

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 FORM 10-Q
 QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
 OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended
 JUNE 30, 1998

Commission File No.
 0-26770

NOVAVAX, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
 incorporation or organization)

22-2816046

(I.R.S. Employer
 Identification No.)

8320 GUILFORD ROAD, COLUMBIA, MD

(Address of principal executive offices)

21046

(Zip code)

(301) 854-3900

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.

Yes X No
 ----- -----

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

Common Shares Outstanding at August 10, 1998

12,321,368

NOVAVAX, INC AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (unaudited)

June 30, December 31,
 1998 1997
 ----- -----

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 8,344,316	\$ 3,847,107
Accounts receivable	69,949	217,150
Receivable from former parent	-	32,835
Prepaid expenses and other current assets	107,200	205,952
	-----	-----
Total current assets	8,521,465	4,303,044
	-----	-----

Property and equipment, net of accumulated depreciation of \$607,899 and \$539,463 in 1998 and 1997, respectively	993,741	889,175
Patent costs, net of accumulated amortization of \$613,349 and \$549,397 in 1998 and 1997, respectively	1,572,434	1,573,454
Other assets	16,960	57,598
	-----	-----
Total assets	\$ 11,104,600	\$ 6,823,271
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Capital lease obligations, current portion	\$ 32,230	\$ 10,744
Accounts payable	150,484	237,884
Accrued payroll	83,863	40,010
	-----	-----
Total current liabilities	266,577	288,638
Capital lease obligations, less current portion	26,324	12,863
	-----	-----
Total liabilities	292,901	301,501
	-----	-----

Stockholders' Equity:

Preferred stock, \$.01 par value, 2,000,000 shares authorized; 6,500 designated as Series A Custom Convertible Preferred Stock; 6,500 shares issued and outstanding at June 30, 1998; none issued and outstanding at December 31, 1997.	5,997,599	-
Common stock, \$.01 par value, 30,000,000 shares authorized; 12,148,376 issued and 12,131,036 outstanding at June 30, 1998; 12,031,757 and 12,012,013 shares issued and outstanding at December 31, 1997	121,483	120,318
Additional paid-in capital	38,289,972	38,020,621
Accumulated deficit	(33,335,218)	(31,342,780)
Deferred compensation on stock options granted	(20,472)	(25,620)
Treasury stock, 17,340 and 19,744 shares at June 30, 1998 and December 31, 1997, cost basis	(241,665)	(250,769)
	-----	-----
Total stockholders' equity	10,811,699	6,521,770
	-----	-----
Total liabilities and stockholders' equity	\$ 11,104,600	\$ 6,823,271
	=====	=====

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

NOVAVAX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

THREE MONTHS ENDED JUNE 30,	SIX MONTHS ENDED JUNE 30,
1998	1998
1997	1997
-----	-----

Revenues:				
Contract Revenue	\$ 120,055	\$ 149,733	\$ 324,719	\$ 149,733
Operating expenses:				
General and administrative	724,395	601,567	1,261,316	1,243,820
Research and development	673,619	760,833	1,267,998	1,362,456
Total operating expenses	1,398,014	1,362,400	2,529,314	2,606,276
Loss from operations	(1,277,959)	(1,212,667)	(2,204,595)	(2,456,543)
Interest income, net	119,120	78,726	212,157	112,980
Net loss	(1,158,839)	(1,133,941)	(1,992,438)	(2,343,563)
Preferred stock deemed dividend	-	-	(455,048)	-
Net loss applicable to common stockholders	\$ (1,158,839)	\$ (1,133,941)	\$ (2,447,486)	\$ (2,343,563)
Net loss per common share (basic and diluted):	\$ (0.10)	\$ (0.10)	\$ (0.20)	\$ (0.21)
Weighted average number of common shares outstanding (basic and diluted)	12,096,877	11,891,507	12,066,715	11,389,929

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

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NOVAVAX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 1998 AND 1997
(unaudited)

