NOVAVAX INC
Form DEF 14A
March 29, 2005

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrantþ
Filed by a Party other than the Registranto
Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement

o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

Novavax, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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NOVAVAX, INC.

NOTICE OF THE ANNUAL MEETING OF STOCKHOLDERS
To Be Held May 4, 2005

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Novavax, Inc., a Delaware corporation (the Company), will be held on Wednesday, May 4, 2005 at 9:00 a.m. local time at the corporate headquarters of the Company, 508 Lapp Road, Malvern, Pennsylvania 19355 (the Meeting) for the purpose of considering and voting upon the following matters:

1. To elect two directors as Class I directors to serve on the Board of Directors for a three-year term expiring at the 2008 Annual Meeting of Stockholders;

2. To approve the Novavax, Inc. 2005 Stock Incentive Plan;

3. To approve the issuance of the shares of Common Stock, $.01 par value, of the Company issuable with respect to senior convertible notes in the aggregate principal amount of $35,000,000 issued to certain qualified institutional buyers and accredited investors;

4. To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm for the Company for the current fiscal year ending December 31, 2005; and

5. To transact such other business as may properly come before the Meeting or any adjournment thereof.

The Board of Directors has no knowledge of any other business to be transacted at the Meeting other than the matters discussed under Additional Information Proposed Items herein.

The Board of Directors has fixed the close of business on Friday, March 11, 2005 as the record date for the determination of stockholders entitled to notice of and to vote at the Meeting and any adjournments thereof.

A copy of the Company s Annual Report to Stockholders for the fiscal year ended December 31, 2004, which contains financial statements and other information of interest to stockholders, accompanies this Notice and the attached Proxy Statement.

By Order of the Board of Directors

David A. White, Secretary

March 30, 2005

YOUR VOTE IS IMPORTANT! NO MATTER HOW MANY OR HOW FEW SHARES YOU OWN, AND WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE PROMPTLY COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED WHITE PROXY CARD IN THE ACCOMPANYING ENVELOPE. NO POSTAGE NEED BE AFFIXED IF THE PROXY IS MAILED IN THE UNITED STATES.

NOVAVAX, INC.
508 Lapp Road
Malvern, Pennsylvania 19355

PROXY STATEMENT
For the Annual Meeting of Stockholders
To Be Held May 4, 2005

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors of Novavax, Inc. (Novavax or the Company) for use at the Annual Meeting of Stockholders to be held on Wednesday, May 4, 2005 at 9:00 a.m. local time at the Company s corporate headquarters, 508 Lapp Road, Malvern, Pennsylvania 19355 and at any adjournments thereof (the Meeting). The Notice of Meeting, this Proxy Statement, the enclosed white proxy and the Company s Annual Report to Stockholders for the fiscal year ended December 31, 2004 are being mailed to stockholders on or about March 30, 2005.

VOTING PROCEDURE AND QUORUM

The Board of Directors has fixed March 11, 2005 as the record date to determine the stockholders entitled to receive notice of and to vote at the Meeting (the Record Date). The only class of stock of the Company entitled to vote at the Meeting is its common stock, $.01 par value (the Common Stock). Only the record holders of shares of Common Stock at the close of business on the Record Date may vote at the Meeting. On the Record Date, there were 39,553,876 shares of Common Stock outstanding and entitled to be voted at the Meeting. Each share entitles the holder to one vote on each of the matters to be voted upon at the Meeting. A stockholder may vote as directed by the enclosed white proxy.

All properly executed proxies will be voted in accordance with the instructions of the stockholder. If no contrary instructions have been indicated, the proxies will be voted <u>in favor</u> of Proposals 1, 2, 3 and 4 as set forth in the accompanying Notice of Meeting. The Board of Directors knows of no other matters to be presented for consideration at the Meeting other than those discussed under the Additional Information Proposed Items section herein. The persons named in the Board s form of proxy intend to exercise their discretionary authority and vote as indicated in such section on any of such matters presented by the stockholder at the Meeting.

Stockholders may revoke proxies at any time before they are exercised at the Meeting by (a) signing and submitting a later-dated proxy to the Secretary of the Company, (b) delivering written notice of revocation to the Secretary of the Company, or (c) voting in person at the Meeting. Attendance at the Meeting will not itself be deemed to revoke a proxy unless the stockholder gives affirmative notice at the Meeting that the stockholder intends to revoke the stockholder s proxy and vote in person.

The presence in person or by proxy of the holders of a majority of the shares of Common Stock issued and outstanding on the Record Date and entitled to vote is required to constitute a quorum at the Annual Meeting. If a quorum is not present, the stockholders entitled to vote who are present in person or represented by proxy at the Meeting have the power to adjourn the Meeting until a quorum is present, without notice other than an announcement at the Meeting and so long as such adjournment is less than 30 days and a new record date is not fixed. At any adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted at the Meeting as originally scheduled. Abstentions and broker non-votes will count in determining whether a quorum is present at the Meeting. A broker non-vote occurs when a broker or other nominee holds shares represented by a proxy and has not received voting instructions with respect to a particular item and does not have discretionary authority to vote such shares. Brokers and other nominees will not have discretion to vote shares for which they have not received voting instructions on Proposal One (if the Dissident Committee, described below, conducts a solicitation for its alternate candidates) and Proposal Two described herein.

PROPOSAL ONE ELECTION OF DIRECTORS

Pursuant to the Company s Amended and Restated Certificate of Incorporation, the Company s Board of Directors may consist of no fewer than three directors, with the specific number to be authorized by the Board of Directors from time to time at its discretion. The Board of Directors is currently authorized to consist of nine members. The Board has determined to fix the number of directors at eight effective as of the Meeting, following the decision of Ronald H. Walker to retire from the Board as of such date.

