and that the Company is otherwise in compliance with its agreements with the Note holders. The amount of shares that may be issued at maturity may be subject to adjustment depending on the Note holder s percentage ownership of the Company on an as-converted basis and if the Company s stock price falls below $2.00 during the measurement period. As a result, the Company will have to pay at least $2.5 million in cash to satisfy the remaining Notes on the due date unless the notes are converted into common stock, redeemed or amended prior to July 15, 2009.

Liquidity Matters

The Company has incurred losses since its inception and as of March 31, 2009 has an accumulated deficit of $244 million.

The Company s vaccine products currently under development or in clinical trials will require significant additional research and development efforts, including extensive pre-clinical and clinical testing and regulatory approval, prior to commercial use. There can be no assurance that the Company s research and development efforts will be successful or that any potential products will prove safe and effective in clinical trials. Even if developed, these vaccine products may not receive regulatory approval or be successfully introduced and marketed at prices that would permit the Company to operate profitably. The commercial launch of any vaccine product is subject to certain risks including, but not limited to, manufacturing scale-up and market acceptance. The Company does not expect to generate revenue in the near future.

At March 31, 2009 the Company had cash and cash equivalents totaling $19.6 million and auction rate securities with a face value of $8.1 million and a fair value of $6.0 million. There has been insufficient demand at auction for each of the Company s five auction rate securities. The Company recorded impairment charges of $1.2 million in the fourth quarter of 2008 and $0.9 million during the first quarter of 2009 due primarily to their illiquidity and believes the $6.0 million it has recorded at March 31, 2009 represents their fair market value and the value the Company could liquidate the investments for, if necessary. The Company is currently evaluating what purchase price it could get for these securities currently, along with the risks and benefits of holding versus selling these securities. Without liquidity of these auction rate securities, the Company s cash position will be negatively affected.

NOVAVAX, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

During the three months ended March 31, 2009, the Company sold 70,500 shares of common stock and received net proceeds in the amount of $121,457 pursuant to the Sales Agreement with Wm Smith. On March 31, 2009, the Company entered into a non-cancellable binding Stock Purchase Agreement for the sale of 12.5 million shares of common stock to a wholly-owned subsidiary of Cadila Pharmaceuticals Ltd., at the market price of $0.88 per share for a net purchase price of $10.5 million (See *Subsequent Events At the Market Issuance and Cadila Pharmaceuticals, Ltd.*). These proceeds were received on April 1, 2009.

As of May 5, 2009, the Company has sold approximately 3.1 million shares under the Sales Agreement with Wm Smith for net proceeds of approximately $7.5 million.

As of March 31, 2009, the Company had $22.0 million of senior convertible notes outstanding (the Notes). (See *Subsequent Events Amendments to Convertible Notes*).

The 2009 Amendments (i) provide for payment of $17.0 million aggregate principal amount of the Notes on April 29, 2009, (ii) provide for 70% of this principal amount plus accrued and unpaid interest to be paid in cash and (iii) provide for the remaining portion of this principal amount to be paid in that number of shares of common stock that equals 30% of this principal amount divided by $2.50. The Company paid $12.1 million in principal and accrued interest and issued 2,040,000 shares in accordance with the 2009 Amendments on April 29, 2009. After payment of this $17.0 million in principal amount, $5.0 million aggregate principal amount remains outstanding under the Notes and will mature on July 15, 2009.

Based on the amount of funds on hand and the Company s proceeds from the Cadila transaction and the sales of shares under the Sales Agreement with Wm Smith, the Company believes that its cash and cash equivalents, excluding the value of its current illiquid auction rate securities, will be sufficient to cover its estimated funding needs for at least twelve months. The Company is planning to raise additional capital in order to continue its current level of operations and to pursue the business plan beyond 2009. The Company has not, however, secured any additional commitments for new financing at this time nor can it provide any assurance that new financing will be available on commercially acceptable terms, if at all. If the Company is unable to immediately secure additional capital, it will continue to assess its capital resources and the Company may be required to downsize its operations, reduce general and administrative costs or delay or reduce the scope of, or eliminate one or more of its product research and development programs, thereby causing delays in the Company s efforts to introduce its future products to market.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary (Fielding Pharmaceutical Company). All significant inter-company accounts and transactions have been eliminated in consolidation. They have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements reflect all adjustments that are in the opinion of management, necessary for a fair statement of such information. All such adjustments are of a normal recurring nature. Although Novavax believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations. Certain information and disclosures required by accounting principles generally accepted in the United States for complete consolidated financial statements are not included herein. The interim statements should be read in conjunction with the financial statements and notes thereto included in the company s latest Annual Report on Form 10-K. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results for any subsequent quarter or the entire fiscal year ending December 31, 2009.

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.

NOVAVAX, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less from the date of purchase.