	1998	1997
	----	----
Cash flows from operating activities:		
Net loss	\$ (1,992,438)	\$ (2,343,563)
Reconciliation of net loss to net cash used by operating activities:		
Non-cash compensation expense	5,148	288,822
Depreciation and amortization	132,388	135,339
Issuance of stock to 401(k) plan	10,236	15,969
Changes in operating assets and liabilities:		
Accounts receivable	147,201	(92,654)
Prepaid expenses and other assets	139,390	93,414
Payable to/receivable from former parent	32,835	(6,176)
Accounts payable and accrued expenses	(44,679)	(138,753)
Net cash used by operating activities	(1,569,919)	(2,047,602)
Cash flows from investing activities:		
Proceeds from the sale of marketable securities	-	500,820
Capital expenditures	(122,657)	(36,324)
Deferred patent costs	(62,932)	(115,147)
Net cash provided by (used by) investing activities	(185,589)	349,349
Cashflows from financing activities:		
Payment of capital lease obligations	(15,398)	(6,087)
Proceeds from the private placement of preferred stock	5,997,599	-
Proceeds from the private placement of common stock	-	5,002,718
Proceeds from the exercise of options	270,516	66,862
Net cash provided by financing activities	6,252,717	5,063,493
Net change in cash and cash equivalents	4,497,209	3,365,241
Cash and cash equivalents at beginning of the period	3,847,107	2,481,258
Cash and cash equivalents at end of the period	\$ 8,344,316	\$ 5,846,499

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

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NOVAVAX, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying consolidated financial statements include the accounts of Novavax its wholly owned subsidiaries, Micro-Pak, Inc., Micro Vesicular Systems, Inc. and Lipovax, Inc. All significant intercompany accounts and transactions have been eliminated. These statements have been prepared by Novavax, Inc. without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature.

Certain information in footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements are read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 1997.

2. Net Loss Per Share

In 1997, the Company retroactively adopted SFAS No. 128, Earnings per Share. Basic earnings per share are computed by dividing the net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding after giving effect to all potentially dilutive common shares that were outstanding during the period.

Potential dilutive common shares are not included in the computation of diluted earnings per share if they are antidilutive. Net loss per share as reported was not adjusted for potential common shares, as they are antidilutive.

3. New Accounting Standards

The Financial Accounting Standards Board has issued a new standard that became effective in reporting periods beginning after December 15, 1997. SFAS No. 130, Reporting Comprehensive Income, requires additional reporting with respect to certain changes in assets and liabilities that previously were not required to be reported as results of operations for the period. The Company's adoption of SFAS No. 130 resulted in no additional reporting as the Company has no other items of comprehensive income or loss.

The Financial Accounting Standards Board has issued a new standard that became effective in reporting periods beginning after December 15, 1997. SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, which became effective for reporting periods beginning after December 15, 1997. Interim reporting is not required

NOVAVAX, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

under SFAS No. 131 prior to adoption. SFAS No. 131 requires financial and descriptive information with respect to "operating segments" of an entity based on the way management disaggregates the entity for making internal operating decisions. The Company will begin making the disclosures required by SFAS No. 131, if any, with financial statements for the period ending December 31, 1998. There will be no financial impact from the adoption of SFAS No. 131 as the standard affects disclosure only.

The Financial Accounting Standards Board has issued a new standard that became effective in reporting periods beginning after June 15, 1999. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, requires that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. The Company believes that the effect, if any, of the adoption of SFAS No. 133 will not be material.

4. Employee Benefit Plan

Effective January 1, 1997, the Company established the Novavax, Inc. 401(k) Profit Sharing Plan (the "Plan"). The Plan is a discretionary defined contribution plan and covers all employees who were employed by the Company on or after January 1, 1997 and who have completed three months of service to the Company. Under the provisions of the Plan, employees may contribute up to \$9,500 of their annual base compensation on the tax-deferred basis. The Board of Directors determines the Company's matching contribution in any year. As of June 30, 1998 and 1997, the Company accrued contributions of Company stock valued at \$10,236 and \$15,969, respectively.