The members of the Company s Board of Directors are divided into three classes, designated Class I, Class II and Class III, each serving staggered three-year terms. The terms of the Class I directors expire at this Meeting. The terms of the Class II and Class III directors will expire at the 2006 and 2007 Annual Meetings of Stockholders, respectively. A director of any class who is elected by the Board of Directors to fill a vacancy resulting from an increase in the number of directors holds office for the remaining term of the class to which he or she is elected. A director who is elected by the Board to fill a vacancy arising in any other manner holds office for the remaining term of his or her predecessor. Directors elected by the stockholders at an annual meeting to succeed those whose terms expire at such meeting are of the same class as the directors they succeed and are elected for a term to expire at the third annual meeting of stockholders after their election and until their successors are duly elected and qualified.

In the event of any increase or decrease in the authorized number of directors, the newly created or eliminated directorships must be apportioned by the Board among the three classes so as to ensure that no one class has more than one director more than any other class. However, no existing director may be reclassified from one class to another and, therefore, the number of directors in each class may become temporarily imbalanced.

Two directors are to be elected at this Meeting to fill the terms of the Class I directors that expire at this Meeting. The Board of Directors, by all of its independent directors, has designated Denis M. O Donnell, M.D. and Nelson M. Sims as nominees for reelection as Class I directors of the Company at this Meeting. If elected, such nominees will serve until the expiration of their terms at the 2008 Annual Meeting of Stockholders and until their successors are elected and qualified. Each of Dr. O Donnell and Mr. Sims is currently a director of the Company and has consented to being named in this Proxy Statement and to serve if elected. The Board of Directors has no reason to believe that either of the nominees will be unable to serve if elected. If a nominee becomes unavailable to serve as a director, the persons named as proxies in the accompanying proxy may vote the proxy for a substitute nominee.

Unless otherwise instructed, the proxy holders named in the WHITE proxy card will vote such proxies FOR the nominees named herein and proposed by the Company s Board of Directors. The two Class I nominees receiving the highest number of votes of the shares entitled to be voted and cast at the Meeting will be elected to the Board of Directors. In the event the Dissident Committee conducts a solicitation for its alternate candidates, brokers and other nominees will not have discretion to vote shares for which they have not received voting instructions and, therefore, broker non-votes may occur. Abstentions, broker non-votes and votes withheld for a nominee will not have any effect on the election of a director.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE
FOR THE ELECTION OF THE BOARD S NOMINEES.

Members of the Board of Directors

The following table provides certain information with respect to the directors of the Company. Comparable information regarding the executive officers of the Company is provided in the Company s Annual Report on Form 10 K.

Nominees for Class I Directors

Name	Age	Director Since	Principal Occupation, Other Business Experience and Other Directorships
Denis M. O Donnell, M.D.	51	1998	Chairman of the Board of Directors of Novavax since May 2000. Chief Executive Officer and President of Molecular Diagnostics, Inc. since February 2004. General Partner at Seaside Partners, L.P., a private equity firm, from 1997 to 2003. Vice Chairman of the Board of Directors of Novavax from 1999 to 2000. Senior Advisor to Novavax from 1997 to 1998. President of Novavax from 1995 to 1997. Vice President, Business Development of Novavax from 1992 to 1995. Currently a director of Columbia Laboratories, Inc., ELXSI Corporation and Molecular Diagnostics, Inc.
Nelson M. Sims	57	2003	President and Chief Executive Officer of Novavax since August 2003. Retired from Eli Lilly and Company in June 2001 after 28 years of service. Executive management positions at Eli Lilly included Executive Director of Strategic Alliance Management for Eli Lilly and Company from November 1999 to June 2001, President of Eli Lilly Canada Inc. from January 1991 to November 1999, and Vice President of Hybritech, Inc., a Lilly subsidiary. Currently a director of MDS Inc.

Directors Continuing as Class II Directors

Name	Age	Director Since	Principal Occupation, Other Business Experience and Other Directorships
Gary C. Evans	48	1998	President and Chief Executive Officer of Magnum Hunter Resources, Inc., an oil and gas exploration company, since 1995, Chairman of the Board of Directors until October 2004, and Chief Executive Officer of its predecessor, Hunter Resources, Inc., since 1985. Currently a trustee of TEL Offshore Trust, an oil and gas trust.
J. Michael Lazarus, M.D.	67	1995	Chief Medical Officer and Senior Vice President of Fresenius Medical Care North America since 1996. Professor of Medicine at Harvard Medical School from 1979 to 1996.

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Name	Age	Director Since	Principal Occupation, Other Business Experience and Other Directorships
John O. Marsh, Jr.	78	1991	Visiting Professor, George Mason University, since 2001. Visiting Professor, Virginia Military Institute, 1998. Interim Chief Executive Officer of Novavax from July 1996 to March 1997 and Chairman of the Board of Directors from July 1996 to February 1997. Secretary of the Army from 1981 to 1989. Counselor with Cabinet rank to the President of the United States from 1974 to 1977. Assistant for National Security Affairs to Vice President of the United States, 1974. Assistant Secretary of Defense from 1973 to 1974. U.S. Representative in Congress from 1963 to 1971.

Directors Continuing as Class III Directors

Name	Age	Director Since	Principal Occupation, Other Business Experience and Other Directorships
Susan B. Bayh	45	2004	Distinguished Visiting Professor in the College of Business Administration, Butler University, since 1994. Commissioner with the U.S. Department of State International Commission between the United States and Canada, from 1994 to 2000. Attorney, Eli Lilly and Company Pharmaceutical Division, from 1989 to 1994. Attorney, Barnes & Thornburg, from 1984 to 1985. Currently a director of Curis, Inc., Dendreon Corporation, Wellpoint, Inc., Emmis Communications Corporation and Dyax, Corp.
Mitchell J. Kelly	45	1997	Chairman of the Board, Chief Executive Officer and Managing Member of Anaconda Capital Management, L.L.C., an investment management firm, since 1995, and in various capacities with affiliates of Anaconda Capital since 1993. President and Chief Executive Officer of Novavax from September 2002 to August 2003 and from September 1998 to May 1999.
Michael A. McManus, Jr.	62	1998	President, Chief Executive Officer and Director of Misonix, Inc., a medical, scientific and industrial provider of ultrasonic and air pollution systems, since 1998. President and Chief Executive Officer of N.Y. Bancorp from 1990 to 1998. Assistant to the President of the United States from 1982 to 1985. Currently a director of L Q Corporation, Inc., NWH, Inc. and American Home Mortgage Holdings, Inc.