Net Loss per Share

The Company calculates net loss per share in accordance with SFAS No. 128, *Earnings per Share.* Basic loss per share is computed based on the weighted average number of common shares outstanding during the period. The dilutive effect of common stock equivalents is included in the calculation of diluted loss per share only when the effect of the inclusion would be dilutive. Outstanding stock options with an exercise price above market, are excluded from the Company s diluted computation as their effect would be anti-dilutive. For the three months ended March 31, 2009, there were approximately 5.5 million outstanding stock options and 3.3 million outstanding warrants that were excluded from the calculation of net loss per share. For the three months ended March 31, 2008, there were approximately 4.3 million outstanding stock options that were excluded from the calculation of net loss per share.

Short-term investments

Short-term investments at March 31, 2009 and December 31, 2008 consist of investments in five auction rate securities with a par value of $8.1 million and $8.2 million, respectively, and a fair value of $6.0 million and $7.0 million, respectively. The Company recorded an other than temporary impairment charge to other expenses related to these securities during the three months ended March 31, 2009 of $0.9 million as a result of the current turmoil in the credit markets and management s belief these securities cannot presently be sold at par value, but are saleable at a discount from their par value. The Company did not record any impairment charges during the three months ended March 31, 2008. The auction rate securities are AAA-rated securities.

The Company has classified these securities as short-term investments and have accounted for the investments in these securities as available for sale securities under the guidance of Statement of Financial Accounting Standards, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115). Although the auction rate securities have variable interest rates, which typically reset every 16 to 32 days through a competitive bidding process known as a Dutch auction, they have long-term contractual maturities. These investments are classified within current assets because the Company may need to liquidate these securities within the next year to fund working capital requirements.

The available for sale securities are carried at fair value and unrealized gains and losses on these securities, if determined to be temporary, are included in accumulated other comprehensive income (loss) in stockholders equity. The Company assesses the recoverability of its available-for-sale securities and, if impairment is indicated, the Company measures the amount of such impairment by comparing the fair value to the carrying value. Other than temporary impairments are included in the consolidated statements of operations. The impairment for the three months ended March 31, 2009 was concluded to be other than temporary, thus the charge was recorded in the consolidated statement of operations.

The Company had invested in auction rate securities for short periods of time as part of its cash management program. Uncertainties in the credit markets have prevented the Company from liquidating certain holdings of auction rate securities subsequent to December 31, 2008 as the amount of securities submitted for sale during the auction has exceeded the amount of purchase orders. Although an event of an auction failure does not necessarily mean that a security is impaired, the Company considered various factors to assess the fair value and the classification of the securities as short-term assets. Fair value was determined through independent valuation using two valuation methods a discounted cash flow method and a market comparables method. Certain factors used in these methods include, but are not limited to, comparable securities traded on secondary markets, timing of the failed auction, specific security auction history, quality of underlying collateral, rating of the security and the bond insurer, our ability and intent to retain the securities for a period of time to allow for anticipated recovery in the market value, and other factors.

NOVAVAX, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Interest and dividend income is recorded when earned and included in interest income. Premiums and discounts, if any, on short-term investments are amortized or accreted to maturity and included in interest income. The specific identification method is used in computing realized gains and losses on sale of the Company s securities.

Fair Value Measurements

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which clarifies the definition of fair value, establishes a framework for measuring fair value, and expends the disclosures on fair value measurements. In February 2008, the FASB issued FSP 157-2 that deferred the effective date of SFAS No. 157 for one year for nonfinancial assets and liabilities recorded at fair value on a non-recurring basis. SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which, as outlined below, requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Level 1 Quoted prices in active markets for identical assets or liabilities. The Company does not have any Level 1 assets as of March 31, 2009.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company considers its auction rate securities to be Level 2 assets.

Level 3 Unobservable inputs that are supported by little or no market activity and that are financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation. The Company s Level 3 assets are composed of goodwill.

If the inputs used to measure the financial assets and liabilities fall within the different levels described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

NOVAVAX, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Financial assets and liabilities measured at fair market value on a recurring basis as of March 31, 2009 are summarized below:

	Fair Value Measurement at March 31, 2009 using (in thousands)			
Assets	**Quoted Prices in Active Markets For Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**	**Assets At Fair Value**
Auction rate securities	$	$ 5,958	$	$ 5,958
Goodwill			33,141	33,141
Total assets	$	$ 5,958	$ 33,141	$ 39,099

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally three to ten years. Amortization of leasehold improvements is provided over the shorter of the estimated useful lives of the improvements or the term of the respective lease. Repairs and maintenance costs are expensed as incurred.

Property and equipment are comprised of the following:

	As of March 31, 2009 (unaudited)	As of December 31, 2008
	(in thousands)	
Construction in progress	$ 1,219	$ 5,394
Machinery and equipment	4,037	3,880
Leasehold improvements	4,523	637
Computer software and hardware	338	339
	10,117	10,250
Less accumulated depreciation and amortization	(2,098)	