5. Financing Transactions

On February 10, 1997, Novavax signed a definitive agreement to privately place 1,200,000 common shares with Anaconda Opportunity Fund L.P. Novavax also granted warrants to purchase an additional 600,000 shares at a price of \$6.00 per share and 600,000 shares at a price of \$8.00 per share. The warrants have a three-year term. The transaction was closed on March 14, 1997 at an aggregate price of \$5,100,000. Proceeds net of all related transaction costs were \$5,002,718.

On January 23, 1998, the Company entered into Subscription Agreements to effectuate the private placement of 6,500 shares of Series A Custom Convertible Preferred Stock, \$.01 par value per share (the "Preferred Stock"). The closing occurred on January 28, 1998 (the "Issuance Date") at an aggregate purchase price of \$6,500,000. Proceeds net of all related transaction costs were \$5,997,599.

The Preferred Stock was convertible into shares of Common Stock during a period of 90 days following the Issuance Date, at a conversion price equal to 100% of the average of the two lowest consecutive trade prices of the Common Stock as reported on the American

NOVAVAX, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Exchange for the 25 trading days immediately preceding the conversion date (the "Two Day Average Trading Price"). Effective April 28, 1998 and for the period thereafter the conversion price is equal to 94% of the Two Day Average Trading Price (the "Conversion Price").

From the Issuance Date, there is ceiling price of \$6.33 and within the first 180 days after the Issuance Date, the Conversion Price has applicable floor prices based on conversion dates. The floor prices range from \$5.67 to \$4.32. These applicable floor prices expired at the close of business on July 28, 1998. The maximum number of shares as measured by the conversion terms most beneficial to the holders of the Preferred Stock at the time of closing resulted in a deemed dividend in the amount of \$455,048 for the six months ended June 30, 1998.

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NOVAVAX, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussion may contain statements that are not purely historical. Certain statements contained herein or as may otherwise be incorporated by reference herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include but are not limited to statements regarding year 2000 readiness, future product development and related clinical trials and statements regarding future research and development. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such factors include, among other things, the following: general economic and business conditions; competition; unexpected changes in technologies and technological advances; ability to obtain rights to technology; ability to obtain and enforce patents; ability to commercialize and manufacture products; statements regarding establishment of commercial-scale manufacturing capabilities, and statements regarding future collaborations with industry partners; results of preclinical studies; results of research and development activities; business abilities and judgment of personnel; availability of qualified personnel; changes in, or failure to comply with, governmental regulations; ability to obtain adequate financing in the future; and other factors referenced herein.

All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. Accordingly, past results and trends should not be used by investors to anticipate future results or trends.

The following is a discussion of the historical consolidated financial condition and results of operations of Novavax and its subsidiaries and should be read in conjunction with the consolidated financial statements and notes thereto set forth in this Form 10-Q. Additional information concerning factors

that could cause actual results to differ materially from those in the forward-looking statements is contained from time to time in the Company's SEC filings, including but not limited to the Company's report on Form 10-K/A for the year ended December 31, 1997.

RESULTS OF OPERATIONS

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

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NOVAVAX, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 1998 COMPARED TO 1997

The net loss was \$1,158,839 for the quarter ended June 30, 1998. This compares to a net loss in the prior year of \$1,133,941. The net loss increase of \$24,898 was due primarily to increases in general and administrative expenses of \$122,828 partially offset by decreases in research and development expenses of \$87,214.

Revenues of \$120,055 for services related to vaccine and adjuvant technologies were recognized during the three months ended June 30, 1998. Revenues of \$149,733 were recorded for the same period in the prior year.

General and administrative expenses were \$724,395 for the three months ended June 30, 1998 compared to \$601,567 incurred for the same period in 1997. The net change of \$122,828 was primarily caused by the hire of a Vice President of Business Development, increases in legal expenses and costs associated with strategic alliance development offset by a decrease in the non-cash compensation expense related to non-employee options and warrants granted during 1996.