Retiring Class I Director

Ronald H. Walker	67	1995	Currently retired. Chairman of the Board of Directors of Novavax from 1998 to 2000. Senior Partner/Managing Director of Korn/Ferry International, an executive search firm, from 1978 to 1999. Director of the National Park Service from 1972 to 1975. Special Assistant to the President of the United States from 1969 to 1972.

There are no family relationships among any of the directors (or any nominee of the Board therefor) or executive officers of Novavax, and no arrangements exist between any director or nominee and any other person pursuant to which such director or nominee was or is to be selected as a nominee. No director, executive officer, nominee or any associate of any of the foregoing has any interest, direct or indirect, in any proposal of the Board to be considered and acted upon at the Meeting (other than the election of directors). See Additional Information Proposed Items below for a description of other matters that may be presented by a stockholder at the Meeting. Our Chairman, Denis M. O Donnell, M.D., has an interest in the matter proposed relating to changes in the Chairman position.

Board of Directors and Committee Information

The Board of Directors has determined that, with the exception of Messrs. Kelly and Sims and Dr. O Donnell, each of whom is or was within the last three fiscal years an employee or executive officer of the Company, all of the members of the Board are independent directors, as that term is defined in Rule 4200(a)(15) of the listing standards of the National Association of Securities Dealers (the NASD) and Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act).

The Board of Directors met 11 times during 2004, and the independent members of the Board met once during the same period. Each of the directors attended at least 75% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings of committees on which they served.

The Board of Directors of Novavax currently has three standing committees: a Compensation Committee, an Audit Committee and a Nominating and Corporate Governance Committee. In addition to the descriptions below, please refer to the Report of the Compensation Committee and Report of the Audit Committee included in this Proxy Statement.

Compensation Committee

The Compensation Committee, whose current members are Mr. Walker (Chairman), Dr. Lazarus and Ms. Bayh, reviews and recommends salaries and other compensatory benefits for the employees, officers and directors of Novavax. The Compensation Committee also administers the option plans of the Company, pursuant to which the committee recommends stock option grants and other awards for executive officers, key employees and directors of Novavax and its subsidiaries. During 2004, the Compensation Committee met six times. Prior to March 2004, the Compensation Committee consisted of Messrs. Evans (Chairman), Marsh, McManus and Walker; Ms. Bayh joined Mr. Walker and Dr. Lazarus as a member of the committee effective October 2004. Upon Mr. Walker s retirement, a new Chair of the Compensation Committee will be selected and the Board will determine, in consultation with the Nominating and Corporate Governance Committee, whether to appoint one or more new members to the Compensation Committee.

The Compensation Committee acts pursuant to a written charter, a copy of which is posted on the Company s website at www.novavax.com.

Audit Committee

Effective March 2004, the Audit Committee consisted of Messrs. McManus (Chairman), Evans and Marsh, each of whom is a non-employee director and qualifies as independent under NASD and other applicable rules and regulations. The Board has determined that Mr. McManus qualifies as the committee s audit committee financial expert as that term is defined by the rules and regulations of the Securities and Exchange Commission, and is financially sophisticated as required by the listing standards for The Nasdaq Stock Market.

The Audit Committee acts pursuant to the Audit Committee Charter as adopted by the Board, which was amended and restated in March 2004; a copy of the revised charter is available on the Company s website at www.novavax.com. The Audit Committee reviews and evaluates the charter annually to ensure its adequacy and accuracy, and is charged with performing an annual self-evaluation with the goal of continuing improvement.

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the Company s independent auditor. To this end, the committee meets with the Company s independent auditor to discuss the scope and results of its examination and reviews the financial statements and reports contained in the Company s periodic and other filings. The Audit Committee also reviews the adequacy and efficacy of the Company s accounting, auditing and financial control systems, as well as the Company s disclosure controls and procedures; monitors the adequacy of the Company s accounting and financial reporting processes and practices; and considers any issues raised by its members, the Company s independent auditor, and the Company s employees. To assist in carrying out its duties, the Audit Committee is authorized to investigate any matter brought to its attention, retain the services of independent advisors (including legal counsel, auditors and other experts), and receive and respond to concerns and complaints relating to accounting, internal accounting controls and auditing matters. During 2004, the Audit Committee met six times. Prior to March 2004, the Audit Committee consisted of Messrs. McManus (Chairman) and Evans and Dr. Lazarus.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee (the Governance Committee) consists of Messrs. Evans (Chairman), Marsh, McManus and Walker, Dr. Lazarus and Ms. Bayh, each of whom qualifies as independent under NASD and other applicable rules and regulations. The Governance Committee was established in March 2004, replacing the Nominating Committee that consisted of Dr. Lazarus (Chairman), Mr. Kelly, Dr. O Donnell and Mr. Walker. The Governance Committee met three times during 2004.

The Governance Committee acts pursuant to a written charter, a copy of which is available on the Company s website at www.novavax.com. As provided in the charter, the primary function of the Governance Committee is to assist the Board in fulfilling its responsibilities by: reviewing and making recommendations to the Board regarding the Board s size, structure and composition; establishing criteria for Board membership; identifying and evaluating candidates qualified to become members of the Board, including candidates proposed by stockholders; selecting, or recommending for selection, director nominees to be presented for approval at the annual meeting of stockholders and to fill vacancies on the Board; evaluating Company policies relating to the recruitment of Board members; developing and recommending to the Board corporate governance policies and practices applicable to the Company; monitoring compliance with the Company s Code of Business Conduct and Ethics; and handling such other matters as the Board or committee deems appropriate. The Governance Committee s goal is to contribute to the effective representation of the Company s stockholders and to play a leadership role in shaping the Company s corporate governance.

As noted above, it is the Governance Committee s responsibility to review and evaluate director candidates, including candidates submitted by stockholders. In performing its evaluation and review, the Governance Committee does not differentiate between candidates based on the proposing constituency, but rather applies the same criteria to each candidate.

Stockholders who wish to nominate qualified candidates to serve as directors of the Company may do so in accordance with the procedures set forth in the Company s By-laws, which procedures did not change during the last fiscal year. As set forth in the By-laws, a stockholder must notify the Company in writing, by notice delivered to the attention of the Secretary of the Company at the address of the Company s principal executive offices, of a proposed nominee. In order to ensure meaningful consideration of such candidates, notice must be received not less than 60 days nor more than 90 days prior to the meeting. However, if the Company does not give prior notice or make prior public disclosure of the date of the meeting at least 70 days prior to the meeting date, notice will be considered timely if it is received no later than the close of business on the 10th day following the date on which such notice was given or public disclosure was made (whichever occurred first).

The notice must set forth as to each proposed nominee:

name, age, business address and, if known, residence address,

his or her principal occupation or employment,

the number of shares of stock of the Company, if any, which are beneficially owned by such nominee, and

- any other information concerning the nominee that must be disclosed as to nominees in proxy solicitations pursuant to applicable law.

The notice must also set forth with respect to the stockholder giving the notice:

- the name and address, as they appear on the Company s books, of such stockholder, and
- the number of shares of the Company that are owned by such stockholder.

The Company may require any proposed nominee to furnish such other information as may reasonably be required to determine the eligibility of the nominee to serve as a director. Submissions received through this process will be forwarded to the Governance Committee for review.

When considering candidates, the Governance Committee strives to achieve a balance of knowledge, experience and achievement such that the Company s Board reflects a broad range of talent, age, skill and expertise. While there are no set minimum requirements, a candidate should:

- be intelligent, thoughtful and analytical,
- possess superior business-related knowledge, skills and experience,
- reflect the highest integrity, ethics and character,
- have excelled in both academic and professional settings,
- demonstrate achievement in his or her chosen field,
- be free of actual or potential conflicts of interest,
- have the ability to devote sufficient time to the business and affairs of the Company, and
- demonstrate the capacity and desire to represent the best interests of the Company s stockholders as a whole.

In addition to the above criteria (which may be modified from time to time), the Governance Committee may consider such other factors as it deems in the best interests of the Company and its stockholders and that may enhance the effectiveness and responsiveness of the Board and its committees. Finally, the Governance Committee must consider a candidate s independence to make certain that the Board includes at least a majority of independent directors so as to satisfy all applicable independence requirements, as well as a candidate s financial sophistication and special competencies.

The Governance Committee identifies potential candidates through referrals and recommendations, including by incumbent directors, management and stockholders, as well as through business and other organizational networks. To date, the Governance Committee has not retained or paid any third party to identify or evaluate, or assist in identifying or evaluating, potential director nominees, although it reserves the right to engage executive search firms and other third parties to assist in finding suitable candidates.

Current members of the Board with the requisite skills and experience are considered for re-nomination, balancing the value of the member s continuity of service with that of obtaining a new perspective, and considering each individual s contributions, performance and level of participation, the current composition of the Board, and the Company s needs. The Governance Committee also must consider the age and length of service of incumbent directors: in March 2005 the committee recommended, and the independent members of the Board adopted, a policy pursuant to which no director may be nominated for re-election if he or she has already served as a director for 10 years or has reached his or her 75th birthday, unless the Governance Committee determines that the service of such director is strategically critical to the Company. At the same time, it was determined that the Governance Committee should begin a search for two new directors, each with significant pharmaceutical company experience. Specifically, it was determined to add one director with significant leadership experience in pharmaceutical product development, and one director with significant leadership experience as a general manager or in business development. If any existing members do not wish to continue in service or if it is decided not to re-nominate a director, new candidates are identified in accordance with those skills, experience and characteristics deemed necessary for new nominees, and are evaluated based on the qualifications set forth above. In every case, the Governance Committee meets (in person or telephonically) to discuss each candidate, and may require personal interviews before final approval. Once a slate is selected, the Governance Committee presents it to the full Board.

Each of this year s nominees for director is a current director of the Company and was selected and approved by the independent members of the Board of Directors in accordance with applicable law and listing requirements. Four other candidates were submitted for consideration by a stockholder of the Company in early March 2005. For further information, see Additional Information Proposed Items below.

Executive Committee

The Executive Committee of the Board of Directors was disbanded in 2004. The Executive Committee, whose members were Dr. O Donnell (Chairman) and Messrs. Evans, Kelly, McManus and Sims, had the authority to exercise the powers of the Board of Directors between Board meetings. The Executive Committee did not meet in fiscal 2004.

Stockholder Communications

The Board welcomes communications from stockholders and has adopted a procedure for receiving and addressing such communications. Stockholders may send written communications to the entire Board or individual directors, addressing them to Novavax, Inc., 508 Lapp Road, Malvern, Pennsylvania 19355, Attention: Secretary. Communications by e-mail should be addressed to ir@novavax.com and marked Attention: Secretary in the Subject field. All such communications will be forwarded to the full Board of Directors or to any individual director or directors to whom the communication is directed unless the communication is clearly of a marketing nature or is unduly hostile, threatening, illegal, or similarly inappropriate, in which case the Company has the authority to discard the communication or take appropriate legal action.