Research and development expenses were \$673,619 and \$760,833 for the three months ended June 30, 1998 and 1997, respectively. Total research and development expenses exclusive of non-cash charges related to the below-market priced stock options issued December 12, 1995 were \$671,687 and \$644,116 for the periods ended June 30, 1998 and 1997, respectively. This increase of \$27,571 is related to the timing of clinical trial activities and the nature of those trials, including the number of products, the number of patients and the duration of the trials.

Net interest income of \$119,120 was recorded in the three months ended June 30, 1998 compared with net interest income of \$78,726 in the three months ended June 30, 1997. The \$40,394 increase is due to higher average cash balances during the first quarter 1998, when compared to average cash balances during the same period in 1997.

SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO 1997

The net loss before the preferred stock deemed dividend of \$455,048 was \$1,992,438 for the six months ended June 30, 1998. This compares to a net loss in the prior year of \$2,343,563. The reduction of \$351,125 was due primarily to increases in revenue of \$174,986, decreases in research and development expenses of \$94,458 and increases in interest income of \$99,177.

The net loss applicable to common stockholders of \$2,447,486 for the six months ended June 30, 1998, was \$103,923 more than the net loss of \$2,343,563 in the six months ended June 30, 1997 and reflects those items mentioned in the above paragraph along with a preferred stock deemed dividend of \$455,048.

NOVAVAX, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Revenues of \$324,719 for services related to vaccine and adjuvant technologies were recognized during the six months ended June 30, 1998 compared to \$149,733 recorded for that same period in the prior year. The increase of \$174,986 was due primarily to a subcontract to supply new chemical structures designed to inactivate viruses, bacteria and bacterial spores.

General and administrative expenses were \$1,261,316 for the six months ended June 30, 1998 or \$17,496 higher than the \$1,243,820 of general and administrative expenses incurred for the same period in 1997. The net increase was primarily caused by the hire of a Vice President of Business Development increases in legal expenses and costs associated with strategic alliance development offset by a decrease in the non-cash compensation expense related to non-employee options and warrants granted during 1996.

Research and development expenses were \$1,267,998 and \$1,362,456 for the six months ended June 30, 1998 and 1997, respectively. Total research and development expenses exclusive of non-cash charges related to the below-market priced stock options issued December 12, 1995 were \$1,264,131 and \$1,129,021 for the periods ended June 30, 1998 and 1997, respectively. This increase of \$135,110 is related to the timing of clinical trial activities and the nature of those trials, including the number of products, the number of patients and the duration of the trials.

Net interest income of \$212,157 was recorded in the six months ended June 30, 1998 compared with net interest income of \$112,980 in the six months ended June 30, 1997. The \$99,177 increase is due to higher average cash balances during the first six months 1998, when compared to average cash balances during the same period in 1997.

YEAR 2000

The Company is evaluating and working to resolve the potential impact of the year 2000 on the Company's computerized information systems' ability to accurately process information that may be date-sensitive. Any of the Company's programs that recognize a date using "00" as the year 1900 rather than the year 2000, could result in errors or system failures. The Company primarily uses personal computers for administrative and accounting systems. Additionally, the Company has certain laboratory equipment with microprocessors. Along with a review of the hardware and software employed by the Company, our business partners and suppliers have been surveyed to determine their year 2000 readiness.

The Company does not believe that the costs of addressing this issue will have a material impact on the Company's financial position. Nor, has the Company been given any indication that its business partners and suppliers will not be year 2000 compliant by the year 2000. The Company plans to continue, on a timely basis, to monitor and address any significant year 2000 issues.

NOVAVAX, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

Novavax's capital requirements depend on numerous factors, including but not limited to the progress of its research and development programs, the progress of preclinical and clinical testing, the time and costs involved in obtaining regulatory approvals, the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, competing technological and market developments, and changes in Novavax's development of commercialization activities and arrangements. The Company has three product candidates in development. Future activities including clinical development and the establishment of commercial-scale manufacturing capabilities are subject to the Company's ability to raise funds through equity financing, or collaborative arrangements with corporate partners.