Recognizing that director attendance at the Company s annual meetings of stockholders can provide stockholders with an opportunity to communicate with members of the Board, Novavax strongly encourages (but does not require) members of the Board to attend such meetings. All of the directors then in office attended the 2004 Annual Meeting of Stockholders.

Director Compensation

Cash Compensation

Commencing the second quarter of 2004, each director not employed by Novavax and not serving on a committee received an annual retainer of $10,000; the chairs of the Audit, Compensation and Governance Committees received annual retainers of $20,000, $15,000 and $15,000, respectively; and non-employee directors serving on committees received an annual retainer of $12,000. Annual retainers are paid quarterly.

Commencing the second quarter of 2004, each non-employee director received $1,500 for each meeting of the Board of Directors he or she attended in person and $750 for each meeting attended telephonically. In addition, each committee member not employed by Novavax received $500 per committee meeting attended in person and $250 for each meeting attended telephonically, except that the chair of each committee received $1,000 per committee meeting attended in person and $500 for each meeting attended telephonically. In all cases, no fees are paid for telephonic meetings of the Board or any committee thereof lasting less than 30 minutes. Directors are also reimbursed by the Company for reasonable costs and expenses incurred for attending Board and committee meetings.

No other cash compensation was paid to the directors for their services to the Company as directors during 2004. For information relating to shares of the Company owned by each of the directors, see Beneficial Ownership of Common Stock below. For information concerning the compensation of directors who are also officers of the Company, see Executive Compensation below. For information concerning a payment made in connection with services rendered by a director, see Certain Relationships and Related Transactions below.

Prior to the second quarter of 2004, each director not employed by Novavax received an annual retainer of $10,000, an additional $1,500 for each meeting of the Board of Directors he or she attended in person, and $750 for each meeting attended telephonically. In addition, each committee member not employed by Novavax received $250 per committee meeting attended, except that the chair of each committee received $500 per committee meeting attended.

Stock Option Plans

Directors of Novavax are eligible to participate in the Company s 1995 Stock Option Plan adopted by the Board of Directors and approved by the stockholders (the 1995 Plan). The 1995 Plan is administered by the Compensation Committee under delegation by the Board of Directors. In March 2004, each non-employee director of the Company was awarded a non-statutory option under the 1995 Plan to purchase 20,000 shares of Common Stock at an exercise price of $5.95 per share, the closing price of the Common Stock on March 9, 2004, which options vested in full on September 9, 2004. Upon her appointment in October 2004, Ms. Bayh also received a non-statutory option under the 1995 Plan to purchase 20,000 shares of Common Stock at an exercise price of $3.98 per share, the closing price of the Common Stock on October 28, 2004, which options vest in full on April 28, 2005. If approved by stockholders, directors will also be eligible to participate in the Company s 2005 Stock Incentive Plan, as discussed in Proposal Two below. Directors also were eligible to receive option grants under the Novavax, Inc. 1995 Director Stock Option Plan, which plan provided for the grant to directors of options to purchase an aggregate 500,000 shares of the Company s Common Stock, all of which options have been granted.

Compensation Committee Interlocks and Insider Participation

Messrs. Evans, Marsh, McManus and Walker served on the Compensation Committee until March 2004; Mr. Walker and Dr. Lazarus served on the Compensation Committee commencing March 2004 and Ms. Bayh began serving in October 2004. None of the members of the Compensation Committee was at any time during fiscal 2004 an officer or employee of Novavax or any subsidiary; prior to 2004, Mr. Marsh served as interim CEO of the Company from July 1996 to March 1997. No executive officer of the Company currently serves, or during 2004 served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company s Board of Directors or Compensation Committee.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company s directors, executive officers and holders of more than 10% of the Company s Common Stock to file with the Securities and Exchange Commission and the Nasdaq National Market initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Based solely on a review of the copies of such reports (and any amendments thereto) furnished to the Company during or with respect to 2004 or written representations that no reports were required, the Company believes that during fiscal 2004 its executive officers, directors and holders of more than 10% of the Company s Common Stock complied with all Section 16(a) filing requirements, except that in March 2004 five of the Company s non-employee directors Messrs. Kelly, Marsh, McManus and Walker and Dr. Lazarus reported the grant of options to purchase 20,000 shares of Common Stock two business days late and Mr. Evans reported such grant one business day late, and each of Nelson M. Sims, Ford R. Lynch, Denis M. O Donnell, M.D. and D. Craig Wright, M.D. reported the grant of options to them in March 2004 in their capacities as executive officers of the Company two business days late, and Dennis W. Genge reported such grant one business day late. For information on these executive officer option grants, see Executive Compensation Stock Options below.

Certain Relationships and Related Transactions

In March 2002, pursuant to the 1995 Plan, the Company approved the payment of the exercise price of options by two directors, Denis M. O Donnell, M.D. and Mitchell J. Kelly, through the delivery of full recourse, interest-bearing promissory notes in the amounts of $1,031,668 and $447,600, respectively, or an aggregate of $1,479,268. The borrowings accrue interest at 5.07% per annum and are secured by 166,667 and 95,000 shares of Common Stock, respectively, or 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: (a) payable in full upon the date on which the director ceases for any reason to be a director of the Company, (b) payable 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 (c) payable in full on March 21, 2007. In addition, during 2002, the Company executed a conditional guaranty of a brokerage margin account for Dr. O Donnell in the amount of $500,000.

On July 19, 2004, the Company closed an exchange agreement and related termination agreement with King Pharmaceuticals, Inc. and its wholly-owned subsidiary Parkedale Pharmaceuticals, Inc., which terminated substantially all agreements among the parties, including an agreement with King for the exclusive right to promote certain of the Company s products and product candidates within the United States and Puerto Rico and an agreement with King for the exclusive right to promote, market, distribute and sell these products outside the United States. The exchange and termination agreements provided for the return to the Company of all rights worldwide for these products, as well as all rights to any other products that Novavax may successfully develop utilizing its micellar nanoparticle technology. In addition, as part of the exchange agreement, Novavax hired 50 of King s women s health sales representatives to provide competitive sales force coverage for Novavax s products and redeemed all $40 million in aggregate face amount of outstanding convertible notes held by King at an agreed-upon discount to face value.

The Company issued 3,775,610 shares of Common Stock to King in exchange for cash and the termination of substantially all agreements with King and Parkedale as noted above, and agreed pursuant to a registration rights agreement entered into in connection with such transaction to register such shares for resale by King. Following the closing of these transactions, King held 4,100,931 shares of our Common Stock, or approximately 10.4% of the outstanding Common Stock.

In August 2004, the Board approved the payment of $75,000 to Anaconda Capital Management, L.L.C., of which Mitchell J. Kelly, a member of the Board, is Chairman, CEO and Managing Member, in connection with Mr. Kelly s assistance and services furnished to the Company in support of the transactions with King and Parkedale described above, as well as a debt financing by the Company as described under Proposal Three in this Proxy Statement.

REPORT OF THE COMPENSATION COMMITTEE

Compensation Committee

The Compensation Committee (the Committee) is appointed by the Board of Directors of the Company to assist the Board with its responsibilities relating to the compensation of the Company s employees, officers and directors and the development and administration of the Company s compensation plans. The goal of the Committee is to support the development of compensation programs that achieve the strategic goals and objectives of the Company, attract, motivate and retain key executives critical to the success of the Company and align executive officers interests with the success of the Company.

As set forth in its charter, the Committee s authority and responsibilities include but are not limited to:

- providing advice and guidance with respect to the Company s compensation strategy and philosophy;
- evaluating and providing recommendations regarding executive compensation programs tied to the strategic and financial objectives of the Company and which will motivate and incentivize executives by tying their compensation to the Company s performance and stockholder returns;
- reviewing and providing input on the goals and objectives relevant to the compensation of the Company s Chief Executive Officer, annually evaluating the CEO s performance, and recommending to the independent members of the Board the CEO s total compensation package;
- annually reviewing and making recommendations regarding senior management compensation; and
- evaluating and making recommendations annually regarding the appropriate level and form of compensation for members of the Board and its committees.

The Committee must consist of at least two members of the Board of Directors, each of whom shall be a non-employee director as defined by Rule 16b-3 under the Exchange Act, and an outside director as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). The Board appoints members to the Committee upon the recommendation of the Company s Nominating and Governance Committee. Committee members serve until they resign or are removed or until their successors are elected and qualified.

The Committee is tasked with meeting at least four times a year, and more frequently if necessary. It may request that any officer or employee of the Company, outside counsel or consultant attend Committee meetings or confer with any members of, or consultants to, the Committee. The Committee has sole authority for and may retain compensation consultants as it deems appropriate to assist the Committee with the performance of its duties and responsibilities, including sole authority to approve the fees and other retention terms for such consultants. The Committee is supported in its efforts by the Company s human resources team, to which the Committee delegates authority for certain administrative functions.

Novavax Compensation Philosophy

The philosophy underlying the Company s compensation program is to be both market competitive and internally equitable, such that individuals are compensated at a level commensurate with their industry colleagues outside the Company in comparable positions and fairly when compared to their colleagues within the Company.

With this philosophy and the objectives of the Company s compensation programs in mind, in the fall of 2003 the Company conducted an internal benchmark study to analyze the Company s compensation programs and practices. This study involved an evaluation by the human resources team and functional vice presidents of each position at Novavax and a determination of each position s category, based on an analysis of job description, according to a nationally recognized compensation survey. An analysis was then performed of the survey s compensation data and Novavax s compensation levels, the result of which was a decision to benchmark compensation for all Company positions to the 50th percentile of similar size companies in the pharmaceutical/biotechnology industry.

Compensation Components

Traditionally and for fiscal year 2004, the components of employee compensation at Novavax included (i) base salary, (ii) annual discretionary bonuses or commissions for sales personnel, and (iii) stock option grants (both for new hires and annual discretionary grants based upon company and individual performance). Every employee at every level within the Company is eligible to receive bonuses or commissions and equity compensation awards.

Base Salary

In 2004, the Committee determined to administer base salaries at plus or minus 25% of the 50th percentile for office, lab and factory-based employees. Base salaries for sales personnel are administered at plus or minus 35% of the 50th percentile, and brought in line based upon performance within 24 months.

General base salary levels for the Company s executive officers, therefore, are based on a review of compensation for competitive positions in the market; individual salaries within the permitted range reflect the executives job skills and experience, as well as judgments as to past and future contributions of the executives to the Company s success. The companies whose compensation practices are studied are not limited to the peer group listed in the stock performance chart, but include the full range of companies with which the Company believes it competes for executive talent. The Board deferred any decision regarding salary increases for all officers of the Company until the second quarter of 2005; increases for all other employees, approved in February 2005, ranged from zero to 7% of current salaries.

Bonuses and Commissions

Annual bonuses are tiered based upon the individual s level in the Company, e.g. manager or individual contributor. In addition, for directors and officers with the title of senior vice president or vice president, there are additional bonus levels to reflect the relative importance of such positions and to reward individual performance at those levels.

In 2004, the Company determined annual bonuses for 2003 for each employee based on a performance factor that took into account each individual s overall performance rating from their annual performance appraisal. Only employees whose overall performance rating was at or above the required meets expectations rating were eligible for a bonus. The range of bonuses awarded in 2004 for 2003 performance was 20 to 40% of base salary for senior management and 10 to 15% for directors. Bonuses for managers and individual contributors were targeted at 7.5% and 5% of base salary, respectively. Target bonuses in the full amount were awarded to employees who met 100% of their individual objectives and had been with the Company all year, were prorated for employees who had been with the Company less than a full year, and were decreased proportionately in cases where employees met less than 100% of their individual objectives.