The Company used \$1,755,508 of its cash resources during the six month period ended June 30, 1998 to fund the activities of its research and development programs and costs associated with obtaining regulatory approvals, pre-clinical and clinical testing. In addition to revenues of \$324,719, Novavax received proceeds of \$270,516 from the exercise of stock options and proceeds, net of all related transaction costs, of \$5,997,599 from the sale of 6,500 shares of Series A Convertible Preferred Stock. The closing of the Preferred Stock private placement occurred on January 28, 1998 at an aggregate price of \$6,500,000.

Cash and cash equivalents on June 30, 1998 totaled \$8,344,316. Novavax estimates that based on historical and projected levels of spending, existing cash resources will be sufficient to finance its operations for approximately 19 to 22 months from June 30, 1998. Past spending levels are not necessarily indicative of future spending. Future expenditures for product development especially related to outside testing and human clinical trials are discretionary and, accordingly, can be adjusted to available cash. As the Company continues to progress in its clinical development activities and commercial scale-up of product manufacturing, it anticipates increases in spending associated with these activities.

Moreover, the Company will seek to establish one or more collaborations with industry partners to defray the costs of clinical trials and other related activities. Novavax will also consider sources of additional funds through public or private equity or debt financings, collaborative arrangements with pharmaceutical companies or from other sources. There can be no assurance that additional funding or bank financing will be available at all or on acceptable terms to permit successful commercialization of Novavax's technologies and products. If adequate funds are not available, Novavax may be required to significantly delay, reduce the scope of or eliminate one or more of its research or development programs, or seek alternative measures including

arrangements with collaborative partners or others that may require Novavax to relinquish rights to certain of its technologies, product candidates or products.

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NOVAVAX, INC. AND SUBSIDIARIES
PART II OTHER INFORMATION

Item 1 - Legal Proceedings

None

Item 2 - Changes in Securities

None

Item 3 - Defaults upon Senior Securities

None

Item 4 - Submission of Matters to a Vote of Security Holders

At the Company's Annual Meeting of Stockholders held on May 14, 1998, the following proposals were adopted by the vote specified below:

1. PROPOSAL I: To Elect one Class III director, Mitchell J. Kelly, to serve on the Board of Directors for a three-year term expiring at the Annual Meeting of Stockholders in 2001.

For	8,201,333
Against	-0-
Abstain	1,953,381

2. PROPOSAL II: To approve an amendment to the 1995 Novavax, Inc. Stock Option Plan increasing the number of shares of Common Stock authorized for issuance thereunder by 400,000 shares from 4,000,000 shares to 4,400,000.

For	7,871,708
Against	2,238,791
Abstain	44,215

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Item 4 - Submission of Matters to a Vote of Security Holders (continued)

3. PROPOSAL III: To ratify the issuance of Series A Custom Convertible Preferred Stock by the Company and to approve the issuance by the Company of Common Stock aggregating 20% or more of the outstanding Common stock upon conversion of the Company's Series A Custom Convertible Preferred Stock, if necessitated by reductions in the Common Stock trading price at the time of conversion, in accordance with the terms of the Series A Custom convertible Preferred Stock.

For	4,334,163
Against	2,173,567
Abstain	44,272
Delegate No Vote	3,602,712

4. PROPOSAL IV: To ratify the appointment of Coopers & Lybrand L.L.P. as independent auditors of the Company for the current fiscal year ending December 31, 1998. Subsequent to the voting, Coopers & Lybrand L.L.P. merged with Price Waterhouse L.L.P. and the legal company name is now PricewaterhouseCoopers LLP.

For	8,488,933
Against	1,649,288
Abstain	16,493

Item 5 - Other information

None

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 27 - Financial Data Schedule

(b) Reports on Form 8-K:

None

NOVAVAX, INC.
(Registrant)

Date: August 13, 1998

By: /s/ BRENDA L. FUGAGLI

Brenda L. Fugagli
Senior Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

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