In the early part of 2004, individual objectives were developed for that year; the bonus for each employee was then determined based on the individual s achievement of 100% of those objectives as well as their overall performance. Bonus awards were prorated based upon the employee s date of hire. In order to be eligible to receive a bonus for 2004, employees had to have joined the Company by November 1 and performed at a level of at least meets expectations.

Bonuses are designed to tie annual awards to Company and individual executive performance and motivate and reward employees for their contributions to Company performance. The Committee considers a number of factors in determining whether annual incentive awards should be paid, most importantly the achievement by the Company of specified strategic objectives and the achievement by the employees of their individual objectives.

For 2004, the strategic priorities for the Company against which performance was measured included but were not limited to:

- Successfully launch ESTRASORB, including:
  - Complete, validate and FDA-qualify the manufacturing facility;

- Build inventory and stock the retail market;
- Hire and train the sales organization; and
- Develop a marketing launch plan;

Support legacy products;

Build a pipeline of new products, including:

- Refocus vaccine and drug delivery product development;
- Improve the infrastructure for research and development; and
- Formulate new MNP products;

Improve the Company s cost structure, including:

- Implement a facility strategy; and
- Improve manufacturing costs;

Strengthen the organization and improve organizational effectiveness;

Ensure compliance with the Sarbanes-Oxley Act of 2002; and

Meet business development objectives and cash flow requirements.

Individual objectives are drawn up by each employee by reference to the Company s overall objectives and in consultation with each such employee s functional vice president. The goal of individual objectives is to support the achievement of the Company s objectives and align individual performance with those objectives.

The Board deferred making a decision regarding annual bonuses for officers until the second quarter of 2005. Bonuses for employees who are not officers ranged from $281 to $20,278 for fiscal 2004, which included bonuses prorated for partial-year employment.

Equity Compensation

The granting of stock options has been analyzed and benchmarked to the 50th percentile of grants at comparable surveyed companies. Similar to base salary and bonus or commission determinations, the Committee evaluated equity compensation awards at comparable companies both generally and for individual job categories. Based on this data, it developed target awards for each position within the Company for both initial and annual discretionary stock option grants. Deviations from the range may occur based on performance, and no individual is eligible to receive an award unless he or she receives the minimum required meets expectations performance rating in his or her annual performance appraisal.

The primary goal of the equity compensation component is to align management and stockholder interests for the long-term enhancement of stockholder value: when the market price of a share of Common Stock declines, the value of the grant to the employee declines. Employees are consequently motivated to improve their performance in support of improved Company performance.

As noted above, in selecting executives eligible to receive option grants and determining the size of such grants, the Committee reviews a variety of factors, including:

- the job level of the executive,
- option grants awarded by competitors to executives at a comparable job level, and
- past, current and prospective services rendered, or to be rendered, to the Company by the executive.

The Company administers two plans under which stock options are granted to eligible participants. The Novavax, Inc. 1995 Stock Option Plan provides for the grant of stock options both incentive and non-statutory to officers, employees, consultants and directors of the Company and any present or future subsidiaries to purchase a maximum of 9,000,000 shares of Common Stock. The Company also administers the Novavax, Inc. 1995 Director Stock Option Plan, which provides for the issuance of up to 500,000 shares of Common Stock to directors of the Company, all of which options have been granted.

The exercise price for the options granted to executives to date has been equal to at least 100% of the fair market value per share on the date of grant, and the Committee intends to continue to fix the exercise price of option grants at no less than 100% of the fair market value per share on the date of grant. During 2004, the Committee awarded options for a total of 1,168,150 shares to all employees, including options to purchase 308,000 shares awarded to all individuals who served as executive officers of the Company during the year.

Procedure

The process of determining annual compensation packages begins in advance of the Committee s first meeting in the new year. Prior to that meeting, the Company s human resources team performs an analysis, keeping in mind the goals of market competitiveness and internal equity and benchmarking against the 50th percentile, of each position within the Company, matched against current salary survey data, both for the industry and geographically. Once a budget is determined for the year, modeling is performed to assess which individuals are being paid outside the permissible range of the Company s salary administration guidelines. Individual performance is evaluated against achievement of each of the Company s and the individual s strategic priorities. No adjustment is made if the individual did not receive the minimum required performance rating in his or her annual performance appraisal.

Compensation packages for vice presidents and above are analyzed and discussed individually at the Committee s first meeting. At this and subsequent meetings, the Committee may request additional information from the human resources team. Once the Committee has obtained all of the information it deems necessary, it approves or rejects the compensation recommendations presented. These recommendations are then presented to the Board of Directors, and decisions regarding CEO and executive officer compensation are made by the independent members of the Board.

Chief Executive Officer Compensation

Nelson M. Sims was elected President and Chief Executive Officer of the Company effective August 2003. The criteria used to establish Mr. Sims initial compensation included, among other things, the compensation packages of executive officers of comparable companies of similar size in the specialty pharmaceutical industry and the factors described above for all executive officers. Pursuant to Mr. Sims employment agreement with the Company, he is entitled to receive an initial base salary of $400,000, subject to merit-based increases commencing January 1, 2005. In addition, he is entitled to receive performance and incentive bonuses, beginning in respect of his employment with the Company through December 31, 2004, payable on or before March 31, 2005, in an amount to be determined by the Board or any committee thereof authorized to make such determination. Mr. Sims employment agreement specifies that such bonus will be based on his achievement of certain specified goals, and shall be at least $139,000 and not greater than $347,000. Upon hire, Mr. Sims was granted stock options to purchase 900,000 shares of the Common Stock of the Company at $5.63 per share, which price was the fair market value on the date of grant. The options vest in three equal increments on the first three anniversaries of the date of the grant. Mr. Sims is also eligible to receive additional stock options annually, based on job performance, to purchase that number of shares of Common Stock equal to not less than three percent of the total number of shares of Common Stock issued by the Company during the most recent fiscal year in private or public offerings or pursuant to conversions of convertible securities issued after commencement of his employment with the Company.

As noted above, Mr. Sims annual base salary for each of 2003 and 2004 was $400,000. His annual base salary has not been increased for 2005 due to a decision, based on the financial condition and performance of the Company during the 2004 fiscal year, to defer compensation decisions regarding salary adjustments for all officers of the Company until the second quarter of the 2005 fiscal year. Similarly, the Board deferred the decision as to whether to grant Mr. Sims or any other officer of the Company a bonus for 2004 performance.

In March 2004, Mr. Sims was awarded options to purchase 135,000 shares of Common Stock at an exercise price of $5.95, the closing price of the Common Stock on the date of grant. In February 2005, the Committee recommended and the independent members of the Board approved the grant to Mr. Sims of options to purchase 142,000 shares of Common Stock at an exercise price of $2.21 per share, the fair market value of the Common Stock on the date of grant. This incentive award was based on Mr. Sims efforts to:

- Ensure successful financing to fund operations;
- Strengthen the Company s corporate leadership team, including the addition of key personnel in sales, marketing, research and development, manufacturing, finance and business development;
- Prepare the Company to launch ESTRASORB, including:
  - Manufacturing; and
  - Sales and marketing;
- Improve the Company s cost structure, including:
  - Facility consolidation;
  - Manufacturing costs; and
  - Operational effectiveness;
- Refocus new product development, including:
  - Vaccines; and
  - Drug delivery;
- Develop and meet our business development strategy; and
- Meet Sarbanes-Oxley Section 404 requirements.

Tax Considerations

Section 162(m) of the Code generally disallows a tax deduction to public companies for compensation over $1,000,000 paid to certain employees, generally the Chief Executive Officer and the four other most highly compensated executive officers. Qualifying performance-based compensation will not be subject to the deduction limit if certain requirements are met. In 2004, no compensation paid by the Company was nondeductible as a result of the $1,000,000 limitation. Furthermore, the Committee believes that, given the general range of salaries and bonuses for executive officers of the Company, the $1,000,000 threshold of Section 162(m) will not be reached by any executive officer of the Company in the foreseeable future. Accordingly, the Committee has not formulated a policy to address non-qualifying compensation.

Compensation Committee

Ronald H. Walker, Chairman
Susan B. Bayh
J. Michael Lazarus, M.D.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors is comprised of three members, each of whom is a non-employee director and satisfies all applicable independence requirements. The responsibilities and duties of the Audit Committee, summarized below, are more fully set forth in the committee s charter, a copy of which is available on the Company s website at www.novavax.com.

The primary purpose of the Audit Committee is to represent and assist the Board of Directors in fulfilling its responsibilities for oversight of: the Company s accounting and financial reporting processes; the preparation, presentation and integrity of the financial reports and other financial information provided by the Company to any governmental or regulatory body, the public or other users thereof; the adequacy and efficacy of the Company s systems of internal accounting, auditing and financial controls; the Company s compliance with legal and regulatory requirements; the conduct, independence and qualifications of the Company s independent auditor; and the performance of the annual independent audit of the Company s financial statements. In 2004, the Audit Committee also actively participated in the evaluation of the Company s internal control over financial accounting and the implementation of the components of the Company s internal control system as required by Section 404 of the Sarbanes-Oxley Act of 2002. The Audit Committee also played an active role in monitoring, and supporting management in its assessment of the effectiveness, of such system and its components.

In discharging its oversight role, the Audit Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company, and to retain outside counsel, auditors and other experts for this purpose. The Board and the Audit Committee are in place to represent the Company s stockholders. Accordingly, the independent auditor is ultimately accountable to the Audit Committee and the Board.

In keeping with its responsibilities, the Audit Committee has reviewed and discussed the Company s audited financial statements with management. The Audit Committee has discussed with Ernst & Young LLP, the Company s independent auditor, the matters required to be discussed by Statement of Auditing Standards No. 61, Communication with Audit Committees (as currently in effect), which includes, among other items, matters related to the conduct of the audit of the Company s financial statements. The Audit Committee meets with the independent auditor, with and without management present, to discuss the results of its examinations, its evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting. The Audit Committee has also received written disclosures and the letter from Ernst & Young LLP required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees (as currently in effect) relating to the auditor s independence from the Company and its related entities, discussed with Ernst & Young LLP its independence from the Company, and considered the compatibility of the auditor s provision of non-audit services with maintaining the auditor s independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Company s Board of Directors, and the Board has approved, that the Company s audited financial statements be included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2004. The Audit Committee has selected, subject to stockholder ratification, Ernst & Young LLP as the Company s independent auditor for the current fiscal year ending December 31, 2005.

The Audit Committee pre-approved all audit and permissible non-audit services provided to the Company by the independent auditor during fiscal 2004. It is the Audit Committee s policy to pre-approve the audit and permissible non-audit services (both the type and amount) performed by the Company s independent auditor in order to ensure that the provision of such services does not impair the auditor s independence, in appearance or fact.

Audit Committee

Michael A. McManus, Jr., Chairman
Gary C. Evans
John O. Marsh, Jr.

PROPOSAL TWO APPROVAL OF THE 2005 STOCK INCENTIVE PLAN

On February 24, 2005, the Board of Directors approved the adoption of the Novavax, Inc. 2005 Stock Incentive Plan (the 2005 Plan) in response to the pending expiration of the 1995 Plan and to better address the Company s changing business needs. The 2005 Plan is subject to stockholder approval at the Meeting.

Set forth below is a summary of the key